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Péter Horváth
Judith M. Pütter
Editors

Sustainability Reporting in Central and Eastern European Companies

International Empirical Insights

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Preface of the Editors

Management International Review (*mir*) is one of the world's leading international business journals. Founded in 1960, it publishes research-based articles that reflect significant advances in the key areas of International Business/International Management and Cross-cultural Management. Yet, not all research in the fields of International Business/International Management and Cross-cultural Management can—in terms of length and depth—be published in the condensed format of a journal paper. Many research topics of these fields are too multifaceted and complex to be sufficiently explored and discussed within a frame of approximately 25 pages. One might even argue that multi-facetedness and complexity are among the core defining characteristics of International Business/International Management and Cross-cultural management in general. Thus, it is not surprising that over decades most research work of these fields was provided in the format of monographs. This holds especially true for academic qualification theses at the doctoral and postdoctoral level which are generally characterized by a sound theoretical foundation, a careful derivation of hypotheses, an extensive and rigorous empirical analysis as well as a detailed discussion of findings. Based on the arguments presented above, one might even argue that the current predominant format of journal articles suppresses many interesting and promising research endeavours.

Furthermore, it is interesting to notice that monographic and paper-based research works differ significantly with respect to the durability of their reception in the scientific community. Although there are some outliers from the general pattern, the quotation of many journal articles lasts only a few years. After a short peak of intensive reception, quite early their footprint starts to fade. Unlike this, there are numerous examples of research books which influence academic thinking over decades. Often, whole generations of scholars revert to them.

In a further dimension, relevant work of practitioners might deliver rich and helpful insights and profound knowledge in the field of International Business/International Management and Cross-cultural Management. But normally such work seems not to be suitable for a publication in an academic journal. Due to these reasons in the year 1993, Gabler (now Springer Gabler) has launched the *mir*-edition as a German-language book series which by now provides a well-established highly visible resource for publications complementing *mir*'s journal articles. Since then the series has written a remarkable success story.

However, the world of scientific and more applied books is changing in terms of an ongoing internationalization of the knowledge exchange. It is therefore only consequent that Springer and *mir*'s Editors-in-Chief are now introducing an English-language version of *mir*-edition—the **MIR Series in International Business**. This will hopefully help to attract more non-German-speaking readers and authors to the respective topics. The editors think that there is a considerable potential for research- and practice-based books providing firsthand knowledge to both scholars and practitioners. While this series is primarily aiming at scholars and researchers interested in International Business/International Management and Cross-cultural Management, we believe it should also be of interest to managers and consultants who struggle with the same topics in the real world. In this sense, the editors highly appreciate that the first book of the new series is dealing with a topic which is of interest to a real international audience: up to now only little is known about the sustainability reporting in Central and Eastern European companies. This is contradicting the fact that sustainability is of growing importance not only for business and respective decision-makers in the European Union but also all over the world. English as modern lingua franca is therefore a must in order to attract and inform readers coming (not only) from those countries under study.

We do hope that the new series will be as successful as the already existing German-language version and see this as a possibility to further improve the quality of the *mir* product program. It is our intention to publish outstanding work from authors all over the world. We are looking forward to receiving your manuscript and hope to further stimulate the academic and practical discussion in the area of International Business/International Management and Cross-cultural Management.

Stuttgart, Germany — Michael-Jörg Oesterle
Kiel, Germany — Joachim Wolf

Preface

Sustainability reporting has gained a great degree of practical and scientific relevance in the past two decades. Indeed, it has become very difficult to keep up with the plethora of literature on both the theory and practices of sustainability reporting.

Nevertheless, there is a striking regional gap in the literature: our understanding of the state of sustainability reporting in the new EU member states in Central and Eastern Europe is fragmented. In particular, what we lack is a comprehensive country comparison with all ten countries of this region.

This book attempts to close that gap. We carried out a comparative empirical study which includes all the countries in the region. Additionally, eminent academic experts from the countries involved report on the specific situation of the individual countries.

It is hoped this book will not only provide new information for further research but also benefit the sustainability community by creating a network of the researchers and universities involved.

This book also has benefits for sustainability reporting practitioners as it provides extensive information on the design of sustainability reports with consideration of country-specific aspects and characteristics.

We would like to thank all those involved for their work on this project over the past few years:

Lina Dagilienė, Dzineta Dimante, Toomas Haldma, Cezary Kochalski, Nidžara Osmanagić Bedenik, Renata Paksřová, Adriana Rejc Buhovac, Voicu-Ion Sucală, Tamás Tirnitz and Jaroslav Wagner.

Our thanks also go to the publishers Springer for their interest and support during printing and to Ruth Milewski and Dr. Prashanth Mahagaonkar for their editorial support.

Last but not least, let us not forget all the work that went on ‘in the background’ but that is essential to the completion of any book project. Nicholas Mann, Matthias Kaufmann, Pascal Mangold and Gianmarco Seliger demonstrated great patience and diligence in the correction and formatting of the contributions to this book.

Stuttgart, Germany — Péter Horváth
November 2016 — Judith M. Pütter

Publisher's Note

MIR Series in International Business

Management International Review has a long-standing reputation as a core scientific resource for researchers working in the fields of International Business, Cross-Cultural Management and Comparative Management. The journal, now in its 57th volume, has been publishing outstanding research that builds and extends International Management theory so that it can contribute to practice of International Management practice. As research communication in these fields is expanding as never before, an additional avenue is needed to portray academic knowledge in the form of well-developed monographs and contributed volumes.

We are pleased to launch the MIR Series in International Business, which we hope to see as a home for the best academic books in the field. Books in this series will help place the vast output of academic research in its relevant contextual form and also become valuable reference works for future academics and researchers to understand the academic trajectory of the topics they are working on.

We hope to build this book series to be a useful complementary resource not only for the patrons of Management International Review but for the International Business research community as well.

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List of Abbreviations

B2C	Business to Customer
CC	Corporate Citizenship
CEE	Central and Eastern Europe
CEEC	Central and Eastern European Countries
CFROI	Cashflow Return on Investment
CGCSD	Czech Government Council for Sustainable Develpoment
CR	Czech Republic
CS	Corporate sustainability
CSR	Corporate social responsibility
CVA	Cash Value Added
CZK	Czech Crowns
EAOA	Estonian Act on Accounting
EMAS	Eco-Management and Audit Scheme
EMS	Environmental management system
ESG	Environment, Social and Governance
EST	Estonian companies
EU	European Union
EVA	Economic Value Added
FDI	Foreign Direct Investments
GRI	Global Reporting Initiative
HEX	Helsinki Stock Exchange
ICT	Information and communication technologies
IFRS	International Financial Reporting Standards
InCSR	Corporate Sustainability and Responsibility Institute
ISAE	International Standards for Assurance Engagements
KNF	Polish Financial Supervision Authority
KPI	Key Performance Indicator
LBAS	Free Trade Union Confederation of Latvia
LDDK	Employers Confederation of Latvia

MNE	Multinational enterprise
NAPCSR	National Action Plan for Corporate Social Responsibility in the Czech Republic
NOPAT	Net Operating Profit After Taxes
OECD	Organisation for Economic Co-operation and Development
OSH	Occupational Safety and Health
RC	Responsible Care
ROA	Return on Assets
SME	Small and medium-sized enterprises
SR	Sustainability reporting, sustainability reports
SRI	Socially Responsible Investment
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNDP	United Nations Development Programme
WACC	Weighted Average Cost of Capital
WCED	World Commission on Environment and Development
WE	Western Europe
WEC	Western European Countries
WSE	Warsaw Stock Exchange

Editors and Contributors

Editors

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The Main Aspects of Sustainability Reporting

Péter Horváth

1 Basic Questions About Sustainability Reporting

In this short introduction, it would be too much to attempt a comprehensive portrait of sustainability reporting (SR). Instead, the goal here is to focus in particular on those aspects which are of especial importance for the following empirical study and for the individual country-specific reports. Information is the basis of activities of all kinds in organizations, be they decision-making, checking compliance with regulations, quality assurance, behaviour management, etc. In organizations, information must be transferred from its source to the recipient in a suitable form. This is the function of reports. Reports are common in many areas of society, but they play a special role in organizations which collaborate together, especially in companies.

Four interconnected questions define the content and process of reporting:

- What is the purpose of the report? The more precisely we can define the purpose of the report, the more fully we can satisfy the recipient's need for information.
- What should be reported? This is where we specify the content of the report. It is particularly important to define relevant measurands.
- Who should report to whom? Here, we need to specify the sender and recipient (or recipients) of the report and define their tasks and competences.
- How and when should reporting take place? We must define the medium, report form, deadlines and processing times of the report or reports.

When it comes to companies, it is important at this stage to differentiate between internal and external reporting:

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- Internal reports help management in planning, performance management and control, and the focus on decision-making and the future is particularly relevant.
- External reports should inform the external stakeholders of the company and provide support for their decisions. Here, the main tasks focus on documentation and compliance.

There have been reports in companies for as long as we can remember. In earlier times, the accounting department was the source of information. As time went by, non-financial data was added as performance indicators, but the focus was always on the company itself. Looking at aspects outside of the company is a relatively new development. In the 1970s, the "social balance sheet" came along as an aspect of sustainability (see Fifka 2016), whose aim was to show the company's social contribution to society. In the 1980s, we also started talking more frequently about ecological aspects and showed them in an "environment overview". Later, these two aspects were often summarized in an "environment and social report". Today, this form of reporting has become firmly established under the term "sustainability reporting" or "corporate social responsibility (CSR) reporting".

"Sustainability" is a term which is much overused and generally means an operating principle whose aim is to preserve the existence of a system through the regenerative and responsible use of its resources, but there are countless definitions.

As a rule, sustainability in the context of corporate activities is described by the "triple bottom line" approach (Elkington 1997): Economic, ecological and social sustainability should be pursued simultaneously and in equal measure. In practice, however, things look rather different: Economic goals dominate over ecological and social ones (see Weber and Schäffer 2016, p. 43). Naturally, it is up to each and every company which weighting and priorities they allocate to the individual target dimensions. "A sustainability report provides information about the economic, ecological and social performance of the company, as well as about its behavior in the field of leadership" (lit. GRI 2013a, b, c, in Fifka 2016, p. 88).

A topic closely connected with the concept of sustainability is corporate social responsibility (CSR), which is often used as a synonym for corporate sustainability. CSR focuses on the voluntary obligation of entrepreneurs and companies to contribute to the sustainable development of society and refers to the three dimensions of sustainability. The term emphasizes interaction with the stakeholders of the company. "Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (WBCSD 2000).

The term "corporate citizenship" is narrower: It encompasses the activities which go beyond corporate activity in the proper sense of the term in order to serve the public good both close to the company and further afield. Here, aspects of sustainability also play an important role.

Sustainability reports have become significantly more important in both business practice and in science and research in the last two decades. A survey by KPMG clearly shows the development in business practice: In 1993, when the first study was published, companies spoke about sustainability reports as a "niche activity"; in 2013 it was commonly referred to as a "mainstream activity" (see KPMG 2013).

If we summarize it in a rather simplified way, the scientific and academic approach to sustainability within the discipline of business administration focuses on two fundamental questions: The first question addresses the "whether" and concentrates on whether it is "worth" including SR in the company's sustainability activities. Does it have an impact on corporate success or the value of the company (see, e.g. Cahan et al. 2016)?

The second question addresses the "what and how": While the first question focuses on external SR, the second question looks at (often design-based) management topics in connection with internal sustainability information (see, e.g. Günther et al. 2016; Fifka 2016). For both issues, it is vital to have the broadest possible descriptive and explorative information pool for the SR.

2 What Is the Purpose of the Report?

The objectives and expected benefits of SR vary depending on the different stakeholders. Blaesing (2013) differentiates between three categories of target groups (see Fig. 1).

The recipient of the information contained in external SR is, in the first instance, generally "society". The focus here is on ensuring the legitimacy of the company's

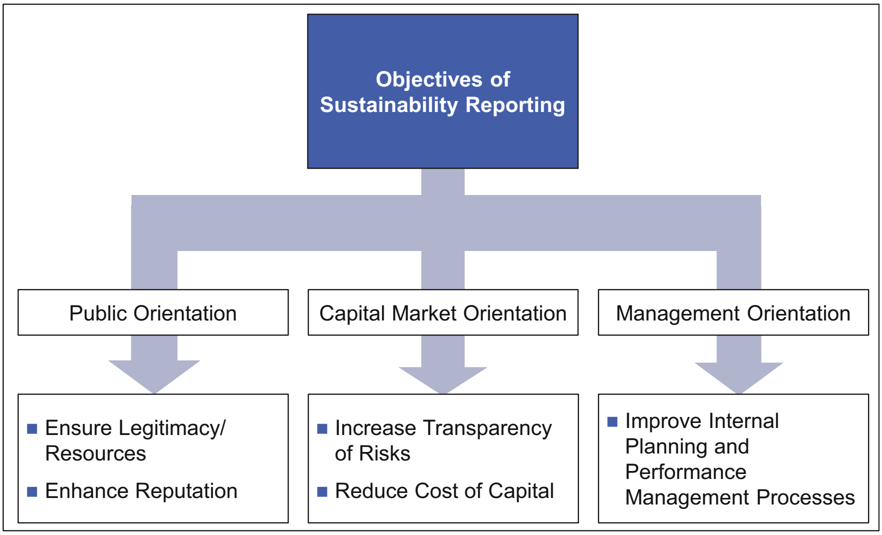

Fig. 1 Objectives and benefits of SR (Blaesing 2013, p. 25)

activities. Legitimacy is defined as the “generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some specially constructed system of norms, values, beliefs and definitions” (Suchman 1995, p. 574). Companies must justify their activities to society through responsible actions to ensure they receive something akin to an “operating license”. “Society” as a stakeholder is a multi-facetted entity. Between political decision-making bodies and militant environmental activists, there is a broad spectrum of stakeholders with different expectations and demands. This also applies to the spectrum of compelling legal “recommendations” from the general public.

Plausible environmental reporting can strengthen society’s trust in a company and thus enhance the company’s reputation. In turn, that can create competitive advantages. One important external recipient of information from SR is the capital market. The more transparent the company’s economic, ecological and social situation is portrayed, the greater the trust of investors in that company’s long-term and sustainable existence. Increasing risk transparency can improve access to equity and debt capital, thereby reducing the cost of capital (see Stawinoga 2012, p. 104).

Internally, integrating SR into planning and performance management processes serves to improve the sustainable development of the company. Herzig and Schaltegger (2006) see many benefits for companies: Legitimization of their activities, enhancing their reputation, possibilities for gaining competitive advantages, increased transparency and better possibilities for benchmarking. The criteria of comprehensive SR point towards high costs and complexity, while at the same time there are repeated references—underpinned with examples—to the fact that external SR is misused as an instrument of “greenwashing”.

Hence, the great challenge for companies lies in satisfying the different—and often conflicting—expectations of the diverse internal and external stakeholders through the company’s own target system. What is necessary here are clear decisions on weighting and a form of operationalization which fosters controllability.

3 What Should Be Reported?

Once the decision has been taken to address sustainability as a component of reporting, the next thing is to clarify which individual elements should be included.

In order to use sustainability as an aspect in decision-making, it is necessary to develop appropriate measurands.

On an international scale, the number of legal regulations, guidelines, standards, etc. is vast, and it would be impossible to address all of those approaches. One useful differentiation is to use the legal form of the institution and distinguish between private organizations and government authorities. Based on this differentiation, we can then talk about recommendations or mandatory legal requirements (see Waddock 2008). Each individual company can then use these as the basis for developing their own concept for SR.

There are differing definitions both narrow and broad in practice and in literature of the actual contents of SR.

The "triple bottom line" (economy, ecology, social) proposed by Elkington (2013) is often expanded to include the topics of corporate governance and ethics (see Fig. 2).

If we include further content-defining criteria, we end up with a complex morphology of sustainability reports (see Fig. 3).

The "Global Reporting Initiative (GRI)" reporting standard has become established around the world (see GRI 2013a, b, c).

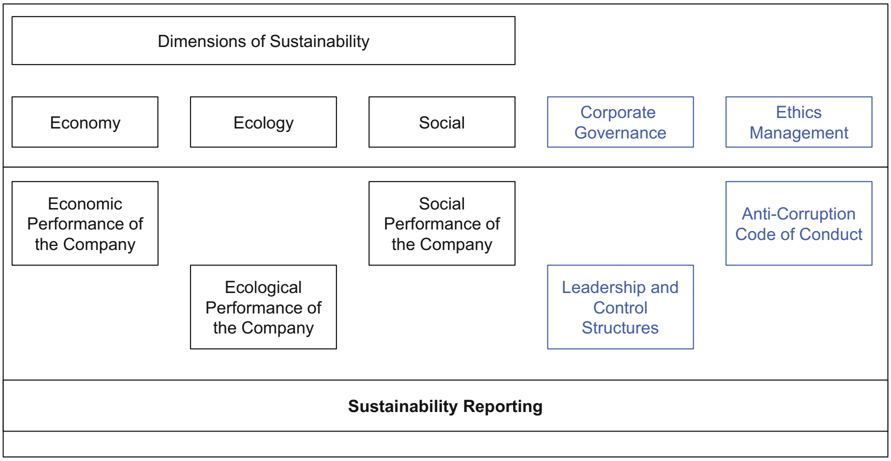

Fig. 2 Content of SR

Objective	Documentation		Compliance	Decision-making support		Enhance reputation
Content	Individual indicators	Ecology	Social	Ecology, social	Ecology, economy, social	Governance
Frequency	One-time			Regular		
Regulatory Basis	National law		International law	NGO guidelines		Specific organization regulations
Focus of Communication	Within organization		Outside organization		Combined	

Fig. 3 Morphology of sustainability reports

"GRI is an international, non-governmental, not-for-profit, multi-stakeholder, network-based organisation of global participants from business, academic, civil society, labour and other professional institutions" (Kochalski 2016, p. 248). The first version of the GRI guidelines was published in 2000; in 2013 the fourth version ("G4") was published. The aim of the guidelines is to provide a framework which structures the content and operationalization of SR globally, thereby making it comparable all around the world. The GRI guidelines contain both general principles and additional specific guidelines for individual industries. The general principles deal with content-related and qualitative aspects of the reporting (see below). According to G4, the sustainability report should consist of two parts: "General standard disclosures", which portray the company's activities from strategy through to governance, and "specific standard disclosures" with a structured list of the indicators from the three dimensions of economy, ecology and social.

The GRI guidelines are very important because they provide companies with an opportunity to navigate more easily through the bewildering diversity of organizations, standards and principles so they can structure and focus their SR. However, the GRI guidelines are only a recommendation, not a requirement. Also, they do not include any form of external validation of compliance. In general, we can observe a tendency towards norming SR by law, i.e. to make it mandatory.

In 2014, the European Union (EU) issued a directive on the publication of non-financial information and information pertaining to diversity ("CSR Directive"). At the moment, this directive only applies to large companies, but in the course of time it will almost certainly be expanded to also include smaller companies. As an EU member state, Germany is required to translate this directive into national law. The respective draft law was introduced in spring of 2016. The non-financial reporting obligations consist of details of the business model, of environmental issues, of employee and social issues, of human rights, of anti-corruption policies, etc. (see Richter 2016).

Currently, intense discussion is underway in Germany about the degree of detail which should be codified into legal regulations on mandatory disclosure requirements. Companies and the scientific community are arguing for flexibility which could best be achieved through standard-setting organizations.

4 Who Should Report to Whom?

SR is the responsibility of corporate management. The associated operative tasks are organized very differently from one company to another. If we look at the three dimensions of a comprehensive sustainability report, it makes sense to assume there are at least three functions with reporting duties: The CFO function or controlling function for the economic dimension, human resources for the social aspects and operative functions for the ecological topics. Due to the requirements on economic targets, the responsibility for integrating the different dimensions in the overall reporting should lie with the CFO function or controlling. To implement sustainability reports, it is necessary to have in place a system for sustainability accounting which is capable of translating the non-financial aspects of sustainability into measureable financial indicators in order to show management and investors what their impact is on the key financial performance indicators (see Schaltegger and Burritt 2006).

The American Sustainability Accounting Standards Board (SASB) has set itself the task of developing industry-specific standards in this context (see Rogers 2016). At the highest level of information aggregation for the internal company recipients of the sustainability reports are the governance organs (supervisory board, advisory committee, special committees etc.).

The detailed performance management information is aimed at the different management levels in accordance with the company's planning and control systems. While SR is mainly aimed at external recipients, it should not be seen as a separate reporting element. It is fed with internal company information which, in turn, has an impact on decision-making. External and internal SR must form one cohesive entity. When it comes to setting the sustainability targets in line with the triple bottom line, the planning, performance management, reporting and control of those targets must be designed as an integrated process which leads to the final result of external SR (for more details, see Fifka 2016). In this instance, the controller must step up and take responsibility for process coordination as there is a "natural symbiosis" between SR and controlling (ibid). The degree to which the sustainability information is integrated into the overall performance management system definitely still varies very significantly from company to company (for more details, see, e.g. KPMG 2015), with the spectrum ranging from a "stand-alone solution" with individual performance indicators to an integrated entire system with strategic characteristics which unifies all three dimensions.

External SR is aimed in general at the company's stakeholders: Naturally, the owners of the company (shareholders, owners) are first in line, but investors and outside creditors are also on the list. The main priority of these stakeholders is the financial sustainability of the company. Employees, often represented by their work council members and unions, mainly want information about employee rights, working conditions and so on. Customers want to find out about the ecological quality of the products (e.g. supply chain, composition, safety, etc.). The legislative authorities and their bodies want to ensure compliance with the relevant legal and regulatory requirements.

5 How and When Should Reporting Take Place?

The "how" and "when" of SR depends on the answers to the questions we asked above (why, who, what).

Naturally, this also depends on which of the two generally possible directions SR can take is pursued by the company (see Schaltegger et al. 2006).

The "inside-out" approach is based on the internal analysis and planning of the sustainability factors as the basis for corporate success. The internal and external

Form	Communication Form	Design
Separate sustainability report	Print media, PDF (static)	Complete report
Sustainability report as part of annual report	Print media, PDF (static)	Complete report
Web-based sustainability report	HTML (static or dynamic)	Complete report
Integrated report	Print media, PDF, HTML (static and dynamic)	Complete report
Tweet or post	Social media (dynamic)	Partial report
Press release	Print media,HTML	Partial report

Fig. 4 Formats of sustainability reports (Isenmann 2014)

sustainability report is driven by strategy and created by the sustainability accounting function. The underlying principle behind the "outside-in" approach is that the main objective of SR is to communicate with the stakeholders. The reporting content is induced by the sustainability accounting function. In the case of the outside-in approach, the "how" is heavily influenced by the regulatory requirements and the company's communication policy. The report is highly aggregated and tends to focus on the past, with the reporting frequency mainly mirroring the business year.

The internally dominated sustainability report differs from the externally oriented one in many ways. It is more differentiated in its structure and has planning characteristics with target-actual comparisons. Its frequency is based on the performance management requirements of the company. Its design varies depending on the company and does not adhere to external regulations. Companies have a range of publication options (see Fig. 4) to ensure they reach the different target groups and interested parties.

Naturally, the best option is to pursue both approaches simultaneously and to base them both on a common information pool. It is the responsibility (and challenge) of controllers to use a sustainability accounting system which integrates all three dimensions to create the necessary framework and requirements.

The concept of "integrated reporting" (see IIRC 2011) provides an excellently practical approach for this as it combines classical financial reporting with non-financial reporting components (such as sustainability report, report on risk management and corporate governance aspects). The focus should be on the business model of the company and its strategy. The goal is to have a reporting system which covers the needs of all the stakeholders.

6 Further Development of Sustainability Reporting

The importance of SR will continue to increase in the coming years, driven especially by its anchoring in legislation. This will also have a significant influence in the longer term.

We can expect the following global trends (see KPMG 2015, p. 28 ff.):

- Due to the new EU directive on publishing sustainability information in general reporting, we will see a considerable increase in sustainability reports in 2017.
- The publication of sustainability information in the annual financial statements of companies is increasing.
- The GRI will develop a standard for the publication of sustainability information with annual reports as to date the current standard has focused on the independent sustainability report.
- The qualitative gap between leading companies and those playing catch-up will close.
- The large companies are relying increasingly on external support, especially for independent quality control and reviewing during report compilation.

It is not yet clear how integrated reporting will develop. Although more companies in the future will continue to use sustainability information in their annual financial statements, the integration which the IIRC and academic and business research have been demanding for some time (see Eccles and Krzus 2010) is proving to be a slow and lengthy process.

The aim of our study is to evaluate the current state of development of SR in the new EU member states in Central and Eastern Europe (CEE)—which have transitioned to a market economy in the last two decades—compared with Western Europe. This is an important goal as most studies tend to focus exclusively on the Western world.

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Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study

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1 Why This Topic?

Reporting on corporate social, environmental and economic responsibility has broadened widely within the last decade. Sustainability reports (SR) are nonfinancial reports which provide information to all stakeholders about the organization's involvement in corporate sustainability issues. Results of the KPMG survey support this increasing trend within their reports from 2013 and 2015 (KPMG 2013, 2015). There are two factors in particular which can explain the rise in sustainability reporting.

First, traditional financial reporting mechanisms no longer seem sufficient as businesses are increasingly confronted with growing demand by internal and external stakeholders for transparency about corporate contributions to sustainable development (Epstein and Buhovac 2014; Horváth et al. 2012; Kolk 2008). Investors and consumers demand the disclosure of reliable information from companies (Epstein and Buhovac 2014) in order to be able to make informed and conscious investment decisions (Nam et al. 2014). Also the European Accounting Directive 2013/34/EU stresses social and environmental aspects which should be disclosed in the management report of annual reports filed by big companies.[1]

Second, in a highly competitive or saturated market, disclosing information on a company's sustainability commitments including ethics and governance leads to positive differentiation in the market and to enhanced company performance (Marimon et al. 2012). Further, recommendations according to reporting standards such as the Global Reporting Initiative (GRI) make it easier for companies to design and structure the content of reports (Hahn and Lülfs 2013; Milne and Gray 2013).

The European Union (EU) is the most active region in the world in terms of SR, largely on a voluntary basis (Stubbs et al. 2013). The number of published sustainability reports increases from year to year (KPMG 2013, 2015). Most large European companies have established contemporary SR practices, although country-specific legal obligations (e.g. in Germany, France and the Netherlands) are seldom and apply only to certain companies. As there are no detailed rules for disclosing nonfinancial data, companies are free to disclose information they deem relevant in the way they consider the most useful, which results in notable and substantial variances in the form, content and quality of these reports (Blaesing 2013).

[1]The directive 2013/34/EU will be replaced by the new directive 2014/95/EU. Large companies will be required to submit nonfinancial statement(s) either within the annual corporate report or as a separate filing. The new directive still provides companies with significant flexibility in tailoring nonfinancial disclosure.

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Most of the empirical research related to SR in Europe has been conducted in Western European countries (WEC) (see literature from Fifka 2011; Hahn and Kühnen 2013; Stolz 2014). This part of Europe has traditionally been ahead in its propensity to report on social and environmental activities. In Central and Eastern Europe (CEE), on the other hand, only a small number of studies have focused on SR which "hardly allow[s] any conclusions" (Fifka 2011, p. 71) on the practice and quality of corporate sustainability reports.[2]

Various authors have emphasized that corporate sustainability is a relatively new concept in CEE (Fifka 2011, 2012, 2013; Wensen et al. 2010), but it has been developing for several years now. With the EU accessions, the CEE governments have undertaken a number of initiatives related to the rising awareness of market participants in the area of sustainable development. Foreign ownership, business rivalry, supply chain requests and the influence of corporate governance codes have also impacted on the rise of corporate sustainability initiatives by (Baskin 2006). Little, however, is known whether how and why companies in CEE report about their corporate sustainable activities.

Decision-makers at the political and business levels need a comprehensive overview of the "state of the art" of SR in CEE.

Thus, the aim of the research project is to describe the status quo of SR in CEE, to explain some noteworthy differences between the two subsamples CEE and WE and to predict the future development of SR in the CEE region. The topic is especially relevant not only because what little information from the region on SR is hard to acquire. It also offers insights about whether companies from CEE need to catch up with WE companies as previous research indicated. Further, we may derive recommendations about whether multinational companies have to change their reporting behaviour for special demands and behaviour in CEE region.

2 Research Consortium, Research Questions and Research Method

To address this research issue, we have established a research consortium with researchers from ten Central and Eastern European Countries (CEEC): Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Two WEC, Germany and Austria, have been added to the sample to enable a regional comparison.

[2]For a deeper analysis of the literature regarding SR in CEE, see Pütter (forthcoming).

The organization of the empirical study was an important challenge for all, but especially for the coordinators, which one can imagine when different personalities from 11 different countries with different cultures and 11 different languages are brought together.

In order to gain facts about the current situation, we started with a descriptive analysis accepting compromises in rigour.

The initial researchers' meeting was in Prague in March 2014. Together, we defined the framework of the study and agreed on two main research questions:

Research question 1:

What is the current state of sustainability reporting in Central and Eastern Europe?

Research question 2:

How is sustainability reporting managed in Central and Eastern Europe?

We also defined several explorative questions covering issues such as why reports differ and why some companies publish information on corporate sustainability while others do not. Results of further analyses are presented in other articles of this book.

To answer these questions, it would be necessary to collect data from different sources. We therefore designed the study as follows:

Study design for research question 1:

- Content analysis of annual and sustainability reports based on a standard scheme.
- Sample: top 50 industrial companies of all CEEC and WEC.
- In order to bridge language barriers, each participant collected the data of their own country.
- The data was collected centrally and entered into prevalent statistical data analysis software.

Study design for research question 2:

- Online survey questionnaire for CSR and SR managers in order to investigate how SR is managed.
- Sample: top industrial companies of all CEEC[3] and WEC.

[3]With the exception of Bulgaria.

- The questionnaire was provided in the respective languages.
- The data was collected centrally and entered into prevalent statistical data analysis software.

Additionally, we conducted interviews in each country to provide the basis for the questionnaire. They helped to understand the motivation for and barriers to disclosing sustainability data but are not explored in this contribution:

- Semi-structured interviews with experts in the field of SR.
- Sample: two companies from each country (one publishing and one not publishing SR) that were also part of the sample from the content analysis.[4]
- The interview was carried out in the respective country language or in English.
- The transcripts were translated into English or German to enable a comparative analysis.

The organization of the project was a challenge as every step needed to be documented in complete detail in order to avoid misunderstandings and to ensure that all partners collected the same data. All working descriptions were provided in English. All data and documents used for regional investigation had to be translated into the respective language. In order to check whether the translations were adequate, we retranslated them into the source language. The two source language versions were then compared to find out if there are problems in the target language text.

The idea and initiative came from Péter Horváth, with coordination and communication by:

International Performance Research Institute gGmbH (Germany)	
Contact	Prof. Dr. Dr. h.c. mult. Péter Horváth Dipl.-Ök. Judith M. Pütter

As comparative studies of SR are relatively rare and to our knowledge nearly non-existent for CEE, this research project is very special, both in the composition of the participating researchers from the new “EU-member states” and in terms of the outcome.

We were very glad to receive enthusiastic and efficient support in ten countries from important colleagues at relevant university departments (in alphabetical order of the country names).[5]

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[4]Only one interview was conducted in Bulgaria.

[5]Data sample for Bulgaria has been collected by IPRI gGmbH.

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3 Understanding Corporate Sustainability in CEE

Corporate sustainability can be regarded as the corporate response to sustainable development represented by strategies and practices that address the key issues for the world's sustainable development. SR is an essential element of corporate sustainable development. It is often used as proxy of how companies implement their corporate sustainability strategies or sustainability initiatives. How sustainability is understood has an important impact on reporting. The term corporate sustainability is conventionally defined as the contribution of companies to sustainable development (Bansal 2005; Dyllick and Hockerts 2002). More specifically, it relates to simultaneously attaining environmental integrity, contributing to social equity and adding to economic prosperity (Bansal 2005). The concept of corporate sustainable development "was developed in and for mature market-oriented economies with a stable democracy and an established civil society" (Kopp 2015). Whether companies in CEE understand corporate sustainability in the same way is not clear; what is certain, however, is that the countries of CEE have witnessed enormous political, social and economic changes since the fall of the Iron Curtain in 1989.

Most CEE countries underwent roughly three phases: the socialist era with complete negligence of market forces; the transitional phase, whose negative traits laid a foundation of distrust towards governmental institutions and market-oriented economy; and the contemporary phase, where the unfinished transition has been shaken by the global financial and sovereign debt crisis since 2008 (Kopp 2015). The socialist era and thus the centrally planned economy were based on the principle of jobs for all. Social benefits were provided by the socialist productive unit and included education, nurseries, kindergarten, social security and housing, among others. In providing the social infrastructure, the relationship between a state-owned company and its employees was patron-like and not only shaped the daily life of people and families but often defined the local community. In return for this basic economic security, employees received wages with low purchasing power on the market and a very limited assortment of goods which were often not even available. This model of social benefits for employees was in place for decades and was therefore strongly rooted within the local population (Koleva et al. 2010). The objective of state-owned or collectively owned firms was primarily to provide employment and ensure a certain level of well-being for their employees and subsequently the local community, while economic efficiency and maximized profits were not an objective. This patron-like "management" style of state-owned firms and the related social security measures could be considered as CSR to a certain extent (Koleva et al. 2010).

With the fall of the communist and self-management regimes, countries in the CEE region have made a transition to open free market economies since 1990 (Ismayr et al. 2010). The countries in CEE started their transitions from different initial positions and then pursued remarkably different policies (Berglöf and Pajuste 2005). The initial period of the transformation process was characterized by a sharp decline in GDP and employment rate. This was due to the transition process which led to market economies, accompanied by a great loss of human and physical capital, the erosion of supplier and customer relations and the collapse of external demand. Along with enhancing economic efficiency and clearly separating the economic role from the social role of the corporations, the workforce was downsized, and the social functions originally carried out by firms were no longer fulfiled, as this was considered a hindrance to survival in the new competitive environment (Lewicka-Strzalecka 2006). Following this first collapse, the economies of CEE gradually started to recover. This phase was shaped by robust growth and a catching-up process (1995–2007) characterized by high growth rates. Not all markets developed at the same pace. While some countries developed fast early on, and then slowed down, others started slowly but caught up later (e.g. the Baltic states) (Berglöf and Pajuste 2005).

During the transition phase, most companies did not consciously consider the social and environmental impacts of their activities. Additionally, the environmental deterioration inherited from the socialist past was further intensified by ignorance during the transitional period (OECD 1999). In most countries, the managerial and technocratic part of the communist elite played an important role in the transition to capitalism. They were not strong supporters of democracy or of the free market; they simply took advantage of a unique combination of circumstances and controlled the economies in transition for almost a decade after the demise of communism (Sucală 2015). Further, companies strived for efficiency and increased productivity and placed little emphasis on managing their human resources fairly. However, motivated by the EU accession (in 2004 and 2008), foreign ownership, competitive pressures and the influence of corporate governments, companies started to initiate corporate sustainability practices. In 2008, the World Bank officially announced for the mentioned countries that “the transition is over” (Alam 2008). This last “post-transition” period is heavily influenced by the current global economic crisis (post-2008) and endures until today (Dombi 2013).

The concept of corporate sustainability was introduced in most CEEC in the early years of the transition by international organizations, such as the United Nations Development Programme (UNDP), as well as by subsidiaries of multinational companies operating in the country (Simeonov and Stefanova 2015; UNDP 2007).

Previous literature reveals that the state of corporate sustainability still differs substantially from that in Western Europe (WE) (Steurer et al. 2012; Kopp 2015). This could be related to high corruption rates, weak civil society and inefficient legal environment in parts of CEE that are bad prerequisites for establishing corporate sustainability as a basic ethical standard [for a more detailed description, see Kopp (2015)]. It may also be due to the fact that corporate sustainability is understood differently and existing actions in this field may not have been categorized or subsumed under this name.

For this reason and also due to the region’s history, it should be not surprising if corporate sustainability is understood differently in the context of CEE than, for example, in the WE or Anglo-American context. If companies in CEE understand corporate sustainability differently, differences in SR should be noticeable.[6]

The interviews we conducted in 2014/2015 revealed that the term corporate sustainability has been globalized and is not subject to various meanings [see in this respect Horváth (2009) and Dahlsrud (2008)]. The interviewees from both the WE and CEE companies usually referred to some broad definitions relating to the Brundtland Commission’s definition of sustainable development.[7] The focus was typically on the

[6]Of course, there is a need to be careful when making general statements on a heterogeneous region like CEE. The countries of CEE are rather different in both cultural and historical aspects and also in their development; however, they share a common past.

[7]The Brundtland Report was produced by a commission under the chair of Gro Harlem Brundtland convoked by the United Nations in 1983. The commission’s mission was to address growing concerns “about the accelerating deterioration of the human environment and natural resources and the

long-term orientation and the harmonization of the triple bottom line, with actions that normally go beyond legal requirements. The definitions differed in details but were neither regional nor country specific. If at all, they were industry specific. Differences in concept understanding between companies from CEE and WE were not found.

4 Sustainability Reporting in Central and Eastern Europe

What is the current state of sustainability reporting in Central and Eastern Europe?

4.1 Research Design

To investigate the reporting practices of companies in CEE, the 50 largest companies by turnover in each country were analysed from the following industries: manufacturing, energy production, construction, retail and wholesale and information and communication services. Diversified companies were grouped according to their predominant field of business. Both public and private companies were included to allow a holistic overview of reporting practices. Ownership structure increased the heterogeneity of the sample, as they led to variations in both legal requirements and stakeholder powers.

Content analysis was selected as our research method for data collection. Content analysis is "the study of recorded human communications, such as books, websites, paintings and laws" (Babbie 2010, p. 333) and has been used widely in the empirical investigation of nonfinancial reporting. Each company was examined with regard to specific company characteristics and whether or not they published a stand-alone sustainability report. Annual reports and websites were examined when no stand-alone reports were found. The most recent reports provided by the companies were examined: most reports were issued in 2012 (60%), 25% were published in 2013 and 15% were issued before 2012. This distribution results from the fact that sustainability reports are not necessarily published yearly and the period covered by these reports varies.

After determining which format was used for SR, we examined the focus of selected publications by applying the GRI categories for the economic, employee,

consequences of that deterioration for economic and social development". The definition of this term in the report is well known and often cited as "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

environmental, social, product safety and human rights issues of sustainability. Alongside the overall number of pages and the number of pages for each sequence (Fifka and Drabble 2012), we investigated the performance indicators used (Roca and Searcy 2012) and the languages the reports were published in. Finally, we investigated whether the report was published in accordance with any specific reporting framework such as the GRI or ISAE. Data analysis was conducted by using a checklist to categorize relevant information into a multi-criterion grid.

4.2 Sample Characteristics

4.2.1 Industry Sectors

Figure 1 shows the industry structure of both samples. In terms of industry sectors, both sample groups can be described as diverse. The sample of WE is dominated by manufacturing (41%), retail and wholesale (24%), energy (23%) and then construction (8%) and IT (4%). The sample from CEE is dominated by retail and wholesale (37%), followed by manufacturing (36%). Construction and IT have the smallest share (similar to WE sample). Both samples have same ranking of industries, whereby retail and wholesale are more strongly represented in the CEE sample than in the WE sample (see Fig. 1).

4.2.2 Number of Employees

The item "number of employees" can be seen as one determinant of the company's size, alongside total revenue (total sales). All the data was found for the sample from WE, while in the CEE sample, about 5% of the companies did not provide data on number of employees. Figure 2 shows the distribution of the employees within the samples.

In detail, within the WE sample, the mean of the number of employees is much higher than in CEE (WE 62,594 and CEE 2734). Also the median is much higher in

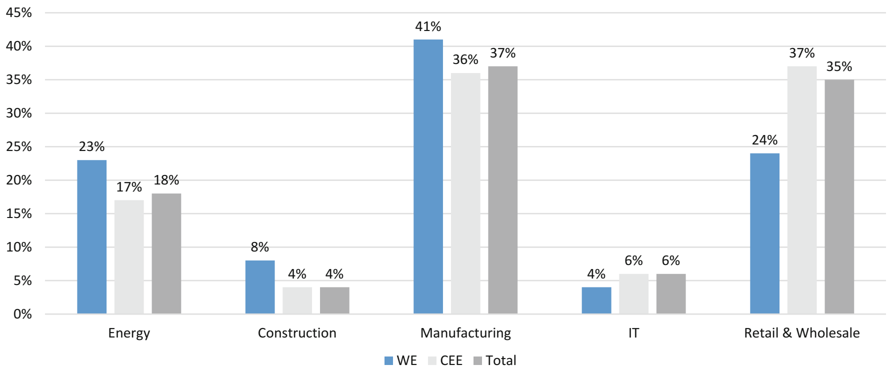

Fig. 1 Industry sectors in the CEE and WE samples

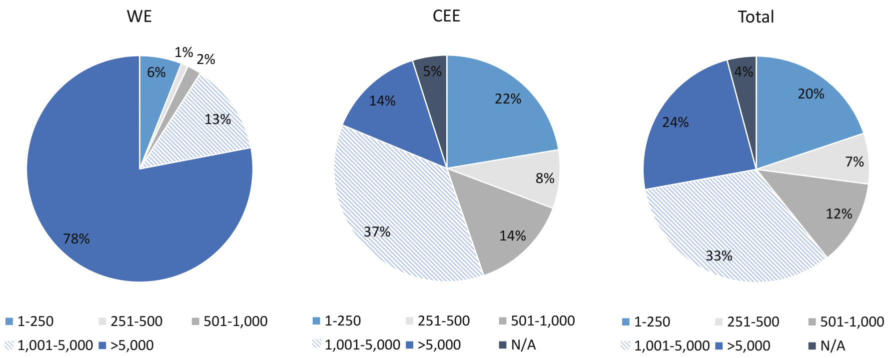

Fig. 2 Number of employees in CEE and WE samples

the sample of WE (WE 19,675 and CEE 862). Companies in the WE sample are much bigger than in the CEE sample. Also the distribution in CEE is much more divergent than in WE: the majority of WE companies have more than 5000 employees (78%). Only 7% of the companies have 500 or less employees. In CEE only 14% of the companies have more than 5000 employees. The majority (37%) have 1001–5000 employees. The share of companies that employ less than 500 people is quite high compared to companies from WE and is close to 30%. The wide gap may be explained by the fact that the CEE sample includes few "mammoth companies" and at the same time, especially in the Baltic sample, there are fairly small companies with less than 100 employees. Within the CEE sample, one-third of the large companies with more than 50,000 employees are from Poland and one-fifth from Romania, while about one-half of the smallest companies are from the Baltic states.

4.2.3 Total Revenues

A second determinant for size which is also often used is turnover (=total revenue). The mean of the combined turnover of the WE sample amounts €22,407 million with a median of €14,523 million. The companies of the CEE sample are significantly smaller. The mean of their combined total revenue is only €1495 million with a median of €514 million. Moreover, turnover is not divided equally, as the 25 largest companies account for over half of the respective revenue.

Figure 3 shows the distribution within the CEE and WE sample. Again, the structure in CEE shows a higher diversity than the WE sample. While the majority of the CEE sample have a total revenue of more than €500 million (43%), 10% of the companies have a total revenue less than €200 million. In the WE sample, all companies have total revenue of more than €500 million.

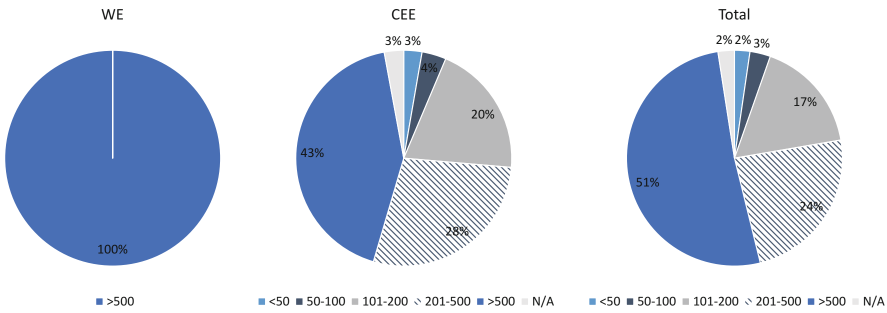

Fig. 3 Turnover in CEE and WE samples (in million Euro)

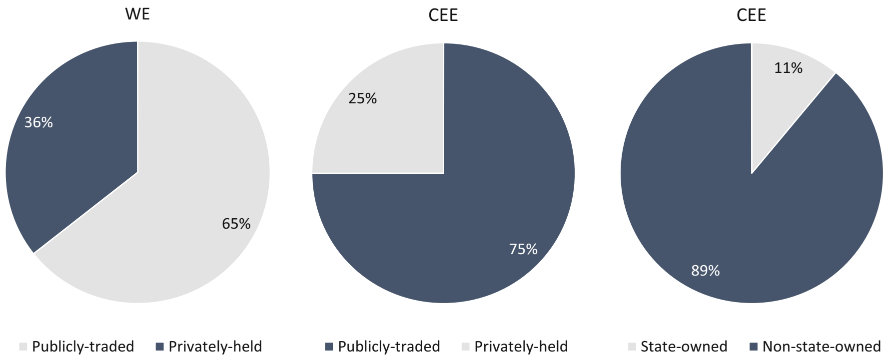

Fig. 4 Ownership form in CEE and WE samples

4.2.4 Ownership

Regarding the ownership form, we distinguished between publicly traded and privately owned companies. We further looked to see if the government is the majority owner. Figure 4 shows the extent of publicly traded and privately owned companies.

Concerning the ownership form, almost two-thirds of the companies from WE are publicly traded companies (64%), followed by one-third of privately owned companies not listed on the stock exchange (36%). The state does not have a majority ownership in any of the companies in the sample.

The ratio between publicly traded and privately held companies in WE is the opposite of the ratio in CEE: publicly traded companies make up the minority with a share of 25%, and the majority of companies are privately held (75%).

A striking feature is that compared to WE companies, 11% of the CEE companies still belong to the state (or the state is the majority owner). In WE, no state-owned company is included in the sample of WE countries.

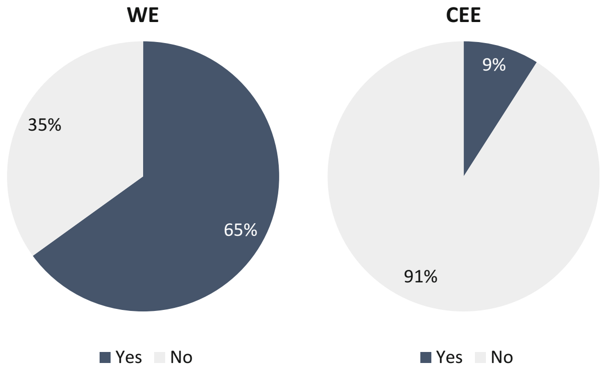

Fig. 5 Members of Global Compact in CEE and WE samples

4.2.5 Global Compact Membership

The Global Compact is a United Nations (UN) initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. Global Compact members are committed to the ten principles in order to continue and shape the globalization process in an ecological and social way (Williams 2004).

Figure 5 shows the distribution of Global Compact members for the WE and CEE samples. The share of Global Compact members is lower than expected. While 35% of the companies of the WE sample are members of the Global Compact, only 9% of the companies of the CEE sample are.

4.3 Results and Discussion

4.3.1 SR Forms

Initially, it can be pointed out that the degree of disclosure is approximately equal for both regions when all forms of sustainability disclosure are considered (annual report, stand-alone sustainability report, integrated report and website) (see Fig. 6). Seventy percent of the companies from the WE sample and 65% of the companies from the CEE sample provide information on sustainability in at least one of the four media examined.

The share of companies that issue a stand-alone report is higher in the WE sample (Fig. 7) than in the CEE sample. Fifty-two percent of the WE sample and 21% of the CEE sample issue a stand-alone sustainability report. Sustainability reports usually provide more extensive, detailed and complex information than annual reports or reports on the company's website (Hahn and Kühnen 2013). A

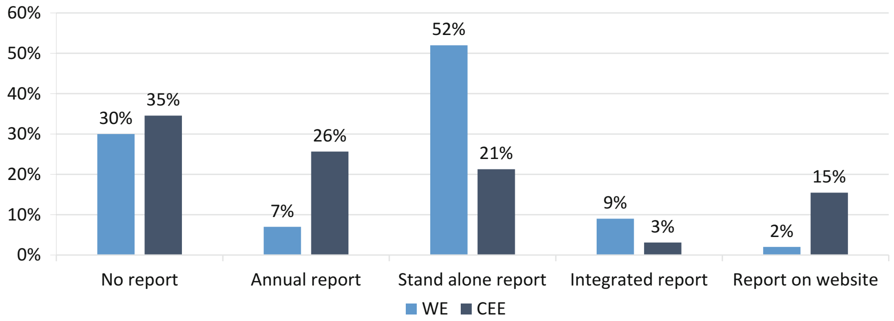

Fig. 6 Reporting forms used in WE and CEE sample

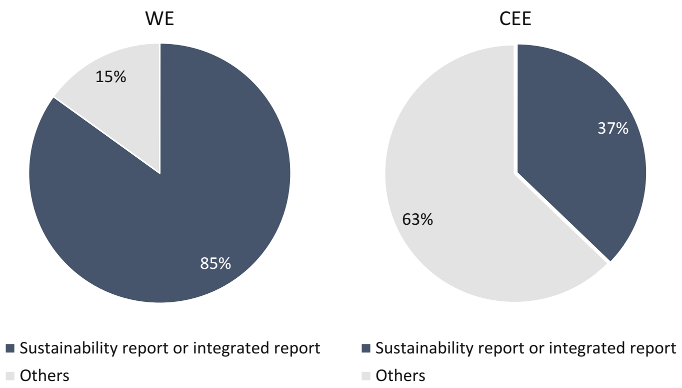

Fig. 7 Share of stand-alone reports on all kinds of sustainability reports

relatively small share of stand-alone sustainability reports in CEE countries was found in previous empirical studies (Higgins 2011; Stubbs et al. 2013) and highlights that only the largest companies worldwide practise such reporting.

Most of the companies in the CEE sample use annual reports (26%) or their webpage to issue sustainability information, as shown in Fig. 6. The share of integrated reporting is very low (9% in the WE sample and 3% in the CEE sample).

Figure 8 shows the distribution of stand-alone sustainability reports included in annual reports of the regarded sample by each country.[8] The regional distribution differs widely.

Within the whole sample, Germany, Poland and Romania lead the list with sustainability reports. This is in line with the results of the KPMG study (2013). It describes that Romania has had one of the highest growth rates of all regarding countries since 2013 in SR. Only a few stand-alone reports were found in Latvia and

[8]The percentage of SR included in annual reports expresses the share of companies which report sustainability-related information only in annual report and not in an integrated report or a stand-alone SR.

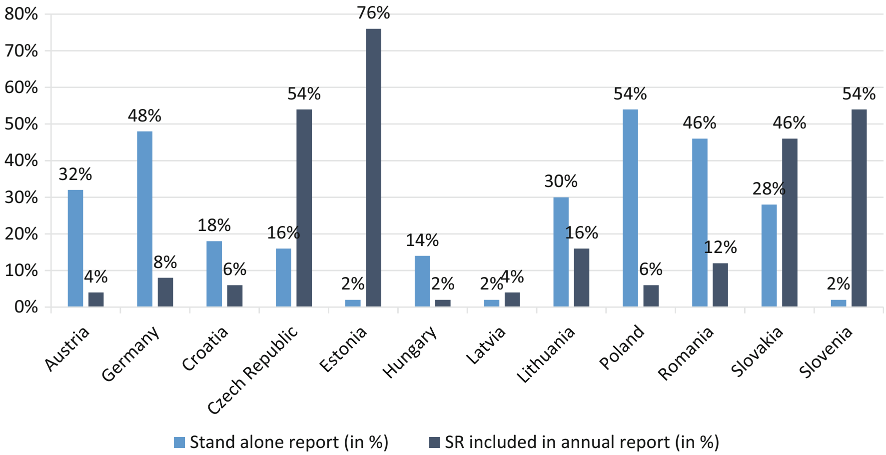

Fig. 8 Share of stand-alone sustainability reports by countries

Slovenia, where companies preferred to include sustainability data in their annual report or, as in the case of Latvia, on their website. Horváth et al. (forthcoming) find out that the cultural background and globalization factors of each country significantly influence the distribution of sustainability reports. Correlation analyses with company characteristics used to describe the sample show that the publication of sustainability reports also correlates with the size of the company ($p > 0.001$, $r = 0.340$), when the company is a Global Compact member. Low correlations ($p > 0.001$, $r = 0.119$) were found for industry.[9] This is in line with many other studies on SR that investigate the impact of corporate characteristics (Fifka 2013; Hahn and Kühnen 2013).

During the interviews, we also asked for social and organizational factors that help to explain why many companies still do not publish stand-alone sustainability reports. Two main reasons were given: The first reason is the lack of interested readers. Despite all of the participants being in industries for which there is some broad social and/or environmental concern, none of the companies that do not publish sustainability reports experience stakeholder pressure to issue one. The second reason mentioned is the disproportionate effort to collect, prepare and evaluate data on corporate sustainability. For most interviewees of the regarded companies, SR is seen as a luxury rather than an obligation. Although they belong to the biggest companies in each country, they emphasized that they do not have the resources for SR. In addition to country-specific factors, both company characteristics and internal factors effect whether a company issues a stand-alone report or not.

[9]We distinguished here between whether a company belongs to an environmentally sensitive industry (manufacturing or energy producer) or to the other industries.

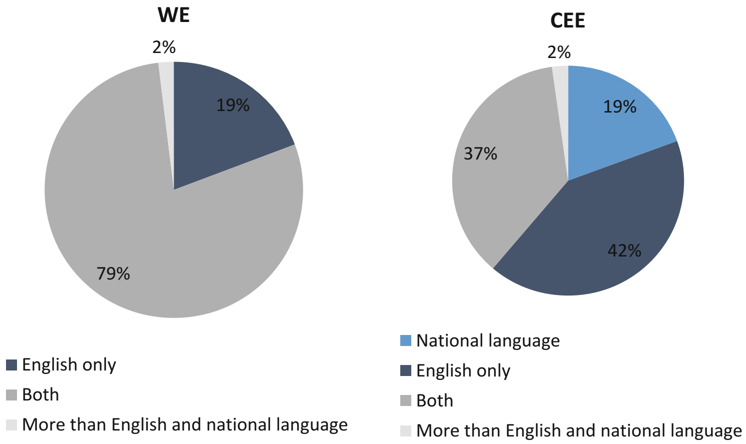

Fig. 9 Language used for sustainability report

4.3.2 Language Used for Stand-Alone Sustainability Reports

Figure 9 shows which languages are used for the sustainability reports. The majority of sustainability reports (79%) in companies of the WE sample are published in both the national language and English. Nineteen percent of all reports in the WE sample are only published in English. These sustainability reports are probably published for a wide and international readership and are not specifically produced for one region or country as the majority of the companies concerned are multinationals and operate in more than one country.

In contrast to the WE sample, 19% of the companies in CEE only disclose their sustainability information in their national language. These reports were found mainly in Lithuanian and Polish companies. These companies may only operate in domestic markets. The majority of the reports (42%) in the CEE sample are only available in English. This suggests that the reports belong to national companies that only provide the report in the global language and that do not adapt its content to the local requirements. About one-third is available both in English and the national language.

4.3.3 Reporting Standard Used in Stand-Alone Sustainability Reports

The companies that do issue a stand-alone report are also willing to undertake substantial efforts, which is reflected in the fact that 68% of the companies in the CEE region and 96% of the companies in the WE region use a standard for reporting. The most widely used standard is the standard from the GRI which has almost replaced other standards like the ISO 14031 or AA 1000 (Pütter and Bolt 2015). Only a small number of companies use other standards such as ISO 14031 or

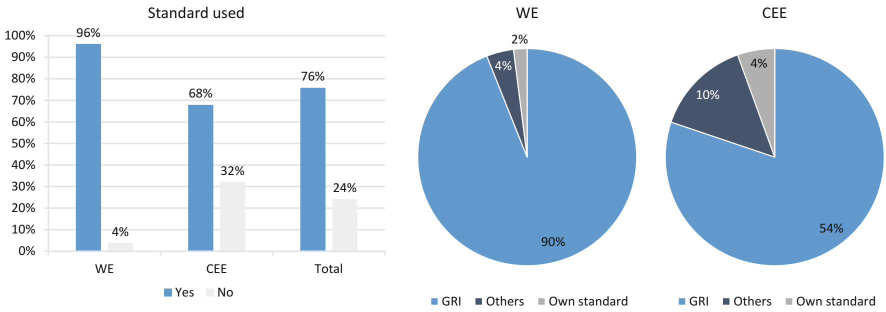

Fig. 10 Reporting standards used in SR

AA 1000 (4% in WE and 10% in CEE). There are only few companies that created their own reporting standard (2% in WE and 4% in CEE) (see Fig. 10).

The results are not unexpected. Due to pressure from government and non-governmental organizations (NGOs), companies in WE are more inclined to adhere to recognized frameworks for reporting in order to counter the claim that they only provide information suitable for them. For CEE we expect less standardization, since pressure from governmental and non-governmental organizations is lower (Kopp 2015). For the combined sample, we found statistically significant but low correlations for the standard used and the size, ownership form and Global Compact membership.

4.3.4 Third-Party Audit of Stand-Alone Sustainability Reports

An important driver of increasing quality in sustainability reports is different SR guidelines (Kolk and Perego 2010). The reporting framework of GRI also contains recommendations for reporting companies in their approach to the external verification of their sustainability report. The results of the voluntary assessment are laid down in a verification statement that reports the findings of the auditor. The voluntary decision for independent verification can be explained by the companies' willingness to enhance a sustainability report's credibility vis-a-vis stakeholders. Organizational benefits from the verification exercise may also arise in the form of improvements in the internal information and reporting system (Viehöver et al. 2010).

As more companies from the WE region publish their sustainability report according to the GRI standard compared to the CEE region, it is also not surprising that more companies in WE sample also choose to audit their sustainability reports. More than 71% of the reports published are verified by third parties in WE, while only 41% of the reports published in CEE are (see Fig. 11). The results may also indicate that stand-alone reports in CEE are used for PR purpose in order to

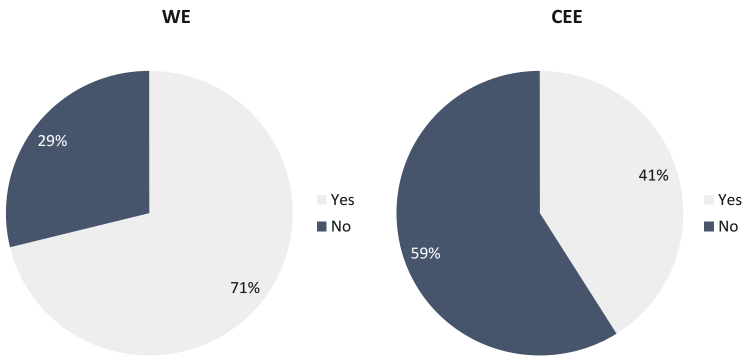

Fig. 11 Share of third-party audits of SR

strengthen the company's image. If this is the case, companies may avoid third-party audits due to insufficient reporting quality (Blaesing 2013).

4.3.5 Focus of Stand-Alone Sustainability Reports

The reports were examined regarding the number of pages and key performance indicators (KPIs) used in order to analyse if the regions have different focuses.

The average length of reports was 96 pages for WE companies and 89 pages for CEE companies. The standard deviation is very large for both samples—60 pages for the WE sample and 84 pages for CEE sample. This can mostly be attributed to very lengthy reports of two companies in the CEE sample and to one report in the WE sample. The report from one company in Romania had 558 pages and was the longest report in the CEE sample, while the longest report in the WE sample spanned 299 pages. The shortest report within the CEE sample was from a Latvian company and had only five pages, while the shortest in the WE sample was from a German company and had nine pages. Excluding these outliers, the standard deviation is reduced to 42 pages in the WE sample and 43 pages in CEE sample.

By applying the GRI categories, our study shows that CEE companies dedicate 18% of their sustainability focus to environmental issues, 14% to employee issues, 11% to social issues, 7% to economic issues and approximately 6% for product safety and human rights issues.

For WE companies, the economic dimension comprises 13% of reports on average, while the social and environmental dimensions make up 8% and 16%, respectively, and employee issues constituting 10% and product safety issues 4%.

Both regions have in common that issues on product safety and human rights play a minor role. Companies often adhere to legal compliance and do not go beyond to more comprehensive commitments in reporting. Companies in both regions dedicate most of the space for environmental issues. When it comes to employee, social and financial issues, the companies in CEE dedicate more space to employees issues and then social issues than to financial issues, while companies in

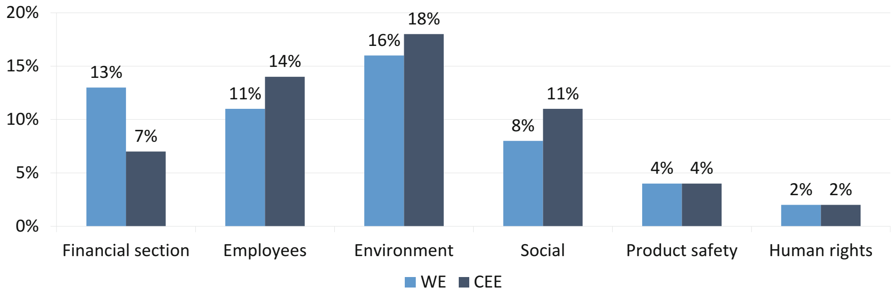

Fig. 12 Focus of sustainability reports by pages (in %)

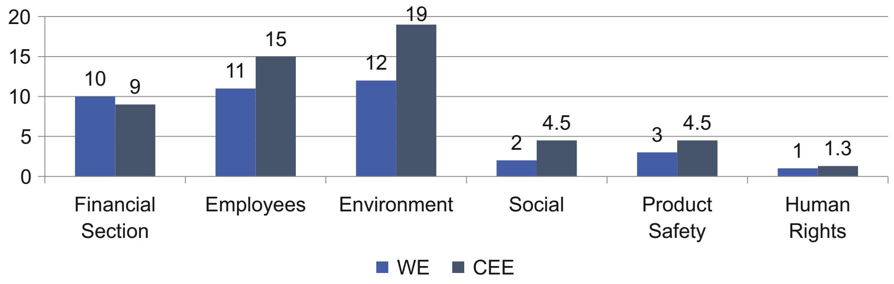

Fig. 13 Focus of sustainability reports by KPIs

the WE sample offer more space for financial issues followed by employee and social issues (see Fig. 12).

The reports are arranged very differently regarding the KPIs used. Overall, the average use of KPIs was higher for CEE companies with an average number of 53 KPIs for the CEE sample and 39 KPIs for the WE sample. The highest number of KPIs used was found in Romania (156) KPIs, while the lowest number was seven KPIs (apart from reports without KPIs). In WE the highest number was 77 and the lowest 9. The distribution of KPIs regarding the GRI categories (see Fig. 13) reflects partially the results of Fig. 12.

Here again, human rights issues received the least attention.

The average use of KPIs regarding financial, employees and environment issues in the WE sample is almost evenly distributed. In the CEE sample, the main emphasis of the distribution of KPIs is on environmental issues, followed by employee issues and then the financial section and reflects roughly the results of the analysis of the number of pages.

For both regions we expected social and environmental aspects to dominate stand-alone reports since financial information is provided in the annual reports. If we summarize employee, social and human rights issues under social aspects, the assumption is correct.

Companies from CEE dedicate more space and more KPIs to environmental issues than other issues. Our results correspond to the outcome of the study from

Steurer and Konrad (2009) which finds that companies in CEE see environmental issues as more relevant. This is explained by their socialist past that left major environmental problems and scepticism regarding social equity issues. However, further investigations show that the Baltic states do not follow this pattern and place more emphasis on social issues, while economic issues have less space than environmental and social issues [for more detail, see Horváth et al. (forthcoming)].

In WE, particular attention is paid to environmental issues, followed by economic and then employment issues. From the in-depth interviews with the companies from WE, it becomes clear that major addressees of sustainability reports are rating agencies and investors. Therefore, we assume that companies from WE also seek to include financial aspects in their reports to a substantial degree in order to satisfy the target group. However, it is surprising that on average social issues are represented by limited KPIs. Further research is necessary.

4.4 Summary

Overall, we gained the following important insights:

4.4.1 Form of Reporting

The overall penetration and form of SR vary considerably in CEE. The percentage of companies that issue a stand-alone report is generally quite low, but reports are more widespread in WE than in CEE. This is no surprise, as CEE seems to be playing catch-up in this regard. However, companies in CEE prefer to disclose sustainability information in the annual report. This is less complex and less expensive while satisfying the requirements of the EU directives. The studies of Gurvitsh and Sidorova (2012) and Strouhal et al. (2015) confirm our result that annual reports are the first choice for sustainability disclosure.

However, what is more surprising is the fact that Poland and Romania lead the countries (even before WE) regarding stand-alone sustainability reports. This is in line with the results of the KPMG study of 2013, which finds that Romania has had one of the highest growth rates of all countries in the study since 2013 concerning SR (KPMG 2013). In contrast, however, Latvia and Slovenia were represented by only one report. Next to specific company's characteristics, foreign direct investments and civil society may influence the extent of SR [see Horváth et al. (forthcoming); Pütter 2016].

As expected, the distribution of integrated reporting was quite low in both samples and will remain as such since there is no clear trend in the dispersion (Pütter et al. 2014).

Almost every company from the WE sample, and the majority of the CEE companies, reports in their stand-alone reports in accordance with a reporting standard. Standards like the GRI provide a guideline for companies and enable comparability. The results reflect the increasing distribution of standards for SR worldwide. In our sample, size, ownership and Global Compact membership are factors influencing the adoption of a standard. Contrary to the results of del Mar Alonso-Almeida et al. (2014) and Fifka and Pobizhan (2014), no impact has been found for industry.

However, we did find a difference regarding third-party audit verification. Companies from WE seek more often independent verification of their reports than companies from CEE. According to Kolk and Perego (2010), the demand for verification is higher in countries "where sustainable corporate practices are better enabled by market and institutional mechanisms" (p. 182), which is the case for WE compared to CEE. The stronger civil society in WE may also be a reason why companies in WE seek to ensure their credibility.

4.4.2 Focus of Stand-Alone Sustainability Reports

The number of pages of the sustainability reports investigated varies widely and ranges from five pages to 558 pages. Regarding the focus of the reports, environmental and social issues as a whole clearly dominate sustainability reports in both samples. However, it has been shown that there are subtle distinctions within the reports.

In CEE, environmental issues take up slightly more room (based on the number of pages) and more KPIs than in WE. In both regions environmental issues are seen to be more relevant than employee or social issues.

For the CEE region, this may be explained by their socialist past that left major environmental problems that remain to this day and conforms with results from Steurer and Konrad (2009). Interestingly, WE companies tend to emphasize the economic dimension in SR when compared with stand-alone sustainability reports in CEE. Otherwise companies in CEE emphasize more employee and social aspects than companies from the WE sample.

The current state of SR in CEE compared to WE shows that differences regarding the reporting form, the standard used and the focus of SR exist. Whether and to what extent cultural and socio-economic factors influence the reporting behaviour will be discussed deeply in the next chapter of the book.

5 Management of Sustainability Reporting

How is sustainability reporting managed in Central and Eastern Europe?

5.1 Research Design

The interviews we carried out with the different corporate representatives demonstrated that the information collected on sustainability development is managed and used differently. As a result, we wanted to explore if differences in the management of sustainability information also exist between the regional samples and if internal management has an effect on disclosing a sustainability report. Based on the results from the interviews, we prepared a questionnaire-based survey to gain insights into how companies manage the collection of information on sustainability.

Firstly, large companies from the same industries as in the first part (manufacturing, energy production, retail and wholesale, information and communication services and construction) were addressed by the questionnaire. Due to a low expected response rate, we expanded the sample to big companies. According to the EU definition, big companies have more than 250 employees, an annual turnover of more than €50 million or a balance sheet total of more than €43 million. As we wanted a sample of at least 30 usable questionnaires in each participating country, we needed to soften the criteria again as especially the smaller countries could not fulfil these criteria. Hence, we addressed the largest top 300 companies in the countries in our investigation, and we selected and targeted those responsible for SR and sustainability management as key providers of information (key contacts).

All CEE countries in the analysis before were represented in the sample except for Bulgaria. Germany and Austria representing WE were also included. We were unable to achieve the objective of 30 responses per country in each country. In total, 439 usable questionnaires were returned. The distribution of the total sample across the countries (subsamples) is shown in Fig. 14.

Using an online survey service (LimeSurvey), we developed an online questionnaire as an instrument for this survey study. Online surveys are not only quick to analyse but represent an easy opportunity to provide the questionnaire simultaneously in different languages.

The questionnaire consisted of questions covering four main topics (see also Fig. 15):

- Company's level of integration of corporate sustainability
- Company's management of SR
- Process of SR
- Organization's capabilities and main activities

Variables were surveyed and evaluated using a five-point Likert scale, multiple choice or open-ended questions. To receive more answers, we decided that the questionnaire should take no longer than approximately 10–15 min to complete and it was designed accordingly.

The survey took place from June 2015 till April 2016. An invitation was sent by e-mail to the key contacts. They were contacted via phone and then via e-mail or

Total sample	439	CEE sample	368	Croatia	44
				Czech Republic	63
				Estonia	45
				Hungary	29
				Latvia	18
				Lithuania	38
				Poland	40
				Romania	43
				Slovakia	41
				Slovenia	7
		WE sample	71	Germany	41
				Austria	30

Fig. 14 Distribution of the samples by country

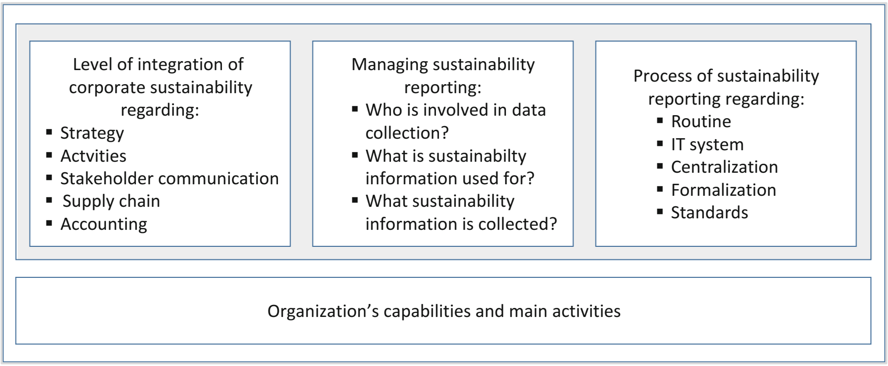

Fig. 15 Main sections of the questionnaire

directly via e-mail. The e-mail included both information about the study and the URL to the survey site. Respondents were reminded via a second mailing and randomly selected telephone calls after a duration of about 6 weeks. The participants responded to the survey anonymously, and the data was stored in the hosted online survey service.

The survey data was centrally collected and filled into prevalent statistical data analysis software by the research coordinators in Germany. The software package SPSS was used for all statistical analyses.

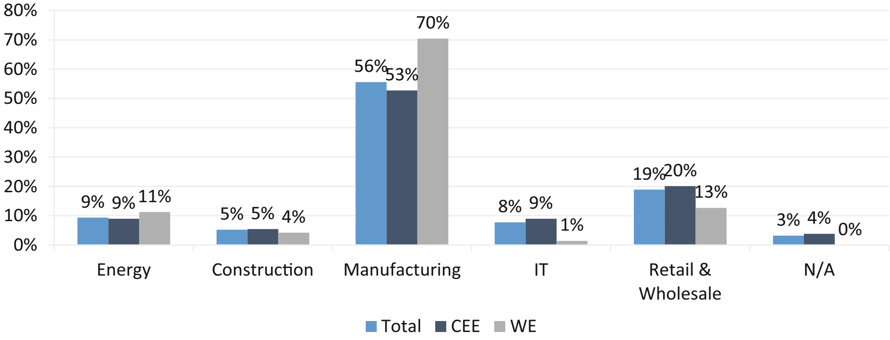

Fig. 16 Industry or sector in which the companies mainly operate

5.2 *Sample Characteristics*

5.2.1 Industry Sector

Figure 16 shows the industry structure of the respondents to the questionnaire from both regions. Most companies in both the CEE sample and the WE sample belong to the manufacturing industry. In WE more than two-thirds and in CEE half of the companies belong to the manufacturing sector. In both regions retail and wholesale ranked second and energy production ranked third. About 4% of the CEE sample did not provide any information regarding the industry sector.

5.2.2 Number of Employees

Figure 17 shows the distribution of the investigated companies from the two samples, WE and CEE, according to the companies' number of employees.

The majority of the companies in the WE sample have more than 1000 employees (69%). About 4% of the companies in WE sample have less than 250 employees and, according to the EU definition, are categorized as a small- and medium-sized enterprise (SME). The reason for this lies in the Austrian sample, as not enough big companies were found in the industries being investigated. The companies in the CEE sample are on average smaller: 42% of the companies have more than 1000 employees, about 47% of the companies have more than 250 but less than 1000 employees and about 11% have up to 250 employees.

5.2.3 Turnover

Figure 18 shows turnover in the samples from both regions researched by the questionnaire.

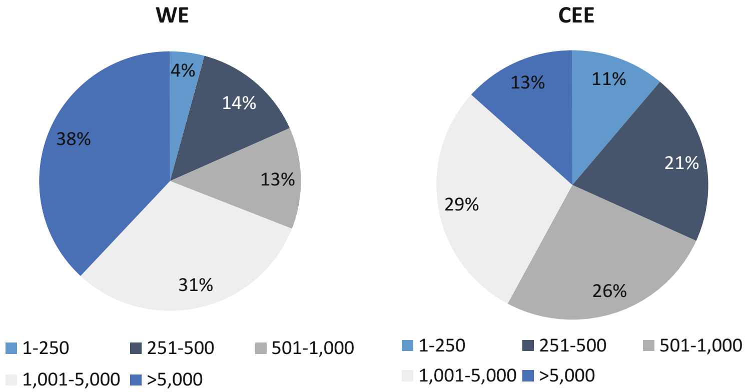

Fig. 17 Number of employees in WE and CEE samples

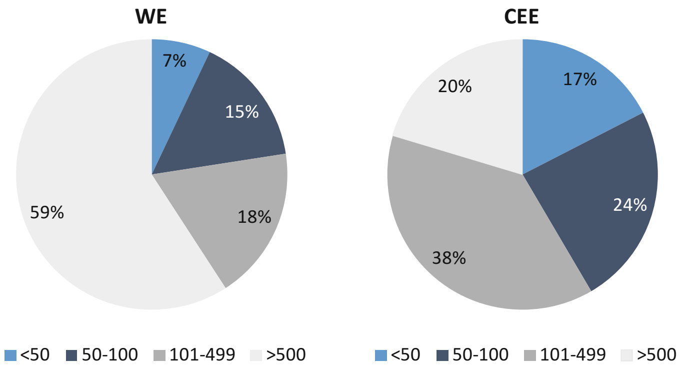

Fig. 18 Turnover in CEE and WE samples (€ millions)

The majority of WE companies achieve a turnover of more than €500 million (59%). This proportion is higher than in the CEE sample, which has only 20% of companies with such revenues. Most companies belonging to the CEE sample have a turnover of €101–500 million (38%). In both regions, SMEs (according to the definition of the EU) are present (7% of WE sample and 17% of CEE sample).

5.2.4 Ownership Form

In both samples the shares of the different ownership forms are nearly even. Privately owned companies have the biggest share in both regions (54% in WE and 56% in CEE). In WE about 42% of them are family owned (and in CEE 25%). The second largest share is publicly traded companies. State-owned companies have the smallest share but are present more often in the CEE sample (16%) than in the WE sample (11%) (see Fig. 19).

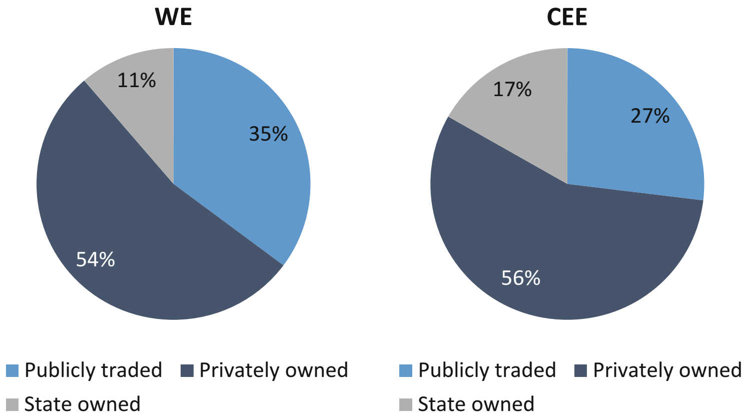

Fig. 19 Ownership form in WE and CEE samples

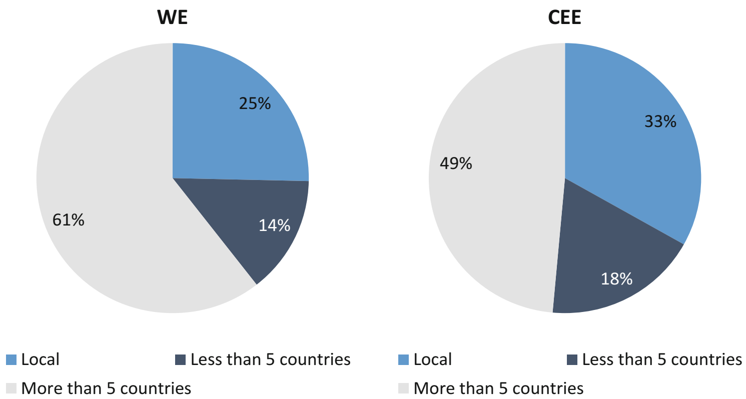

Fig. 20 Share of multinational background in CEE and WE sample

5.2.5 Multinational Background

In both samples, the majority of the companies belong to MNEs (three-quarters in the WE sample and two-thirds in the CEE sample). Most of the enterprises operate in more than five countries (61% in WE and 49% in CEE). The smaller share is embedded locally (see Fig. 20).

5.2.6 Supply Chain Position

In essence, the supply chain starts with the extraction of raw materials (or origination of raw concepts for services), and each link in the chain processes the materials or concepts in some way or supports this processing. The supply chain extends from the raw material, raw material extraction or raw concept origination

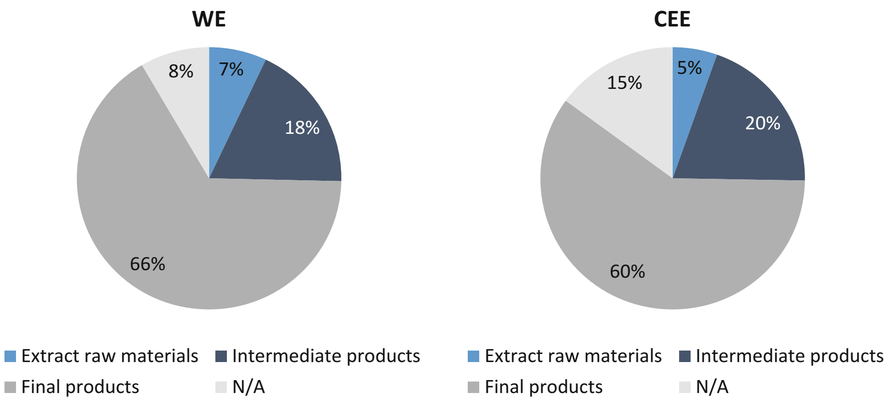

Fig. 21 Supply chain position in CEE and WE samples

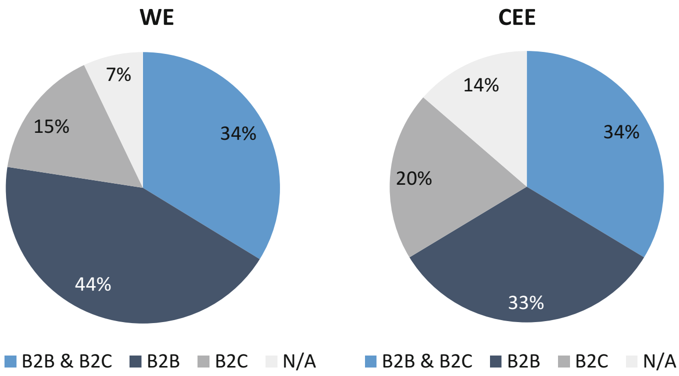

Fig. 22 Business relationship in WE and CEE samples

through many processes to the ultimate sale or delivery to the final consumer and to satisfactory consumption, whether goods or services (Beamon 1998). The share of the different supply chain positions (extract raw materials—intermediate products—final products) is nearly the same in both regions (see Fig. 21). The majority of the companies create final products (or services) and only a small number of extract raw materials (services).

Additionally, the business relationships (so-called business to alternatives) are of importance for supply chains (Wirtz 2010). The majority of the companies in both samples are primarily devoted to business-to-business (B2B) products or services, followed by companies devoted to both B2B and B2C products or services. Only 15% in the WE sample and 20% in the CEE sample are primarily devoted into business-to-customer (B2C) products (Fig. 22).

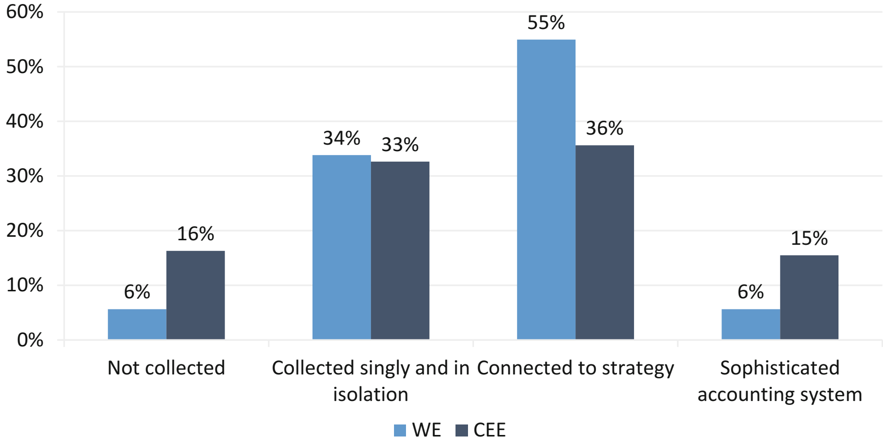

Fig. 23 How is sustainability data collected?

5.3 *Results and Discussion*

5.3.1 How Is Sustainability Data Collected?

Figure 23 shows how sustainability data is collected in terms of the collection process and the analysis and communication of sustainability-related information collected. This refers to any information that is needed for, or that is related to, corporate sustainability management. It can include both new types of information and sometimes also information which may already have been generated and used for some time before the term "sustainability" became common usage (e.g. on compliance with employment laws). Overall, 84% of the companies surveyed in CEE and almost all companies (94%) in WE indicated that they collect sustainability data.

The majority of the companies in both samples collect sustainability information which refers to their strategy. The share of WE companies (55%) that refer to their strategy is higher than the share in CEE (36%). Almost one-third of both samples collect the data singly and in isolation without referring to any strategy. Detached from any strategy, it seems to be that data collection aims only to control and communicate selectively. Fifteen percent of the companies from the CEE sample stated they use a sophisticated accounting system which is the basis for all that company's decision-making; this is higher than in WE, where only 6% of the companies use a sophisticated accounting system (see Fig. 23).

5.3.2 Who Decides Which Data Should Be Collected?

Figure 24 shows the main parties who decide which information is needed. In the CEE sample, this is senior managers (60%), and in the WE sample, it is

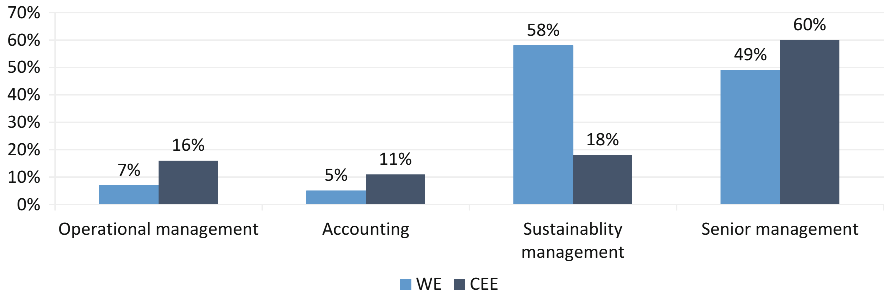

Fig. 24 Who decides which data should be collected?

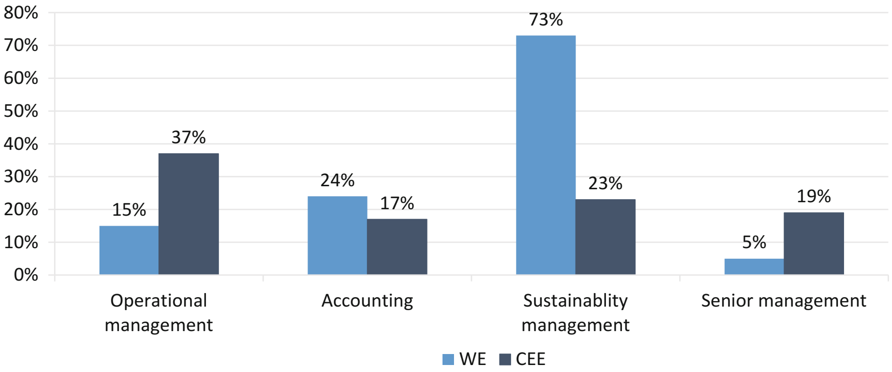

Fig. 25 Who collects sustainability data?

sustainability managers (58%), followed by senior managers in WE and sustainability managers in CEE. This is not really surprising since the development of sustainability management is still relatively recent, so sustainability managers need some self-reliance in the development of new practices, including new streams of information. Linked with the results from Sect. 5.3.8, this may also be due to the lack of dedicated sustainability departments in some companies.

What is a little surprising is that accounting specialists are also involved in the decision-making process in about 11% of the companies in CEE. This can be explained by the fact that in CEE, the preferred way of disclosing sustainability information externally is still the annual report (see results below).

5.3.3 Who Collects the Data?

When the information item to be generated has been defined, responsibility needs to be allocated for collecting the required data, either routinely or on an ad hoc basis as and when needed (Bennett et al. 2013). In the WE samples, information is collected mainly by the sustainability manager (73%). Accounting specialists (24%) are also involved in the process because they have to collect the data for the annual report, while operational managers (15%) are less involved. In CEE companies, sustainability data is collected mainly by operational managers (37%), followed by sustainability managers (23%) and senior management (19%) (see Fig. 25).

The responsibility for collecting data lies with senior management more often in the CEE sample than in the WE sample. This might be linked with the result from Sect. 5.3.7 that sustainability data management is more centralized in CEE than in WE.

5.3.4 Use of Sustainability Data

The sustainability data collected can be used for external communication purposes (e.g. for external stakeholders) or for internal purposes. Companies in CEE prefer to disclose sustainability data externally using annual reports (53%), followed by web reports (41%) and then stand-alone sustainability reports (30%). This may be explained by the fact that publishing a report, especially one of meaningful scope and quality, incurs not inconsiderable costs since data needs to be collected and then the report needs to be designed, printed and distributed (Fifka and Pobizhan 2014). Thus, it can be deduced that many CEE companies refrain from high expenditures for reporting, reducing it to publication in the annual report or as information online.

Companies in WE mainly use their homepages (74%) and further a stand-alone report (57%) for disclosing sustainability information (Fig. 26). The result basically reflects the result of the content analysis with one notable exception: the corporate website displaced stand-alone reports as the most popular medium in the WE sample. Web-based reports offer companies the ability to improve their reporting practices in terms of stakeholder engagement and online dialogue and to create an interactive report which is tailored to the needs of the reader. Recent developments show that the trend of SR is slowly moving towards customized and tailored reporting to the respective reader (stakeholder) (Isenmann 2014).

About half of the companies from CEE and less than half of the companies from WE use the data for internal reports and therefore as a basis for decision-making. Using data for internal reporting positively correlates marginally with polluting industry sectors[10] ($p > 0.001$ and $r = 0.134$) that also use their data for internal management.

Companies in the WE sample (57%) use their intranet more often to inform employees about their efforts in sustainability development than companies in the CEE sample (30%).

Although sustainability data is used less for external communication in the CEE sample than in the WE sample, internal use of sustainability data for decision-making is surprisingly higher. Possible reasons need further careful investigation as

[10]Manufacturing and energy production.

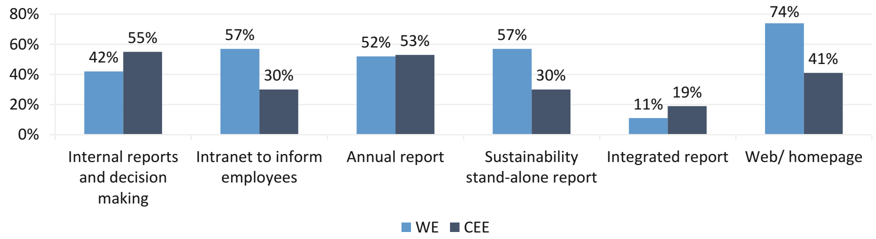

Fig. 26 For what is sustainability data used?

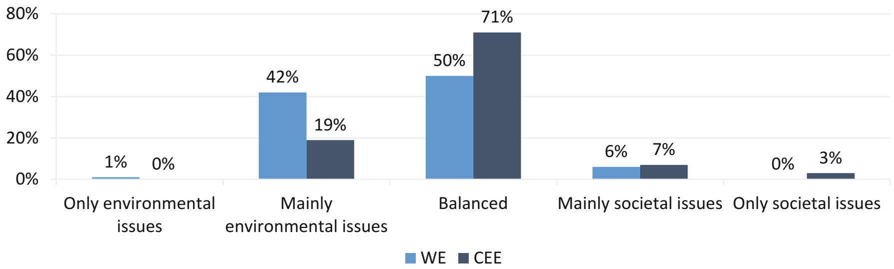

Fig. 27 Environmental vs. social aspects

this cannot be explained by other company characteristics (correlation results provided no significant results).

5.3.5 Environmental vs. Social Aspects

When asked about the balance between environmental and social aspects covered in the reports, the majority of both samples (71% in CEE and 50% in WE) claimed to have a balanced share between environmental and social aspects. Further, 42% of the WE sample indicated they concentrate mainly on environmental issues (which is more than twice the share of the CEE sample). Environmental issues are better presented using technical indicated aspects and conform with the results of the next section (Fig. 27).

5.3.6 Technical vs. Softer Aspects

When asked about the balance between technical or engineering-related themes (such as production optimization and energy efficiency) and softer aspects (such as employee satisfaction), the majority of both samples also indicated they have a balanced ratio (Fig. 28). However, the results also suggest a rather stronger inclination by companies from WE towards measurable, engineering-related themes (44%). This is consistent with some past research (McSweeney 2002).

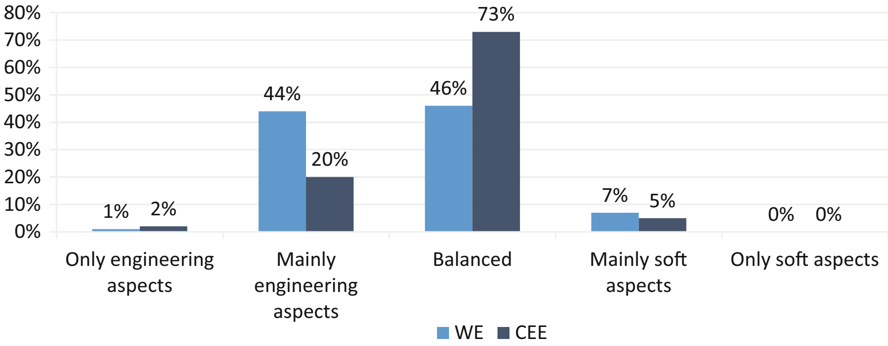

Fig. 28 Technical vs. softer aspects

5.3.7 Extent to Which the Information Generation Process Is Formalized

The majority of the companies in both samples already either publish at least an annual report or a stand-alone report or they report on their website. Thus, it was reasonable to expect that the type of information being generated within the company was largely influenced by external reporting guidelines such as those published by the GRI.

The next question was to discover the extent to which the sustainability information generation process in each company is formalized. According to Bennett et al. 2013, the information generation process varies between two extremes. One extreme might be a process in which procedures are clearly defined, e.g. in a written form where most information generation is done as a matter of routine. The other extreme might be a system with a lack of clearly defined responsibilities or targets and information which is provided accidently on a case-by-case basis (Bennett et al. 2013).

In assessing the extent of formalization in each company, we followed Bennett et al. (2013) and considered the following aspects:

- The extent to which guidelines play a role in the process for generation sustainability information
- The extent to which sustainability data is **routinely** generated
- The extent to which the process is centralized around a single department or spread across several departments
- The extent to which the process is centralized around one IT system or several IT systems
- The extent to which the information generation process is formalized (how clearly and specifically these responsibilities are defined and whether specific information flows are formally defined/formalized)

The responses were collected using a five-point Likert scale (1, not at all, to 5, to a very great extent).

Overall, Fig. 29 shows that companies in CEE perceive their information generation process as slightly more formalized than companies in WE. The

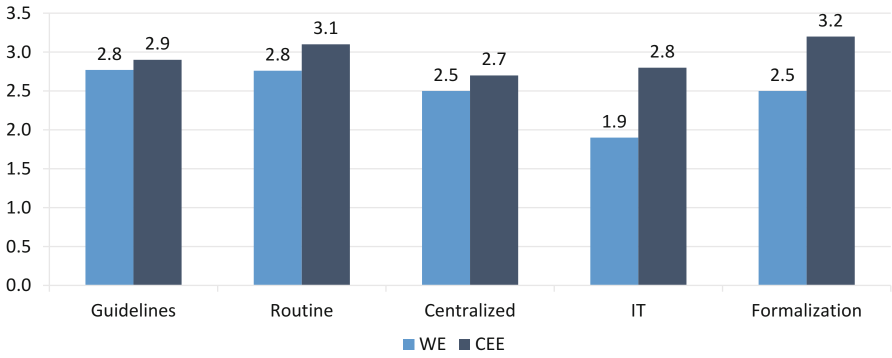

Fig. 29 Extent to which information generation is formalized (the following scale is used: 1, not at all; 2, to a slight extent; 3, to a moderate extent; 4, to a great extent; and 5, to a very great extent)

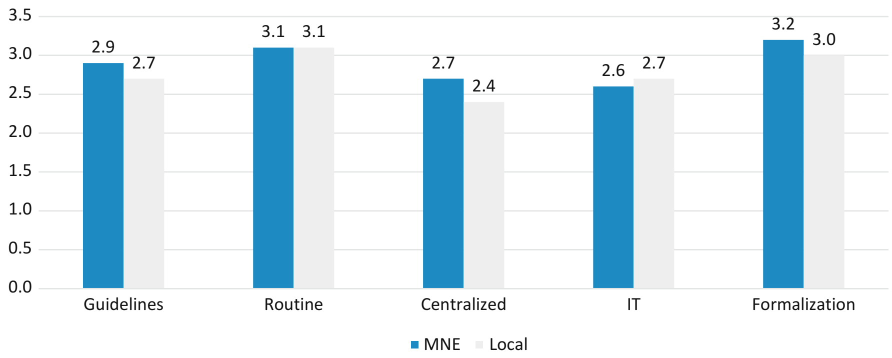

Fig. 30 Extent to which information generation is formalized by MNE

assessment is influenced by the internationalization of the company as seen in Fig. 30. For a more detailed analysis, see Pütter (forthcoming).

The fact that companies from CEE rate themselves better in the area of formalization is surprising and needs to be analysed further. Alongside experiences in reporting, and the position in the supply chain, the dependence on other companies such as a parent company could be an influencing factor.

5.3.8 In Which Department Is SR Located?

Major differences can be seen here. The majority of the WE sample (55%) have set up a sustainability department[11] where SR is located. In the CEE sample, only 15%

[11]This also includes health, safety and environment, sustainability development or corporate responsibility departments.

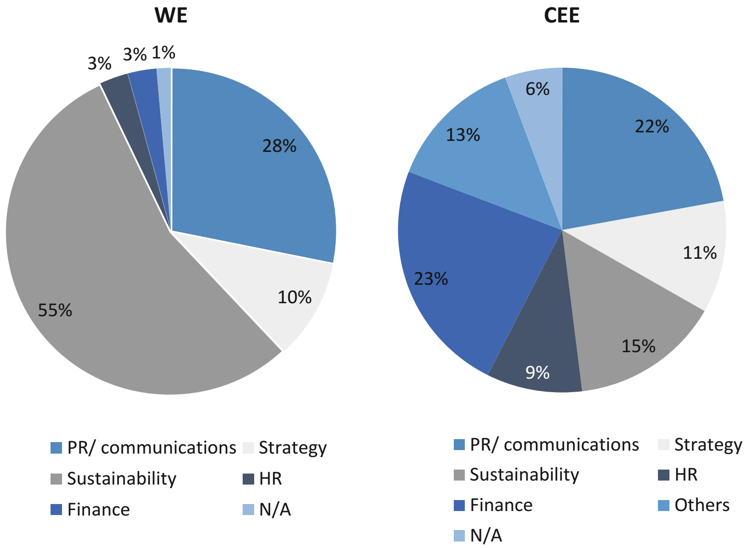

Fig. 31 Department where SR is located

stated they have integrated SR in the sustainability department (see Fig. 31). This raises the question of whether a sustainability department exists less frequently or whether SR is actually integrated somewhere else. In roughly equal proportions, SR is located in the public relations/corporate communications department. In the CEE sample, sustainability lies comparatively often in the finance department.

This is not surprising as annual reports (see Fig. 26) are still the most popular external communications instrument for disclosing sustainability data in CEE.

5.4 *Summary*

Overall, the questionnaire generated important results and indicated several possibilities for future research:

5.4.1 Purpose of Usage and Data Collection

The proportion of companies which collect sustainability data is higher in WE than in CEE. The majority of companies (whereby the proportion in WE is higher than in CEE) collect data in accordance with their strategy which means that these companies are able to assess how the company implements its corporate sustainability strategy. One-third of the companies in both CEE and in WE collect data separately. Thus, it can be assumed that this data is only used for communication purposes.

In the CEE sample, the data is mainly used for external reporting, especially within the annual report, which also reflects the results of the content analysis in the earlier investigation. More than half of the companies in the CEE sample use the data for internal reports as a basis for decision-making. Only a small proportion use the data for stand-alone sustainability reports. This is not surprising as the previous investigation found only a small number of stand-alone sustainability reports in CEE.

In WE, companies use sustainability data more diversely concerning the different communication tools for external reporting. The data is mainly used for reporting on the Internet followed by stand-alone sustainability reports and annual reports, which indicates that companies in WE use more channels simultaneously for disclosing sustainability data than companies in CEE, while a lower percentage of companies in WE use the data for internal decision-making. This leaves the question unanswered of whether companies in WE weight the function of using sustainability data for communication more heavily than the possibility for using it internally. Further, employees in WE are informed more often via intranet about the company's sustainability development than employees in CEE. Whether the employment situation of the regions has an influence on this still needs to be examined.

Additionally, it would also be interesting to investigate which sustainably data is used internally and to which extent the data used for internal reporting overlaps with the data used for external reporting.

5.4.2 Who Is In Charge?

We have noticed that sustainability managers in the CEE sample do play not the same role as those in the WE sample, neither in deciding what data should be collected nor in the collection process itself. As a result of this and also of the fact that SR is to a lesser extent the responsibility of a dedicated sustainability department than in WE (see Fig. 31), we assume that the position "sustainability manager" (or a similar position) has not yet become established in companies in CEE to the extent that it is in WE companies. In fact, in CEE, senior managers are more often in charge of deciding which data should be collected, while operational managers execute the data collection. If and where sustainability management is placed in the organizational structure and whether it has an influence on SR needs further investigation.

5.4.3 Formalization Process

A number of aspects (centralization around a single department, centralization around an IT system, routine of generation process, definition of responsibilities) were considered when assessing the extent of the formalization process. Companies in CEE rate their formalization process slightly better than companies in WE, especially regarding their IT system and the degree of formalization. Although companies in WE have more experience and have had more time to establish reporting structures, the results are controversial and need to be examined individually for each country. Initial investigations reveal that MNEs tend to have a higher formalization process, while size and industry seem to have no influence. However, these findings are not sufficient to explain the results.

The empirical analysis of SR management in CEE and WE companies provides some initial findings. There are differences in the purpose of reporting, sustainability managers' tasks and the extent of process formalization.

6 Conclusion and Outlook

Our research contributes to current academic literature as it is the first to provide data about sustainability reporting in CEEC. Calls from prior research stated the need to understand global SR practices in other countries (Fifka 2012). We made this research possible with the support of university researchers from ten institutes in the region.

The aim of the study was to provide an overview of the status quo of SR and to gain first insights into how SR is managed in CEE countries. The content analysis enabled us to determine the status quo of SR and find differences in the distribution, languages used, type and the chosen emphasis of the reports.

We used the survey to analyse how SR is managed regarding the collection of sustainability data, the use of sustainability data and the formalization of the SR process. We also found regional differences.

The study has some limitations which should be considered when interpreting the findings. First, there were temporal delays in data collection, something which cannot be prevented in international research spanning a number of countries and languages. Although behaviour in reporting does not change significantly in a short period, SR itself is subject to ongoing changes.

Second, our main focus was on the largest companies. Although the size of the biggest varies significantly within the country group, small companies remain unconsidered. The results are limited to descriptive analysis.

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Impact Factors on Sustainability Reporting

Judith M. Pütter

1 Introduction

Sustainability reporting (SR) is a mostly voluntary activity that has gained great following in academia and the corporate world since the turn of the millennium. SR enables organizations to consider the impacts of a wide range of sustainability issues, enabling them to be more transparent about the risks and opportunities they face.

In spite of standardization efforts, sustainability reports still differ regarding the scope, contents, quality and quantity, completeness and comprehensiveness of reporting, and the use of standards, focus, and form as chapter "Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study" of this book and also prior research have shown (Hahn and Kühnen 2013).

It is expected that when the new European Union (EU) Directive 2014/95/EU enters into force at the beginning of the fiscal year 2017, the number of companies which disclose sustainability reports within the EU will increase to approximately 6000 companies (compared with now about 2000 companies). The new EU Directive 2014/95/EU will make the reporting of nonfinancial information mandatory for companies in the EU with more than 500 employees starting with the fiscal year 2017. The nonfinancial statement must contain information "to the extent necessary for an understanding of the undertaking's development, performance and position of the impact of its activity relating to as a minimum environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters [. . .]" (see Article 19A, Directive 2014/95). However, companies with less

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than 500 employees and therefore the majority of the European companies can still voluntarily decide to publish such a report or not. As nonfinancial reporting is cost-intensive, it will depend on their cost-benefit consideration (Cahan et al. 2015).

The directive provides only a few minimum requirements and leaves the precise nature of the reports up to the companies. Details on which format a report should have and how broad and deep the expected information should be remained open. Hence, it is expected that differences in the other categories other than extensiveness will remain in SR.

The differences in sustainability reports have been the subject of prior research. Typically most of the studies focused on the conditions under which companies engage in SR and under which companies are more likely to use a reporting standard or to report in more detail. Consequently, most studies have focused on corporate characteristics, like company size and profitability or general factors like industry, and have largely ignored country-specific and internal impact factors of SR.

The investigated relationships are inconsistent and incomplete without consideration of impact factors like country-specific factors or internal factors. Additionally, no theory among a multitude of theoretical viewpoints has received consistent support, and there is still a lack of a comprehensive framework for studying SR. Each of the theories used in researching the determinants of CSR reporting can only partially explain the phenomenon. "An understanding of the factors which influence disclosure is necessary in order to improve accountability and specifically" (Adams 2002, p. 224).

In order to widen the viewpoint, this chapter would like to make a contribution by first showing which impact factors have been investigated in order to highlight the need for further research. The second part summarizes the main results of a study that investigated country-specific and internal factors using the study sample from chapter "Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study."

2 Factors Which Impact on Sustainability Reporting

Based on theoretical foundations and on prior research, it is possible to derive different impact factors. Prior literature on influences on social reporting has been broken down into four categories (see Fig. 1): corporate characteristics, general factors, country-specific factors, and internal factors.

Even if they investigated the same influence factors, the results of prior studies are quite mixed. This is due to the fact that although most studies looked at large companies, the sample differs from study to study in terms of both size and branches of industry. Further differences in country, time period, and the use of different explanatory variables also make generalization difficult. Results should therefore be interpreted carefully (Adams 2002). Nevertheless, the following conclusions can be made.

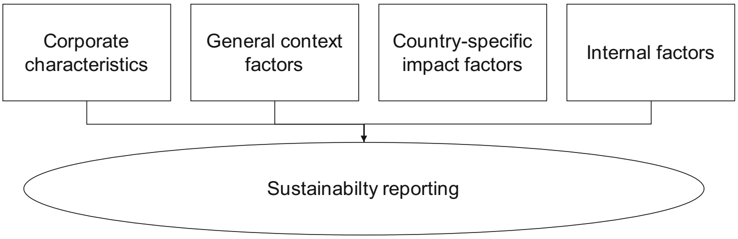

Fig. 1 Factors influencing SR

2.1 Corporate Characteristics

The first group of factors can be summarized under corporate characteristics, like size, financial and economic performance, corporate age, environmental and social performance, and also ownership structure. Of all the categories, corporate characteristics, especially the size of the company, have been the main subject of investigations (Hahn and Kühnen 2013).

In numerous studies, corporate size (measured by total assets, turnover, sales, number of employees, or market capitalization) has a positive effect on the adoption and extent of SR. This is often explained with the stakeholder theory in connection with the signaling theory: larger companies produce greater impacts, are more visible, and are the subject of much more attention than small companies and therefore face greater public scrutiny and stakeholder pressure (Fifka 2011; Fortanier et al. 2011; Schreck and Raithel 2015). Companies are forced to disclose information on their social, economic, and ecological impact and therefore publish sustainability reports. Moreover, it is argued that large companies have enough resources to be able to publish high-quality publications, while small companies might have higher marginal costs of disclosure (Haddock 2005).

Research findings into financial profitability are mixed. Some authors argue that profitability increases “the ability and flexibility of a company to bear the costs of SR and/or to cope with the consequences of disclosing potentially damaging information” (Hahn and Kühnen 2013, p. 14). Prior studies have shown a positive relationship (Clarkson et al. 2011a), a negative relationship (Haniffa and Cooke 2005), or no relationship at all (Fortanier et al. 2011) between a firm’s profitability and sustainability disclosure.

The findings regarding the influence of a company’s age on the level of corporate sustainability are also inconsistent in many studies. The stakeholder theory states that companies who once adopted sustainability activities might be under the pressure of stakeholders to reinforce them. While Moore (2001) and more recently Godos-Díez et al. (2011) found positive and significant effects of company’s age and size on SR, Hossain and Reaz (2007) concluded that company’s age does not have an impact on sustainability reports.

Findings regarding social and environmental performance of companies also yielded different results. Kanter (2011) argues that social responsibility leads to stronger financial performance and allows the firm to establish itself in a leading position. Firms provide information to investors and other stakeholders about their corporate sustainability initiatives through sustainability disclosure. Indeed, investors and analysts see sustainability disclosures as a preferred source of information about forms of corporate sustainability. Otherwise, companies which have a weak/worse social and/or environmental performance may be exposed to greater stakeholder pressure and are therefore more actively engaged in SR in order to mitigate legitimacy threats. This assumption implies that weak performance has a positive effect on SR. While Clarkson et al. (2008) find a positive effect of performance on extent of reporting, Clarkson et al. (2011b) indicate that worse performance leads to greater reporting.

2.2 General Context Factors

General context factors include industry affiliation and the general visibility of companies. It is assumed that companies from industries with a higher social and ecological impact (e.g., clothing industry and steel industry) are more likely to publish a sustainability report than companies from industries with lower impact (like service industries) in an attempt to receive the necessary legitimation (Sotorrío and Sánchez 2010).

The visibility of companies depends on the company's position within the supply chain, the level of media presence, or the brand value. Companies in close proximity to the customer (B2C) or companies whose products are directly connected with the companies name are more visible. Mishra and Suar (2010) argued from a legitimacy-based perspective that highly visible firms are increasingly exposed to pressure from various stakeholders to gain or secure their legitimacy by engaging in sustainability activities and are associated with a higher degree of SR. In general, however, research on the value chain position as a determinant is still scarce.

2.3 Country-Specific Impact Factors

Several have identified variations in reporting practices across countries. For example, Chen and Bouvain (2009) showed in their study that SR from the USA, Great Britain, Australia, and Germany differs in the prioritization of content. Chapple and Moon (2005) find differences in the extent of sustainability reports in countries from East Asia. Buhr and Freedman (2001) investigated differences in SR between the USA and Canada. However, most of the studies have simply noted a difference in the extent of reporting or the content reported without inquiring into the variables that account for these differences.

Next to legal requirements, specific cultural and socioeconomic factors have an impact on SR (Fifka and Drabble 2012). Generally, it is confirmed that tightened regulation is connected with an increase in the adoption and extent of (environmental) reporting.

The number of cross-country and comparative studies that have coherently examined the impact of specific cultural or socioeconomic factors on reporting in various countries is limited, with the exception of the studies from, e.g., Fifka and Drabble (2012).

It has to be conceded that it is difficult to examine the relationship between cultural factors and reporting "due to the difficulty in isolating the contextual variables and the complex relationships between them," as Adams (2002, p. 225) pointed out. Moreover, the results of many comparative studies have to be regarded with caution, as the national samples used "differ from study to study in terms of both size and industrial compositions" (Adams 2002, p. 224). Thus, the potential impact of country characteristics on reporting has often been neglected.

However, studies in related fields like sustainability management practice indicate that differences can also be attributed to country-specific factors, as Matten and Moon (2008) and also Delmas and Toffel (2004) showed in their work.

2.4 *Internal Factors*

According to Adams (2002), internal factors can be divided into two subcategories. The first consists of internal processes, like the existence of a sustainability department or the structure of SR processes. The second influences SR by internal setting, like corporate culture or the perceived benefit of SR by the company (Adams 2002). In order to explain SR completely, internal factors need to be regarded as Delfgaauw (2000) have already stressed. A "proper structure" based on shared values which is reflected by internal policies, processes, systems, and procedures is of high importance for SR. Similar to country-specific characteristics, the literature on the influence of internal factors on SR is scarce. Adams (2002) and a very recent study by Thijssens et al. (2016) are the only studies with the explicit purpose of determining the internal organizational factors influencing SR. "The difficulty in observing and measuring these factors may be one reason why recently only few studies exist or why internal factors are only mentioned aside or in passing" (Thijssens et al. 2016). As no quantitative study exists, further research is required.

2.5 *Relation to Theory*

From the literature overview of Hahn and Kühnen (2013), it became apparent that the majority of recent literature investigating differences in SR do not refer to any theory. Within those studies which consider a theory, legitimacy theory and stakeholder theory are probably the most frequently used theories to explain the disclosure of nonfinancial data. This explains why companies may publish sustainability reports in the first place. However, both theories are not sufficient to explain differences in SR, as they do not regard social, historical, cultural, or internal factors. Other theories that have been found through the literature provide a fundamental explanation of why companies may voluntarily disclose nonfinancial reports, including legitimacy theory, stakeholder theory, signaling theory, agency theory, capital need theory, and institutional theory. However, of the theories applied to investigate CSR, disclosure has been able to only partially explain the phenomenon (Adams 2002).

The brief overview of the impact factors investigated in prior studies shows that there are still huge gaps for future research. In addition to the inconsistent findings mentioned above, especially with regard to financial, environmental, and social performance, many factors have not been sufficiently investigated, like supply chain position, country-specific factors, and also internal factors. This can be attributed to the fact that data on variables like size and industry is easy to obtain as the information is provided by the companies themselves or by the media. Moreover, these types of data can be quantified or classified easily. External determinants, e.g., stakeholder pressure, attitudes, and perceptions, are not only harder to quantify, but the respective data is also more difficult to gather and interviews or surveys need to be conducted (Fifka 2015). Existing theories seem inadequate to explain the phenomenon of SR fully. Therefore, combined theories would allow consideration of more than one impact factor category (e.g., institutional and contingency theory as shown by Gupta et al. 1994).

3 Relevant Impact Factors on SR in CEE

In order to address the gaps mentioned above, Pütter (forthcoming) investigated the influence of country-specific factors on the extent of stand-alone sustainability reports of companies from Central and Eastern Europe (CEE). Stand-alone sustainability reports are the most frequent type for reporting about sustainability. Companies are able to provide sustainability-related topics in a comprehensible form according to specific target groups. They require more effort and are more costly than providing sustainability-related information in the annual report (Fifka 2014).

As little information concerning the development of SR within this focused region exists (see also chapter “Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study”), the investigation on impact factors is even more interesting. Due to their historical background, the countries of CEE Europe are often divided into three subgroups: Central Europe, or the Visegrád Group (with Poland, Hungary, Slovakia, the Czech Republic, and later Slovenia), the Baltics (Estonia, Latvia, and Lithuania), and South East Europe (Bulgaria, Croatia and Romania).

After the collapse of the communist government during the late 1980s, the CEE countries experienced political, economic, social, and cultural upheaval. These countries were simultaneously confronted with both the change from a state-controlled, command economy to an open and free market economy and the political transformation. Due to their past, CEE countries are often seen as a "homogenous Eastern bloc," but they are in many respects far from being homogenous. Alongside cultural differences, diverse political and economic decisions during the transition phase led to different developments in single countries that still have an effect today, which means that "one statement made for one country is not necessarily true for another" (Kopp 2015, p. 453). Meanwhile, the stronger developed and economically sound countries of CEE show greater similarities with (WEC) than other former communist countries (Ismayr et al. 2010).

In order to address cross-national differences, the concept of the National Business System launched by Richard Whitley (in particular Whitley 1992) was used as the theoretical basis. The concept of National Business System centers on the belief that firms do not act in a social vacuum, but are economic actors affected by numerous influences from the environment. Whitley defines the Business System as "distinctive patterns of economic organization that vary in their degree and mode of authoritative coordination of economic activities, and in the organization of, and interconnections between, owners, managers, experts, and other employees" (Whitley 1992, p. 33). Major components of a business system are the economic actors, the structure of market relations between those economic actors, and the coordination and control system with the companies.

The National Business System of each country is shaped and determined by the distinctive national institutional framework in which it is embedded. Whitley distinguishes four core elements: the political system, the financial system, the labor and educational system, and the cultural system. Whitley (1999) argues that different institutional arrangements provide differential access to critical firm resources such as labor and capital (Ioannou and Serafeim 2012). The concrete National Business System is formed depending on the respective constituent elements of the national state.

Finally, the differences between the individual parts result in different National Business Systems and therefore also in a different understanding of the roles of stakeholder groups. How interests and expectations in each country are understood and dealt with is expressed by the application of different management practices (Ioannou and Serafeim 2012) and in our case by different forms of SR.

To find out whether differences can be attributed to country-specific determinants, region-specific and relevant determinants of the political system, the financial system, the education and labor system, and the cultural system were analyzed and corresponding hypotheses developed. The hypotheses were tested by a logistic regression. Table 1 shows a summary of the hypotheses and their measures.

The results of the study show that all four systems, though not all parts, have an effect on SR, with the political system having the strongest influence. The results shows that regulations and laws which encourage competition in the respective country have an influence on the competition and are therefore able to pressure

Table 1 Summary of hypotheses and their measures

Category	Measure	Hypothesis	Measurement
Political system	Competition and regulation	In countries where laws and regulations promote higher levels of competition, companies are more likely to publish a stand-alone sustainability report	Laws encouraging competition in the country (measured each year) (IMD world competitiveness report)
	Density of civil society	In countries where the density of civil society is high, companies are more likely to publish a stand-alone sustainability report	Number of civil societies/per 10,000 inhabitants
Financial system	Market coordination	In countries where market orientation is high, companies are more likely to publish a stand-alone sustainability report	Data on stakeholder power, dispersion of control, size of the stock market, level and degree of wage coordination and labor turnover
	Foreign direct investment (FDI)	In countries with a higher share of FDI, companies are more likely to publish stand-alone sustainability reports	Amount of average direct investment 2005–2012
Education and labor system	Availability of skilled labor	In countries with higher availability of trained and skilled human capital, companies are less likely to publish stand-alone sustainability reports	Ready availability of skilled labor in a country (measured each year) (IMD World competiveness report)
	Private expenditure for tertiary education	In countries with higher private expenditure for tertiary education, companies are more likely to publish stand-alone sustainability reports	Share of private expenditure to public expenditure for tertiary education as a percentage of GDP
Cultural system	Power distance	In countries with higher levels of power distance, companies are more likely publish a stand-alone sustainability report	Extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally (Hofstede 1984)
	Individualism	In countries that are characterized by higher levels of individualism, corporations are less likely publish a stand-alone sustainability report	Degree to which individuals are integrated into groups (Hofstede 1984)

companies into publishing a sustainably report. Thus, the state can use indirect mechanisms to control the publication of sustainability reports alongside direct legal requirements in the form of mandatory reporting. These findings are in line with other studies (see Ioannou and Serafeim 2012; Jensen and Berg 2012) which also encourage governments to pressure firms into publishing sustainability reports by strengthening investor or worker rights, instead of by law.

A positive relationship was also found between the number of civil society organizations and sustainability reports. Especially trade unions and nonprofit organizations are able to exert enough pressure to persuade companies to increase their sustainability-related activities. The request for proof and more transparency of companies' sustainability-related activities is often initiated by civil society organizations which can also lead to the disclosure of stand-alone reports (Amran et al. 2014, p. 219 ff.; Hąbek and Wolniak 2013; Junior et al. 2014, p.3 ff.). As the number of civil society organizations can be politically encouraged or prevented, governments can use the power of civil society organizations by setting advantageous conditions for both volunteers and for associations and NGOs. Nonprofit projects can further be promoted in the form of government programs, and new approaches to citizen participation should be tested. The provision of relevant information and scientific knowledge is also an important part of how civic engagement can be fostered by governments (Zimmer 2007).

Within the financial system, only a relation for FDI could be found. SR is quite widespread due to the international activities of multinational enterprises (MNE). Since MNEs are more influential and more visible than local companies, they are subjected to external strong pressures to show sustainable commitment and finally to report about it. FDI is also associated with high potential to encourage sustainable development through the transfer of environmentally friendly technologies and sustainable management practices, for instance, and thus to raise awareness of social and environmental problems. With new technologies and management practices, such as the release of stand-alone sustainability reports, they are able to set new market standards which are adopted by local competitors (Kolk 2003, 2010).

A significant correlation between the number of skilled workers and the publication of stand-alone sustainability reports has been found regarding education and labor systems. The fewer skilled workers available, the more companies try to woo future employees through sustainable activities and associated disclosures. In particular, companies in Bulgaria and Romania are currently facing the problem of finding enough skilled workers because skilled workers are increasingly migrating to other European countries. As a result, companies try to keep skilled workers in the country and attract new employees by promising good remuneration and benefits, as well as investments in the training of young people. The publication of a separate sustainability report provides a good way in this context to disseminate this information and is therefore used as a tool of classical public relations.

However, no influence of the share of private expenditure in tertiary education has been found on SR. Compared to Western European countries, for a long time Central and Eastern European Countries (CEEC) focused on vocational training and thus on secondary education. High-income gaps between college graduates and skilled workers or technicians have led to more investment in tertiary education in recent years. Currently, a rather small change can be found in this field compared WE, but enrolment rates are still low. The effect of private expenditures in tertiary education in the USA or the UK, for instance, is much lower and can therefore be an explanation why no influence has been found.

For the cultural system, only the dimension of individualism has an influence on the publication of an independent sustainability report, while the power distance dimension has no influence. In collectivist societies social issues are of greater importance for the population than in individualistic societies. Companies are therefore encouraged to train employees in sustainability and its publication to meet the information needs of stakeholders. The distribution of power, however, has no influence. Hence, hierarchies do not result in the disclosure of sustainability reports to increase transparency.

4 Conclusion

The contribution consists of two parts. The first part shows the results of former studies and presents different categories of impact factors. The studies have largely focused on corporate characteristics while neglecting internal and country-specific impact factors. Furthermore, studies which investigated the smaller influence factors often yielded mixed results, highlighting the need for future research. It is also apparent that future research should consider other theories than stakeholder theory and legitimacy theory.

The lack of studies on country-specific impact factors was the reason for investigating differences in SR in CEE. To find out whether country-specific factors can explain these differences, relevant determinants of the political system, the financial system, the employment and educational system, and the cultural system based on the National Business System concept were shown and hypotheses were developed. It was possible to identify relationships for all dimensions. The findings led to the formulation of assumptions for practitioners and political decision-makers.

As we determined that country-specific factors may have an influence on SR, managers should take into account that SR requirements will be different in every country. MNEs in particular tend to publish one global sustainability report and possibly are not able to meet country-specific requirements. As SR is also often used as a communication tool, the lack of information regarding the working conditions of a specific location, for example, may discourage future employees. Thus, alongside one global section, the sustainability reports of MNEs should also provide a country-specific part. In order to investigate what is really expected from national stakeholders and which topics are relevant, companies may acquire relevant knowledge and train specialists. Also further research is needed instead of simply adopting established concepts that worked in other countries.

The lack of standardization of SR and the ability to publish sustainability data in different media makes it difficult to compare SR and leads to less transparency (Roca and Searcy 2012). In order to raise attractiveness for investments and to support the homogeneity of SR, governments of the countries in this study could and should influence, encourage, and improve reporting with indirect mechanisms, like strengthening civil society organizations. A legally prescribed standard is not considered useful, because in addition to differences in various industries from country to country, each country has different information needs which cannot be covered by one single standard.

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Sustainability Reporting in Estonia: Patterns of Sustainability Information Disclosure in Estonian Companies

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1 Introduction

Having regained the independence in 1991, Estonia has consistently built up a liberal-democratic political and economic system. In fact, Estonia ranked ninth in the 2016 Index of Economic Freedom released by The Wall Street Journal and The Heritage Foundation (Estonian Economy Overview 2016). For example, a decade before, in 2007 ranking, Estonia came as high as 12th position (Varblane et al. 2008, p. 9). The World Economic Forum's Global Competitiveness Index 2015–2016 ranks Estonia 30th among 140 countries (Estonian Economy Overview 2016). Estonia joined the World Trade Organization in 1999, NATO in 2004 and OECD in 2010 and became a eurozone member since the beginning of 2011. Flexibility and openness are the main characteristics and principles of Estonia's economic policy (Varblane 2000). Importance of sustainability aspects is stressed also on Estonian state level as the main goal of the economic policy of the Estonian government is defined "to create conditions for sustainable economic growth, which will result in increased welfare and real convergence with developed countries" (Estonian Economy Overview 2016). A liberal-democratic economic system creates favourable conditions for improving the disclosure and transparency issues of financial reporting.

Financial reporting information also becomes more important if foreign direct investments (FDI) increase (Daniel and Suranova 2001, p. 349). The liberalisation of the foreign direct investment regime was very rapid in Estonia. Legal framework for FDI was set within the first years after regaining independence. The general provisions were very favourable to investors: National treatment was applied, and

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full repatriation of profits was guaranteed. Since 2000, the corporate income tax from the investments was abolished completely, and firms need to pay corporate income tax only after having paid dividends. According to Varblane (2017), favourable conditions created Estonia as an attractive business location, and Estonia has been successful in attracting foreign direct investments. For example, Estonia is one of the leaders in Central and Eastern Europe (CEE) in terms of foreign direct investments (FDI) per capita. The stock of total FDI peaked at 17.4 billion euros as of 31 December 2015 (Estonian Economy Overview 2016), and the majority of foreign investments, as 47.7%, came from Sweden and Finland. Today foreign companies dominate in several sectors of the Estonian economy (Masso et al. 2013). For example, food and electronics industries rely heavily on foreign capital, and banking and telecommunication industries are dominated by the Nordic European companies. Moreover, foreign owners have contributed to Estonian firms' internationalisation as, in addition to investing in production facilities and product development, they have shared their foreign market knowledge and helped these firms to create contacts in foreign markets (Vissak 2014). On the other hand, Estonian firms are losing their low-cost production advantages, and this has changed the structure of FDI stock as some efficiency-seeking investors have closed down their Estonian units due to inability to focus on increasing revenues instead of trying to keep costs stable (Vissak 2013). Although these facts are remarkable, the public capital market is rather small in Estonia. On the Nasdaq Tallinn Stock Exchange, which opened for trading in May 1996, there are currently listed only seventeen domestic companies. In April 2001, the Helsinki Stock Exchange (HEX) Group from Finland acquired strategic ownership in the Tallinn Stock Exchange Group, and Estonian securities trading in the HEX trading system started in February 2002. Since April 2004, Nasdaq Tallinn has been a member of the Nordic-Baltic stock exchange alliance NOREX. The total market capitalisation was 1.97 billion euros by 31 December 2015, and the annual trading volume in 2015 was 148.2 million euros (Nasdaq Tallinn AS Annual Report 2015 2016). Internationalisation of the business environment points to the need for internationally acceptable legal requirements for the disclosure and reporting principles of Estonian companies.

The disclosure and reporting principles of Estonian companies are regulated by Estonian Act on Accounting (hereinafter EAOA) and guidelines of the Estonian Accounting Standards Board (former Estonian Accounting Standards) which are basing on the accounting directives of the European Union, international financial reporting standards and, in the case of persons in public law, international public sector accounting standards. According to the EAOA, at the end of each financial year, an accounting entity is required to prepare an annual report, which consists of the annual accounts and the management report (Estonian Act on Accounting 2016).

According to § 24 of the EAOA, management report has also to provide an information on average number of employees, the remuneration paid to the members of the management board or supervisory board and to the chief executive and the total amount of remuneration paid to the employees during the financial year.

These items are connected with social aspects disclosed within sustainability information. First, such a requirement on disclosure was enforced by the first EAOA issued in 1995 (Estonian GAAP 2000 2000). In 2003, the new amended version of the EAOA has also expanded the requirements on management report. An accounting entity, whose annual reports are audited or must be audited pursuant to the EAOA, has to describe in the management report also significant environmental and social impacts resulting from the activities of the accounting entity. Up to now, majority of medium-sized companies and all large companies are audited in Estonia. Consequently, the Estonian medium-sized and large companies are used to disclose in their management report within the annual report measures of environmental and social aspects of a company. This evidence is supported also by findings of Gurvitsh and Sidorova (2012), demonstrating that Estonian companies show strong intention to sustainability reporting (SR) into their annual reports. These aspects will be investigated also in the current study.

The popularity of corporate sustainability information disclosure has promoted by Responsible Business Forum in Estonia (Responsible Business Forum in Estonia). The Forum was founded in 2005 with an aim of furthering corporate social responsibility (CSR) in Estonian society through being the centre of competence building and communication on CSR.

Responsible Business Forum in Estonia is a non-profit organisation, involving currently 49 Estonian companies (see Responsible Business Forum in Estonia) for whom it is important to act responsibly to ensure the sustainability of their business, society as well of public state. Still, the influence of this Forum is rather limited, and its scope should be improved to involve more Estonian companies into the forum. These aspects, mentioned above, form a framework for improving SR.

2 Reporting Forms and Focus of KPIs Used by Estonian Companies

2.1 Research Design and Sample Characteristics

In the following subchapter, the reporting forms and focus of KPIs used by Estonian companies (EST) in comparison to CEE sample practice are explained.

The sustainability information disclosure practices of Estonian companies were investigated based on the publicly available sustainability reports and annual reports of the 50 largest companies by turnover. As described in the second contribution of this chapter, the selection of companies was limited by the following industries: manufacturing, energy production, retail and wholesale and information and communication services. Each of the sample companies was investigated whether they published stand-alone sustainability report, and in case if they did not publish it, the annual reports and also the availability of other sustainable information on the website were checked.

The selected companies' reports presented the disclosed data for the year 2013. Content analysis was applied, since sustainability information covers mainly the non-financial aspects of the company. The sustainability information disclosure practices of Estonian companies were compared with the CEE country companies' practices. The main purpose of the study was to explore country differences with the CEE region practice. Firstly, we compared the number of pages for each sustainability section in reports for Estonian companies with the CEE countries average. Secondly, the key performance indicators used for both samples were investigated. The focus of sustainability information was analysed in accordance with the GRI categories for the financial, employees, environmental, social, product safety and human rights sections between EST and CEE samples. Data were analysed based on the relevant information categorisation checklist as referred in the Sect. 4 of the book (joint study).

Regarding the industry, the largest Estonian companies by turnover represent mainly retail companies (by 56% of the sample companies) and to a lesser extent other industries—manufacturing (18%), construction (12%), energy (8%) and IT (6%). In CEE sample, the retail and manufacturing companies are prevailing 37% and 36% accordingly, and other industries have smaller share (energy 17%, construction 4% and IT 4% of the companies). Comparing the CEE sample to Estonian one, it has a higher share of manufacturing companies (36%) and retailing companies (37% from the CEE sample), whereas the Estonian sample represents mainly retail companies and less manufacturing ones.

Figure 1 shows the distribution of turnover in Estonia and CEE sample. The dominating range of turnover in the Estonian sample is 101–200 million euros (64% of the sample), and the second biggest range is 201–500 million euros (24%). The same ranges in CEE sample make up accordingly 20% and 28% of the range. For CEE companies, the largest share is more than 500 million euros (by 43%), while in Estonian sample only 6% of companies belong to this range. This illustrates the smallness of Estonian companies. Six percent of the Estonian sample and 7% of the CEE sample have turnover less than 100 million euros.

The majority of the Estonian companies are privately held companies, forming by 84% of the sample. In comparison with CEE, Estonian publicly traded companies make up 12% of the sample, whereas in CEE the corresponding companies make up 24% of the sample. As described in the introduction, this illustrates the smallness of Estonian stock exchange. Only 4% of the Estonian samples are national companies.

2.2 *Reporting Forms Used*

As required by EAOA, the certain aspects of sustainability information are disclosed in annual reports. This explains the difference between the main reporting forms used by Estonian and CEE companies. Gurvitsh and Sidorova (2012: 31) stated that the most preferred reporting form for Estonian companies for publishing

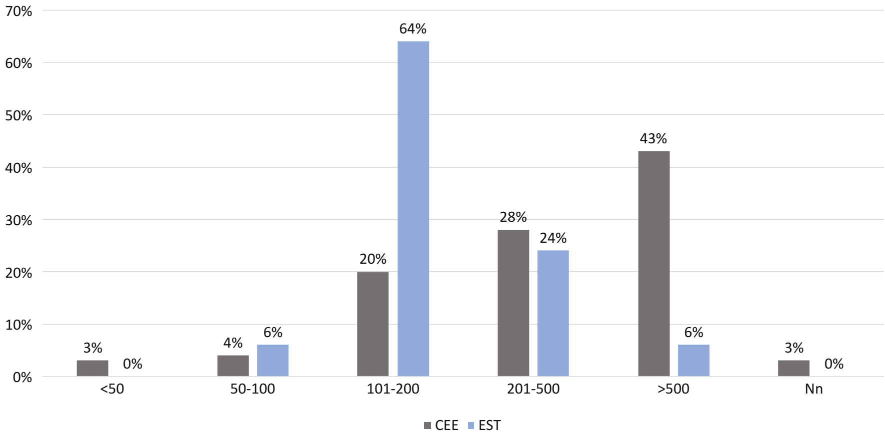

Fig. 1 Turnover in CEE and EST sample (in million euros)

sustainability information is the annual report. However, it is not standardised how companies should integrate sustainability information into annual reports (ibid). Figure 2 describes the nature of forms used in both samples. Seventy-six percent of Estonian companies disclose sustainability information in annual reports, 4% use stand-alone sustainability reports, and only 2% use integrated reporting. The companies that publish stand-alone reports are energy and chemistry companies who use natural resources for their business. The solely company in the Estonian sample that uses integrated reporting, which can be regarded as an exceptional phenomenon, is a construction company listed on stock exchange. Eighteen percent of Estonian companies use modern communication channel and publish sustainability information on their websites. These companies are usually part of an international group, and they do not publish separate stand-alone reports in Estonia.

As annual reports dominate in Estonia, the Estonian sample is divided into two parts: EST SR describes sustainability reports in Estonia, and EST AR depicts information disclosed in management reports of annual reports. Disclosed sustainability information is covered in management report as a part of annual report. The average length of SRs in Estonia is 83 pages, and ARs is 37 pages. Figure 3 illustrates the focus of reports by pages, and the percentages show how big part of the whole report is covered by information on certain sustainability aspects. For example, 13% of pages of Estonian sustainability reports are about financial aspects. Since annual report is the most used reporting form of sustainability information for Estonian companies, it explains the big focus on financial section. Even in sustainability reports, the focus on financial section by 13% for Estonian companies is higher than in CEE sample by 7%. The percentages of other sections in EST SR and CEE are more similar. In EST AR group employees view, environment and social aspects are covered on only by 1% of pages. Product safety is covered very little in both CEE (4%) and EST AR (1%). Human rights topics are

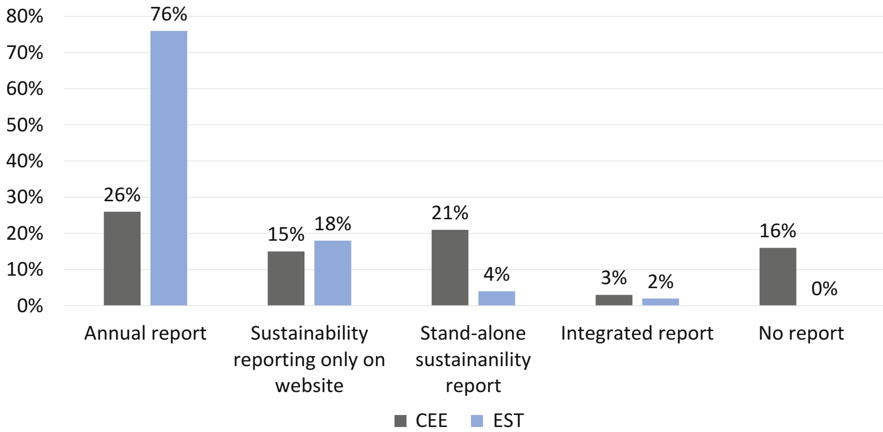

Fig. 2 Reporting forms used in CEE and EST sample

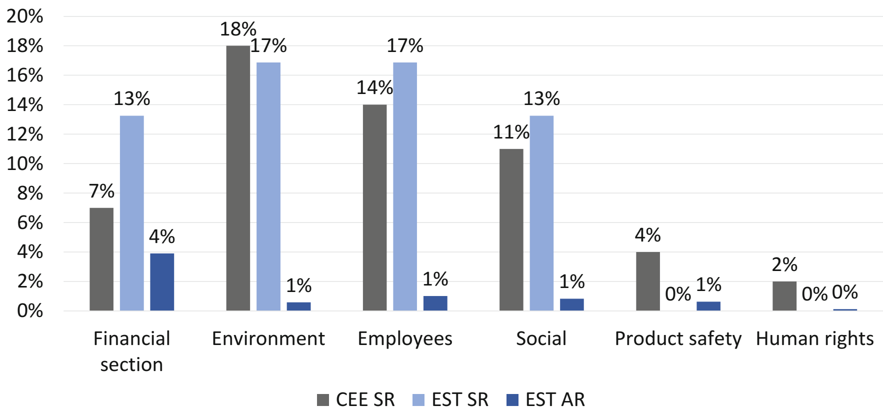

Fig. 3 Focus of sustainability reports and annual reports by pages (in %)

not disclosed in Estonia, while in CEE the coverage is not high either, but still it is represented by 2%.

2.3 *Focus of KPIs*

The average number of KPIs used in CEE stand-alone reports is 53 (see Sect. 4.3 in chapter "Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study"). As discussed in previous Sect. 2.2, only 4% of the Estonian sample companies use stand-alone sustainability reports. Analysis of the whole set of stand-alone sustainability reports and

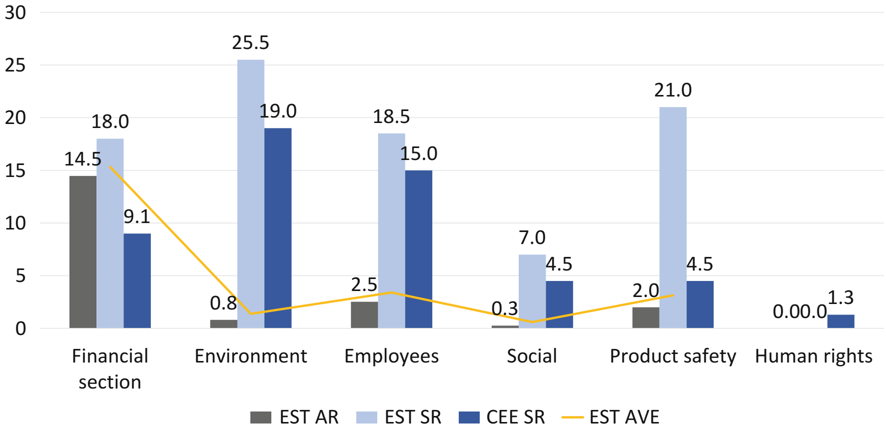

Fig. 4 Focus of reports by number of KPIs in CEE countries and Estonia

management reports of the annual reports revealed that the average number of KPIs used in this combined set of Estonian reports is 24. The focus of KPIs used in Estonian annual reports and stand-alone sustainability reports is shown in Fig. 4, which illustrates certain differences between Estonia and CEE. The number of KPIs used by different SR aspects varies substantially. In average, Estonian companies use 15.3 KPIs in financial section, 1.4 KPIs on environment aspects, 3.4 KPIs on employees aspects, 0.6 KPIs on social aspects and 3.1 KPIs on product safety issues (see Fig. 4, feature EST AVE). Due to fact that Estonian companies disclose SR aspects mainly within the management report of the annual report, the main focus is laid on financial section. This is also supported by the evidence that Estonian companies, using mainly annual report for SR aspects disclosure, reflect quite modestly environmental, employee, social and product safety aspects in annual reports (column EST AR on the Fig. 4).

Disclosure of different SR aspects is influenced by size of a company. We distinguished Estonia sample into two groups: larger companies with turnover over 200 million euros and smaller companies with turnover less than 200 million euros. Our analysis revealed that average number of KPIs used in larger companies is 35.8 and in smaller companies (with turnover less than 200 million euros) 19.4. In addition, the structure of covered SR aspects is variable. In average, Estonian larger companies use 17.9 (smaller companies 14.2) KPIs in financial section, 5.1 (0.4) KPIs on environment aspects, 4.9 (2.7) KPIs on employees aspects, 1.6 (0.2) KPIs on social aspects and 6.3 (1.8) KPIs on product safety/business issues. We notice substantial differences in all aspects except financial section. At the same time Fig. 4 shows that the Estonian companies using stand-alone sustainability reports, the number of KPIs (see Fig. 4, column EST SR) is bigger than in CEE countries in average (column CEE SR on the Fig. 4).

Figure 5 illustrates the focus of SR aspects in different Estonian industries. This analysis is also arranged basing on the whole set of stand-alone sustainability

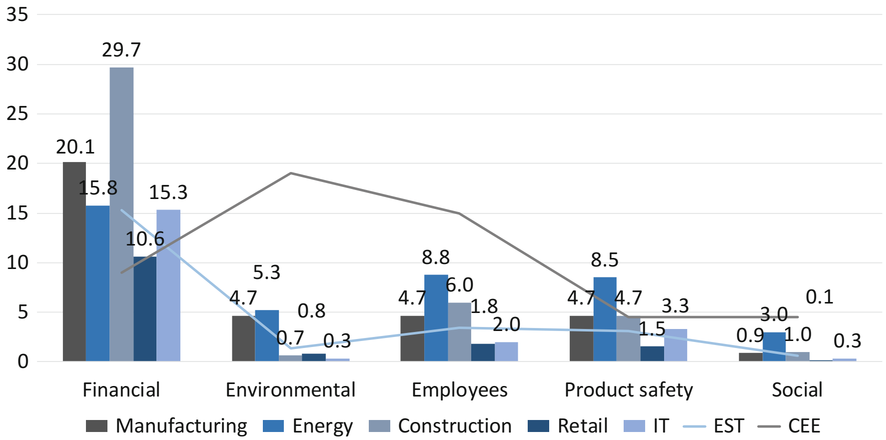

Fig. 5 Industry and number of KPIs with average number of KPI EST and CEE

reports and annual reports of Estonian companies. Figure 5 shows that average number of KPIs used by different SR aspects varies substantially in Estonian integrated sample and in CEE stand-alone sustainability reports (see Fig. 5, features EST and CEE). In particular, there are differences in the use of environment and employee aspect KPIs. But as it was mentioned before, the number of KPIs used in Estonian stand-alone sustainability reports (used only by 4% of the Estonian sample companies) is bigger than in CEE countries in average. Disclosure of different SR varies among Estonian industries. Financial focus is common for construction (with 29.7 KPIs in average) and manufacturing companies (20.1); the rest of aspects (environmental, employees, product safety and social aspects) is more intensively used by energy companies. Retailing companies use in average less KPIs than other industries.

3 Focus of Sustainability Information Used by Estonian Companies

3.1 Sample Characteristics of the Questionnaire

The following chapter provides an overview of the coverage of environmental and social aspects of sustainability issues and its management by Estonian companies in comparison to CEE sample.

To investigate the characteristic features of sustainability information used by Estonian companies, the questionnaire-based online survey data were used. Detailed explanation of the questionnaire design and general data collection steps are described in the Sect. 5.1 in chapter "Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study".

Initial step was similar to Estonia and other countries, where the questionnaire was aimed towards largest companies (large companies according to the EU definition: more than 250 employees and annual turnover more than 50 million euros). Due to the very low response of the online survey and smallness of country, where the initial sample criteria was difficult to achieve, the sample compilation criteria for Estonia and other smaller countries were softened. In the next step, new target sample was compiled. We used the personalised contacts between the largest Estonian companies and Tartu University.

During the final step, we succeeded to collect all together 45 usable responses. In total, the questionnaire was sent to 230 companies with turnover between 30 and 1300 million euros. Thus, the Estonian companies in the final sample represent medium- and large-sized companies, which is similar to other small country samples such as Latvia, Lithuania and Slovenia. However, on average the size of Estonian companies remains smaller than from CEE sample companies.

The gathered questionnaire data might contain some biases due to the described sampling principles. In general, the companies, which have contact with the universities, are relatively open companies interested in modern management and reporting tools. Thus, these responses from Estonian companies can be labelled more as moderately innovative companies than average ones. Responsible persons of sustainability issues for Estonian companies were operational managers (by 38% of the cases), senior managers (21%), sustainability managers or specialists (21%), accountants or financial managers (12%) and others (9%).

Figure 6 shows that the most responses in Estonia were given by manufacturing (46%) and retail companies (40%) followed by the two other sectors, construction (12%) and energy (2%). Data from the questionnaire present relatively balanced view from the side of manufacturing and non-manufacturing companies. CEE dominates manufacturing sector (52%), and retail is the second biggest sector (20%) in the sample. In CEE both energy and IT make 9% of the sample, while construction companies are only 6% of the sample. The responses for Estonian companies include higher share of retail and construction companies than in CEE sample.

Substantial part of Estonian companies (44%) had turnover in range of 30–50 million euros, followed by the companies with turnover between 50 and 100 million euros (40%). Consequently, 84% of the Estonian companies have turnover up to 100 million euros. Just 16% of the replies were given by companies with turnover in the range of 101–499 million euros. In the CEE sample, the situation is diverse: There are 41% of companies with turnover up to 100 million euros, while 38% have turnover within range of 101–499 million euros and 20% over 500 million euros.

The ownership forms of the sample companies in both CEE and Estonia are relatively similar. Figure 7 gives an overview of both samples. In the Estonian sample are more privately owned companies and less publicly traded companies than in CEE. As was mentioned in the “Introduction of the Estonian companies” chapter, only the minority of the companies are listed on stock exchange. There are also fewer state-owned companies in the Estonian sample than in the CEE sample.

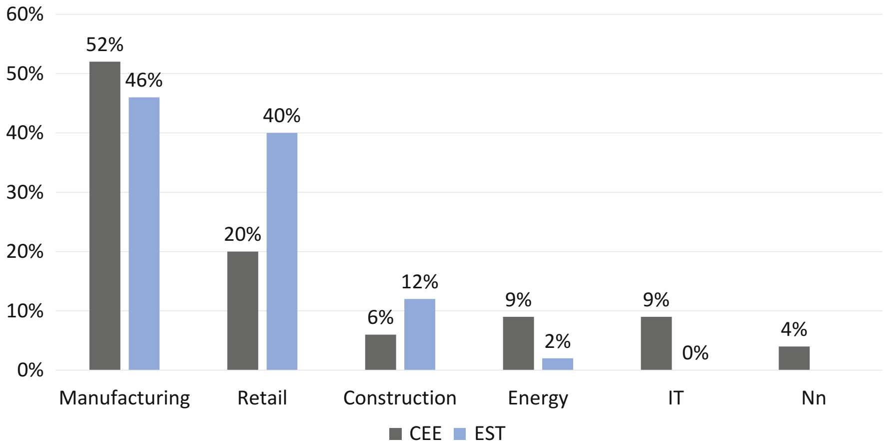

Fig. 6 Structure of sample by industry sectors in the CEE and EST

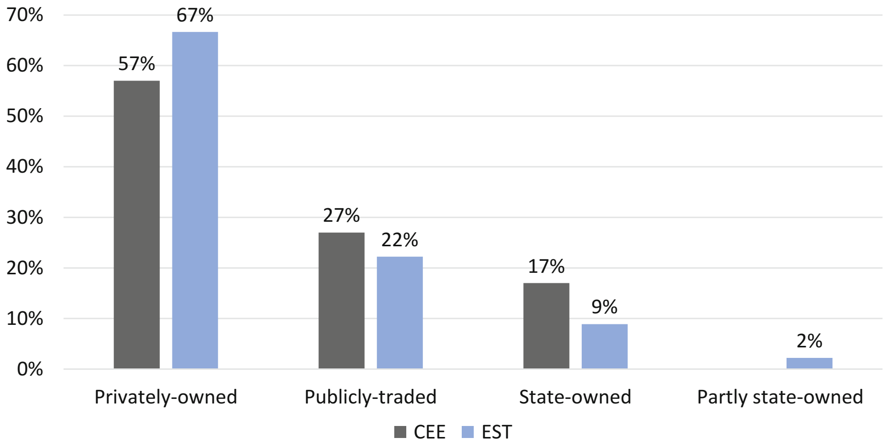

Fig. 7 Ownership form in CEE and EST sample

In Estonia 2% of companies are partly state owned, whereas there is none in the CEE sample.

3.2 Focus of Disclosed Aspects in Sustainability Reports

One of the questions in the survey was to estimate the balance between environmental and social aspects. Both CEE and Estonia sample companies claim to have mostly balanced coverage of environmental and societal issues; however, the two samples have quite different coverages: 71% in CEE and 51% in Estonia. Figure 8

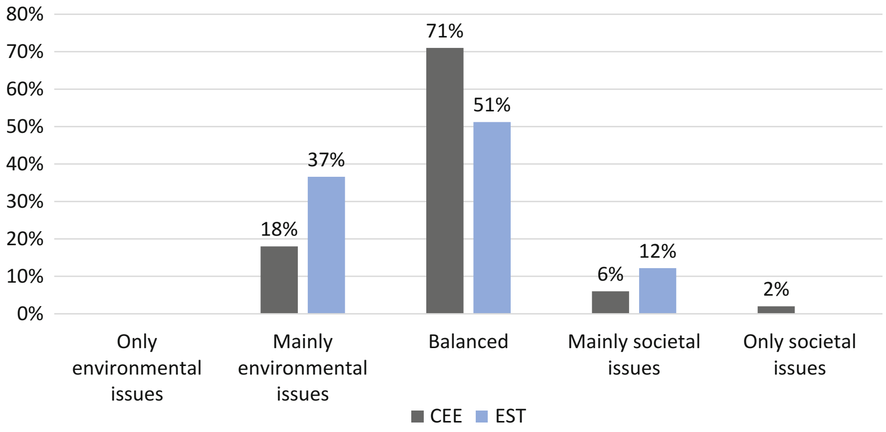

Fig. 8 Environmental vs. social aspects in CEE and EST sample

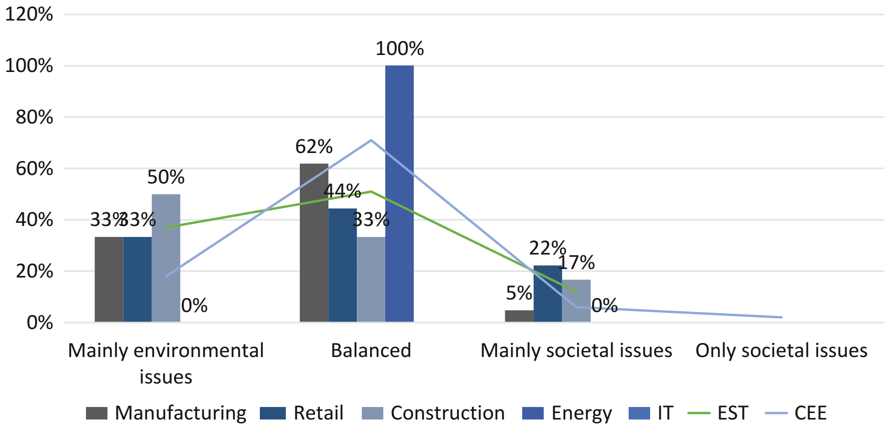

Fig. 9 Environmental vs. societal aspects by industry with EST and CEE average

describes the distribution of coverage of environmental and societal aspects. While 37% of Estonian companies focus mainly on environmental issues, the corresponding number in CEE is 18%. Mainly societal issues are covered in 12% of the Estonian sample and 6% in CEE. Only 2% of the CEE sample claim to cover only societal issues. None of the companies in either sample covers only environmental issues.

Figure 9 illustrates the coverage of environmental and societal aspects among different industries in Estonia. Balanced information coverage dominates in manufacturing and retail industries, while 50% of construction companies in Estonian sample estimate that they cover mainly environmental issues. Note that the 100% proportion in energy sector is due to the reason that only one energy company participated in the survey. Companies among all sectors tend to focus more on environmental issues than on societal issues, especially manufacturing and

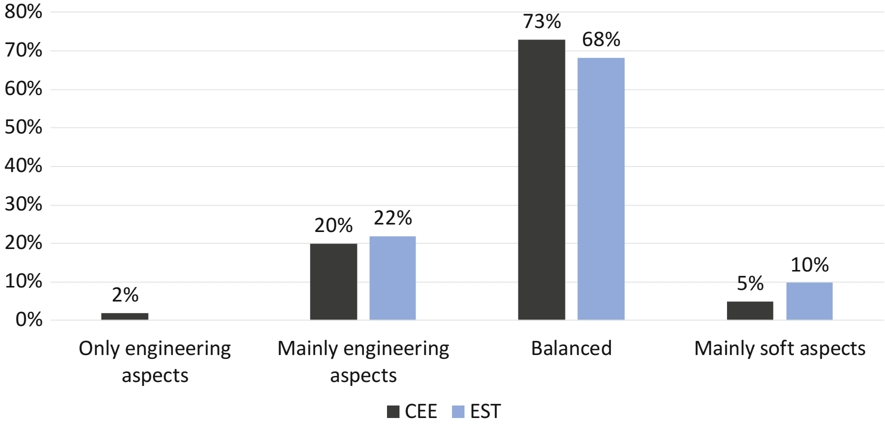

Fig. 10 Engineering vs. softer aspects

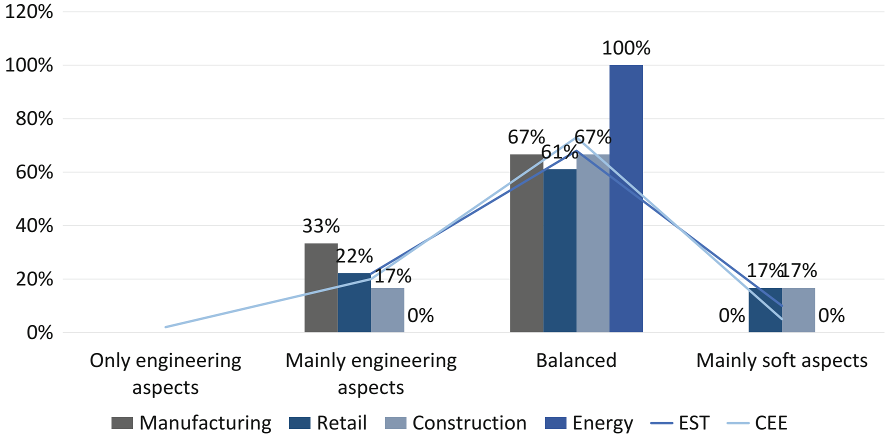

Fig. 11 Engineering vs. softer aspects by industry with EST and CEE average

construction companies. This can be explained due to the nature of their business, as manufacturing activity tends to have higher influence on environment than retailers do.

Figure 10 depicts the coverage of technical (e.g. energy efficiency) and softer aspects (e.g. employee satisfaction). In this case, the two samples are similar as balanced coverage dominates in both CEE and Estonia. Estonian sample companies cover slightly more mainly engineering aspects (22%) and mainly soft aspect (10%) than CEE sample companies (accordingly 20% and 5%). Only engineering aspects are covered by 2% of CEE companies, whereas no companies in either samples cover only soft aspects.

For all four sectors again balanced coverage dominates as shown in Fig. 11. However, 33% of manufacturing companies estimate to cover mainly engineering aspects, and no manufacturing company covers mainly soft aspects. This again might be caused by the nature of manufacturing companies, where stronger attention is on the technical side of operations, whereas for retail and construction companies there is an interest by 17% (for both industries) on the soft aspects of the sustainability measures.

4 Conclusion

The aim of the current chapter was to examine the patterns of sustainability information disclosure of the companies in Estonia. Despite the widening discussion of sustainable reporting or integrated reporting, for the Estonian companies, these can be regarded as an exceptional and not as a common practice. Relatively small size of Estonian companies in comparison to CEE sample can explain rather low interest on SR and disclosure of its different aspects.

In general, the main source for sustainable information disclosure in Estonia remains still the management report as a part of annual report. This can be explained from the legislation perspective, where companies need to describe in the management report also significant environmental and social impacts resulting from their activities. Nevertheless, overall degree of disclosed sustainable information in annual reports of Estonian companies according to the number of pages is noticeably lower than for CEE companies. The analysis shows that Estonian companies have strong tendency towards disclosure of financial aspects and low attention on the other sustainability aspects, such as social, environment, employees and human rights.

In addition, analysis revealed that the average number of KPIs used in the set of stand-alone sustainability reports and management reports of the annual reports of Estonian reports is much lower than in stand-alone sustainability reports of CEE countries. However, in the Estonian companies using stand-alone sustainability reports, the number of disclosed KPIs is in line with the characteristics of CEE sample or is even higher. Disclosure of different sustainability aspects varies among Estonian industries. While financial focus is common for construction and manufacturing companies, the environmental, employee, product safety and social aspects are more intensively used by energy companies. Retailing companies use in average less KPIs than other industries.

Focus of disclosed aspects for the Estonian companies relates similarly to the CEE companies mostly with the balanced coverage of engineering and societal aspects. Regarding the industry, in construction, the environmental issues coverage dominates over balanced coverage. For engineering and soft aspects, balanced coverage is dominant. For the manufacturing companies besides the balanced coverage, the engineering aspects get relatively high attention as well. There is no difference from the industry's view, as all industries estimate that their coverage of societal and soft aspects is rather low.

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Sustainability Reporting in Latvia: Management Views

Dzineta Dimante and Agnese Alksne

1 Sustainability Reporting Practices in Latvia

Today, there is growing public interest in how companies conduct their operations. The development of information and communication technology allows information to spread far and fast. Therefore, it is considered that companies are interested in adhering with laws and standards regarding different economic, social, and environmental issues. Increasingly, entrepreneurs include social responsibility and sustainability in their strategies as an essential basis for successful operations.

As in other Eastern European countries, sustainability reporting (SR) in Latvia is a comparatively recent tendency. Despite the fact that a growing number of companies undertake different social responsibility activities, only few of them report this. Mostly, companies choose an easier and cheaper way to communicate their sustainability activities through their web page, without putting much effort into gathering and analyzing data and printing reports. Like in other European countries, these are large companies with considerable environmental and social impact. They undertake efforts to communicate their responsibility activities.

One of the best practice examples is the state-owned energy utility company "Latvenergo," which has been preparing sustainability reports since 2000. Their reports in 2000–2001 were stand-alone sustainability reports, but since 2002 they have published integrated financial and sustainability reports. Taking into account investor interest in reporting since 2009, "Latvenergo" has prepared sustainability reports in accordance with the Global Reporting Initiative (GRI) guidelines, the first national company in Latvia that has undertaken creation of such a nonfinancial report. In 2012, the sustainability report published by Latvenergo Group was the

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only audited sustainability report in Latvia, and in 2015 it was prepared in accordance with the core requirements of the latest GRI G4 guidelines. The efforts in sustainability practices and also their reporting contributed to "Latvenergo" being recognized as the most valuable company in Latvia in 2014.

A different strategy is pursued by the joint-stock company "Latvijas Gaze," a provider of natural gas, which has chosen to report their sustainability issues only as a chapter about corporate governance in their annual report to comply with the stock exchange NASDAQ OMX Baltic requirements. The company does perform a number of sustainability and social responsibility activities, but they do not see economic justification for spending effort, time, and money on preparing sustainability reports. As "Latvijas Gaze" public relations manager pointed out in the in-depth interview, the general public does not read such reports, and in the secondary stock exchange, such reports do not make any difference.

Previous research shows that institutional investors play an important role in distinguishing a company's socially responsible actions (Aguilera et al. 2006; Rodriguez-Fernandez 2016). The lack of stock exchange activity explains why so few companies in Latvia invest in SR, even if they pursue sustainability practices. This is also consistent with the study results of Sauka (2012), where data from a sample of 405 Latvian companies did not prove statistical significance between social orientation and financial performance. The same report "Corporate Social Responsibility in Latvian Companies" commissioned by Nordea Bank reveals that managers of Latvian companies are rather rational and mainly invest in responsibility activities which give direct and short-term financial benefits—care for clients and employees and maintaining good relations with suppliers (Sauka 2012).

In September 2015, an analysis of top 500 companies in Latvia by the Institute of Corporate Sustainability and Responsibility revealed that only 11% of companies communicate their business ethics and/or principles of fair commercial practices. The majority of them are companies with foreign capital and adhere to their group requirements. Moreover, only 7% of top 250 companies publish their sustainability reports. The most transparent reports are found in the banking sector. As banks were excluded from the sample of this consortium joint study (see chapter "Sustainability Reporting in Central and Eastern Europe"), the SR activity in Latvia appears very low. The previous research argues that companies do report and evaluate their sustainability according to their materiality, but they communicate at group level and internally directly to employees, but do not communicate to other stakeholders in Latvia (Alksne et al. 2015).

2 Regulations and Promotion of Sustainability Reporting in Latvia

Currently, sustainability or nonfinancial reporting is not regulated under Latvian law. SR is mainly used by joint-stock companies in Latvia. The NASDAQ OMX stock exchanges in all Baltic countries have adopted Corporate Governance Codes, which means that the listed companies must review their reporting system and adjust it to the Corporate Governance Codes as of January 1, 2007. As corporate governance and SR complement each other, several companies have extended their nonfinancial information disclosure not only to corporate governance but also to social and environmental aspects. However, from around 180,000 legal entities registered and active in Latvia, less than 1% are joint-stock companies, only 27 of them being publicly traded (only 4 of them in the Baltic main list) (NASDAQ OMX 2016), and 92% are limited liability companies (Lursoft Data Bases 2016). Therefore, only an insignificant number of Latvian companies prepare publicly available corporate sustainability reports, even if they are involved in sustainability actions.

To implement Directive 2014/95/EU of the European Parliament and of the council from 22 October 2014 amending Directive 2013/34/EU as regards disclosure of nonfinancial and diversity information by certain large undertakings and groups, the Ministry of Economics in Latvia is developing nonfinancial reporting guidelines for state companies, as well as governmental and municipality bodies and the necessary amendments to the state legislation to bring these guidelines into force by 2017. According to the Directive, nonfinancial reporting would apply to 16 Latvian companies. CSR Latvia and the Baltic Corporate Governance Institute suggest that the directive is applied to a wider scope of companies, e.g., state-owned companies.

Taking into account OECD guidelines for state-owned company regulation, the government of Latvia has approved the “Law on Governance of Capital Shares of a Public Person and Capital Companies.” This law requires companies to report on nonfinancial goals, key performance indicators (KPIs), outcomes, and results. The nonfinancial KPIs and the results are linked with the remuneration of management board (Law on Governance of Capital Shares of a Public Person and Capital Companies 2016).

One of the current stakeholder challenges is to develop the National CSR Strategy and the Business and Human Rights action plan (Baltaca et al. 2016). Several NGOs, namely, CSR Latvia, Employers’ Confederation of Latvia (LDDK), Corporate Sustainability and Responsibility Institute (InCSR), Free Trade Union Confederation of Latvia (LBAS), and others, currently focus on the promotion of corporate sustainability. In 2010, there was signed a memorandum about principles of corporate social responsibility between NGOs, state, and governmental institutions (Employers’ Confederation of Latvia 2014).

Society’s awareness of corporate sustainability issues is raised by different public events. The CSR Conference and Responsible Business Week is organized every year, when companies have the possibility to share their best practices, implement education and engagement activities for their stakeholders, and promote the responsibility of employees, customers, and partners.

From the business side, SR has been promoted mostly by international companies operating in Latvia, as well as industry federations and foreign investors' chambers of commerce, like the American Chamber of Commerce, the Norwegian Chamber of Commerce, the German Chamber of Commerce, the British Chamber of Commerce, etc. Government agencies from other countries are also active in supporting SR, like the Nordic Council of Ministers, together with representatives of foreign countries' embassies.

Corporate sustainability-related courses and topics are also more frequently included in business and economics courses in higher and tertiary education in Latvia (Baltaca et al. 2016). This could improve the situation in the future, when today's students become more responsible managers.

3 Sustainability Ratings and Awards in Latvia

Sustainability activities and reporting on the national level is encouraged by several national competitions. The best known for the general public is the "Sustainability Index," introduced in 2010. It is an initiative and a strategic management tool that has been used for self-assessment purposes by more than 200 businesses in Latvia over the past 5 years. For the "Sustainability Index," corporate performance is assessed in all aspects of corporate responsibility in line with the GRI standards, adapted to the local environment: Management (policies, processes, principles, objectives, etc.) is weighted at 30%, integration (decision-making, responsibilities, education, stakeholder engagement, reporting) at 25%, and performance and impact at 40%. Weighting is also attributed to assurance (certificates, awards, etc.), which has a weighting of 5% in total (Lielgaidina et al. 2012). According to their voluntary self-reports, companies are awarded platinum, gold, silver, and bronze categories.

In addition to the "Sustainability Index," during the evaluation, organizers and partners carry out an additional analysis of the results and present special awards in various aspects of responsible business: the working environment, market relations, and attitudes toward the local community and the environment. For small businesses with less than 50 employees, the alternative is "responsible business assessment," which is a self-assessment and benchmarking tool with a focus on economic, social, and environmental aspects incorporated in the strategy, the work environment, market relations, the environment, and society or the local community.

4 Management Views: Study Results

In the light of comparatively low SR results in Latvia even in comparison with other CEE countries, we carried out an additional study to better understand the reasons for such inactivity. The aim of this research was to understand the attitude of the management of Latvian enterprises toward sustainability and CSR issues to better explain the low activity in SR. This study includes a survey of 1000 companies in Latvia chosen by random sample from the list of top 500 largest companies in Latvia and 65 industry association members that unite around 5000 companies. Only 59 companies responded, which demonstrates great reluctance to answer CSR-related questions. The survey was carried out in July–September 2015 by CSR Latvia. The same survey was conducted in Lithuania by CSR Lithuania (LAVA) and in Estonia by CSR Estonia. In addition, 24 interviews with a random sample of managers of Latvian enterprises and state institutions were carried out in September 2016 by master degree students who work at these companies. The interviews aimed to ask similar questions as in the survey, without providing multiple choice answers, to better understand what managers really understand by sustainability and CSR and what the main drivers to engage in these activities are. As managers were responding to interviewers who work at the company, it was difficult to pretend to be a more responsible company than in reality.

The low response rate to the survey can be explained by the fact, consistent with the managers' interview results, that sustainability and CSR issues are not yet on the agenda of many legal entities in Latvia. The low response rate may indicate that survey results bias are biased to more sustainable attitudes because companies which consider corporate sustainability as important issue were more likely to participate in the survey.

The respondents to the survey (59 companies) represented a variety of legal enterprise forms: 5% were private limited liability companies; 25%, publicly traded joint-stock companies; 16%, state-owned companies; and 13%, other enterprise forms. Forty-five percent of the companies operate nationally, 33% internationally, 13% in the Baltics, and 19% both nationally and internationally. More than half of the respondents were middle-level managers, and 18% were board members.

From the respondents of 24 interviews, 50% represented private limited liability companies; 21%, publicly traded joint-stock companies; 4%, state-owned companies; and 17%, other enterprise forms. Fifty percent of the respondents were middle-level managers, and 17% were board members.

Both the survey and the interview results show that approximately half of the companies considered CSR issues very relevant in their present business and only 11% in the survey and 17% in the interviews considered them irrelevant for their business (Fig. 1).

Only approximately 40% of the surveyed and interviewed companies responded that they have developed a CSR strategy. The interview results show that in almost half of the companies which consider CSR issues as very relevant to their business, there is no developed CSR strategy based on materiality. Sustainability activities in

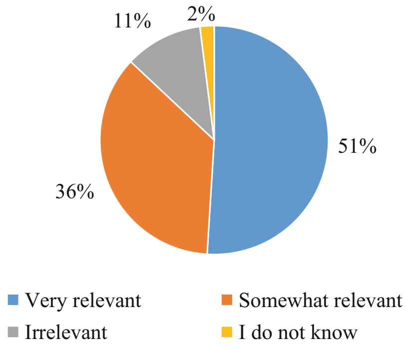

Fig. 1 Distribution of responses to the survey question "How relevant is the corporate responsibility theme in your company at present?"

companies are rather occasional, depending on management or employees' initiatives, and mainly concern present or potential employees. Some companies invest in reducing the environmental impact, mainly saving resources and separating waste, but there are very limited activities in design for all principles in product and service design, prevention of child and forced labor, identifying risks related to corruption, and creating anti-corruption principles and systems.

More than half of the respondents mentioned saving and efficient use of water, energy, and other natural resources; supporting personnel's recreational activities; development of occupational health and safety and work-related stress; waste management and recycling and utilization of recycled materials; and securing the privacy of customers and customer information as the most often used corporate sustainability measures. Obviously, these are activities which do not require the long-term planning and development of strategies. Less often were mentioned such sustainability measures as investing in cleaner production technologies, considering environmental aspects, and embedding design for all principles in product and service design, all of which require more planning, effort, and investment. Lack of resources and also understanding about the long-term benefits of these investments has resulted in the loss of international competitiveness.

Especially unpopular responsibility measures between Latvian enterprises are prevention of child and forced labor, human rights and due diligence processes, and diversity management. These topics are not considered to date as there is no known evidence about serious problems in this field in Latvia.

The survey respondents had multiple choice answers to choose from to describe their motivation for investments in sustainability activities. Improving corporate image, enhancing and securing social responsibility, and increasing job satisfaction were marked as the three main reasons (Fig. 2).

The interviews results demonstrate a similar pattern—CSR is mainly used as a PR instrument in order to improve the corporate image (76% responses in the survey and 42% in the interviews) and employee loyalty (62% responses in the survey and 25% in the interviews). During the interviews, there were no answers like safeguarding the license to operate, risk management, creation of innovations, or increasing profits. CSR is perceived mainly as a cost position by managers, not as

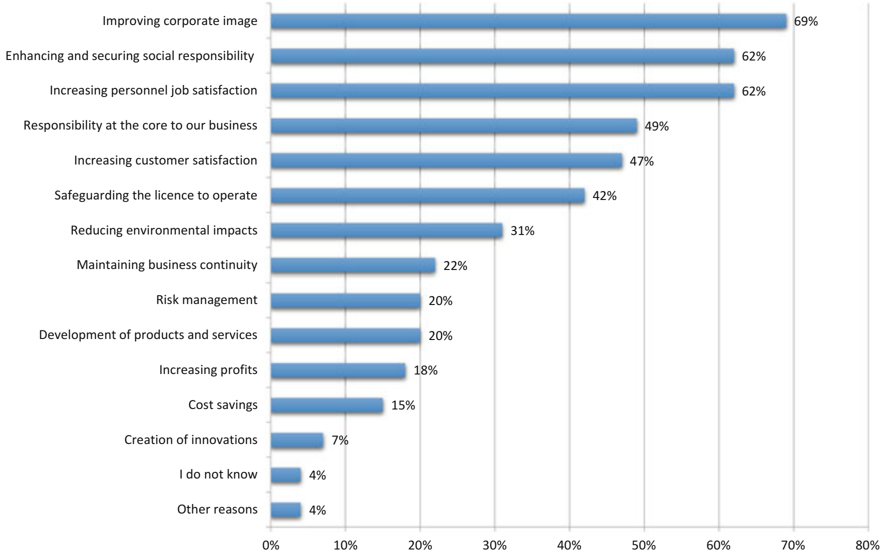

Fig. 2 Distribution of responses to the question "Why is your company investing in responsibility?"

an opportunity to improve competitiveness and increase profit. The managers of the companies which do not invest in CSR activities pointed out that the main reasons are the lack of financing and no demand for CSR activities from their stakeholders.

Both the survey and the interviews revealed that the main driving forces for commitment to responsibility are management and owners, occasionally employees (see Fig. 3).

The survey results show that legislative bodies, cooperation partners in supply chain and export, and trade unions also have some importance. This is contrary to the interview answers, where NGOs, cooperation partners, legislative bodies, or trade unions were not mentioned at all as drivers for undertaking sustainability practices. This can be explained by the developing civil society and citizenship activity in post-socialist countries and also by low purchasing power which makes price the predominant factor in purchase decisions.

This is only partially consistent with the research results of large global companies, where the main internal drivers are leadership and business case and the main external drivers are reputation, customer demands and expectations, and regulation and legislation (Lozano 2015). As there are almost no large companies with well-known negative environmental and social impacts in Latvia, the civil society has not had any experience in demanding more sustainable business practices.

Another reason for low SR activity is the lack of interest about corporate sustainability from the mass media. Previous research shows that in Latvia the lack of mass media support has resulted in problems to promote and communicate the idea of CSR, the best practices of companies, and the benefits society could receive from activities related to CSR (Lielgaidina et al. 2012).

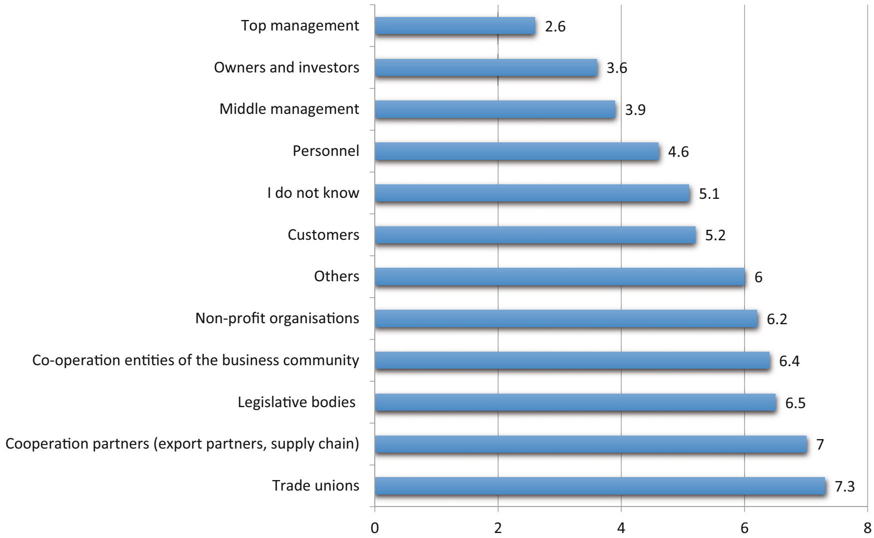

Fig. 3 Importance rating to the question "Who are the driving forces behind your business, and influence most in how committed your company is to responsibility? To prioritize number 1 is the most important"

At the end of the interviews, managers were asked about their opinion regarding the development of the importance of sustainability in the next 5 years. As many as 63% of the managers believed that the importance will increase. This shows that sustainability activities and also reporting will gradually converge to the level of other European countries.

5 Conclusion and Outlook

The joint SR study in Central and Eastern Europe (see chapter "Sustainability Reporting in Central and Eastern Europe") showed that the biggest companies in Latvia do not provide sustainability reports. Therefore, in this chapter we studied reasons why companies do not publish their reports and whether it means that they do not undertake any sustainability actions. We discovered that sustainability activities are gradually becoming more important in Latvian enterprises. There are examples of good practices both in acting sustainably and in reporting sustainability. The best practices from foreign subsidiaries and also some local enterprises, active NGOs, and international organizations are the main promoters of sustainability and nonfinancial reporting in Latvia.

The results of the survey and the interviews with Latvian enterprise managers show that approximately half of the respondents consider sustainability issues important for their business. Nevertheless, only around 40% of the respondents' companies have developed CSR strategies. The main sustainability activities concern employee work conditions and job satisfaction, as well as relations with the clients. Managers have realized the potential of motivated people in executing the business strategies. At the same time, corporate sustainability is very much considered and also used as a PR tool and a way to improve the company image. The overview of sustainability information published on websites reveals that mainly positive events and achievements are reported. Lack of resources and no demand from clients are mentioned as the main obstacles for more active involvement in corporate sustainability activities.

The increasing attention to corporate responsibility and sustainability issues, the growing tendency to include these topics in business and economics education, and the activities of NGOs suggest that sustainability will be pursued by more companies, and also SR will converge to the levels of other European countries.

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Sustainability Reporting in Lithuania: The Perspective of Integrated Reporting

Lina Dagilienė

1 Sustainability Reporting in Lithuania: Institutional Regulation

Lithuania is one of the European Union (EU) countries where mandatory factors regulating sustainability reporting (SR) do not operate. However, particularly there are an increasing number of stock exchanges adopting policies and regulation requiring enhanced disclosures by companies of nonfinancial information (GRI 2013). All companies listed on the different stock exchanges of the EU have to issue annual reports. The legal basis for that in Euro zone countries is the EU Accounts Modernization Directive 2003/51/EC, which states that certain companies are required not only to present financial information but also to disclose the information about employees and the environment in their annual reports. The directive provides only a principle provision that such nonfinancial information must be disclosed but does not indicate the specific requirements for the performance indicators and the volume of disclosure. Therefore, different countries adopted the provisions of the directive very differently—from the minimum requirements for disclosing additional nonfinancial information to a tighter regulation of sustainable information.

Lithuania adopted the provisions of Directive 2003/51/EC at a very minimum level (Dagilienė 2014). The main Lithuanian laws and regulations are to adjust the presentation of financial information in the financial statements and annual reports. Indirectly, however, we can find connections to the regulation of SR. Companies are required to prepare annual reports, mandatory for financial and nonfinancial performance analysis, as well as environmental- and employee-related information.

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According to the Republic of Lithuania Law on Financial Statements of Entities (6 November 2001, No. IX-575 as last amended on 14 May 2015—No. XII-1696, Vilnius) Article 25, the annual report must include analysis of financial and nonfinancial performance, information relating to environmental- and employee-related issues. Therefore, the company has the right to decide how much nonfinancial information they want to disclose. Other necessary information in the annual report includes financial performance aspects, such as additional explanations to annual financial reports, changes in shares, activity of the company's branches and representative offices, other important events, operating plans and forecasts, financial instruments, research and development activity, etc. Specific requirements to disclose information are not available (Dagilienė 2014). Therefore, usually only positive information or neutral statistical information on the employees' age, number, education, and the average wage is disclosed in annual reports. This sustainability disclosure practice is consistent with the results of the joint research study.

Another provision of Directive 2003/51/EC relating to the disclosure of information is an obligation for listed companies to include a summary of the Governance Code in their annual reports. Lithuanian Corporate Governance Code covers areas related to the protection of the interests of shareholders and an appropriate balance and distribution of functions between the company's supervisory and management bodies, and it encourages companies to properly disclose information for the market. If the company fails to comply with any of the principles recommended by the Governance Code, it must set out the reasons why it has done so. This Governance Code also does not provide specific recommendations on what companies should disclose about the social and environmental risks of the business and is mainly focused on the improvement of corporate governance practices.

So Lithuanian nonfinancial information regulatory cases are transposed to the national law from the EU directives. However, the country itself and on its own initiative does not take measures and actions to regulate nonfinancial information.

The results of joint research study further confirmed that only a few largest companies issue constantly separate sustainability reports.

2 Integrated Reporting

2.1 Prior Research and Studies on Integrated Reporting

The trend of integrated reporting began in 1994 in South Africa with the release of South Africa's first King Code of Corporate Governance Principles, commonly known as "King I." The King II report followed in 2002 and introduced "integrated sustainability reporting" as a concept and set up the aim "to analyze a wide range of new and complex areas of non-financial reporting" (Gleeson-White 2014, p. 156).

The current version of the integrated reporting framework in South Africa stems from the *King Report on Governance for South Africa—2009* ("King III") (IDSA 2009), which advocates integrated reporting as a holistic and integrated representation of the company's performance in terms of both its finances and its sustainability (Dumay et al. 2016).

"A single document, One Report is the result of more integrated reporting, which can only happen if sustainability is embedded in a company's strategy. One Report is both a tool and a symbolic representation of a company's commitment to sustainability" (Eccles and Krzus 2010, p. 4).

The move toward integrated corporate reporting has been already triggered research in various dimensions: creating a conceptual template of integrated reporting at organizational level (Abeysekera 2013), the adoption of practices of integrated reporting and changes of processes and structures inside companies (Stubbs and Higgins 2014), demonstrating the influence played by certain features of the board of directors on the integration of financial and nonfinancial information presented by leading multinational companies (Frias-Aceituno et al. 2013a), the influence of the country's legal system on the development of integrated reporting (Frias-Aceituno et al. 2013b), and initiatives of integrated reporting impact on the education and training of accountants (Owen 2013). De Villiers et al. (2014, p. 1042) discuss "insights from accounting and accountability research into the rapidly emerging field of integrated reporting" and propose a comprehensive agenda for future research. Dumay et al. (2016) present a comprehensive structured literature review of integrated reporting. The main insight is that "most published research on integrated reporting presents normative arguments for integrated reporting and there is little research examining integrated reporting practice" (Dumay et al. 2016, p. 1).

Thus, integrated reporting is voluntary, but it can be kept as one of the alternatives for nonfinancial reporting. In April 2014, the European Parliament adopted *Directive* 2014/*95*/*EU* on the disclosure of nonfinancial and diversity information by certain large companies and groups with more than 500 employees. This covers approximately 6000 large companies and groups across the EU. The directive leaves significant flexibility for companies to disclose relevant information in the way that they consider most useful (annual report) or in a separate report (sustainability report). The newest tendencies only ascertain the trend to regulate nonfinancial reporting of the largest companies. As this law will go into force from January 2017, this study aims to investigate what is the current state of nonfinancial reporting of listed Lithuanian companies according to the integrated reporting framework.

Insights for integrated reporting and the regulatory context not only highlight needs from the field of research but also show practitioners need to understand the current state and possible influence of integrated reporting on the needs of external users of corporate reporting.

To fill this gap we raise the research question: What are perspectives of integrated information reporting according to the integrated reporting concept in annual reports of Lithuanian listed companies?

2.2 Research Methodology

The empirical study of integrated reporting practices uses a number of phrases for evaluating companies' sustainability disclosures (Guthrie et al. 2004; Guthrie and Abeysekera 2006) according to the worldwide integrated reporting concept (IIRC 2013). The IIRC (2013) has defined six types of capital: financial, manufactured, intellectual, human, natural, and social (relationship):

- *Financial capital*—the best known capital type of corporate reporting in general. Financial capital can be expressed in various forms: shares and bonds, bank deposits and interest, bills, dividends, debt, and many other financial instruments, including cash. The study includes information about companies' financial capital: quantitative and qualitative (descriptive) information on a company's share capital structure, securities' purchases and sales, circulation, as well as dividends paid or have not been approved dividends.
- *Manufactured capital*—manufactured physical objects that are available to a company for use in the production of goods or the provision of services, including buildings, equipment, and infrastructure. In most cases, manufactured capital is company's main production (products) for sale. The study includes information about companies' manufactured capital: quantitative and qualitative information on the product range; information on raw materials; investment in materials, tools, and equipment; and suppliers.
- *Intellectual capital*—knowledge-based intangibles, including intellectual property, such as patents, copyrights, software, rights and licenses, and organizational capital such as tacit knowledge, systems, procedures, and protocols. Intellectual capital in the study includes quantitative and qualitative information on a company's implemented quality management standards for proprietary and licensed activities.
- *Human capital*—employees' competencies, capabilities, and experience and their motivations to innovate (IIRC 2013), including their ethical values and loyalty, abilities to manage and work in a team. Demartini and Paoloni (2011) argue that human capital includes the collective knowledge, skills, and ability of individuals to work in companies and organizations that improve because of knowledge. The content analysis includes qualitative and quantitative information about employees' statistical characteristics (turnover, education, age, sex, wages) and opportunities for training.
- *Natural capital*—all environmental resources and processes that provide goods or services, including air, water, land, minerals and forests, biodiversity, and ecosystem health. Natural capital defines a company's direct impact on the environment also including resource saving and the prevention of pollution. By analyzing qualitative and quantitative natural capital information, subcategories are formed by all three of the above directions.
- *Social (relationship) capital*—the institutions and the relationships within and between communities, groups of stakeholders, and other networks and the ability to share information to enhance individual and collective well-being (IIRC

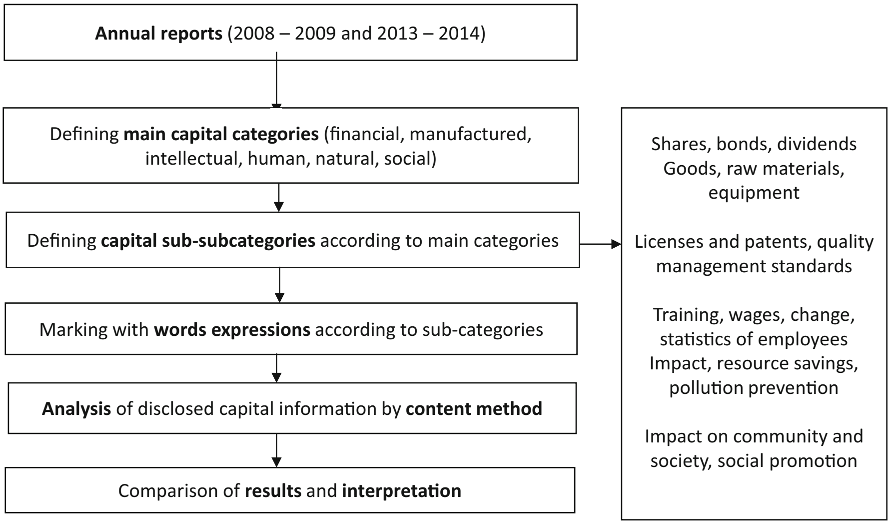

Fig. 1 Process of empirical research

2013). Social capital shows a company's network, relationships with clients, customers, sponsors, other partners, and stakeholders. The study of disclosed social (relationship) capital analysis includes qualitative and quantitative information about the impact of public organizations, social projects, promotions, and manifested impact on the community or public sponsorship.

The visual research methodology scheme is presented in Fig. 1. First, six capital categories according to the integrated reporting framework were identified. Second, every main capital category was divided in subcategories using key word expressions (phrases). Then the disclosure of capital subcategories was quantified. This shows how many times in annual reports the observation units and the most commonly used words and phrases (characterizing a specific category of capital) appear.

2.3 Data Sampling

The research study uses secondary data (annual reports) of companies listed on the Vilnius Stock Exchange NASDAQ OMX Vilnius (http://www.nasdaqbaltic.com/market/?lang=en). Information in annual reports may be presented in the text (mostly), tables, graphs, pictures, or even photos. Content analysis of selected companies' annual reports of integrated information reveals a combination of all the above techniques. Various tables and graphs enable stakeholders to receive a simplified presentation of complex information.

Table 1 Data sample

Sample selection	Companies in the official list	Companies in the additional list	Number of observations
Data 2008–2009	11	10	84
Data 2013–2014	3	5	32
Total sample:	**14**	**15**	**116**
Removal of companies			
No public annual reports or annual reports from only one research period	**3**	**6**	**36**
Final sample	**11**	**9**	**80**

The study includes all companies listed on the Vilnius Stock Exchange NASDAQ OMX Vilnius. The Vilnius Stock Exchange is the only regulated market operator in Lithuania. Table 1 presents the initial sample and the final study sample.

Integrated information data in annual reports was collected in two different periods:

(1) During the economic crisis period 2008–2009
(2) In the after-crisis period 2013–2014

The initial study sample consists of 116 observations. Companies that provided annual reports only by the second time period, i.e., 2013–2014, were rejected because the period was too short to provide appropriate data. Therefore, the final study sample consists of 20 listed companies and 80 observations.

The researched companies are classified by sector of activity into four groups:

- Consumer goods
- Industrial products
- Financial services
- Utilities, basic materials, telecommunications, and consumer services

These groups are also used for a sectoral analysis of the results.

Limitations: Companies do not disclose integrated capital information consistently according to the integrated reporting framework in annual reports, as annual reports are not true integrated reports. Therefore, the collection of data may be distorted due to subjectivity. It is worth noting that in addition to the extremely low volume of the main annual reports, the information contained in the appendix to the annual report for the Vilnius Stock Exchange is listed in the compliance to the Corporate Governance Code. Other issuers do not submit corporate governance information separately as the appendix to their annual reports constitutes the final part.

It is worth mentioning that not all forms of capital are equally relevant or applicable to all companies, depending on the industry in which the specific company acts. While most companies interact with all forms of capital to some extent, these interactions might be relatively small or so indirect that they are not sufficiently important to be included in the annual reports.

3 Lithuania-Specific Implications: Results and Discussions

3.1 Disclosure of Integrated Capital Information in Annual Reports 2008–2009 and 2013–2014

Through multiple reading of annual reports, it can be stated that there are three prevalent data formats:

- Text, which describes the information about manufactured capital (goods and investment in equipment), intellectual capital (ongoing licensing activities and installed management standards), human capital (trainings of staff), natural capital, and social capital.
- Tables, which mainly contain information related to the company's share price changes, the number of employees, and wages. Absolute financial capital data is often presented in the tables, while the ratios (e.g., turnover) are displayed on charts. Disclosure of staff salaries, change, and education does not differ from financial capital. The tables also contain information on manufactured capital, i.e., goods and raw materials.
- Graphs and diagrams, which contain information about share price changes and staff turnover.

Research results show that the volume of annual reports is different, so by evaluating integrated information in terms of disclosure quantity, it is necessary to take into account the percentage of disclosed capital information. Thus, assessing the percentage of integrated capital information in annual reports is presented in Table 2.

In 2013, capital disclosures ranged from 3 pages to 15.5 pages, whereas in 2014 the range was 2–16 pages. In 2008, the average volume of annual reports was 34.67 pages, while the average volume of capital information in the annual report was only 21.32%. In 2009, the average volume of reports rose to 36.71 pages, but the average of capital information disclosed decreased to 18.34%.

In times of economic crisis (2008–2009 year), disclosed capital information accounted for an average of 20.47% of corporate annual reports volume, while in the postcrisis period (2013–2014) disclosed capital information accounted for an average of 16.08% of corporate annual reports volume.

The detailed analysis of capital information disclosure by the number of pages in the crisis and postcrisis periods (Table 3) showed that a statistically significant difference between the average number of pages of disclosed information exists only in the case of natural capital (Table 4). During the crisis period, disclosure about natural capital amounted to an average of 3.50 pages. Meanwhile, after the

Table 2 Part of integrated capital information in annual reports

Company of the sector	Integrated capital information in annual reports			
	2008 (%)	2009 (%)	2013 (%)	2014 (%)
Financial services 1	17.24	14.06	9.42	7.14
Financial services 2	10.98	12.50	17.50	21.57
Utilities	22.22	17.31	16.91	12.50
Basic materials	17.65	8.45	15.48	20.73
Consumer services	6.90	6.25	9.21	9.21
Consumer goods 1	27.27	27.27	20.00	11.76
Consumer goods 2	57.14	28.57	8.54	6.10
Consumer goods 3	8.89	10.00	8.06	8.62
Consumer goods 4	32.43	17.19	20.12	20.78
Consumer goods 5	18.64	23.00	16.36	18.63
Consumer goods 6	55.00	55.00	31.25	31.25
Consumer goods 7	13.26	18.40	18.75	19.51
Consumer goods 8	7.94	17.19	14.29	14.71
Consumer goods 9	14.06	12.96	19.35	20.97
Consumer goods 10	38.89	34.78	39.58	29.17
Industrial products 1	14.29	14.29	14.29	18.94
Industrial products 2	22.91	28.26	19.35	13.39
Industrial products 3	13.28	14.08	9.84	8.73
Industrial products 4	13.79	9.26	10.00	9.26
Telecommunications	27.91	9.09	10.87	10.87

crisis, the natural capital disclosure amounted to an average of 5.05 pages of corporate annual reports.

Table 5 presents a detailed analysis of natural capital disclosure according to aspects of environmental impact, saving of resources, and pollution prevention in 2008–2009 and 2013–2014. Statistically significant differences were found with respect to pollution prevention (Table 6).

During the crisis period, the average pollution prevention information disclosure is 1.83 pages, while after the crisis it is 3.08 pages. It is noted that pollution prevention is increasing relevance over the years.

Finally, a correlation analysis was carried out between the different capital categories. Spearmen correlation coefficients were calculated (Table 7), and it was determined that significant positive correlations exist between manufactured capital and intellectual capital, intellectual capital and natural capital, and human capital and natural capital. The results imply that companies which are more likely to disclose information about manufactured capital are also more likely to disclose intellectual capital information.

Significant negative correlations exist between social capital and manufactured capital as well as social capital and intellectual capital. Companies disclosing more information about social capital are likely to disclose less information about manufactured and intellectual capital.

Table 3 Means of capital information disclosure by categories in 2008–2009 and 2013–2014

	Year	Mean	Std. Deviation	Std. Error Mean
Financial capital	2008-2009	10.3500	4.38850	.69388
	2013-2014	10.9750	4.06036	.64200
Manufactured capital	2008-2009	5.8250	5.90040	.93294
	2013-2014	4.4000	4.08123	.64530
Intellectual capital	2008-2009	.8250	1.00989	.15968
	2013-2014	1.0250	1.02501	.16207
Human capital	2008-2009	9.1000	4.66740	.73798
	2013-2014	11.4500	6.70228	1.05972
Natural capital	2008-2009	3.5000	3.40437	.53828
	2013-2014	5.0500	3.28907	.52005
Social capital	2008-2009	1.7000	3.96911	.62757
	2013-2014	2.1250	4.48466	.70909

Table 4 T-test for equality of means between capital information disclosure by categories in 2008–2009 and 2013–2014

						95% Confidence Interval of the Difference	
Category	**t**	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Std. Error Difference**	**Lower**	**Upper**
Financial capital	-0.661	77.534	0.51	-0.625	0.94532	-2.50717	1.25717
Manufactured capital	1.256	69.367	0.213	1.425	1.13436	-0.83778	3.68778
Intellectual capital	-0.879	77.983	0.382	-0.2	0.22751	-0.65295	0.25295
Human capital	-1.82	69.624	0.073	-2.35	1.29137	-4.92579	0.22579
Natural capital	-2.071	77.908	0.042	-1.55	0.74846	-3.0401	-0.0599
Social capital	-0.449	76.865	0.655	-0.425	0.94692	-2.3106	1.4606
All categories	-1.337	70.032	0.186	-3.725	2.7868	-9.28306	1.83306

Table 5 Means of natural capital information disclosure in 2008–2009 and 2013–2014

Sub-category	Year	Mean	Std. Deviation	Std. Error Mean
Environmental impact	2008-2009	.7750	1.09749	.17353
	2013-2014	1.0250	1.31046	.20720
Saving of resources	2008-2009	.9000	1.61404	.25520
	2013-2014	.9500	1.15359	.18240
Prevention of pollution	2008-2009	1.8250	2.04923	.32401
	2013-2014	3.0750	2.31370	.36583

Table 6 T-test for equality of means between natural capital information disclosure in 2008–2009 and 2013–2014

Sub-category	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Environmental impact	-0.925	75.669	0.358	-0.25	0.27027
Saving of resources	-0.159	70.599	0.874	-0.05	0.31368
Prevention of pollution	-2.558	76.878	0.012	-1.25	0.48869

No correlations were determined between financial capital and any other capital category.

3.2 Analysis by Sector

In order to carry out a sectoral analysis, companies were grouped according to the four sectors. The largest sample size was the consumer goods industry.

These are the main findings about disclosed capital information in the *consumer goods* industries (Table 8):

- In 2008 and 2009, respectively, the minimum value of integrated disclosure amounted to 7.94% and 7.32%, the highest value 57.14% and 55%, and the average value 26.13% and 22.88%. Thus, integrated disclosure of information in 2009 decreased by 3.25%.

Table 7 Correlation between disclosure of different capital categories

			Financial capital	Manufactured capital	Intellectual capital	Human capital	Natural capital	Social capital
Spearman's rho	Financial capital	Correlation Coefficient	1	0.065	-0.092	0.149	0.097	0.172
		Sig. (2-tailed)	.	0.567	0.416	0.187	0.392	0.128
	Manufactured capital	Correlation Coefficient	0.065	1	.230*	-0.137	0.167	-.282*
		Sig. (2-tailed)	0.567	.	0.04	0.227	0.138	0.011
	Intellectual capital	Correlation Coefficient	-0.092	.230*	1	0.001	.258*	-.305**
		Sig. (2-tailed)	0.416	0.04	.	0.996	0.021	0.006
	Human capital	Correlation Coefficient	0.149	-0.137	0.001	1	.252*	0.213
		Sig. (2-tailed)	0.187	0.227	0.996	.	0.024	0.058
	Natural capital	Correlation Coefficient	0.097	0.167	.258*	.252*	1	0.095
		Sig. (2-tailed)	0.392	0.138	0.021	0.024	.	0.404
	Social capital	Correlation Coefficient	0.172	-.282*	-.305**	0.213	0.095	1
		Sig. (2-tailed)	0.128	0.011	0.006	0.058	0.404	.

[a]Correlation is significant at the 0.05 level (2-tailed)
[b]Correlation is significant at the 0.01 level (2-tailed)

- In 2013 and 2014, respectively, the minimum value of integrated disclosure by consumer goods sector companies amounted to 7.45% and 6.10%, the maximum value 39.58% and 29.17%, and the average value 16.88% and 17.41%.
- In 2013 and 2014, the companies revealed all the information required on financial and human capital, but as in 2008–2009, when disclosing human capital, the companies emphasized only the number of employees and change and education. Half of the companies informed their stakeholders about staff training. Disclosure of financial capital was not prevalent in spite of the legal obligation.
- Both in 2013 and 2014, annual reports highlight manufactured, human and natural resources, with a particular emphasis on integrated environmental information disclosure. 90% of companies disclosed information about ongoing pollution prevention, 60% about resource saving, and 60% about the impact on the environment.
- In 2013, 80% of companies included information about the company's intellectual capital in their annual reports.
- Although all the investigated companies engage in manufacturing, only one company in all subcategories revealed 100% manufactured capital. In terms of the formed subcategories, five companies disclosed 100% information about

Table 8 Capital information disclosure in the consumer goods industry (words phrases)

Categories	Financial capital			Manufactured capital			Intellectual capital		Human capital				Natural capital			Social capital		
Subcategories/ Company	Shares	Bonds	Dividends	Products	Raw materials	Equipment	Licenses and patents	Quality standards	Training	Wages	Staff turnover	Employees	Environmental impact	Saving of resources	Prevention of pollution	Impact on society	Impact pm community	Social promotion
2008/2009																		
Consumer goods 1	3/3	13/7		2/0	7/2	2/7	0/1	2/0			1/1	3/3						
Consumer goods 2	8/7			4/6	3/2	0/1			0/2	3/4	3/1	1/4	0/3		0/3			
Consumer goods 3	10/11	1/1	1/1	1/1	3/2					1/3	2/2	5/5						
Consumer goods 4	12/10		1/1	2/2	2/2	0/2		1/1	1/0	1/1	1/1	4/4		1/1	7/7			
Consumer goods 5	14/11	3/7	1/1	5/4	2/2	6/8		1/1	0/1	0/1	1/1	4/4	3/4	6/2	4/3			
Consumer goods 6	7/6			1/1		1/1		1/1	2/1	1/0	2/2	2/2	0/1	1/1	2/4			
Consumer goods 7	11/10		4/3	6/7	4/7	6/6	1/1	1/1	3/0	1/1	1/1	1/1			1/0			
Consumer goods 8	9/9			1/1	2/2	3/0		1/1	1/1	3/1	3/5	5/5		3/2	0/3			
Consumer goods 9	7/8			3/3	6/5	15/6		1/1	2/2	3/2	3/3	2/1	1/1		0/2			
Consumer goods 10	4/7			4/5	2/2				0/3	1/1	1/1	1/1				5/5		
2013/2014																		
Consumer goods 1	3/2	6/1		1/2	3/0					2/1	2/1	3/3					1/1	
Consumer goods 2	12/7			5/5		1/0	0/1			1/0	1/0	2/2	3/3	0/1	3/3	2/2		
Consumer goods 3	8/8			2/2	2/2			1/1		1/1	1/1	5/5			4/2			
Consumer goods 4	9/11			2/2	2/2			1/1	6/4	1/3	2/2	3/6	0/1	1/0	9/2			

Consumer goods 5	10/10	2/2	0/2	5/5	1/2	4/0		1/1	1/1	1/0	1/1	3/3	1/1	3/1	2/3	0/2		
Consumer goods 6	12/12		3/3	2/2		2/2		1/0	1/1	3/3	1/1	2/2	1/1	1/1	2/2			
Consumer goods 7	8/8		3/6	6/5	5/0	4/0	1/1	1/0		1/1	1/1	1/1	1/0	1/0	2/7	0/2	0/2	
Consumer goods 8	11/10			2/2	2/1	2/2		1/1	3/2	2/2	5/5	6/6		1/1	3/3			
Consumer goods 9	8/9			3/3	2/2			1/1	3/3	4/3	1/1	4/4	1/1	0/1	3/3			
Consumer goods 10	9/8			5/6	1/1	1/1		4/5	3/3	2/2	2/2	6/6	3/2	1/1	3/4			

human capital. In 2013, four companies even revealed 100% natural capital information.
- The annual reports provide more social capital information, which is mostly about the creation of a favorable social environment for employees, e.g., information about implementation of social responsibility standard SA 8000.

These are the main findings about disclosed capital information in the *industrial products* industries (Table 9):

- In 2008 and 2009, respectively, the minimum value of integrated disclosure amounted to 13.28% and 9.26%, the highest value 26.19% and 28.26%, and the average value 16.88% and 16.47%. Thus, integrated disclosure of information about industrial products companies in 2009 decreased by 0.41%.
- In 2013 and 2014, respectively, the minimum value of integrated disclosure by industrial products sector companies amounted to 9.84% and 8.73%, the maximum value 19.35% and 18.94%, and the average value 13.37% and 12.58%.
- In 2013 and 2014 information about human capital was the most comprehensively disclosed in the annual reports of companies in the industrial products sector. All of the companies, as expected, disclosed information about their shares. One company provided information on debt securities and bonds.
- Unlike the consumer goods sector, according to their annual reports, companies in the industrial products sector disclose information on intellectual capital consistently and adopt quality management standards in their activities.
- In summary, it can be concluded that significant changes in the annual reports do not occur, apart from the companies providing less information about natural capital.

These are the main findings about disclosed capital information in the financial services industries (Table 10):

- In 2008 and 2009, respectively, the average value of integrated disclosure by financial services sector companies amounted to 14.11% and 13.28%.
- In 2013 and 2014, respectively, the minimum value of integrated disclosure by financial services sector companies amounted to 9.42% and 7.14%, the maximum value 17.50% and 21.57%, and the average value 13.46% and 14.36%.
- In 2013 and 2014 the investigated companies of financial services disclosed integrated financial capital information in almost all of three subcategories. Information on the equity capital and company's shares is the most prevalent. Also, the companies disclosed 100% human capital information in four subcategories. Again, it is required to disclose such information according to law.
- Companies disclosed information on environmental and social responsibility issues selectively. For example, financial service 2 company declared that it was a socially responsible company (social capital disclosed 100%); however, the

Table 9 Capital information disclosure in the industrial products industry (words phrases)

Categories	Financial capital			Manufactured capital			Intellectual capital		Human capital				Natural capital			Social capital		
Subcategories / Company	Shares	Bonds	Dividends	Products	Raw materials	Equipment	Licenses and patents	Quality standards	Training	Wages	Staff turnover	Employees	Environmental impact	Saving of resources	Prevention of pollution	Impact on society	Impact on community	Social promotion
2008/2009																		
Industrial products 1	6/4		1/2	2/3	1/1	3/4			3/3	0/1	1/1	7/8	1/1		3/1			
Industrial products 2	6/3						1/1	1/1	2/2	1/2	0/2	2/1			0/2			
Industrial products 3	6/2	3/1						0/1	3/6	6/2	3/7	3/8	1/3	5/5	1/1	5/4	5/1	6/4
Industrial products 4	6/6			2/2	2/1	3/2	1/1	1/4	2/4	1/0	4/3	6/7	1/1		4/4			
2013/2014																		
Industrial products 1	8/10		1/3	1/1	3/3	5/2	1/1		2/2	6/7	3/2	15/15	3/0	2/0	9/7		1/1	4/8
Industrial products 2	6/7		2/1				1/1	1/1	3/3	1/1	2/1	5/4	0/1		3/2	1/1		
Industrial products 3	8/11	6/2						1/1	4/2	2/2	1/1	5/3	3/0	5/0	1/0			
Industrial products 4	5/5		0/2		1/0		1/1	1/1	3/4	1/0	1/2	4/3			5/6			

Table 10 Capital information disclosure in financial services industry (words phrases)

Categories	Financial capital			Manufactured capital			Intellectual capital		Human capital				Natural capital			Social capital		
Subcategories / Company	Shares	Bonds	Dividends	Goods	Raw materials	Equipment	Licenses and patents	Quality standards	Training	Wages	Staff turnover	Employees	Environmental impact	Saving of resources	Prevention of pollution	Impact on society	Impact on community	Social promotion
2008/2009																		
Financial services 1	11/13	0/2	3/2					1/1	0/1	3/4	4/4	2/7	2/2	0/3	0/2	3/0		
Financial services 2	16/16	1/1	1/1						1/2	1/3	3/5	5/4				0/3	0/2	0/3
2013/2014																		
Financial services 1	16/9	2/2	2/0					1/1	1/1	5/4	8/4	7/7	5/4	1/1	2/3	2/9	0/1	0/2
Financial services 2	18/20	1/1	2/1						6/10	6/9	5/3	4/7				4/6	10/8	5/3

bank did not reveal any efforts on resource conservation and pollution prevention.

- The companies did not disclose any intellectual capital information which could show value creation in the short, medium, and long term. Financial services 1 company only provided information about the implemented quality management standards.

These are the main findings about disclosed capital information in the *other industries* (Table 11):

- Research results show that in 2013, the average value of integrated information in the annual reports was 16.03%. In 2014, it amounted to 25.42%. Thus, there is a growth trend of integrated information.
- Overall, disclosures of capital information in the annual reports of other mixed sectors differed little from other sectors, but there was a lack of broader intellectual capital disclosure.

4 Discussion and Further Insights

In this section we evaluate and discuss the research results in terms of volume (what is important for the creators and recipients of annual reports), capital type, and industry (which capital type is the most prevalent in terms of disclosure).

If we compare the 2008–2009 and 2013–2014 periods, the volume of annual reports continued to grow, despite the economic crisis. Meanwhile, capital information evolved unevenly. In fact, although since 2013 the companies have gradually disclosed more and more information, in relative terms there are some slight decreases in parts of capital information disclosure around the annual report. The average disclosure of integrated information in 2008 was 17.53%, in 2009 it was 16.92%, in 2013 it was 15.35%, and in 2014 it was 15.02%. This situation may have been influenced by slower capital disclosure variation than the volume of annual reports variation.

The annual reports mainly provided information on financial capital, human capital, manufactured capital, and natural capital. Social (relationship) capital and intellectual capital disclosure was not widespread. Not all forms of capital are equally relevant or applicable to all companies. In summary, financial capital is dominated by integrated information. In both periods, the disclosure of financial capital phrases was 851 (413 in 2008–2009 and 438 in 2013–2014). These results can be explained by the fact that most laws focus on the regulation of different financial information, especially related to equity capital, corporate governance, estimated financial plans, etc. (you can find more obligatory issues on financial information in the Republic of Lithuania Law on Financial Statements of Entities).

Table 11 Capital information disclosure in other industries (words phrases)

Categories	Financial capital			Manufactured capital			Intellectual capital		Human capital				Natural capital			Social capital		
Subcategories / Company	Shares	Bonds	Dividends	Goods	Raw materials	Equipment	Licenses and patents	Quality standards	Training	Wages	Staff turnover	Employees	Environmental impact	Saving of resources	Prevention of pollution	Impact on society	Impact on community	Social promotion
2008/2009																		
Utilities	12/10		1/1	1/1		2/2				3/0	3/1	9/3	1/1	1/1	6/3	2/1		
Basic materials	13/13		1/0	6/7	1/1	3/1		2/0	0/3	5/6	2/3	4/5	1/0		4/3			
Consumer services	6/6	1/0	1/0	1/1					0/1	2/0	3/0	5/2			0/3			
Telecommunication	8/8		5/3						6/0	1/0		5/1	0/3	0/4		4/1	4/2	8/0
2013/2014																		
Utilities	13/10		1/2	4/3		10/5	1/0		3/4	4/5	4/3	7/10	2/2	3/3	6/5	2/3		0/2
Basic materials	11/12			5/8	1/1	4/3		1/1		3/5	1/1	6/6	1/1	2/3	6/2			
Consumer services	5/4	8/0	1/2	1/1						1/1	2/2	4/2		0/2	2/2			
Telecommunication	6/7		1/2						1/1	1/1	1/1	5/6		1/1	1/1			

In terms of subcategories, it was observed that financial capital mostly contains information about changes in share capital, mergers and acquisitions, and parent companies. Other information is less disclosed as companies did not issue bonds or did not use financial instruments. Companies also did not provide any information on dividends if they were not paid, except in cases where companies inform in one sentence about the refusal to pay dividends, e.g., "(. . .) refuse to pay dividends for 2008 (. . .)." It is consistent with the IIRC (2013) approach that while most companies interact with all capitals to some extent, these interactions might be relatively small in the subcategories level. Sometimes they are not sufficiently important to be included in annual reports.

Human capital is also one of the most prevalent types of disclosed capital. In both periods, the disclosure of human capital subunits was 819 (360 in 2008–2009 and 459 in 2013–2014). In this case we may observe a significant increase by 27.5%. Human capital information is mostly provided in digital form and tables with emphasis on the number of employees, wages, and education. It is standardized. Human capital disclosure in annual reports is mandatory. The number of manufactured capital subcategories reached only 417 in both periods: 231 in 2008–2009 and 186 in 2013–2014.

Information disclosure on environmental issues is also mandatory, but companies may decide themselves about the level of natural capital disclosure. Not all companies comply with the requirement. In both periods, the disclosure of natural capital phrases was 342 (138 in 2008–2009, 204 in 2013–2014). We can assume that companies potentially did not know what constitutes environmentally related information.

We found that social (relationship) capital and intellectual capital are the least disclosed capital types. The disclosure of social capital subunits was 139 (82 in 2008–2009, 77 in 2013–2014). As SR is voluntary, companies tend not to disclose such information. Lithuanian companies that want to emphasize their commitments to sustainable development usually issue a separate sustainability report. Companies lack knowledge of innovative forms of SR, the measurement of nonfinancial issues is not integrated into performance measurement and accounting systems, and the audience for SR is limited.

The number of intellectual capital subcategories reached only 75 in both periods: 33 in 2008–2009 and 42 in 2013–2014. Although both types of capital are innovative and there are new examples of nonfinancial information, the Law on Financial Statements of Entities requires the disclosure of information regarding research and development activities. In this study, intellectual capital disclosure uses two main coding units—license-related activity (research and development) and implementation of quality management standards. Information disclosure on quality management standards is not widespread. This can be explained by the fact that not all listed companies have implemented management standards. Among companies that have implemented these standards, disclosure contributes up to 0.25 page. They usually disclose information about company goals, processes, and long-term plans.

Thus, in terms of quantity companies disclose the most information about financial capital, followed closely by human resources. By evaluating every period separately, we observe that the capital disclosure trends remain almost the same, except for the disclosure of human capital.

Positive correlations exist between manufactured capital and intellectual capital, intellectual capital and natural capital, and human capital and natural capital. The results imply that companies which are more likely to disclose information about manufactured capital are also more likely to disclose intellectual capital information. Accordingly, those companies which are more likely to disclose information about intellectual and human capital are also likely to disclose natural capital information.

It is an innovative idea to integrate financial and nonfinancial information in one report according to IIRC framework, but the report should not be too complicated (for the recipient) and should be tailored to the needs of the key shareholders. Annual reports may serve for disclosing nonfinancial information by the largest companies implementing Directive 2014/95/EU. The results of our research only show that companies already also include nonfinancial information in their annual reports in different sectors. In times of economic crisis (2008–2009), disclosed capital information accounted for an average of 20.47% of corporate annual reports, while in the postcrisis period (2013–2014), disclosed capital information accounted for an average of 16.08% of corporate annual reports. Disclosure levels of capital, except for natural capital, are quite similar in both periods. As there is no external pressure from investors or regulatory bodies, companies disclosed a similar amount of integrated capital information regardless of the economic crisis.

Integrated reporting may serve not just as an external reporting tool, but also as a tool for managers, shareholders, and for decision-making inside the company. Future research on methodological and practical issues is necessary to prepare and improve practices for integrated reporting.

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Sustainability Reporting in Poland: An In-depth Analysis with Reference to the RESPECT Index Companies

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1 Introduction

For a long time, Polish scientists (Kochalski 2016a) and businessmen (Kochalski 2016b) have been increasingly interested in issues related to broadening company reporting so as to provide nonfinancial information in line with the idea of sustainability. Some reasons for that growing interest are especially important. Obviously, accession to the European Union (EU) was crucial,[1] as the EU is the most active entity in implementing sustainability reporting (SR) in enterprises; however, we should also note the significance of foreign investments—they have been the driving force behind the augmentation, in Polish enterprises, of the type of management which is based on the concept of sustainability. Also, many companies listed on the Warsaw Stock Exchange (WSE; Polish: Giełda Papierów Wartościowych, abbreviated to GPW) have imported the paradigm of sustainability and, accordingly, added nonfinancial information to their financial reports. The interest of the Polish capital market in sustainable development, including SR, is evidenced by the creation of the so-called RESPECT Index, a pioneering project in

[1]It is also possible, in the context of the Polish accession to the EU, that Polish cultural and historical heritage contributes to the willingness to adapt as Poles have often aimed to be at the forefront of the implementation of external regulations. That issue, however, is not the subject of this study as it would require separate, in-depth research, including sociological aspects of the phenomenon.

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the countries of Central and Eastern Europe (CEE), which selects companies which are advanced in the application of sustainability.[2]

When reflecting on the fact that SR is being widely adopted in Polish companies, including listed companies and especially those in the RESPECT Index, it appears reasonable and important that we should conduct in-depth studies of SR in Polish enterprises in comparison to other CEE countries.[3] The first part of this book contains a review of the results of a collective comparative analysis of SR in enterprises in CEE versus enterprises from Western Europe (WE). As an extension of that research, in this chapter, we present an analysis of Polish enterprises in comparison to the remaining CEE countries.[4]

The aim of this study is to evaluate SR in Polish enterprises in comparison to enterprises in the remaining CEE countries and to answer the question of whether RESPECT Index companies differ, in regard to sustainable reporting, from other Polish enterprises included in the study and if that difference, if found, has an influence on the general evaluation of SR in Poland. In other words, we would like to deepen the analysis of SR in the CEE countries by examining the situation in Poland.

2 Methodology

In order to reach the most important goals of this study, we needed appropriate research methods. The starting point was an analysis of the results of research on SR in the CEE countries which was carried out under the supervision of Péter Horváth.[5] The research on the state of the art of SR in CEE and the management of SR allows us to view the situation in Polish enterprises as good when compared with the remaining CEE countries. We have conducted in-depth studies on SR in Polish enterprises in comparison to the remaining CEE countries to verify that conclusion. Moreover, because of our research interests—we conduct research within the framework of the Department of Controlling, Financial Analysis and Valuation of Poznań University of Economics and Business—we decided to examine the RESPECT Index companies to check their results against the results of other analyzed companies, mainly with the view to learning how their results could be influencing the results of Polish enterprises in the field of SR, taking into account

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[2]The Warsaw Stock Exchange was the first stock exchange in CEE to introduce (in 2009) an index of companies managed in a responsible, sustainable way, which communicated their social responsibility at an appropriate level, according to predefined criteria. That index was called the RESPECT Index. We have included more information about it later in the study.

[3]To a lesser extent, we have compared SR in Polish enterprises and in WE countries.

[4]We compare SR in Poland with SR in the following CEE countries: Czech Republic, Estonia, Hungary, Croatia, Latvia, Lithuania, Romania, Slovenia, and Slovakia.

[5]The results of those studies are presented in the first chapter of this book.

the form, characteristics, and content of the reports, as well as the management of such reporting.

The main research questions of the study were:

Question 1: How does SR in Poland compare to SR in the remaining CEE countries?

Question 2: How does the SR of the RESPECT Index companies compare to the SR in the remaining Polish enterprises included in the study?

We examined the form, characteristics, and content of the reports, as well as the management of SR, in relation to both questions. The in-depth analysis conducted in order to answer question 1 included 50 enterprises, with reference to the form, characteristics, and content of their sustainability reports, and 40 enterprises with reference to the management of that type of reporting. To answer question 2, we separated the RESPECT Index companies from the sample. There were 12 such companies in the sample of 50 enterprises examined with regard to the form, characteristics, and content of their sustainability reports, and 4 such companies in the sample of 40 enterprises examined with regard to the management of that type of reporting. The study was conducted in stages according to the order in which the answers to those questions were given: first, we answered question 1 and then we dealt with question 2 by means of an in-depth, more detailed analysis of the research from the first stage.

The 50 enterprises (from nonfinancial sectors) included in the quantitative analysis in the first stage, which pertained to the form, characteristics, and content of sustainability reports, are described in Table 1. The 40 enterprises surveyed to evaluate their management of SR are presented in Table 2.

The data in Table 1 shows that the characteristics of the examined enterprises are similar to those of CEE companies with regard to such areas as the industry sector,[6] the ownership form, and the membership in the UN Global Compact initiative and similar to the WE companies with regard to the number of employees and total revenues. The Polish research sample stands out as regards the percentage of enterprises owned mainly or solely by the state (20%). For CEE countries that number is 11% and no WE enterprises belong to that category.

When we look at the data in Table 2 concerning the management of SR and compare it with the data for CEE and WE enterprises, we notice the overrepresentation of Polish enterprises from the energy, retail, and wholesale sectors. There are relatively few Polish companies from the manufacturing sector in that group, though. As evidenced by the number of employees, few enterprises included in the study are medium-sized companies—most of them employ either fewer than 250 or more than 5000 people. The turnover data shows that most of the enterprises operate on a large scale. The ownership structure and the supply chain position of those companies are similar to that of WE companies. In comparison to WE and

[6]The engagement of enterprises in sustainable development is largely determined by how innovative the branch is (Ratajczak and Szutowski 2016).

Table 1 Sample characteristics (50 companies)

Industry sector					
Energy	Construction	Manufacturing	IT	Retail and wholesale	
10%	6%	34%	8%	42%	
Number of employees					
1–250	251–500	501–1000	1001–5000	>5000	Nn
0%	2%	6%	34%	44%	14%
Total revenues (EUR m)					
<50	50–100	101–200	201–500	>500	
0%	0%	0%	0%	100%	
Ownership form					
Publicly traded (private majority)	Publicly traded (government majority)	Privately held	State owned		
22%	16%	58%	4%		
Membership in Global Compact					
Yes	No				
18%	82%				

Table 2 Sample characteristics (40 companies)

Industry sector					
Energy	Construction	Manufacturing	IT	Retail and wholesale	Na
18%	7%	33%	4%	36%	2%
Number of employees					
1–250	251–500	501–1000	1001–5000	>5000	
23%	8%	13%	20%	38%	
Total revenues (EUR m)					
<50	50–100	101–500	>500		
15%	10%	40%	35%		
Ownership form					
Publicly traded	Privately held	State owned			
35%	53%	13%			
Multinational background					
Local	Less than 5 countries	More than 5 countries			
38%	8%	55%			
Supply chain position					
Extract raw materials	Intermediate products	Final products	Na		
8%	13%	75%	5%		
Business relationship					
B2B and B2C	B2B	B2C	Na		
28%	30%	35%	8%		

Table 3 Subsample characteristics (12 companies from the RESPECT Index)

Industry sector					
Energy	Construction	Manufacturing	IT		Retail and wholesale
25%	8%	50%	8%		8%
Number of employees					
1–250	251–500	501–1000	1001–5000	>5000	Nn
0%	0%	0%	8%	92%	0%
Total revenues (EUR m)					
<50	50–100	101–200	201–500		>500
0%	0%	0%	0%		100%
Ownership form					
Publicly traded (private majority)	Publicly traded (government majority)		Privately held	State owned	
25%	75%		0%	0%	
Membership in Global Compact					
Yes			No		
58%			42%		

CEE companies, a relatively large number of Polish companies belong to the B2C sector.

The 12 RESPECT Index companies (out of 50 enterprises included in the first stage of the study) examined in regard to the form, characteristics, and content of sustainability reports are presented in Table 3.

The data on the RESPECT Index companies, presented in Table 3, differs from that on the whole Polish research sample. The RESPECT Index companies mainly belong to the manufacturing sector (34%) and energy sector (25%). There are decidedly fewer companies from the retail and wholesale sector (8%) in that group than in the whole Polish sample (42%) and in the CEE sample (37%). The examined RESPECT Index companies are huge public companies, which are a direct result of the inclusion criteria of the index; however, in contrast to the total Polish sample, most of them are listed companies owned chiefly by the state (government majority in 75% of those companies). As many as 58% of the analyzed RESPECT Index companies belong to the Global Compact (while only 35% of WE companies belong to that initiative).

The analysis of the management of SR included four RESPECT Index companies, two from the energy industry and two from the mining industry. The examined enterprises not included in the RESPECT Index were primarily from the manufacturing and retail and wholesale industries. The analyzed RESPECT Index companies are big public companies, in terms of both employment and turnover; unlike the other analyzed companies, only one third of which are public companies, while privately held companies constitute 58% of that part of the sample. Two of the analyzed RESPECT Index companies operate on the local market and the other two on international markets.

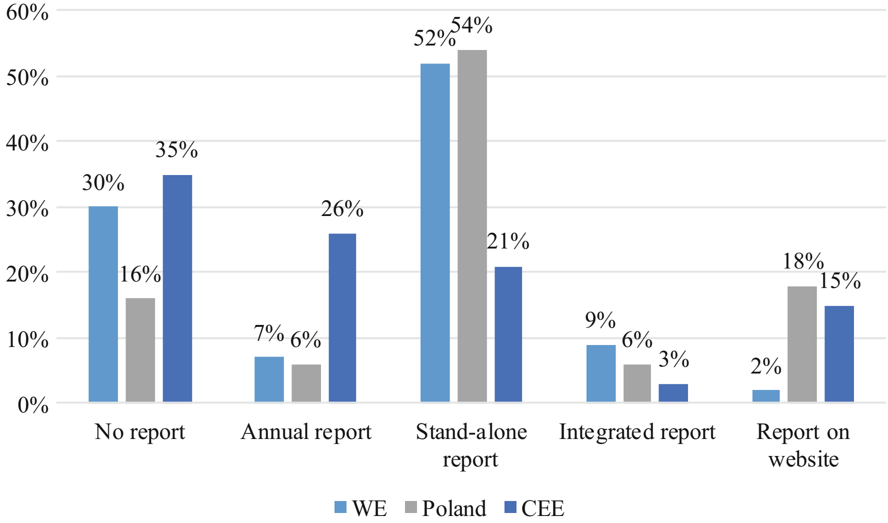


Fig. 1 Forms of reporting in the Poland, WE, and CEE samples

The data used in the study was obtained in the course of the work of a research consortium on "Sustainability Reporting in Central and Eastern Europe." However, the in-depth nature of the analyses required a new order of that data to enable a comparison of the Polish companies with companies from CEE and to examine the situation in the RESPECT Index enterprises.

3 SR in Poland: In-depth Analysis

3.1 SR: Forms, Characteristics, and Content

The forms of reporting in Poland in comparison to CEE and WE are presented in Fig. 1.

The data in Fig. 1 shows that the forms of SR in Poland are advanced and similar to those in WE companies. As many as 54% of the analyzed enterprises published a stand-alone report, 18% presented information about sustainability on their websites, 6% prepared an integrated report, and 6% included such information in their annual report. Only 16% of the enterprises did not publish information about sustainability.

It ought to be added that reporting via a website was done in very different formats, from short messages of relatively similar content to multi-level, frequently updated articles, the length of which was, in some cases, comparable to that of stand-alone reports. When it comes to information about sustainability placed in

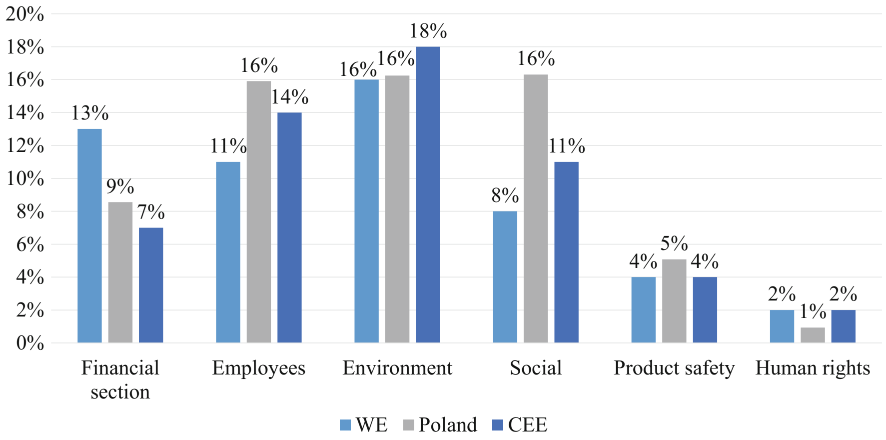


Fig. 2 The focus of SR by pages (in %)

annual reports, they were mainly short qualitative descriptions, the wording of which was often similar or even identical over the years.

The stand-alone sustainability reports in Poland are more similar to those of the CEE companies in regard to external audits (only 31%) and the use of national languages (37% of the reports were written in Polish, 26% in English, and 37% in both languages). Global Reporting Initiative (GRI) standards were used in 84% of the reports, which, in turn, is similar to the results for the WE companies (90%).

The number of pages devoted to particular issues in the reports is presented, as a percentage, in Fig. 2.[7]

The data shown in Fig. 2 indicates that Polish companies focus on the issues of employment, environment, and society (primarily activities to the benefit of local communities). It is worth noting that Polish enterprises, in comparison to other CEE and WE companies, dedicate more space to social issues in their reports (16% of the volume of the reports).

A similar number of pages are devoted to issues of employment, environment, and society, but the number of KPIs is very different (Fig. 3). It means that some issues are described mainly in qualitative terms and some in quantitative ones. The most distinguishing characteristic of Poland is the number of environment-related KPIs (37) which is much higher than the results of other CEE or WE companies (19 and 12, respectively). The small number of KPIs (7) pertaining to finances may result from a wish to avoid a repetition of data already included in the financial statements.

The average number of KPIs per report is 56, which is a similar result to that of CEE companies (55), and much higher than that number for WE companies (32). The high standard deviation (39) means that the approaches to reporting qualitative

[7]The average length of the reports is 94 pages, which is almost the same as the result for the WE companies (96 pages).

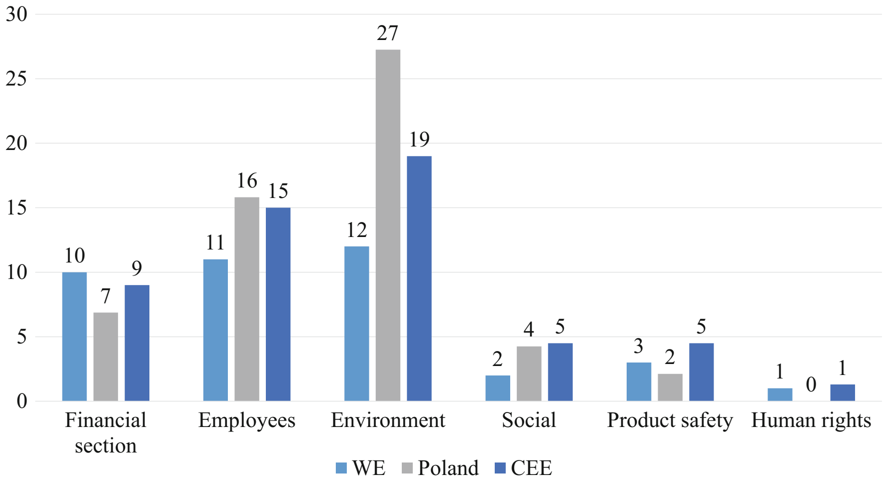


Fig. 3 The focus of SR by KPIs (in number)

data are very diversified although most reports are prepared in the manner set out in the GRI guidelines.

3.2 *The Management of SR*

The results of the research on the management of SR in Poland indicate that only 65% of the enterprises collect information about sustainability, while 94% and 84%, respectively, of the WE and CEE companies do that. Especially, few enterprises collect and analyze sustainability-related information by means of a strategy-related sustainability accounting system. Detailed results in that regard are presented in Fig. 4.

The decisions concerning the scope of the collected information about sustainability are made, on average, by 1.5 people in an enterprise. That indicator is higher than in the WE and CEE countries where most of the time those decisions are made by one person (1.2 and 1.1 people, respectively). A distinguishing characteristic of the Polish sample is that operational managers are very engaged in the decision-making processes. Nevertheless, the general distribution of the results relating to the people who decide what type of information is to be collected is similar to the results of CEE countries.

While the responsibility for selecting sustainability information can be assigned to senior managers, it is hard to identify who is especially engaged in the process of collecting that information. The results of the survey for the Polish sample point to SR managers (27% of responses), accounting specialists (31%), operational managers (31%), senior managers (35%), and other employees (8%). The results in that

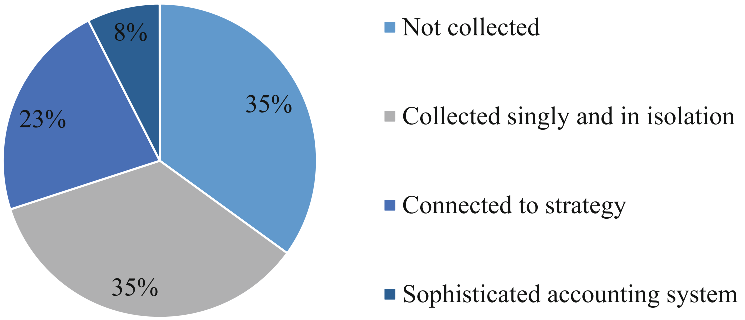


Fig. 4 How is sustainability data collected in Poland? The percentages may not add up to 100% due to rounding

regard are closer to those obtained in CEE countries than in WE countries. It is worth noting, though, the special position of accounting specialists and senior managers in Poland.

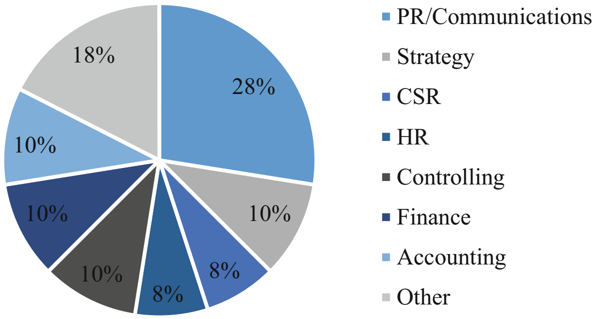
The process of SR in Poland, just like in other CEE countries, takes place in various departments of an enterprise, most often in a PR/communications department (28%). In total as many as 30% of the enterprises declare that the reporting process takes place in finance-related departments (finance, controlling, accounting). Only 8% of the enterprises generate the reports in a CSR/sustainability department, which is a small percentage in comparison to other CEE countries (15%) and, especially, to WE countries (55%). Figure 5 shows detailed results of the analysis of that aspect.

The results of the analysis of the use of sustainable information indicate that as many as 81% of Polish enterprises publish it on a website, 69% use it for internal management reports, 58% place it in annual reports, 38% use it for stand-alone reports on sustainability, and 15% for integrated reports. Additionally, 38% of the enterprises use the information about sustainability for communicating with employees via intranet. In comparison to WE and CEE companies, Polish enterprises use that information more in internal reports and decision-making, annual reports, and on websites. As regards other channels of communication, the results are lower than for the WE companies but higher than for CEE ones.

The results of the research on the proportions of environmental and social information in reporting revealed that enterprises balance the amounts of environmental and social information (85%). As regards the answers to the question about the use of environmental information, it was used primarily in only 12% of cases and solely in just 4% of cases. None of the participating Polish enterprises declared a focus on social information. The distribution of the results is closer to the CEE countries than WE countries.

The results of the research on the proportions of the use of reporting of technical and softer information are also balanced in Poland (77%). Only 15% of the enterprises declared a focus on technical information and 8% on softer information.

Fig. 5 Departments where SR is located in Poland. Ratios may not add up to 100% due to rounding



Those results are closer to the results obtained in the CEE countries. The WE companies concentrate more on technical information.

The results of the research on the degree of the formalization of the generation of sustainability information show that in reference to all aspects (abiding by the guidelines for reporting, the routine nature of the process, the centralization of the process in one department, the centralization of the process in one information system, the general formalization of the process) the results for the CEE countries are higher than for the WE countries and the results for Poland are better than those for the CEE countries. This is shown in Fig. 6.

4 SR in Companies Included in the RESPECT Index

4.1 *The RESPECT Index*

The RESPECT Index on the Warsaw Stock Exchange is the first one of socially responsible companies in CEE,[8] and it was created in response to the growing interest in socially responsible investment (SRI),[9] that is, investing in assets which not only generate economic profits but also bring benefits to society and the environment. The introduction of the index also had educational value because it drew people's attention to the necessity of taking ESG (environmental, social, and governance) issues into account in business operations and investments.

The first listing of the RESPECT Index on the Warsaw Stock Exchange took place on November 19, 2009. The index includes the biggest, most liquid, and most distinguished, with respect to social responsibility, companies listed on the main

[8]The first corporate social responsibility (CSR) indices were created in the United States. The Dow Jones company was a precursor in that field. In 1999 it began to publish the Sustainability Index (SI). A year later the Calvert fund began publishing the Calvert Social Index (CSI) and in July 2001 the English FTSE company published the FTSE4Good Index (GPW 2016b).

[9]Responsible investment is also called ethical investment, sustainable investment, or green investment (GPW 2016d).

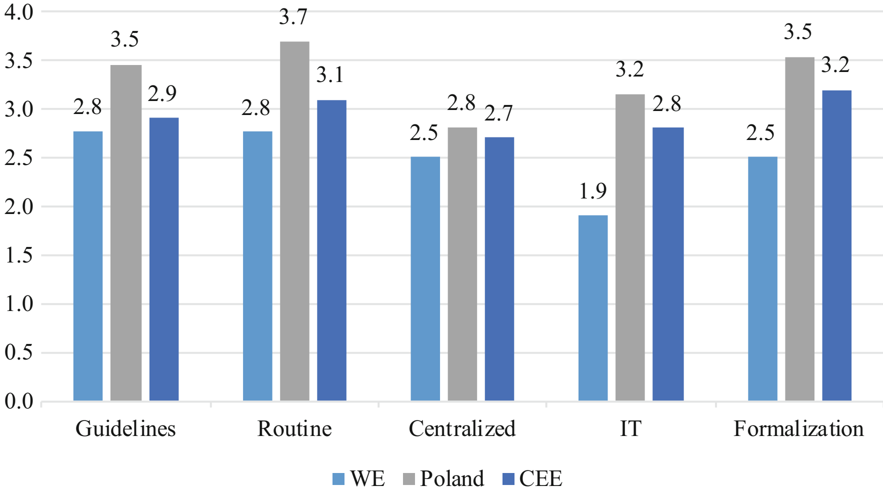


Fig. 6 The extent to which the process of generating information is formalized (on a scale of 1–5)

market of the Warsaw Stock Exchange.[10] Social responsibility is understood here as "a management strategy and approach to the concept of conducting business which involves building a good and lasting relationship based on mutual understanding and respect expectations of the wider business environment (i.e., with all stakeholders: employees, suppliers, customers, community, shareholders and envisaging the care of natural environments)" (GPW 2016e). The RESPECT Index is an income-based index which takes into account both the prices of the shares in it and the profits from dividends and preemptive rights.

From the very beginning, both the composition of the index and the procedure of qualifying companies for inclusion have been changing,[11] and the requirements have been raised continuously. The current form of the RESPECT Index is as follows (Deloitte 2016):

- The index includes big national and international[12] companies characterized by high liquidity.
- Companies aspiring to inclusion in the index must be positively verified, complete the survey, and achieve the minimum required number of points.
- The index is updated once a year.[13] In some special, justified cases, ad hoc changes can be made, on an extraordinary basis.

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[10]So far, there have been nine editions of studies within the framework of which companies were selected for inclusion in the RESPECT Index. From 16 to 24 companies were included in it in each edition.

[11]The greatest change occurred with the 7th edition in December, 2013, when the Deloitte company became the sole external partner of the index and the survey used for qualifying companies for inclusion was heavily edited.

[12]In editions from 1 to 6, the index only included national companies.

[13]The first six editions were organized twice a year, with 6-month interludes.

- An independent, specialized entity (the Deloitte company) is engaged in the selection process. Deloitte audits the information provided by the companies which are candidates for inclusion in the index.

Companies included in the index are qualified within the framework of a three-stage process (Deloitte 2016). During the first stage, companies are screened for appropriate size and the greatest degree of share liquidity. Currently, the selected companies are those which were among the first 150 companies in the last rankings of WIG20 and mWIG40.[14]

During the second stage, the companies are evaluated with respect to their practices related to corporate order (the fulfillment of the requirements of the Good Practices of Companies Listed on the Warsaw Stock Exchange), information order, and relationships with investors. The evaluation is carried out by the Warsaw Stock Exchange, in cooperation with the Polish Association of Listed Companies (Polish: Stowarzyszenie Emitentów Giełdowych, abbreviated to SEG), and conducted on the basis of generally accessible—published by the companies—reports and information placed on company websites.

The evaluation includes, among other things (GPW 2016c):

- Sanctions of the Polish Financial Supervision Authority (KNF) and/or the Warsaw Stock Exchange with regard to the fulfillment of the informative requirements (if sanctions have been imposed, the company is disqualified).
- Impeccable reporting on corporate governance and information governance (the quality of current reports, corrections to already published reports, the number of corrections, and their importance).
- The conformity of the content of the website to the model introduced by WSE, especially with respect to the quality, speed, and effectiveness of communication with investors; the publication of key information (among other things, the basic corporate documents: the statute, operational by-laws of corporate bodies, etc., professional résumés of the members of corporate governing bodies, current and periodical reports, annual reports on supervisory board activities, information about the structure of the shareholders, a calendar of corporate events, the basic financial ratios of the company); the functioning in an active web browser, placing links to websites of other capital market institutions (such as KNF, WSE, and SEG) on the website, using modern methods of communicating with investors; and the availability of the website in English.

The third stage is the evaluation of the level and degree of the complexity of solutions implemented by the companies within the framework of broadly understood social responsibility. It includes the completion, by companies which have been positively verified in the first and second stage, of a detailed survey.

[14]Companies from the sWIG80 index were also taken into account in the case of the first six editions.

The survey contains about 50[15] questions classified in three groups[16]: environmental, social, and governance-related questions. The survey contains questions for all companies and questions directed only at entities from a given area of business, according to the classification adopted by WSE: industry, finances, and services (GPW 2016a).

As regards the environmental aspect (14 questions), it focuses on:

- Environmental management (the influence of activities on the environment, the environment management system, environmental policies)
- Limiting environmental impact (the use of raw materials and other materials, fuel and energy, water, waste, and recycled materials)
- Biodiversity
- Environmental aspects of products and services

As regards the social area (from 18 to 20 questions, depending on the edition), it focuses on:

- OSH (work conditions, accidents, sick leaves)
- Human resources management (personnel policies, evaluation of the quality of work and of work satisfaction, diversity, fringe benefits, employee turnover, training, disputes with the employer)
- Relationships with suppliers (principles, expectations, and requirements, overdue trade receivables, payment deadlines)
- Dialog with stakeholders
- Social and environmental reporting

The economic area (16 or 17 questions) concerns such issues as:

- Strategic management (business strategy, sustainability strategy)
- Codes of conduct
- Risk management (including fraud risk management)
- Internal audit and control system
- Relationships with clients (information about products and services, adapting products and services to social problems, handling complaints, amicable settlement of disputes, marketing policies, protection of personal information, penalties, incidents related to business activity, products, and services)

[15] In the new version of the survey (from December, 2013, beginning with the 7th edition), the number of questions varies from edition to edition. There were 48 questions in the 7th edition, 49 questions in the 8th edition, and 51 questions in the 9th and 10th editions.

[16] Until (and including) the 6th edition, that is, until January 2013, the criteria included strategy and organization management (CSR policies, functioning on the stock exchange, the management system) and environmental factors (environmental management, materials and raw materials, energy and water, waste, fines, employees, the market, and clients). In the 1st edition (2009), there was one more group: economic factors (the timeliness of the payment of financial liabilities, profits, remuneration, and support for social actions). Beginning from the 2nd edition, the questions only include nonfinancial factors (GPW 2016a).

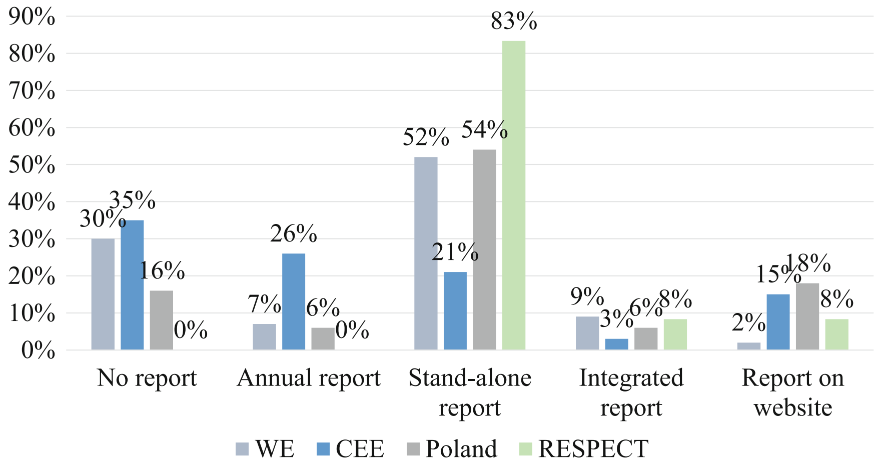

Fig. 7 The forms of sustainable reporting used in the WE, CEE, Poland, and RESPECT samples. Ratios may not add up to 100% due to rounding

The third stage ends with the verification of the surveys (on the basis of source materials) by the Deloitte company. The results of that verification constitute the basis for the decision made by the WSE about which companies fulfill the requirements of the RESPECT Index at a previously determined, minimum level. The minimum level of points is defined both generally and separately for each of the three groups of factors subject to the evaluation.

4.2 The Forms of SR in the RESPECT Index Companies

Figure 7 shows the forms of sustainable reporting in the studied samples with regard to their prevalence.

The data in Fig. 7 shows that as many as 83% of the examined RESPECT Index companies published a stand-alone report, 8% published an integrated report, and 8% presented data concerning sustainability on their websites. Those results are understandable when one takes into account the fact that comprehensive reporting of sustainability is one of the qualification criteria for the RESPECT Index. Moreover, as has already been stated, the complexity of SR goes hand-in-hand with the size of an enterprise.

Half of the examined RESPECT Index companies with stand-alone reports created them in two languages, the native language and English, whereas the rest of the companies only wrote them in the native language. Of the 17 examined reports of Polish companies not included in the RESPECT Index, the percentage of reports written only in Polish was a mere 29% (41% of reports were written in English only and 29% were both in English and in Polish). Thus, as regards language accessibility, the result of the examined companies included in the RESPECT Index is a little worse than that of the remaining entities from Poland, whereas the latter group has worse results than the CEE (19% of reports only in the native language) and WE (no reports only in the native language) samples.

4.3 Sustainability Reports in Companies Included in the RESPECT Index: Characteristics and Content

In the group of companies included in the RESPECT Index, there are fewer stand-alone sustainability reports audited by external entities (30%) than in the enterprises not included in the RESPECT Index (33%), in the CEE companies (41%), and in the WE companies (71%). A decided majority of stand-alone reports are compiled based on the GRI standards, both in the case of the analyzed RESPECT Index companies (90% of the reports were compiled with the use of standards and 80% with the use of GRI standards) and of the entities which are not included in the index (89% of their reports were compiled with the use of GRI standards). Those results are similar to results of WE countries.

The quantitative analysis of the reports shows that the analyzed RESPECT Index companies created more comprehensive reports than the remaining analyzed Polish companies (the average number of pages of a report was 130, compared to 64 pages for entities not included in the RESPECT Index).

On average, the RESPECT Index companies devoted a little more room to environmental issues than the non-indexed companies which, on the other hand, reported in more detail on employee and social issues. The focus on environmental issues of the RESPECT Index companies is also greater than in the case of CEE and WE companies.

Moreover, taking into account the content of the stand-alone reports made by the analyzed RESPECT Index companies in comparison to companies not included in the index, those companies:

- More often defined the mission of the enterprise (80% of RESPECT Index companies, 50% of other companies)
- More often mentioned the sustainability strategy (80% of RESPECT Index companies, 67% of other companies)
- More often discussed “bad news” concerning the operations of the entity (80% of the RESPECT Index companies, 17% of other companies)
- Less often reported the challenges of sustainability and the procedures and instruments for managing those challenges (44% of the RESPECT Index companies, 60% of other companies)

As regards the frequency of declarations of strategic targets, main stakeholders, or industry-specific characteristics, there were no significant differences between the stand-alone reports of the two groups of analyzed enterprises.

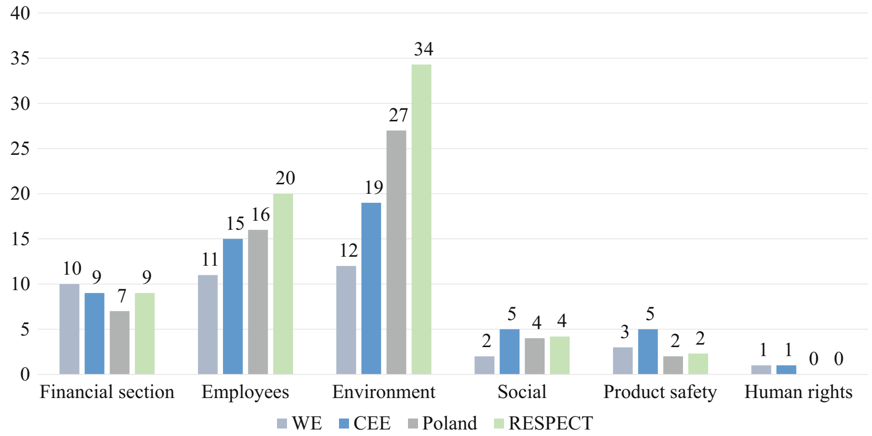

Fig. 8 The focus of sustainability reports by KPIs (in number) in the WE, CEE, Poland, and RESPECT samples

The analyzed RESPECT Index companies reported more KPIs in their stand-alone reports.

As shown in Fig. 8, the examined RESPECT Index companies contained more KPIs in their reports than the Polish enterprises which were not included in the index, and, with respect to KPIs concerning the environmental and employee areas, the result of the RESPECT sample is significantly higher than the results obtained for the WE and CEE samples.

4.4 The Management of SR in Companies Included in the RESPECT Index

It ought to be noted that in the case of 75% of the analyzed RESPECT Index companies, the sustainable outcomes were collected and analyzed singly and in isolation, while in the case of 25% of them they were measured by a sustainability accounting system linked with strategic goals. Thus, it could be surmised that those entities were a little more advanced with respect to sustainability accountancy than the entities not included in the RESPECT Index. As regards the latter group, 39% of the entities do not collect sustainable outcomes at all. Still, 8% of those companies implemented a sophisticated sustainability accounting system as the basis for all corporate decisions. In Fig. 9, those results are collated with the results of the WE, CEE, and Poland samples.

Figure 9 shows that, on the one hand, not one of the analyzed RESPECT Index companies neglected to collect data on sustainability, which is better than the results for the remaining samples, but, on the other hand, there was not even one

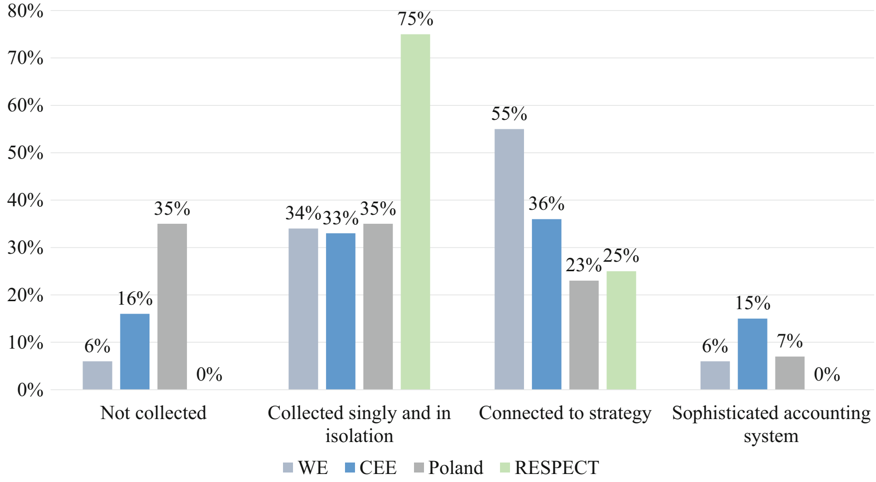

Fig. 9 How is sustainability data collected in the WE, CEE, Poland, and RESPECT samples?

enterprise in the RESPECT Index group with a sophisticated accounting system, which is worse than the respective results of the WE, CEE, and Poland groups.

In response to the questions concerning the balance of the emphasis on particular issues of sustainability accounting, all analyzed RESPECT Index companies stated that their environmental and social data were balanced. Similar results were obtained with respect to the companies not included in the index: 82% of them indicated a balance of those issues and only 18% stated they focused mainly or solely on environmental issues. Equally, all analyzed RESPECT Index companies stated that there was a balance between the technical and softer aspects. As regards companies not included in the index, 73% noted a balance in that area, 18% stated they mainly collected technical data, and 9% mainly data on softer aspects.

5 Summary

The results of the study on SR in Polish enterprises allow for a positive evaluation, especially in comparison with the remaining CEE countries. The forms of SR in Poland are advanced and, in some respects, similar to those in Western Europe. Reporting is mainly carried out in the form of stand-alone reports. As regards the percentage of audits and the language of the reports, Polish companies are similar to those from CEE. With regard to the use of the GRI standards, they are similar to the companies from Western Europe. In Polish reports, we observe a special emphasis on employment, environmental, and social issues. Many KPIs are used (especially for environmental issues), and the data for the reports is generated and communicated systematically.

The influence of the RESPECT Index companies on SR in Poland can also be regarded as positive. The quality of SR of the RESPECT Index companies is better than in the case of companies not included in the index. The RESPECT Index companies mainly prepare stand-alone sustainability reports, are more thorough in their preparation, devote more space to environmental issues, discuss sustainability in strategic documents more often, and engage employees of various ranks for that task.

The better results of the RESPECT Index companies might be due to the process of selection of companies for the index—such enterprises have to fulfill demanding requirements in relation to sustainability. Therefore, we can state that those companies are leaders of sustainability not only in theory but also in practice. As there are also potential benefits for an enterprise which fulfills the requirements of sustainability,[17] we may conclude that the results presented above are encouraging for other companies which consider taking sustainability into account in their activity.

As regards the management of SR in Poland, the following findings have been described: in comparison to the CEE and WE countries, fewer Polish enterprises collect sustainability information, operational managers are authorized to make important decisions with regard to SR, the process of SR takes place in many departments of an enterprise, and internal reports, annual reports, and websites are used intensively as channels of communication.

As regards the management of SR in the RESPECT Index companies, they are slightly more interested in sustainability accounting, they collect complete sustainability information, and they balance environmental and social information. However, if we consider the number of the analyzed companies, the ambiguity of the results in other areas of the analysis, and the fact that in some respects the results of the RESPECT Index companies were worse, we cannot state firmly that they distinguish themselves with regard to the management of SR.

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Sustainability Reporting in the Czech Republic

Jaroslav Wagner and Petr Petera

1 Introduction

In this contribution we deal with sustainability reporting (SR) in the Czech Republic (CR), focusing primarily on external reporting at corporate level. We understand the term "sustainability" broadly, including environmental and social responsibility as well as corporate governance.

First, the development of understanding sustainability and the related institutional framework in the CR is addressed to understand SR in the general context. Then, the key findings of relevant previous studies in the period from 1990 to 2015 are introduced. Finally, the main results of our own research into SR are summarized and compared to the previous research.

2 General Framework for SR in the Czech Republic

2.1 Institutional Framework for Sustainability in the Czech Republic

Sustainability is not a new concept in the CR. Srpová et al. (2012) advocate that Tomáš Baťa (1876–1932), Czechoslovak entrepreneur and founder of the Bata Shoes Company, incorporated principles of broadly understood social responsibility into the core of his business. The understanding of sustainability changed but was not lost during the socialist era and gradually returned after major political and

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economic changes at the end of eighties and during the nineties of the twentieth century (known as the "Velvet Revolution"). Czechoslovakia split into the CR and Slovakia on 1 January 1993; concise development of corporate social responsibility (CSR) in Slovakia can be found, e.g., in Pakšiová (2016).

Today, the institutional infrastructure for sustainability is comprised of numerous governmental and nongovernmental organs.

At country level, the Czech Government Council for Sustainable Development (CGCSD) plays a crucial role in the formulation of state policy. It was established in 2003 and is now subordinated to the Office of the Government of the CR. The prime minister holds the office of the Chairman of the Council, and the Minister of the Environment, the Minister of Industry and Trade, and the Minister of Labour and Social Affairs all act as vice-chairmen. CGCSD serves as an advisory, initiative, and coordinating body of the government of the CR in the area of sustainable development and strategic management and is responsible for the preparation and updating of the Strategy for Sustainable Development of the CR (first released as the *Strategic Framework for Sustainable Development in the Czech Republic* in 2010). The CGCSD and its working groups also support the promotion of sustainability and CSR (see, e.g., http://www.udrzitelny-rozvoj.cz).

Accountability for the regulation of corporate responsibility is split among several ministries (especially the Ministry of Industry and Trade, the Ministry of the Environment, and the Ministry of Labour and Social Affairs) and is laid down in several important documents.

For example, the *National action plan for corporate social responsibility in the Czech Republic (NAPCSR)* which is prepared by Ministry of Industry and Trade (the last version was released in 2016 for the years 2016–2018) focuses on the aspects of responsibility, competitiveness, and sustainability of organizations. The NAPCSR highlights that the purpose of corporate social responsibility is to contribute to the sustainable development of society through the implementation of activities which have a positive impact on society or prevent or mitigate the negative impacts of the activities of corporations. CSR is voluntary in nature and includes those activities which the organization implements over and beyond legal obligations, whether in relation to its employees or to society and the environment.

Detailed information about the NAPCSR and other (not only) governmental CSR activities can be found at the official portal of the CR on CSR (http://narodniportal.cz).

Another strategic document in the area of sustainable development is the *Programme of national politics of quality*, which is implemented by the Quality Council of the CR (http://www.npj.cz). The Quality Council also organizes the "National Award for CSR and Sustainable Development." Alongside governmental institutions, sustainable development is supported by numerous nongovernmental organizations. The NAPCSR explicitly mentions the Association of Social Responsibility (http://www.spolecenskaodpovednostfirem.cz), the Business Leaders Forum (http://www.csr-online.cz), the Business for Society (http://byznysprospolecnost.cz), the Czech Business Council for Sustainable Development (http://www.cbcsd.cz), and the Global Compact Network Czech Republic (http://www.globalcompact.cz).

These organizations often provide their own rewards for sustainable behavior and thus motivate companies to improve their sustainable activities. There are also special awards for SR, but it seems these awards are scarce (e.g., "responsible reporting," which is awarded by the Business for Society).

It is possible to conclude that sustainability in the sense of activities related to social responsibility, environmental responsibility, philanthropy, etc., has tradition and is broadly addressed in the CR.

2.2 Regulation of SR in the CR

In this section we address the regulation of SR as an obligation for companies. Other factors which lead companies to gather (and possibly report) information on sustainability issues are discussed in Sect. 2.3.

In general, we can advocate that the statutory regulation of external SR in the CR is fragmented at present time. It focuses on the disclosure of selected facts about organizational operations (especially in the area of environmental impacts). The majority of obligations concerns reporting in specific industries only (e.g., energy production or the chemical industry) and/or for governmental institutions (e.g., industry regulators or the statistical office). Requests for more integrative SR to broader group of external stakeholders (e.g., in annual reports or stand-alone sustainability reports) are missing.

However, several important reporting obligations toward a broader group of stakeholders exist. For example, according to *Act No. 458/2000 Coll., on business conditions and public administration in the energy sectors* ("Energy Act"), companies which are electricity generators are required to inform electricity market participants in a manner allowing remote access (i.e., publicly, e.g., on web pages) about the proportion of electricity sources used for electricity generation in the past year, the quantity of CO_2 emissions and the quantity of radioactive waste produced by electricity generation in the past year, the aggregate mix of the supplier's fuels, and information on environmental impact.

Another important act in the area of environment is *Act 406/2000 Coll., on Energy Management*, which encourages companies to disclose an "Energy Performance Certificate" of buildings in case of any business transaction.

A requirement for reporting in the corporate governance area on issuers of securities is mentioned in *Act No. 256/2004 Coll., on business activities on the capital market*. It demands the disclosure of, e.g.:

- Information on principles related to the remuneration of persons with management responsibilities.
- Information on used codices of corporate governance.
- Only large corporations have to disclose a description of the diversity policy applied to statutory bodies, the supervisory board, the board of directors, or other similar bodies of the issuer (e.g., age, gender, education, and professional experience). Additionally, the aims of this policy and its results in a given accounting period should also be disclosed.

In the area of accounting regulation, reporting obligations are addressed especially by *Act No. 563/1991 Coll., On Accounting* ("Accounting Act") which respects Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements, and related reports of certain types of undertakings and follows Regulation No. 1606/2002 of the European Parliament and of the council on the application of international accounting standards.

Accounting entities which are obliged to have their financial statements audited have to publish an annual report. Nevertheless, the requirements for SR imposed by the Accounting Act are quite rudimentary. Only large accounting entities (i.e., entities which exceed at least two of the these criteria: assets CZK 500 m, turnover CZK 1000 m, average number of employees 250) and entities which are defined by specific law and entities which are the subject of "public interest" are required to publish the following nonfinancial information in their annual report (nevertheless there is no guidance or specification on the extent and structure of these disclosures):

- Important events during the reporting period.
- Expected development of the accounting entity.
- Activities in the area of research and development.
- Acquired own shares.
- Activities in the area of environment and employment relationships.
- Subsidiaries located abroad.
- Other facts required by special legislation (these have to be disclosed not only by large but also by small and medium entities).

An important catalyst of SR in the CR may be the fact that the European Parliament adopted Directive 2014/95/EU on the disclosure of nonfinancial and diversity information by large companies in 2014. In the CR it is expected that the directive will be transposed into accounting law by December 2016. Affected corporations (in the CR the number of these companies is expected to be around 30–40) will be required to start reporting according to this directive as of their financial year 2017. Although the directive explicitly states that member states may require nonfinancial reporting also from entities which are not affected by the directive, it may be expected that the Czech government will not require this reporting from a broader group of organizations.

It is possible to summarize that unlike "sustainable activities," support for and regulation of comprehensive external reporting on these activities have to date not been a priority of the government in the CR, and the prevailing opinion is that external SR should remain on a voluntary basis.

Nevertheless, it seems the situation is changing slowly. Especially new regulation and also awards for SR may accelerate the positive development.

2.3 *Other Factors with the Potential to Influence the SR of Companies*

In the previous sections, we showed that comprehensive and integrated external reporting is not mandatory in the CR for either small and medium firms or for large corporations at the present. Thus, the question arises whether organizations generate data which is used or at least can be relevant for such reporting and what the main drivers for that are.

We assume that voluntary participation of organizations in activities and initiatives in sustainability management or SR drives their efforts to generate sustainability-related data. The following activities and initiatives play a key role for Czech companies:

- ISO management systems. The quality management standard (ISO 9000) is the most widespread in the CR, followed by the environmental management (ISO 14000), social responsibility (ISO 26000), and occupational health and safety (ISO 18000) standards. These standards provide guidance for the selection of important topics, aims, and indicators which should be measured. Although external SR is not required explicitly, the data generated for managerial purposes can be also used for external reporting. Unfortunately, there is no official central register of all entities which implement these standards in the CR.
- The Eco-Management and Audit Scheme (EMAS). The EMAS system goes beyond the requirements of ISO 14001 and requires organizations to regularly report sustainability (mostly environmental) information. This system is only implemented by approximately 25 Czech companies.
- Responsible Care (RC). This initiative, which is specific to chemicals industry, strives to improve health, environmental, safety, and security performance and fosters communication with stakeholders about products and processes. Public reporting of relevant information about these areas is required by RC. In the CR about 80 organizations are involved in this initiative.
- Global Reporting Initiative (GRI). These guidelines are de facto a worldwide standard in the field of corporate SR, but they are not widespread in the CR yet. It

can be expected that the guidelines will be adopted by the largest Czech companies gradually; see also Sect. 4.1.

Despite the lack of statutory regulation, Czech companies generate a lot of data about sustainability issues. Global programs and initiatives (like ISO standards, EMAS, Responsible Care, or GRI) play a key role in this process.

3 State-of-the-Art Research into SR in the Czech Republic

In this section we summarize and discuss key studies aimed at external SR in the CR. We searched through the widely respected databases EBSCO, ProQuest Central, Web of Science, and Scopus to find relevant articles. Consequently, all articles were evaluated from the viewpoint of relevance by one of the authors.

The results showed that original empirical research into SR in the CR before 2010 available in the electronic form is very scarce. To obtain at least some additional research outcomes before 2010, we tried to find nonelectronic resources, which were often available only in Czech language.

Relatively comprehensive analysis of SR was realized by KPMG (2008). This research among the 100 largest companies (measured by revenues) showed that 67 Czech corporations did not report sustainability information at all and the other companies usually included sustainability information as a separate part of their annual report. The survey found that only 14 corporations had stand-alone sustainability reports, 18 corporations had a publicly available corporate responsibility strategy, 11 corporations reported on business opportunities of corporate responsibility, 5 reports addressed supply chain risks, and 4 reports disclosed the carbon footprint.

Hyršlová and Hájek (2005) published results of personal interviews in four selected companies which were registered in the EMAS register. The SR topic was minor; it brought one interesting finding that the studied companies did not expect to monitor environmental costs and revenues in their accounting system.

Kašparová and Škapa (2007) analyzed the annual reports of 52 Czech and 30 Slovak companies published in 2005. The authors highlighted the following findings:

- Large companies report more than small companies.
- Both Czech and Slovak companies relatively often report on environmental issues, but information on other socially responsible activities is scarce with exception of employee benefits, sponsoring, and donations.
- Anti-corruption activities and equal opportunities are not deemed interesting.
- The correlation between SR and economic performance was not proven.

- Although companies are active in the social area, they do not publish their strategy, and it seems that activities are "intuitive" without any link to corporate strategy.

Hyršlová et al. (2007) aimed their questionnaire-based research at the environmental reporting of companies with an implemented environmental management system (EMS). Based on more than 200 responses, the research proved that key stakeholders are trading partners, government administration, and the general public. More than 50% of companies do not study the informational needs of their stakeholders. Fifty percent of companies regularly publish environmental reports in stand-alone documents or as a part of their annual report. More comprehensive sustainability reports (i.e., also aimed at topics other than the environment) are not common. The situation was better among large companies with 22% of companies linking environmental information with health and safety disclosure. Reports were usually structured according to the own standard. Environmental information was usually given without a link to economic performance.

Dvořáková (2009) analyzed reporting practices (annual reports and stand-alone sustainability reports) among manufacturing corporations registered at Prague Stock Exchange. This research showed that one-third of the analyzed corporations published stand-alone environmental reports and the same information was often published in duplicate in their annual report. The environmental reports contained very few links to economic performance and included mostly positive information in verbal form. Comparability of the published information was further lowered by the absence of information about performance in past years. Social information was not published in stand-alone report by any of the analyzed corporations. Two-thirds of the analyzed corporations published environmental information in their annual reports; the rest did not report environmental information on an annual basis at all. Overall, the published information was mostly positive, and it is possible to suppose that the information is not balanced. What was striking was the low linkage between social and environmental information with information on economic performance.

Hřebíček et al. (2009) investigated reporting of organizations participating in the "Responsible Care" initiative (see Sect. 2.3). Research showed that the most often published type of report is the "environmental report," which was published by 27 of 39 researched organizations. No organization published a sustainability report. The majority of published indicators were environmental indicators (average number of these indicators per report was 16). Economic indicators and social indicators were considerably scarcer (on average three economic and five social indicators per report). Finally, the authors evaluated the quality of the reports and concluded that on the one hand information provided by organizations is comparable for some time period, but on the other hand, the published information is often less detailed and balanced.

After 2010 the amount of research on SR published in standard electronic databases increases, but not significantly.

Jindřichovská and Purcarea (2011) compared the approach to the regulation of social and environmental reporting in the CR and Romania and consequently used case study methodology to compare the approach to SR in two large Czech and two large Romanian corporations. Stand-alone sustainability reports are predominantly published by large companies.

Johnová (2011) used qualitative content analysis to compare the SR of the three largest providers of telecommunications services in the CR (Vodafone CZ, Telefónica O2, and T-Mobile) and concluded that the quality of their reports is not as good as of telecommunication providers abroad.

Kašparová (2011) published a comprehensive book dedicated to the analysis of the annual reports of selected companies from the manufacturing and construction industries. The key result of this extensive research was the statement that all traditional aspects of sustainability (economic, environmental, and social) are covered in annual reports but reported information about corporate social responsibility topics is often very short (one or two sentences or one paragraph).

Dočekalová (2012) reported the results of three case studies combining three methods (questionnaire, interview, and analysis of archival data) to find out why only a very small percentage of Czech corporations published a corporate sustainability report. The data gathering was realized in 2011, and the key finding was that there are three main reasons: reporting is resource intensive, there are not enough advantages resulting from issuing a stand-alone sustainability report, and finally there is not enough knowledge for SR. Dočekalová (2013) focused on corporate social performance indicators in the voluntary reporting of Czech manufacturing companies and analyzed the voluntary reports of 24 companies and consequently conducted a survey among 79 companies. As indicators, all companies reported “total workforce,” 20 companies reported “total number of workforce accidents” and “employee wages and benefits,” 15 companies reported “employee turnover” and “donations,” 10 companies reported “total number of fatalities” and “expenditure on employee training,” 9 companies reported “average number of hours of employee training,” and 5 companies reported “hours of volunteering” and “health and safety of products.” She summarized that companies use mainly absolute and lagging indicators and therefore comparison with other companies is nearly impossible.

Stříteská and Bartáková (2012) analyzed the reporting of 47 companies which were selected on the basis of their position in the competition “Top Responsible Company” (2010 and 2011) or “Top Philanthropist” (2009), i.e., highly responsible companies. The results of the study were interesting, and the authors concluded that despite the fact that the analyzed companies were among the most responsible ones, they were not able to communicate their activities effectively and only 30% had their own sustainability report and the same percentage had corporate social responsibility strategy linked with the overall company strategy.

Krechovská and Procházková (2013) conducted questionnaire research among almost 200 companies of various sizes and from various industries. Their important finding was that despite the fact that enterprises undertake sustainability-related activities, the activities are not reported consistently. They found that how nonfinancial is reported depends on size of the company, that small enterprises publish nonfinancial data as a part of their annual report and not as a stand-alone sustainability report, and disclosure of nonfinancial data was very short, typically one or two paragraphs.

Haltofová and Adámek (2014) published a preliminary analysis of SR based on the web pages of 1040 companies from the forestry and logging industry. In total, only 117 companies presented some corporate social responsibility information on their web, often very shortly.

Kunz et al. (2015) published research conducted among 163 large companies. In total, 86 companies had CSR information on their website, and 80 websites contained CSR information in the Czech language. 24 companies published a sustainability report, but only ten reports were according to the GRI standards; nine of these ten reports were published by companies with foreign owners, and one report was published by company with a Czech private owner.

We can summarize that comprehensive empirical research on SR in the CR published before 2010 and available through standard electronic resources (EBSCO, ProQuest, Web of Science, and Scopus) is scarce. After 2010, the amount of research on SR increased but not sufficiently.

The majority of published studies reported that organizations in the CR publish information on sustainability insufficiently. The published information is often unbalanced ("public relations" or "marketing" information), insufficiently detailed, and communicated in verbal form only; the dimensions of sustainability are not well linked and balanced; especially linkage of environmental and social aspects to the economic performance is missing. What is also striking is that SR lags behind socially responsible behavior, which was mentioned in several studies.

4 Results of Our Empirical Research and Ideas for Further Investigation

4.1 Key Results of Our Empirical Research

Our empirical research was a part of larger project, which is described in the first chapter of this book. Detailed results for the CR were published in several articles (Petera et al. 2014a, b, 2016). In this chapter we highlight the key results of this empirical research and compare it with the previous research. Consequently, ideas for further investigation are proposed.

First, we conducted a content analysis of stand-alone sustainability reports and of annual reports which were published by the 50 largest corporations domiciled in the CR and falling into the industry groups "Manufacturing," "Electricity, Gas, Steam and Air Conditioning Supply," "Construction," "Wholesale and Retail

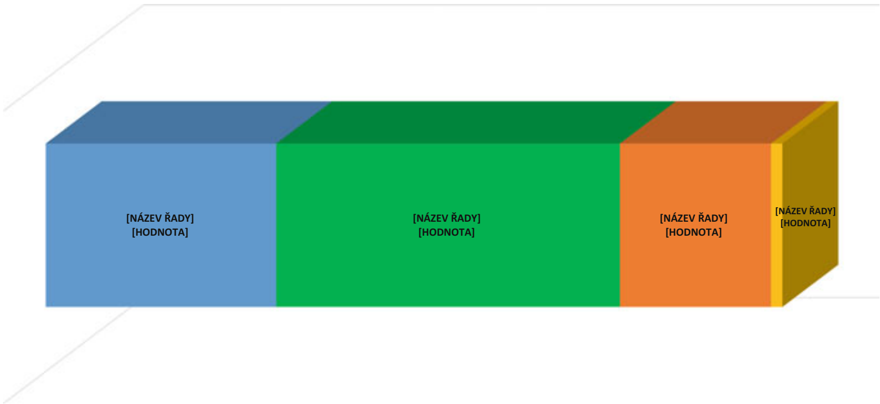

Fig. 1 Published indicators

Trade, Repair of Motor Vehicles and Motorcycles," and "Information and Communication."

Of the 50 analyzed companies, only 7 published a stand-alone sustainability report; moreover one of these reports was prepared at the level of a parent company and included only rudimentary information about the Czech subsidiary. Only one report was prepared in accordance with GRI guidelines. The distribution of the disclosed indicators can be found in Fig. 1; the most prevalent were environmental indicators (46.7%) followed by economic indicators (31.3%) and labor indicators (20.5%).

Consequent content analysis of the annual reports proved that sustainability-related information (with the exception of economic issues) is discussed mainly in narrative form, nearly without any numeric indicators and mostly without following any respected reporting standard. The key sustainability-related topics (without economic issues, which were included in all annual reports) and numbers of annual reports containing these topics can be found in Fig. 2.

Second, we conducted interviews with 13 large corporations; detailed results can be found in Petera et al. (2016). The majority of respondents indicated that they report sustainability information in their annual report; nevertheless nearly half of the respondents mentioned also web pages as an important communication channel. Four respondents indicated that they issue a stand-alone sustainability report; one of these stand-alone sustainability reports is prepared according to the GRI guidelines, and two respondents plan to adopt GRI guidelines in the near future. None of the stand-alone sustainability reports were audited by a third party, and none of our respondents expressed an intention to audit their reports in the near future. On the other hand, two respondents without stand-alone sustainability reports claimed that they will prepare one soon, probably according to the GRI guidelines.

Third, we distributed a questionnaire among large companies during 2015. In terms of reporting, we see our findings on the channels used for reporting as

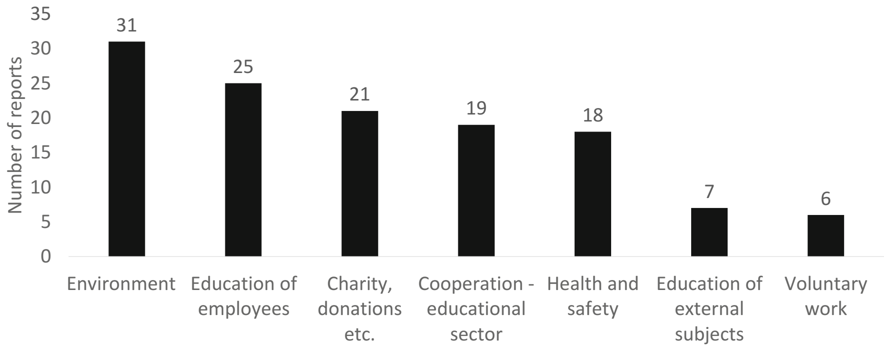

Fig. 2 Number of annual reports containing key sustainability-related topics

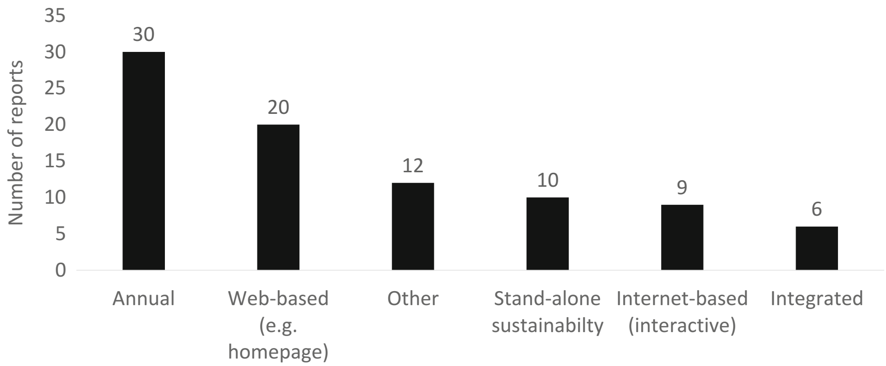

Fig. 3 Types of report (communication channels) ($N = 43$)

important. The number of companies using various reports (communication channels) can be found in Fig. 3 (responses from 43 companies).

We can summarize that results of our research are so far in accordance with majority of the previous studies aimed at external SR in the CR. First, there is a striking difference between the performance of sustainability-related activities (which are becoming quite common) and high-quality SR (which is scarce even among the largest and the most socially responsible corporations domiciled in the CR). Second, relatively few organizations issue a comprehensive stand-alone sustainability report. Third, existing stand-alone sustainability reports usually do not follow any standard and are unbalanced; the only positive facts can be found within reports and comparison in time and space is difficult. Fourth, companies disclose some sustainability information

(continued)

in their annual reports, but usually only at the level of legal requirements or only a bit above these requirements. Last but not least, it seems that companies do not correctly understand how important and fruitful SR can be, and hence the potential of this kind of reporting remains untapped.

4.2 Ideas for Further Research

Sections 3 and 4 showed that research on SR in the CR is relatively scarce and incomplete (e.g., only small samples of companies are analyzed or only restricted communication channels are utilized). Moreover, it is possible to expect that SR will undergo a process of extensive change in the incoming years (e.g., due to implementation of directive 2014/95/EU), and further investigation in the area of SR is therefore needed. We advocate that the following research questions are especially important:

- How widespread is reporting on sustainability on the websites of a complete sample of large companies domiciled in the CR?
- Which large corporations in the CR publish a stand-alone sustainability report and which content is included (e.g., only environmental, only social, or covering all key sustainability topics)? This question should be asked not only for an incomplete sample of large corporations but for all companies that are defined as a "large corporation."
- How will large corporations react to a new obligation to report nonfinancial data? In this content there are numerous sub-questions:
  - Will organizations publish stand-alone sustainability reports or will they choose integrated reporting?
  - Which of the existing guidelines (e.g., Global Reporting Initiative G4) will be used for reporting?
  - Will indicators included in external reports also be used inside corporations (e.g., within their strategic performance management systems with links to the motivation and rewarding of employees)?
  - Will medium-sized or even small enterprises follow the "example" of large corporations and publish more sustainability-related information?
  - How will the obligatory implementation of external SR in large corporations affect their sustainable performance and sustainability management in general?

4.3 Managerial Implications

We advocate our research has several implications for corporate management.

First, it is important to understand that external SR is not only a costly obligation but also an opportunity to better integrate sustainability into strategy and key processes. High-quality reporting may increase transparency, lower risk of noncompliance with regulations, help to differentiate from competitors, and foster reflective and critical thinking about sustainability-related initiatives.

Second, corporate management should understand that any socially responsible activities will only really create positive effects if they are correctly communicated through external reporting to stakeholders.

Finally, corporate management should be aware that SR is becoming a prevailing practice worldwide and ignoring this trend may be highly dangerous.

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Sustainability Reporting in the Slovak Republic

Renata Paksǐová

1 Sustainability Reporting in the Slovak Republic

The commencement of declaring a global interest in environment and development may be identified in the conclusions of the 1972 United Nation (UN) Stockholm Declaration on Human Environment. In 1983, the UN World Commission on Environment and Development (WCED) was established, initiating a new era of social and environmental sustainable economic growth with its "Our Common Future" report, adopted by the UN General Assembly on December 11, 1987, and setting up the first definition of the term "sustainability." Support for sustainable development was later declared by the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992, where four fundamental documents were adopted: Rio Declaration (27 principles), Convention on Biodiversity, Framework Convention on Climate Change, and AGENDA 21 (40 chapters) that together form the basis for strategy making on "sustainable development" on all levels (Ministry of Environment of the SR 2015). According to the UN recommendation, its member states were expected to elaborate and adopt their own national strategies for sustainable development by the end of 2002. The Slovak Republic adopted its "National strategy for sustainable development for the Slovak Republic" by SR Government Resolution No. 978/2001 on the October 10, 2001. Two main goals were declared: reduction of the use of nonrenewable natural resources while rationally using renewable resources and reduction of environmental burden.

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The European Union (EU) is aware of the importance of the sustainable development strategy and of the opportunities and risks of the economic globalization process in this field. Thus, it endorses this social responsibility in its strategies and reflects this attitude in its legal acts on business environment in the EU (Kubaščíková 2008).

The European Commission has defined corporate social responsibility (CSR) as the responsibility of enterprises for their impact on society. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions is a renewed 2011–2014 EU strategy for CSR. Corporate sustainability should be company led. Public authorities can play a supporting role by means of a smart mix of voluntary policy measures and, where necessary, complementary regulation. Companies can become socially responsible by adhering to the law or by integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations (European Commission 2015).

Nonfinancial and financial reporting provides shareholders and other stakeholders with a meaningful, comprehensive view of the position and performance of companies. Large public interest entities in the EU (listed companies, banks, insurance companies, and other companies that are so designated by member states) with more than 500 employees should disclose in their management report relevant and useful information on their policies, main risks, and outcomes relating to at least environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors (Petera et al. 2013, 2014, 2015; Petera and Wagner 2015). In reporting, there is significant flexibility for companies to disclose relevant information, including reporting in annual reports or separate reports. They may also rely on international, European, or national guidelines (e.g., the OECD Guidelines for Multinational Enterprises, ISO 26000, the UN Global Compact, etc.).

At first, the European Commission (European Commission 2016) launched a public survey on nonbinding guidelines on methodology for reporting nonfinancial information following Article 2 of Directive 2014/95/EU on the disclosure of nonfinancial and diversity information by certain large undertakings and groups. The purpose of this survey was to collect views from stakeholders. The survey was part of the Commission's work related to preparing nonbinding guidelines on methodology for reporting nonfinancial information. Currently valid is the basic legal act, Directive 2013/34/EU, of the European Parliament and of the Council of June 26, 2013 (EUR-LEX 2015) on the annual financial statements, consolidated financial statements, and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (Directive 2013/34/EU) as amended by Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards the disclosure of nonfinancial and diversity information by certain large undertakings and groups (EUR-LEX 2015).

2 Country-Specific Laws in the Slovak Republic

In the Slovak Republic, Act No. 130/2015 Coll. (entered into force on July 1, 2015) amending and supplementing Act No. 431/2002 Coll. on Accounting regulates measurement methods and reporting according to Directive 2013/34/EU of the European Parliament and of the Council on the annual financial statements, consolidated financial statements, and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. This amendment was adopted based on the requirement of the Directive that member states shall bring into force the laws, regulations, and administrative provisions necessary to comply with this Directive by July 20, 2015. Section 20 of the amended Act No. 431/2002 Coll. on Accounting was supplemented by Act No. 130/2015 Coll., with paragraphs with more obligations of reporting nonfinancial information about entities, effective January 1, 2016, and some relevant paragraphs effective January 1, 2017.

Article 20 "Annual report" of Act No. 431/2002 Coll. on Accounting was supplemented by Act No. 130/2015 Coll., with paragraphs (9–15) with the following wording effective January 1, 2017 (Ministry of Finance of the Slovak Republic 2015, 2016):

(9) "A public-interest entity, with the exception of an accounting unit National Bank of Slovakia with the average calculated number of employees for the accounting period exceeding 500 employees, will also provide in its annual report non-financial information regarding the development, performance, position and effect of the accounting unit activity on the environmental, social and employment issues, information regarding the respecting of human rights and information concerning the fight against bribery and corruption (hereinafter referred to as the "social responsibility area") whereas it will provide at least

(a) a brief description of the business model.
(b) a description and the results of the policy applied by the accounting unit in the social responsibility area.
(c) a description of the main risks related to the accounting unit impact on the social responsibility area, which ensue from the accounting unit activity that could have adverse consequences, and when appropriate, also a description of the business relations, products or services provided by the accounting unit and a description of the way in which the accounting unit manages the above risks.
(d) significant non-financial information regarding the accounting unit activity according to the individual activities.
(e) a reference to the sums shown in the financial statements and an explanation of such sums as regards their impact on the social responsibility area, if appropriate.

(10) As regards information provided according to paragraph (9), a public-interest entity can use the EU framework or other international framework governing

non-financial information as a base if it accurately specifies which framework was used.

(11) A public-interest entity which is a subsidiary accounting unit is not obliged to provide the information according to paragraph (9), provided that the information about such a subject and its subsidiary accounting units is comprised in the annual report or in a similar report issued by the parent accounting unit.

(12) If a public-interest entity does not publish information according to paragraph (9), in its annual report it will provide the reasons due to which it did not publish such information.

(13) An accounting unit which emitted securities accepted for trading on a regulated market of any Member State will also provide a description of the diversity policy applied in its administrative bodies, governing bodies and supervisory bodies, mainly in relation to the age, sex, education and professional experience of the members of such organizations, the targets of such policy, the way of its application, and the results attained for the reporting period in its annual report, provided that on the date of the compilation of the financial statements it has fulfilled at least two of the following conditions:

   (a) The overall sum of assets exceeded 20,000,000 euros while the sum of assets for this purpose means the sum ascertained from the balance in evaluation adjusted by the items in compliance with the obligation of the accounting entity adjust valuation of the assets value, to create provisions and to deduct the assets in accordance with the accounting principles and accounting methods to the balance sheet date.
   (b) The net turnover exceeded 40,000,000 euros.
   (c) The average recounted number of employees exceeded 250.

(14) An accounting unit not providing a description of the diversity policy according to paragraph (13) in its annual report shall specify the reasons due to which it decided not to apply such a diversity policy in its annual report.

(15) By providing the information according to paragraph (9) the accounting unit has fulfilled its obligation to provide non-financial information regarding the impact of the accounting unit activity on the environment and employment."

An accounting unit, the accounting period of which is the fiscal year, compiles the annual report, the consolidated annual report by this amended act of accounting for the first time for the fiscal year beginning in the course of 2016.

3 Results of an Empirical Study About Understanding Corporate Sustainability and Corporate Responsibility of Large Companies in the Slovak Republic

The empirical study was a part of a larger project, which was described in the first chapter of this book. Some details of the results of the Slovak Republic were published as several papers of conferences (Pakšiová et al. 2016; Pakšiová 2016a, b; Petera et al. 2016).

In sustainability reporting (SR), there is still insufficient consolidation in EU countries, as well as in the Slovak Republic as such. In 2013, the way of reporting the nonfinancial information was not legally defined, a fact that is reflected in the attitude the enterprises took toward SR. Given the selected group of the largest companies according to turnover in SR the research in the international project "Sustainability Reporting in Central and Eastern Europe" focused on, it is clear from the ownership structure form they predominantly consist of companies with a parent accounting unit, which is reflected in the prevailing number of consolidated sustainability reports and a small percentage of companies which did not publish such information or published it solely on their websites (Fig. 1).

The next step of the same project in winter 2015 was the survey questionnaire "SR in CEE_SLK" from total records (response rate 15.71%) which showed increasing interest of companies in sustainability. Data was collected via web survey (LimeSurvey). The analysis includes only large businesses domiciled in the Slovak Republic, which met the following criteria: more than 250 employees and turnover over 50 million euros or balance sheet total over 43 million euros. Only companies from industries according to NACE (Financial Administration SR 2015) are analyzed under sections C (manufacturing), D (electricity, gas, steam, and air-conditioning supply), F (construction), G (wholesale and retail trade; repair of motor vehicles and motorcycles), and J (information).

Out of the selected 261 (Finstat 2015; Register UZ 2015) potential respondents—the companies (that meet the specified criteria) to whom we sent the e-mail with a request to fill out the questionnaire—we have 41 fully completed questionnaires (responses) of the respondents. The statistical rate of return of responses to the questionnaire is 15.71%, which is a sufficient percentage of the

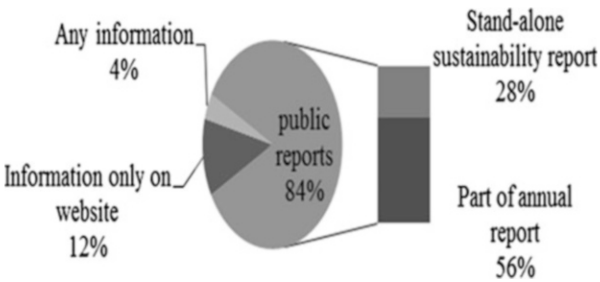

Fig. 1 Sustainable reporting form of large companies from the Slovak Republic

sample for evaluation of a questionnaire survey. It is a good statistical sample to obtain the findings and their analysis.

For the basic statistic characteristics of respondents of questionnaire survey, see Tables 1 and 2.

Corporate sustainability is usually defined as a process which aims to integrate the systematic management of the environmental and social aspects of business together with the economic aspects, both aiming to achieve sustainable business development for the company. Respondents answered the questions on how they understand this topic in their companies. The survey shows a very interesting conclusion, i.e., corporate sustainability is very important in companies (respondents) for management and corporate strategy (Table 3).

The responses about important management aspects in companies in the Slovak Republic are summarized in the table (Table 4).

The term “sustainability accounting” was used in the survey to refer to the process of the collection, analysis, and communication of sustainability-related information. This is any information that is needed for, or that is related to, corporate sustainability management. It can include both new types of information and sometimes also information which may already have been generated and used for some time before the term “sustainability” became common (e.g., for compliance with employment laws). The following tables (Tables 5, 6, 7, and 8) show

Table 1 Characteristics of respondents by size and ownership in 2014 in SR

Characteristics of respondents							
Number of full-time employees in 2014	SR Count	Turnover in 2014 (million euros)	SR Count	Number of countries where company operates	SR Count	The ownership form of company	SR Count
1–249 (0%)	0	0–49 (0%)	0	Local (22%)	9	State owned (5%)	2
250–499 (19%)	8	50–99 (36%)	15	<5 countries (5%)	2	Partly state owned (7%)	3
500–999 (32%)	13	100–499 (32%)	13	>= 5 countries (73%)	30	Privately held—family owned (12%)	5
1000–4999 (39%)	16	Over 500 (32%)	13			Privately held (49%)	20
Over 5000 (10%)	4					Publicity traded (20%)	8
						Others (7%)	3
Total	**41**	**Total**	**41**	**Total**	**41**	**Total**	**41**

Table 2 Characteristics of respondents by activity in SR

Industry which describes company's operation. More answers possible	SR Count	Company primarily devoted to	SR Count		SR Count
Manufacturing (63%)	26				
Wholesale and retail trade (15%)	6	B2B products/services (32%)	13	Extracting raw materials (10%)	4
Electricity, gas, steam, and air condition (12%)	5	B2C products/services (12%)	5	Elaborating intermediate products/services (32%)	13
Information and communication (17%)	7	B2B and B2C products/services (27%)	11	Elaborating final products/services (41%)	17
Construction (22%)	9	No answer (29%)	12	No answer (17%)	7
Total	**53**	**Total**	**41**	**Total**	**41**

Table 3 Relevance of sustainability in companies

Relevance of corporate sustainability	SR Count	Inclusion of sustainability into corporate strategy	SR Count
Not relevant (0%)	0	There is no sustainability strategy (0%)	0
Mainly a PR/marketing concept (10%)	4	There is a sustainability strategy but it is not related to the corporate strategy (7%)	3
Strategic management responsibility and task (12%)	5	Sustainability strategy is part of the corporate strategy (68%)	28
Implemented as an organization principle and is involved in the whole corporate mgmt (78%)	32	Sustainability strategy is the main content of the content of the corporate strategy (25%)	10
Total	**41**	**Total**	**41**

statistically presented results of the survey in the spectrum of information collected. Follow-up questions were given only to companies that had answered the last question about collecting information on sustainability-related issues—"Outcomes are collected singly and in isolation and analyzed" or "Outcomes are collected and analyzed by a sustainability accounting system that is linked with strategic objectives/goals" or "Outcomes are collected and analyzed by a sophisticated sustainability accounting system as the basis for all corporate decisions." There were 36 companies in total.

The following graph (Fig. 2) shows the percentage rate of channels of SR. More companies use more than one channel and this statistic is a summary. Percentage of each channel shows representation of individual forms of channels.

In this part of article, we analyzed the results of a questionnaire survey addressed to large companies in the Slovak Republic regarding their understanding and

Table 4 Selected aspects of sustainability management

Stakeholder communication: dialogue	SR	Implementation of sustainable activities/ practices	SR	Broadening sustainability over supply chain	SR	Collecting information on sustainability-related issues	SR
	Count		Count		Count		Count
There is no stake-holder communica-tion/dialogue (0%)	0	There are no sustainable activities/practices (0%)	0	There are no specific require-ments (0%)	0	Sustainable outcomes above legal requirements are not collected (12%)	5
Irregular and incident-driven stakeholder communication/dia-logue (7%)	3	Sustainable activities/prac-tices are nonsystematic and isolated (2%)	1	Acting socially and environ-mentally responsible along the supply chain is partially required (12%)	5	Outcomes are collected singly and analyzed separately (10%)	4
Regular top-down stakeholder dialogue (34%)	14	Sustainable activities/prac-tices are systematic and refer to our strategy (56%)	23	Acting socially and environ-mentally responsible along the entire supply chain is expected and required, but there is no own standard (24%)	10	Outcomes are collected and analyzed by a sustainability accounting system that is linked with strategic objec-tives (46%)	19
Regular bottom-up and top-down stake-holder dialogue (59%)	24	Sustainable activities/prac-tices are involved in (almost) every part of the value chain (42%)	17	Acting socially and environ-mentally responsible along the entire supply chain is required. Own standards often exceed the normal require-ments (64%)	26	Outcomes are collected and analyzed by a sophisticated sustainability accounting sys-tem as the basis for all corpo-rate decisions (32%)	13
Total	**41**	**Total**	**41**	**Total**	**41**	**Total**	**41**

Table 5 Sustainability accounting

Who decides what aspects are covered within sustainability accounting? Multiple responses possible	SR Percentage	Who collects the data for sustainability accounting?	SR Percentage
Operational managers	9	Operational managers	15
Accounting specialists	16	Accounting specialists	40
Sustainability managers	15	Sustainability managers	16
Senior management	56	Senior management	19
Others	4	Others	10
Total	**100**	**Total**	**100**

Table 6 Balance of information regarding environmental and social issues

How balanced is the information collected regarding environmental and social aspects?	SR Count	How balanced is the information collected regarding engineering-related themes (e.g., production optimization or energy efficiency) and softer aspects (e.g., employee satisfaction)?	SR Count
Only on environmental issues (0%)	0	Only on engineering themes (3%)	1
Mainly on environmental issues (14%)	5	Mainly on engineering themes (11%)	4
Balanced between environmental and social issues (78%)	29	Balanced between engineering themes and softer aspects (86%)	31
Mainly on social issues (6%)	2	Mainly on softer aspects (0%)	0
Only on social issues (0%)	0	Only on softer aspects (0%)	0
Total	**36**	**Total**	**36**

attitude toward corporate sustainability. The questionnaire survey was performed in the second half of 2015, and its results confirm our expectations, i.e., entrepreneurs have selective attitudes toward social responsibility depending on their prioritized business areas, ownership, and prioritized stakeholders in areas of published information, and the most important motivation for reporting such information is a national legislation requirement.

4 Conclusion

Nowadays, corporate sustainability is a prioritized matter within EU. Issues of most importance on EU level include setting of environmental standards together with the formalization of the reporting of nonfinancial information on EU corporate attitudes toward the social responsibility. Corporate sustainability refers to companies' responsibility for their impact on society. The European Commission believes that corporate sustainability is important for the sustainability, competitiveness, and

Table 7 Sustainability data generated

To what extent are reporting guidelines (e.g., GRI guidelines) relevant for sustainability accounting?		To what extent is sustainability data routinely generated?		To what extent is the process of sustainability accounting centralized around a single department?	
Not at all: not relevant To a great extent: extremely relevant	SR Count	Not at all: ad hoc generated, e.g., starts with a phone call To a great extent: routinely and regularly generated	SR Count	Not at all: decentralized; spread across several departments To a great extent: centralized around one department	SR Count
Not at all (5%)	2	Not at all (6%)	2	Not at all (19%)	7
To a very little extent (3%)	1	To a very little extent (0%)	0	To a very little extent (8%)	3
To a moderate extent (28%)	10	To a moderate extent (17%)	6	To a moderate extent (17%)	6
To a great extent (53%)	19	To a great extent (67%)	24	To a great extent (42%)	15
To a very great extent (11%)	4	To a very great extent (11%)	4	To a very great extent (14%)	5
Total	**36**	**Total**	**36**	**Total**	**36**

Table 8 Sustainability information system

To what extent is the process of sustainability accounting centralized around a single information system?		To what extent is the information generation process formalized?	
Not at all: decentralized; spread across several information systems, e.g., different data bases To a great extent: centralized around one information system, e.g., one data base	SR Count	Not at all: no clearly defined responsibilities or targets and information provided on a case-by case basis To a great extent: procedures are clearly defined in a written form and are included in the official responsibilities	SR Count
Not at all (14%)	5	Not at all (5%)	2
To a very little extent (11%)	4	To a very little extent (3%)	1
To a moderate extent (11%)	4	To a moderate extent (8%)	3
To a great extent (36%)	13	To a great extent (53%)	19
To a very great extent (28%)	10	To a very great extent (31%)	11
Total	**36**	**Total**	**36**

innovation of EU enterprises and the EU economy. It brings benefits for risk management, access to capital, cost savings, human resource management, and customer relationships. In this article, we analyzed the results of an empirical study about understanding corporate sustainability and the corporate responsibility of

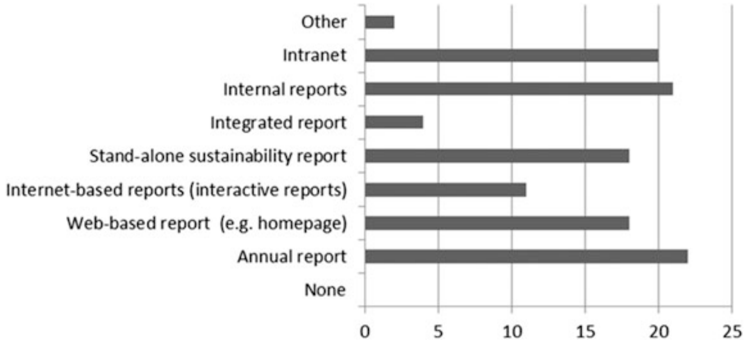

Fig. 2 Channels of SR (own data)

large companies in the Slovak Republic and the relevant laws in the Slovak Republic in the context of sustainable reporting.

Despite efforts invested into a global consolidation of standardization of nonfinancial information reporting (e.g., Global Reporting Initiative, GRI) in the field of sustainability development (GRI 2015), the rate of standardization and legal enforcement has been slow and formally insufficient. It does not reach the standardization level of financial information reporting. However, we can assume these issues will be an EU priority in the following period, given the formulation of strategies on the EU level and national—Slovak—strategy for sustainable development.

Slovak fiscal and economic policies focus on sustainable aspects of public finances, and the real economy that shapes the future development will be the main instrument in achieving a balanced and sustainable development of the Slovak national economy. These policies are processed in a legislation strengthening Slovakia's orientation on the values enshrined in the Constitution—sustainable social market economy, environmentally friendly economic development, and increasing the quality and consistency of life for the people.

Practical strengthening of nonfinancial information reporting can already be seen in the amended Act No. 431/2002 Coll. on Accounting (Ministry of Finance of the Slovak Republic 2016), implementing provisions of Directive 2013/34/EU of the European Parliament and of the Council on the annual financial statements, consolidated financial statements, and related reports of certain types of undertakings. Thus, new opportunities for further research open in the field of nonfinancial information reporting after January 1, 2017, the date particular provisions of the amended Accounting Act enter into force.

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Sustainability Reporting in Hungary: Sustainability Reporting Versus Value Reporting?

Tamás Tirnitz

1 Specific Findings About Sustainability Reporting in Hungary

There are no specific Hungarian laws prescribing either the preparation or the disclosure of sustainability reports. This applies for all branches, corporate sizes and legal structures. Any type of reporting about corporate sustainability of Hungarian companies and the subsidiaries of foreign firms in our country is therefore voluntary.

The number of published sustainability reports in Hungary varied over the last two decades (Őzse 2014). The peak was in 2008, when 65 reports were disclosed—among more than one million organizations. The decline seems to stop at approximately 40 reporting companies. The latest survey at our institute found 43 relevant reports for the year 2014. However, some reports among them cover only one aspect of corporate sustainability (e.g. environmental issues); the number of reports covering all aspects was about 30.

Our joint study of this book did not examine precisely these thirty companies. One cause is the fact that a number of companies refused to answer our survey questionnaire—even if they had published sustainability reports before (e.g. Hamburger, Unilever, Zwack). In these cases, we could identify the problem that Hungarian companies/subsidiaries do not seem to be willing to give broader or more detailed information about their sustainability approaches than published in their sustainability reports.

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The second reason for the different sampling was that the joint research focused on only big companies. However, some sustainability reports were published by small firms or even by non-profit organizations (e.g. Hungarian Central Bank, State Prosecuting Attorney's Office).

Because of the low number of sustainability reports in Hungary, we tried to find out with the help of our joint questionnaire whether we can find the unexpected constellation that companies are devoted to sustainability without disclosing this devotion. This case is unexpected because if there is no compulsory reporting about corporate sustainability and if sustainability is important for a company, then surely it is worth informing all relevant stakeholders about this fact. Nevertheless, the Hungarian part of the joint research was able to find such firms.

Summarizing the Hungary-based results of the joint study, we can see that:

- Corporate sustainability is an issue mostly at the top management level.
- Different information about corporate sustainability is delivered by different units within the organizations, but the integration of the gathered information remains the exceptional case.
- Stakeholder dialogue about corporate sustainability is regular, but it uses only two main channels: (part of) the annual report and the homepage.

In August 2016, annual reports could be found on the websites of just seven companies (23%) of the sample. If they are not published on the corporate homepage, it is difficult in Hungary to procure the annual reports. As we will see in the next section, not even every one of these seven published annual reports contains relevant information about corporate sustainability. This empirical evidence let us see the answers of the questionnaire in a different light.

When we tried to collect sustainability reports on the corporate homepages, no more than four relevant reports could be found (beyond the three integrated reports). Some characteristics of the sustainability reports are shown in Table 1.

Heineken categorize their report as an integrated report, but we cannot agree with this qualification because this report is separate from the regular annual report.

We can find more issues in the published sustainability reports than shown in Table 1: Heineken describe responsible procurement; MOL focus on safety, good corporate governance, etc. MVM classify the issues safety and employees in their integrated report as part of the social section.

The overview in Table 1 shows that sustainability strategy is rarely part of sustainability reports in Hungary. We can also see that environmental issues are disclosed more comprehensively and in more detail than the social aspects and social impacts of the reporting companies.

Some homepages show outdated sustainability reports (e.g. Coca-Cola, Egis, SPAR, Vodafone). Other homepages contain just few sentences about corporate sustainability and provide a link to the group-level sustainability report—in all cases published in English and without a separate chapter about their sustainability activities in Hungary (e.g. Alcoa-Köfém, Bosch, Continental, Knorr-Bremse, Tata Consulting Services). This foreign language reporting does not take the Hungarian public into consideration, which is why we do not regard these reports as voluntary

Table 1 Some characteristics of recent sustainability reports in Hungary

Report	Pages	Integrated (yes/no)	Sust. strategy (yes/no)	Environment (pages)	Labour, employees (pages)	Social (pages)
Dunaaszfalt (2016)	23	N	N	11	1,5	2
Heineken (2016)	24	N	N	6	2	5
MOL (2016)	279	Y	N	15	10	6
MVM (2016)	138	Y	N	23	11	4
Telekom (2016c)	82	N	Y	10	5	8
Telenor (2016)	57	N	Y	3	8	5
TVK (2015)	165	Y	N	7	6	3

disclosure relevant to our country. In other cases, reports cover only parts of corporate sustainability (e.g. see Evosoft, a subsidiary of Siemens).

These findings lead us to the conclusion that the level of sustainability reporting (SR) in Hungary is recently very low.

2 Value Reporting of the Hungarian Sample

Corporate SR addresses many stakeholders in the sense that their interests and concerns are considered and relevant issues are measured and disclosed. Such stakeholders are, e.g. employees, the natural environment and the local community. Dealing with the interest of many stakeholders is the so-called stakeholder approach, and SR can be seen as the voluntary disclosure of information pertinent to this management approach.

The other management approach focuses on shareholders and emphasizes the value creation (for them) (for more information about both approaches, see, e.g. Bühner and Tuschke 1997). There is also a voluntary disclosure coupled to this management approach: the so-called value reporting.

2.1 Value Reporting

There are several models for value reporting in the literature (for an overview, see Fischer and Klöpfer 2006), with varying details. For our research, a specific model of value reporting was chosen, as it is one of the most comprehensive models in this field and often used for empirical research. A detailed description of the model is given by, for example, Ruhwedel and Schultze (2006). This value reporting model breaks down the recommended voluntary information into three categories:

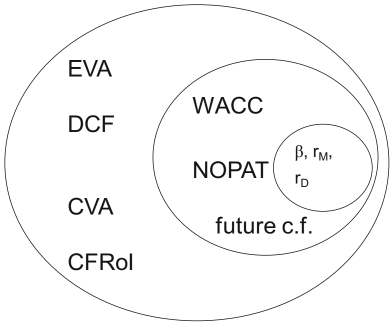
- *Value added reporting* describes both measures of value creation and their application in the management of the company. Such measures include economic value added, cash value added, cash flow return on investment, discounted cash flows, etc. The report should also involve detailed information about elements of these measures: discount rate(s), often weighted average cost of capital, future cash flows, beta-factor, risk premium or risk-free interest rate. It should demonstrate how these measures are used in decision-making, rewarding or in other ways (Fischer et al. 2001).
- *Total return reporting* quantifies former and future "gains" of the shareholders. The dividends and the flotation of the share price should be compared to benchmarks. Benchmarks could be the local stock market index (e.g. S&P 500, Nikkei, DAX or in Hungary: BUX), the floating of a competitor, the weighted average of some competitors or the floating of another useful model portfolio. Expectations should be based on ratings and other types of analyses. Further indicators of shareholder return include earnings per share, cash flow per share, price-to-book ratio, etc.
- *Strategic advantage reporting* focuses on the future, motivating owners to hold the share or others to buy it. This part of value reporting forecasts the future development of the business. The documentation of the strategy, the underlying core competencies, the intangibles, the risk management system, the background of the management team and other factors should demonstrate stable development and help assessing future value creation.

The companies in the current research are not necessarily publicly traded nor privately owned, which is why total return reporting is not required in all cases. But it is highly relevant in all companies, whether value has been created or destroyed (value added reporting), and it could be also interesting how future value creation can be verified (strategic advantage reporting). Our research focuses on value added reporting.

Value added reporting, like value reporting as a whole, is considered a voluntary disclosure: there are no prescribed elements, schemes or minimum criteria. Its aim is clear (i.e. to reduce information asymmetry), and each company has to decide which data it can or wants to use to complete this "exercise". So the measures listed above are examples of empirical overview(s) of company practices.

The information elements of value added reporting can be divided up into at least three categories which can be shown as concentrated circles (Tirnitz 2012). The most comprehensive information is the value created (measured as economic value added, cash value added etc.). Parts of these measures are, for example, the costs of capital (cost of equity capital or weighted average cost of capital), cash flows or NOPATs (net operating profit after taxes) of future periods. These semi-detailed pieces of information make up the second category. And there are finally the most detailed elements which could not be broken down further. Examples here are the beta-factor, the risk-free interest rate or the components of yearly cash flow and yearly NOPAT. These concentrated circles could be visualized as follow:

Fig. 1 Elements of value added reporting classified by degree of detail (with examples, Tirnitz 2012)



Companies should publish not only individual figures—i.e. value creation in the period—but the detailed background (i.e. input data) of computations and, preferably, verbal explanations as well. An overview of formulae to calculate value creation can be found, e.g. in Quick et al. (2008). Addressees of value reporting (shareholders, analysts, researchers, etc.) can use detailed data to elaborate their own (ex post and ex ante) calculations, sensitivity analyses, trend explorations, etc. The more detailed the information provided, the more profound the analyses. The most detailed information (e.g. beta-factor, risk-free interest rate) can be best validated and benchmarked—better than more comprehensive data (e.g. weighted average cost of capital, economic value added). This means that more detailed information is more valuable and can therefore better decrease information asymmetry.

However, only a single β (without r_f and r_M) or a single WACC (without future cash flows) is nearly worthless as information for the addressees. Therefore, we should see these concentrated circles as a whole, and each minor circle contains complementary information to the next larger circle. The information needs about value creation can be best satisfied if relevant pieces of information are provided from each circle (see Fig. 1).

2.2 Research Question and Design

After having stated that the SR practices of the Hungarian companies participating in the joint research are poor, i.e. they mostly do not use this way of voluntary reporting, our consecutive research question is whether they prefer to use the other form of voluntary reporting, namely, value reporting. The research question which can be formulated in this reporting field and is relevant for all companies of the joint research is: "Do (most) companies publish value added report or at least its elements?"

The most usual communication channel for voluntary disclosures is nowadays the company homepage. Value added reporting should be part of the companies' annual reports (Fischer and Klöpfer 2006). Therefore, in our research, the homepages of all participating companies (and every subpage of them) were analysed. In total, we examined the latest annual reports of 29 companies. The homepages are listed at the end of this chapter.

In the second step, we analysed the relevant content of the annual reports found. We looked through every annual report looking for the relevant termini (in Hungarian): interest rate, discount rate, (weighted average) cost of capital, WACC, risk-free, risk premium, beta-factor, value added, value creation, EVA, CFROI, CVA and future cash flows. After summarizing the results, the research question can be answered.

2.3 Empirical Findings

We were able to download the annual reports from the homepages of seven companies (24%). Two companies are state-owned (ATEV and MVM), and the others are for-profit organizations. In case of Telekom (Hungary), we could find two relevant and different annual reports. The list of the downloaded and analysed annual reports can be found at the end of this chapter. It is interesting that no annual report was published by former publicly listed Hungarian companies (i.e. Egis and Linamar) and by subsidiaries of foreign listed companies (e.g. Coca-Cola, Continental, Vodafone).

The length of the annual reports varies from 14 pages (SPAR) to 279 pages (MOL). It is also remarkable that the annual report of Telekom based on the Hungarian accounting rules (86 pages) is approximately one-third shorter than the annual report based on IFRS of the same company (133 pages).

The annual reports contain different elements of value added reporting, as shown in Table 2 (where page numbers refer to the PDF file and not to the original document).

The results in Table 2 show that only four companies (14%) have disclosed relevant pieces of information about value creation. No company has delivered the amount of value added; only separate elements of the formulae were disclosed. From these elements, we cannot build up a complete calculation of value creation, because especially the data of future cash flows is missing in all annual reports. Moreover, the amount of value creation for the finished period also cannot be calculated, because some parts are missing as well.

The most popular piece of information about value creation is the cost of capital—either as detailed data or as an average. It is interesting that the risk-free interest rate for the same period is quite different in the annual reports [3.24% in Rába (2016) versus 1.78% in MOL (2016) and TVK (2015)]. The identical value in the latter two annual reports and the similar contents of disclosure in them is not a coincidence. TVK has been owned by MOL for many years, and both companies have harmonized their reporting practices.

Thus, the answer to the research question is a definite no. The reporting practices of the Hungarian companies do not adhere the shareholder management approach.

Table 2 Elements of value reporting in the annual reports of Hungarian companies (ATEV 2016a, b; Spar 2016; Telekom 2016a, b)

Report	Pages	Listed	Disclosed elements of value added reporting
ATEV	49	N	None
MOL	279	Y	– Capital cost of long-term debts, detailed (p. 83) – Future weighted average cost of capital (p. 69, 72, 73) – Risk-free interest rate (p. 99)
MVM	138	N	None
Rába	114	Y	– Average cost of debts (p. 50) – Risk-free interest rate (p. 48)
SPAR	14	N	None
Telekom (HAR)	86	Y	None
Telekom (IFRS)	133	Y	– Average cost of debts (p. 66) – Average cost of loans (p. 67) – Capital cost of loans, detailed (p. 64) – Weighted average cost of capital, differentiated (p. 40)
TVK	165	Y	– Capital cost of long-term debts (p.79) – Future weighted average cost of capital (p. 55) – Risk-free interest rate (p. 105)

This leads us to the conclusion that the absence of SR cannot be explained by the predominance of a different managerial approach of shareholder management.

3 Conclusion and Managerial Aspects

For the reporting year 2015 in Hungary, we can state that both SR and value added reporting show a weak performance. Most companies in our survey do not share information about either sustainability or value creation. The management levels of these companies do not seem to have realized the high importance of and/or the information needed about these issues and that there is only one way—voluntary disclosure. For the most analysed companies, we can summarize that SR and value reporting go hand in hand or, more precisely, they do not.

Evaluating the empirical findings in Table 1 and Table 2, only three companies disclosed relevant information about sustainability and value creation. MOL is publicly listed and the biggest company in Hungary. TVK is its subsidiary, which has been running as part of MOL since summer 2015 (and was delisted in spring 2015). Telekom transferred both its international reporting practices and its method of voluntary disclosure to Hungary. In these three cases, SR and value reporting go hand in hand.

And for the other companies—not only in our sample but in general—we highly recommend to prepare and voluntarily disclose relevant information about all the topics the different stakeholders are looking for. Multinational companies could act as good role models if they published their voluntary reports in Hungarian or prepare a short but Hungary-focused version of their voluntary reports. We can find a sample in the homepage of Coca-Cola, where the group-level integrated report (in English) and its short version (in both English and Hungarian) can be downloaded—unfortunately with a time lag of 2 years, which is not acceptable.

Also domestic companies can take the initiative and prepare their voluntarily disclosed reports considering both international disclosure approaches and recommendations and national information needs. In the future, SR and value reporting should stand side by side on the corporate homepages.

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Sustainability Reporting in Romania: Is Sustainability Reporting Enough?

Voicu-Ion Sucală and Adriana M. Sava

1 Sustainability: The Concept

Before analyzing sustainability reporting (SR) in Romania, the concept of sustainability should be scrutinized. As already mentioned in the first chapter, the concept of sustainability is broadly defined, inconclusive, and problematic. The second part of this paragraph presents briefly the main critical perspectives concerning sustainability.

The Report of the World Commission on Environment and Development: Our Common Future, also known as the Brundtland Report, delivered in 1987, offered probably the most widely used definition of sustainable development. According to this report, which is publicly available on the United Nations website, "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." However, the roots and evolution of this concept, together with its connections with other concepts such as progress, development, growth, or conservation, could offer a better understanding of its role and place in the current public discourse.

The concept of progress is probably the oldest one in the list above. While it can be traced back to the classical Greco-Roman period, the modern Western interpretation is almost synonymous with the belief in progress (du Pisani 2006). The Renaissance, Reformation, Enlightenment, and Industrial Revolution all forged the idea of a possible and desirable evolution of humankind toward a better society.

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On the other hand, concern regarding the possibility of exhausting Earth's resources also has a long history. Thomas Robert Malthus's famous example *Essay on the Principle of Population As It Affects the Future Improvement of Society* was published in 1798. The nineteenth and twentieth centuries were characterized by increasing levels of concern regarding various resources believed to be exhausted because of human exploitation.

Since the Second World War, two major developments have influenced the global debate. First, the environmental crisis has become more visible and the subject of general concern. Local industrial disasters have demonstrated mankind's limits in controlling technology. The Windscale fire, the Banqiao Dam failure, Chernobyl, the Exxon Valdez oil spill, Bhopal, the Baia Mare cyanide spill, or Deepwater Horizon are just a few names from a very long list of industrial disasters. Deforestation, global warming, ozone layer depletion, and other delocalized phenomena have added further pressure to the general discussion on the environmental crisis. Second, the problem of development, more specifically the discrepancies between the developed North and the poor South, has also become a major topic of discussion. There are two main and influent approaches in this respect: the modernization theory and the dependency theory. The former states that the Western path of development is the correct one, so all other less-developed countries must adopt the same principles: democracy, market economy, and industrialization. This theory considers endogenic causes of the development lag, usually the culture and mentality of the non-developed societies. The dependency theory considers a wide range of exogenic causes to explain the development gap. The core idea of this theory states the dependency of periphery and non-developed countries on the central, Western, and developed countries. However, both theories prescribe industrialization as the solution to achieve development. After few decades of struggle, most of the development theories fail to offer a widely accepted frame of thinking and fail as well to explain how and why a few underdeveloped countries have managed to achieve impressive development, while for many others the gap has constantly widened. The reason for which the concept of development is discussed here is twofold: first, industrialization is at the core of almost all development prescriptions, and second, development is usually synonymous with economic growth. More than that, industrialization is based on the consumption of resources, and it could have a decisive and irreversible effect on the natural environment. So this is the point where the acute need for a fairer development meets industrialization and the environmental crisis. And this is what the concept of SR precisely tries to do—to reconcile development with sustainability.

Ricketts (2010) argued that both the environmental movement and other social movements of the 1960s and early 1970s are the roots of the sustainability concept. According to him, sustainability emerged as a synthesis among environmentalism, civil rights, and antipoverty programs. In the early 1970s, the well-known report of the Club of Rome, *The Limits to Growth* (Meadows 1972), warned that the Earth's physical resources are limited and unlimited exploitation could end in catastrophe. According to Kenny (1994), the publication of *The Limits to Growth* was a key moment in the emergence of a more focused discussion, especially by challenging unrestricted economic growth. This is the general context in which the Brundtland report was published. Its perspective on sustainability and sustainable development is also a reflection of this context. The report states that “humanity has the ability to make development sustainable” and depicts sustainability at the core of a triangle linking the economy with society and the environment.

Despite being an apparently politically correct concept, sustainable development has been highly criticized from all sides. The less-developed countries perceive it as new ideological buzzword aiming to limit their development by imposing stricter standards. From this perspective, one immediate effect of sustainable development will be the preservation of the development gap between the rich countries, which can afford to employ greener technologies, and the poor countries which are struggling to develop any type of technology in order to industrialize their economies (Mitcham 1995). According to Mitcham, the concept entails a creative ambiguity by trying to bridge the gap between *against economic growth environmentalists* and *pro-growth developmentalists*. Mitcham (1995) also observes that sustainability reflects addiction to the management theory.

From a theoretical perspective, Rist (2008) observed that humanity’s ability to make development sustainable is a circular argument, assuming as true what has to be demonstrated. From a more radical perspective, Tijmes and Luijf (1995) argued that qualifying growth and development as sustainable is just an attempt to hide the Western modern economic paradigm. From this perspective, sustainable development is nothing more than a *corporate oxymoron* (Benson and Kirsch 2010). This represents a key strategy employed by corporations to conceal the contradictions of capitalism and to legitimize their activities with negative human and environmental consequences. A corporate oxymoron has two terms: a positive one—sustainable in this case, which is paired with a more problematic one—development. In this way, the concept suggests a tacit acknowledgment that a problem exists, but it also promotes acceptance of the problematic phenomenon. According to the authors, a *corporate oxymoron* aims to ease the mind of an otherwise critical consumer, contributing to what some authors called the *politics of resignation*—promoting skepticism simultaneously with the acceptance of the problematic phenomenon.

2 Romania: A Different Case

Romania represents a particular case among Central and Eastern European countries (CEE). Its main characteristics are the relative backwardness, the economic reliance on natural resources, and a lower level of industrialization and urbanization. Throughout its history, Romania had its own version of the development debate—*synchronism* versus *protochronism*. The proponents of the former argued that Western civilization represents the only appropriate model; therefore, the Romanian society must replicate all institutions, mechanisms, and regulations. The *protochronism* supporters argued for a specific way of development which takes those particular characteristics which differentiate Romania from Western civilization into consideration. However, development has been always equated with industrialization and economic growth, and modernization was based on the replication of various Western institutions, except for the four decades of communist rule. In 1868 Maiorescu termed as *forms without a content (forme fără fond)* the lack of any solid foundation for the institutions Romania had been continuously importing from outside. This reflects the ability to adopt various Western institutions in form but not in their spirit, in the real meaning and role they have in Western society. According to many historians, this characteristic has been a constant of Romanian society throughout the last two centuries.

The objective of modernization has been very important for the Romanian elites since the fourth decade of the nineteenth century. This objective has been defined either as the elimination of disparities in comparison with the Western countries, or as a process of building a Western society. Murgescu (2010) made an extensive analysis of the economic disparities between Romania and other European countries. Using Angus Maddison's results to illustrate the evolution of these economic disparities, Murgescu showed that, at the beginning of the twentieth century, Romania's economic performance was slightly better than the average of seven Eastern European countries. But since then, Romania has lost ground not only in comparison with Western countries but also in comparison with the Eastern European average.

The interwar period was characterized by political instability, right-wing movements, and dictatorship. In addition to the internal problems, relations with neighbors were also problematic—especially with the Soviet Union, Hungary, and Bulgaria. Once the Communist Party took over power with the help of the Soviet Army, the issue of modernization returned again to the official discussions, strategies, and policies. The country's leaders had to insist on fast growth not only to catch up with the capitalist countries but also to prove the superiority of the communist ideology. Consequently in the 1960s and 1970s, Romania experienced rapid and fundamental social and economic change. Industrialization was a constant obsession of the Romanian communist leaders. All economic branches were subject to planning, but "heavy" industry received most attention, while less was paid to the consumer goods industries. In spite of apparently impressive economic growth during the 1960s and 1970s, the beginning of the 1980s marked a visible economic decline. At the end of the communist regime, the gap between Romania and both the Western and Eastern countries were consistently bigger. In addition, a turbulent period of transition exacerbated this gap—Romania, alongside Bulgaria, occupies the bottom rung in almost all rankings of the social and economic development of EU countries.

However, after a painful process of accession, the two Eastern Europeans laggards (Noutcheva and Bechev 2008)—Romania and Bulgaria—became members of the EU in 2007. The last decade was also characterized by a process of importing European institutions, regulations, and norms. Nevertheless, *forme fără fond*, the phenomenon of *forms without a content* identified by Maiorescu in 1868, is still present in the Romanian process of development. The development gap between Romania and the other EU member states can be seen in various indicators. For example, the Human Development Index for 2015 ranks Romania 27th among EU member states (and 52nd in the world), together with Bulgaria, being the only EU countries not included in the very high human development category (United

Nations Development Programme 2015). This reflects Romania's ambiguous position in terms of development—not developed enough to fully embrace the capitalist system of values but permanently aspiring to create a Western society.

3 SR in Romania: Context and Legal Requirements

Following Romania's accession to the EU in 2007, the private sector started to adopt a more responsible behavior toward the environment and society. The major players were the multinational companies that came in Romania and who influenced organizational culture and practices in the corporate sustainability field at the local level (Anca et al. 2011).

Whereas the multinational corporations and the large Romanian companies have gradually developed a social responsibility culture, the corporate social responsibility (CSR) concept is less known among SMEs (Government of Romania 2011), is often perceived as a public relations or marketing instrument (Barbuta et al. 2014), and is frequently associated with philanthropy (Anca et al. 2011).

In 2011, Romania's National Strategy for Corporate Social Responsibility Promotion for 2011–2016 was developed, but unfortunately low levels of awareness and implementation have been registered for this strategy (Sitnikov 2015).

Popa (2015) considers that the lack of legislation prescribing CSR annual reporting is one of various negative factors that have hindered corporate sustainability development in Romania. In the absence of a clear legal reporting requirement, nonfinancial disclosure represents mainly a promotion and communication instrument, enabling companies to externally project their actions (Ghinea et al. 2015). However, a significant change will take place in this regard, given the Directive 2014/95/EU, according to which, starting with the financial year 2017 in the EU, large public-interest entities with more than 500 employees are required to disclose nonfinancial information relating to at least environmental matters, social and employees matters, respect for human rights, anticorruption, and bribery matters (EUR-Lex 2014).

At EU level, approximately 6000 companies will be subject to this directive, while in Romania, more than 720 companies are expected to prepare nonfinancial statements (The CSR Agency 2016). A recent survey of 150 companies in Romania (Ernst & Young and CSR Media 2016) disclosed that internal discussions about the Directive 2014/95/EU and about its impact on the company had taken place in only half of the investigated companies.

Although there is a lack of comprehensive up-to-date information about the number of companies in Romania that disclose nonfinancial information (Ghinea et al. 2015), in 2015, the CSR Report magazine had a laudable initiative of creating a full database of nonfinancial reports issued by companies in Romania. According to this analysis, the first corporate sustainability report focusing on the results of the local market was published in 2003, and it belonged to the local branch of a multinational corporation (Ardelean 2015). Therefore, following the parent companies' decisions, as well as the international practices, the multinational corporations were the ones that set the pace for the local SR market (The CSR Agency 2016). As of September 2016, this database includes 21 reporting companies with a total of 69 nonfinancial reports published between 2003 and 2015 (Ardelean 2015).

Romania was included for the first time in the KPMG surveys on corporate responsibility reporting in 2008, which found that only approximately one quarter of the top 100 companies by revenue were reporting on corporate responsibility (KPMG 2008), a result that signaled that the Romanian stakeholders had quite low levels of interest and awareness of the topic of corporate sustainability. In the following years, the share of the top 100 companies in Romania that have adopted SR has significantly increased to 54% in 2011, 69% in 2013, and 68% in 2015 (KPMG 2011, 2013, 2015). Moreover, in 2013, Romania had one of the highest rates of SR among all the 41 countries that were included in the study at global level and the highest growth rate among the 19 European countries that were analyzed (KPMG 2013).

According to the 2016 edition of the study "CSR Trends and Realities in Romania," in which 150 top executives and CSR specialists from the local business environment were surveyed, the majority of the respondents (63%) considered that their companies were likely to publish an SR in the near future (Ernst & Young and CSR Media 2016). The main benefits that SR publishing brings to the company, as perceived by the respondents, are the opportunity to prove that the company has a sustainable development strategy and that it is dedicated to transparent and ethical processes and practices. Similar results were obtained by further research on 24 Romanian companies which disclose nonfinancial information; it was pointed out that the main reasons for the companies adopting SR were a higher level of transparency and better visibility (Ghinea et al. 2015). Furthermore, both of these studies revealed that the reason perceived as the least important for engaging in SR is the fulfillment of legal requirements. These findings are somewhat encouraging, showing that the essence of corporate sustainability permeates the local business environment, as companies from Romania begin to understand that corporate sustainability means going beyond basic legal obligations.

In 2011, Obrad et al. anticipated two phases in the development of the corporate sustainability concept in Romania in the years to come: a quantitative phase of generalization, referring to an increasing number of companies getting involved in sustainable activities and practices, and a qualitative phase of maturing, referring to companies that already had a corporate responsibility vision and strategy and recognized the benefits of corporate sustainability activities.

Five years later, although the concept of corporate sustainability is still considered in its early development stage in Romania (Government of Romania 2011; Sitnikov 2015), it seems that the prediction of Obrad et al. (2011) is gradually becoming a reality, not only at the level of corporate sustainability activities performed by companies from Romania but also in what concerns the SR field.

The landscape of SR in Romania will experience more significant changes in the near future given the Directive 2014/95/EU, which will affect more than

700 companies in Romania. Interesting results are expected especially in the case of Romanian-owned companies and state-owned companies, as these have proved less transparent so far in regard to their social and environmental activities and less interested in SR (KPMG 2008; The CSR Agency 2016).

4 Investigating SR in Romania: Results of Empirical Study

This section presents the main results of the quantitative research that was conducted in Romania within the "Sustainability Reporting in Central and Eastern Europe" project, coordinated by the International Performance Research Institute in Stuttgart.

The aim of this research was to investigate how SR is managed in Romanian companies. The research method used was a survey targeting the largest companies in Romania from the manufacturing, wholesale and retail trade, information and communication, energy production, and construction fields, respectively, while the instrument used was a questionnaire. Data collection took place between November 2015 and March 2016. The final sample comprised 43 companies from Romania. The data was analyzed using the IBM SPSS Statistics 20 software package.

First, some characteristics of the sample will be presented. Most of the companies belong mainly to the manufacturing sector (almost half of the sample), followed by information and communication (21%) and electricity, gas, steam, and air conditioning. Companies operating in the wholesale, retail, and construction fields represent a smaller part of the sample.

All the investigated companies are considered to be large according to the criteria set by the research methodology. However, the distribution of the sample according to the number of employees and companies' turnover revealed that 9.3% of the companies have less than 250 employees and over one third of the companies (34.9%) have a turnover lower than 50 million euros. Both aspects are characteristics of SMEs, according to the EU enterprise classification.

In what concerns the distribution of the Romanian sample according to the company's ownership form, 93% are private companies, including 27.9% publicly traded companies. Only three companies (7%) are state-owned enterprises. 60.5% of the companies are Romanian subsidiaries of multinational corporations, while the remaining 39.5% of the sample is represented by local companies.

In more than half of investigated companies (53.5%), sustainability is implemented as an organization principle, and it is a part of corporate management at all levels of the company. In the opinion of a quarter of the respondents (25.5%), sustainability is a strategic responsibility and task, while for another 14% of the sample, sustainability is perceived as being mainly a PR or marketing concept. For the remaining 7% of the sample, the sustainability concept is not relevant.

Over half of the companies (53.5%) approach the sustainability strategy as part of their corporate strategy. The sustainability strategy represents the main content of the corporate strategy in the case of 18.6% of the sample. A further 16.3% of the investigated companies have a sustainability strategy, but it is not connected with their corporate strategy, while the remaining 11.6% of the sample do not have a sustainability strategy. These results are similar to those of Ernst & Young and CSR Media (2016), who found that the majority (76%) of the 150 companies in Romania they investigated had a distinct strategy/policy devoted to corporate sustainability, with half of them implementing a local sustainability strategy and a quarter receiving this strategy from the parent company; furthermore, 21% of their respondents declared that such a strategy does not exist in their companies, but punctual corporate sustainability actions are implemented.

In what concerns the requirements on the supply chain, the results showed that acting socially and environmentally responsible along the entire supply chain is expected and required by almost 80% of the Romanian companies. 37.2% of the companies have developed and adopted own standards for the supply chain, often exceeding the normal requirements, but most of the companies (41.9%) do not have their own standard in this respect. Social and environmental behavior along the supply chain is only partially required by 11.6% of the sample, while for the remaining 9.3% of the companies, there are no specific supply chain requirements. These results confirm those obtained by Ernst & Young and CSR Media (2016), which revealed that for 81% of the surveyed companies, sustainability is important when selecting a supplier. Also almost half of the companies have and implement policies regarding supply chain sustainability. The main reason driving the implementation of these policies is the fact that the policy is part of the company's sustainability/CSR strategy. On the other hand, despite increasing requirements and pressure on the supply chain, there is a low level of information disclosure about suppliers within companies' SR. The Azores (2016) revealed that supply chain represents the corporate sustainability category about which companies in Romania communicate the least, whereas Ghinea et al. (2015) found that only a quarter of the companies reporting on sustainability include information about suppliers in their SR.

Overall, 83.7% of the respondent companies collect sustainability data. For almost half of the companies (48.8%), the sustainable outcomes are collected and analyzed by a sustainability accounting system that is linked with strategic objectives and goals. However, a quarter of the companies (25.6%) collects and analyzes sustainability data in a single and isolated manner. Only 9.3% of the companies collect and analyze the sustainable outcomes using a sophisticated accounting system, and the results are used as basis for all corporate decisions.

With regard to the formalization level of the sustainability accounting processes, the following aspects were considered: the use of reporting guidelines (e.g., GRI Guidelines), centralization of the sustainability accounting process around a single department and around a single information system, the extent to which sustainability data is routinely generated, and the extent to which the information generation process is formalized. The results presented in Fig. 1 show the mean values obtained for each of these aspects. The responses were collected on a five-point scale, anchored by one (not at all) and five (a very great extent). These results indicate that the sustainability accounting processes are moderately formalized in

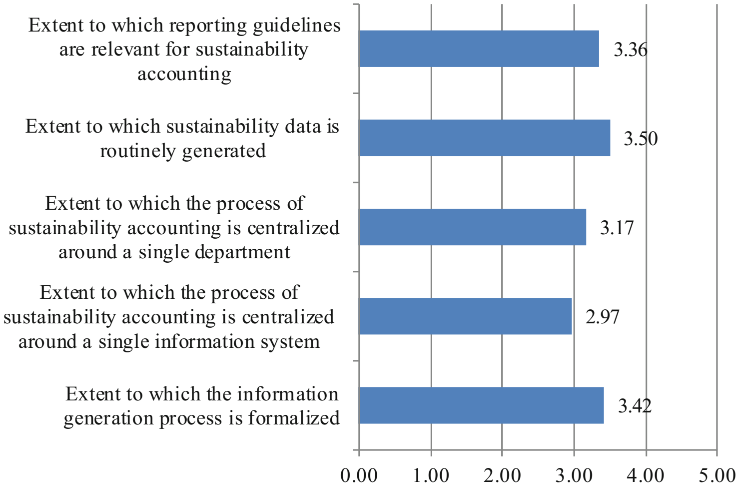

Fig. 1 Formalization of sustainability accounting processes

Romanian companies. These results can also be correlated with those of recent research carried out on 24 companies in Romania, all of them involved in nonfinancial reporting, which showed that the main obstacles they have to overcome when collecting sustainable outcomes are the difficulties related to understanding the reporting standards, the absence of an electronic system that would enable standardized data collection, and the absence of specific procedures in this regard (Ghinea et al. 2015). It was also revealed that when the analyzed companies issued their first corporate SR, the communication process in the entire company and some internal processes and procedures had to be redesigned. The software programs used in the company also had to be customized (Ghinea et al. 2015).

The main channel used for SR is internal reports, a channel used by more than half of the Romanian sample (52.8%) as the basis for decision-making (Fig. 2). The next most used channels for disclosing nonfinancial information are integrated reports (36.1% of the sample), stand-alone sustainability reports (27.8%), and annual reports (22.2%). In addition, roughly one-fifth of the companies (22.2%) disclose sustainability information to their employees through an Intranet, while 11.1% use other channels. These results underline two interesting aspects: first, Romanian companies seem to use integrated reports much more than the companies from the entire CEE sample, and second, a surprisingly low use of the Internet can be noted, as 19.4% of the sample use web-based reports (e.g., homepage) and 8.3% Internet-based reports (e.g., interactive reports) for disclosing sustainability information. These findings are different from those stemming from previous research, which showed that the instruments most used by companies in Romania for communicating their corporate responsibility involvement are the company's website, social media, press releases, platforms dedicated to the corporate sustainability field, and annual reports, with the use of dedicated corporate sustainability platforms having the most significant increase since 2004 (Ernst & Young and CSR Media 2016).

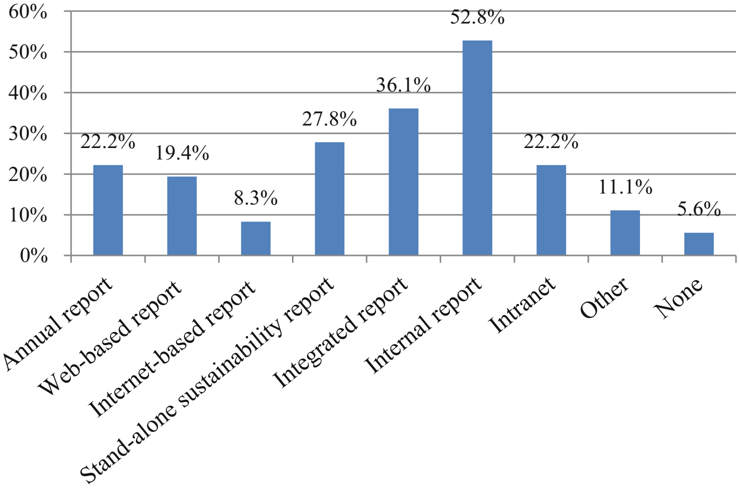

Fig. 2 Channels used for SR by the Romanian sample

Based on two criteria of SR—quality of communication and level of process maturity—KPMG (2011) placed Romania in the "starting behind" category, meaning that the surveyed Romanian companies had a late start in SR, usually relying on a single media channel to communicate their sustainability activities and lacking mature information systems and processes for SR.

The results obtained in this study suggest that SR has positively evolved in Romania. Nevertheless, the results also show that Romanian companies still have to overcome significant issues regarding their level of corporate sustainability integration, the processes involved in SR, and the company's management of SR, as well as their organizational capabilities and activities in this field.

5 Challenges of Investigating SR in Romania

This study experienced some significant challenges, especially concerning the data collection process. The unexpected aspect of this process was the very low rate of response regardless of the size or the visibility of the targeted company. Companies spending significant budgets on impressive social or environmental campaigns did not respond to the request to complete the questionnaire. Important companies with rigorously published reports including sustainability and social responsibility elements did not even reply to email messages. In other words, in spite of good reporting performances, well-implemented PR strategies, or significant budgets spent on social or environmental issues, the very basic communication with a part of what the corporate language calls the stakeholder community was remarkably ignored.

The process of data collection took place between November 2015 and March 2016. The invitation to participate on the survey was sent via email at the beginning of November 2015 and was followed by two reminders during the same month; however, the number of questionnaires that were obtained in this research phase was very low. The data collection process was resumed in March 2016, when the invitation, followed by two reminders, was sent again via email. The key contacts in the targeted companies were randomly contacted by phone as well. The number of collected questionnaires increased slightly, but numbers for the sample still fell far short of what was required. Finally, authors' personal connections in some companies played a very important role in collecting the required data, as this proved to be the most effective means of reaching and even surpassing the required number of companies, as the final sample consisted of 43 respondents.

The process described above seems to be in contrast on the one hand with the corporate sustainability norms and practices and on the other hand with the reporting performances of Romanian companies. This attitude may represent rather a symptom of the *forme fără fond* phenomenon, this time in the corporate realm.

The study has a few limitations which also have to be discussed. One limitation regards its level of representativeness. Because nonrandom sampling was used, the results are valid only at the level of the 43 companies. Another limitation is that the results could be biased, given each respondent's own knowledge and experience. Although the key person that was targeted in each organization was the one responsible for the company's sustainable activities and practices (corporate responsibility or sustainability manager/communication manager/general manager), the distribution of the 43 respondents according to the department in which they work in revealed that there were cases when people with other functions in the company took the survey: 11 respondents work in the sustainability department (which also encompasses environment, health and safety, corporate affairs, or public affairs departments), 7 belong to the marketing/PR/communication department, 5 are in the human resources department, 5 occupy managerial positions, and 4 work in the finance department, while the remaining 11 respondents belong to other organizational departments. On the other hand, the same distribution of the sample by department could also act as an indication of the departments in which SR is located in the investigated companies.

Finally, 70% of the respondents indicated their email addresses, in order to receive the results of the study. Therefore it could be presumed that the topic of the study is very interesting for the investigated companies.

6 Conclusions

Romania is the place where underdevelopment, at least in relative terms, meets *forme fără fond*. Romania is the country in which *langue du bois* has been deeply embedded in the public discourse for almost half a century by the communist regime, where society had witnessed the transformation of keywords into empty signifiers, and semantic realities became completely divorced from social realities (Benson and Kirsch 2010).

This is the context in which this study's results are apparently reasonably good among the Eastern European countries. Other studies also showed that Romania has had one of the highest growth rates of all countries since 2011 in SR. The authors' experience in collecting data showed a very low level of interest to respond to academic requests. Using the corporate language, it can be argued that the claimed level of cooperation with stakeholders was not matched by their real behavior.

These results must be analyzed under two main aspects. On the one hand, one must critically consider the flaws of the sustainability concept and the extent to which it is embedded in the corporate discourse. On the other hand, modern Romanian history and its poor performance in terms of modernization offer a rather unfriendly social environment. However, maybe a quality sustainable development has, namely, its ability to permeate the society's value system, will have a reasonable impact and will contribute to a better alignment of its principles and actual corporate practices.

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Sustainability Reporting in Slovenia: Does Sustainability Reporting Impact Financial Performance?

Anja Ermenc, Monika Klemenčič, and Adriana Rejc Buhovac

1 Introduction

Corporate strategies and business operations have changed significantly in the last decades. This is the result of growing risks from more sources and with greater impacts: climate change, potentially dangerous products, interrupted and unsafe supply, and consumer and community reactions. The rapid development of international communication and companies achieving more global reach, using new technologies, applying financial instruments, and operating with global networks have further strengthened managers' need to make sustainable choices and avoid risks (Epstein and Rejc Buhovac 2015). Profit maximization, once the most important corporate goal, has given way to corporate sustainability which includes environmental protection, social progress, and economic growth. Corporate sustainability also includes improved management of corporate social, environmental, and economic impacts and improved stakeholder engagement (Epstein and Rejc Buhovac 2015), and this creates a strong link to corporate financial performance. Managers, however, need to understand the likely reactions of the corporation's various stakeholders to sustainability performance (environmental, social, and economic), and their impact on financial performance, to make the right choices. The sustainability business case and the payoffs must be clear. Corporate sustainability can thus be one of the elements contributing to successful operational and strategic management, without having a negative impact on business profits (Mulligan 1986).

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However, there are still many questions about the link between corporate sustainability and financial performance which require answers. How much should a company's management invest in corporate sustainability? Will the investment in corporate sustainability result in financial benefits for the company? If so, when and how strong might the impacts be? Researchers addressing these issues can be grouped depending on the nature of the discovered link between corporate sustainability and financial performance. There are three groups of empirical findings: the positive link group (e.g. Waddock and Graves 1997; Preston and O'Bannon 1997; Sun 2012; Tsoutsoura 2004; Van der Laan et al. 2008), the negative link group (e.g. Shane and Spicer 1983; Poelloe 2010), and the no link at all group (e.g. Freedman and Jaggi 1988; McWilliams and Siegel 2000; Mahoney and Roberts 2007; Fauzi 2009). The predominant reason for divergent conclusions on the relationship between corporate sustainability and financial performance is the different research techniques and methodologies used, especially in the measurement of variables and performance indicators (Griffin and Mahon 1997).

The objective of this study is to investigate the link between corporate sustainability reporting (SR) and financial performance in a Central and Eastern European (CEE) country where corporate SR is used as a proxy for sustainability. By voluntarily reporting on corporate sustainability, firms try to minimize political/social costs which they might incur in the absence of evidence of socially acceptable behavior. The objectives of SR are thus to benefit from long-term relations with different stakeholders, minimize risks of burdensome environmental and labor regulation, enhance company reputation, etc. This study contributes to the sparse body of literature on this topic, as it represents one of the few studies of this topic performed to date in CEE. We use a regression analysis and a sample of 80 Slovenian companies.

Our results indicate that there is a correlation between corporate SR and subsequent financial performance. We have also discovered that financial performance is not influential in making investment decisions in corporate sustainability, while size, industry, and quotation on stock exchange do influence these decisions.

The reminder of this study is structured as follows: In the first chapter, we provide a literature review and develop hypotheses. The second chapter explains the methodology with details on research method, sample, and variable measurement. The third chapter presents findings and provides discussion, while the fourth concludes with implications for academia and managers.

2 Literature Review and Hypotheses

Studies into the relationship between corporate sustainability and financial performance performed up to date are inconclusive. Griffin and Mahon (1997) reviewed 51 studies from the 1970s to the 1990s and found a positive link in 65% of the studies. Margolis and Walsh (2003) analyzed 127 studies in the period from 1972 to

2002. They found a positive link in 55% of the studies. The main reason is the different methodologies used including different measurements of corporate sustainability and financial performance, different control variables selected, and periods studied (McWilliams and Siegel 2000). Corporate sustainability can be measured internally through in-depth questionnaires or interviews or externally through independent rating agencies. Sometimes corporate sustainability is measured through disclosure in annual reports. Financial performance is mainly measured based on accounting or market measures.

One of the most "confirming" studies is the meta-analysis of 52 qualitative researches on the link between corporate sustainability and financial performance performed by Orlitzky et al. (2003). The study investigated a population of 33,878 corporations and found a positive link between corporate sustainability and financial performance. The authors also conclude that the link between corporate sustainability and financial performance is not one sided, but simultaneous. The Waddock and Graves study (1997) included 469 corporations from Standard & Poor's 500 Index in the period 1989–1991. The data on corporate sustainability was taken from the Kinder, Lydenberg & Domini Research & Analytics Inc. database, while financial performance was measured based on the profitability ratio's return on assets (hereinafter: ROA), return on equity, and return on sales. Control variables (size, risk, and industry) were also considered. Waddock and Graves conclude, too, that there is a simultaneous and interactive cycle between corporate sustainability and financial performance, and that is hard to determine what comes first.

Studies into the link between corporate sustainability and financial performance in the ion similarly result in divergent findings. Vizetič (2011), for example, investigated a sample of Croatian companies in the period 1993–2010. She concludes that corporations that are more socially responsible have a better reputation and, consequently, better financial results. At the same time, she concluded that better financial performance enables better resource allocation toward sustainability. Vintila and Duca (2013) explored whether profitability and company size influence levels of corporate sustainability and found a positive link for a sample of Romanian companies. Zaborek (2014) explored the corporate sustainability and financial performance link for Polish small- and medium-sized manufacturers. Empirical findings show mixed results, the existence of a weak positive correlation based on sales profit margin and no correlation based on ROA. Gurvitš et al. (2015) investigated the link between corporate SR and the corporate financial performance of Czech and Estonian listed companies and found that there is no direct linkage while testing ROA and market returns. Dagilienė (2013) concluded that corporate SR has no influence on the value of Lithuanian listed companies (accounting and market based), mainly due to the additional costs that it incurs.

Based on the CEE literature review, no final conclusion can be drawn on the causality between corporate sustainability and financial performance. To better understand the sustainability-financial performance link, a set of hypotheses for the link between corporate sustainability and financial performance in Slovenia was developed following Waddock and Graves (1997). Waddock and Graves (1997) found a positive link between corporate sustainability and subsequent financial performance which is in accordance with the stakeholder theory (Freeman 1984) and the good management theory (Waddock and Graves 1997). Both theories are based on the assumption that a corporation first has to be socially responsible; this will, in turn, lead to favorable stakeholder reactions which will make it easier to achieve better financial performance. This was also discovered by McGuire et al. (1988), Preston and O'Bannon (1997), Tsoutsoura (2004), Mahoney and Roberts (2007), and Van der Laan et al. (2008). As a result, the following hypotheses were developed:

- Hypothesis 1: Better corporate sustainability leads to better average financial performance in the first 3 years after measuring corporate sustainability.
- Hypothesis 1a: Better corporate sustainability leads to better financial performance in the first year after measuring corporate sustainability.
- Hypothesis 1b: Better corporate sustainability leads to better financial performance in the second year after measuring corporate sustainability.
- Hypothesis 1c: Better corporate sustainability leads to better financial performance in the third year after measuring corporate sustainability.

Waddock and Graves (1997) similarly came to the conclusion that a positive link exists between financial performance and subsequent sustainability performance. This is based on the slack resource theory which states that a corporation with better financial performance has more funds available to invest in corporate sustainability. Slack resource theory thus states that a corporation has to be financially successful first to have resources available to invest in sustainability. This theory was also confirmed by Stanwick and Stanwick (1998) who conclude that the level of corporate sustainability depends on company size, corporate profitability, and the industry it operates in. Therefore, we hypothesize:

- Hypothesis 2: Better average historical financial performance leads to better corporate sustainability.

Most of the researchers (McGuire et al. 1988; Mahoney and Roberts 2007; Van der Laan et al. 2008) come to the conclusion that the link between corporate sustainability and financial performance is not direct, but is influenced by other variables. Waddock and Graves (1997) controlled for size, risk (as an indicator for indebtedness), and industry, which were also used in this research. Additional variables were considered, as half the corporations used in this study were not listed on the stock exchange. We therefore also hypothesize:

- Hypothesis 2a: Larger corporations achieve better corporate sustainability.
- Hypothesis 2b: Less indebted corporations achieve better corporate sustainability.
- Hypothesis 2c: Corporations from manufacturing industry achieve better corporate sustainability.
- Hypothesis 2d: Corporations that are traded on the stock exchange achieve better corporate sustainability.

3 Research Methodology

The goal of this study is to establish the link between corporate sustainability and financial performance, where size, indebtedness, industry, and stock-exchange listing are taken as control variables.

3.1 Sample

The sample includes 80 nonfinancial Slovenian companies. Half of the companies were quoted on the Ljubljana stock exchange in 2011. Financial data was gathered for the period from 2007 to 2014. When researching the mutual relationship between two variables, a time lapse is important as the relationship is not direct (Fauzi 2009). Consolidated financial data was gathered from the GVIN database. The sample decreased to 79 companies, as the data was not available for one company.

For 44 companies, annual reports with sustainability data were available for 2011, the year when the content analysis of sustainability data was performed. For the remaining 36 companies, corporate sustainability was assessed based on annual reports from 2010 (Klemenčič 2012).

3.2 Measuring Corporate Sustainability

Due to the fact that there is no database from which we would be able to obtain corporate sustainability ratings for Slovenian companies, corporate sustainability was measured by the disclosure of sustainability information in corporate annual reports. Measuring sustainability through annual reports disclosure can be a good indication of corporate sustainability performance, as this is typically the key channel through which companies communicate with their stakeholders. The problem with this kind of sustainability measurement is that disclosure in annual reports can be skewed, influenced by hidden motivational factors. Indeed, SR might be a fine marketing and public relations strategy with the ultimate end of improving profitability or deflecting attention from problematic issues to less exposed areas of social responsibility. In general, however, Abbott and Monsen (1979) conclude that disclosures in annual reports can be suitable for measuring corporate sustainability.

The database on corporate sustainability was obtained from Klemenčič (2012), who used the content analysis methodology developed by Slapničar (2004) to analyze corporate annual reports. Corporate sustainability was measured by an index comprising three key sustainability areas—environmental management, relationship with the local communities, and relationship with employees, suppliers, and buyers—as well as by the availability of annual report. The index was based on the quality of disclosures in annual reports.

3.3 Measuring Financial Performance

In the past, researchers used different measures of financial performance. By the year 1997 approximately 70% of financial performance measures were used only once, making it difficult to confirm the validity and reliability of indicators (Griffin and Mahon 1997). Accounting measures should be better indicators of financial performance than market measures, as market measures mostly measure short-term influence on above average returns. Accounting data reflects decision-making capability and performance within the company (Orlitzky et al. 2003). For this reason, financial performance was measured using the accounting profitability ratio ROA, which was one of the indicators most widely used in more recent studies. In theory, the ROA indicator reflects the capability of the company to turn assets into profit, showing how successful the company is in using its assets to generate profit.

3.4 Control Variables

Based on previous research findings, the relationship between corporate sustainability and financial performance is not direct, but is influenced by other factors. The smaller the company, the smaller the amount it invests in sustainability. When a company grows and expands, it becomes more visible and more stakeholders apply pressure on the company to operate in accordance with their expectations (Waddock and Graves 1997). From the disclosure point of view, the larger the company, the more it is subject to regulation. In this study, company size is measured using a logarithm of total assets.

If the company is largely in debt, investments in sustainability can be negatively perceived by stakeholders. It is assumed that larger the indebtedness of company, the less management will invest in sustainability. Indebtedness can be also an indicator of how risky the company is and it reflects management's risk tolerance, as investment in sustainability is connected to certain costs (Waddock and Graves 1997). From this perspective, indebtedness can be an indicator to potential investors of how risky the company is in relation to its future cash flow fluctuations. Also, satisfied stakeholders decrease risk in future cash flow fluctuations (Orlitzky and Benjamin 2001). The second control variable is thus the indebtedness indicator measured as the ratio between financial and operating liabilities and total liabilities.

The industry impacts on the level of corporate sustainability investments (Waddock and Graves 1997). Different industries are characterized by different externalities, different levels of investments in research and development, and different regulation. Also financial ratios differ across industries. In our research, industry is used as a control variable. In the regression model, value of 0 was used for the manufacturing industries and 1 for nonmanufacturing industries.

Corporate sustainability disclosure is influenced by stock exchange listing. Companies that are quoted on a stock exchange have a public company status and have to pay attention to a larger stakeholder group in comparison to companies that are not public (Slapničar 2004). As this is a dichotomous variable, in the regression model, a value of 0 was used for the companies that are traded on the stock exchange and a value of 1 for the companies that are not traded on the stock exchange.

The subsequent regression analysis used includes the following control variables: size, indebtedness, industry, and stock exchange quotation (compare to Waddock and Graves 1997; Slapničar 2004).

3.5 Regression Model

A multiple linear regression model was used to investigate the link between corporate sustainability and financial performance. The regression was performed with SPSS.

The first set of hypotheses tested the link between corporate sustainability and subsequent financial performance. A multiple linear regression model was used (see Eq. 1), where financial performance is measured 1 year (hereinafter: $t0+1$), 2 years (hereinafter: $t0+2$), and 3 years (hereinafter: $t0+3$), respectively, after measuring corporate sustainability and as average of 3 years after measuring corporate sustainability (hereinafter: av. $t0+3$). All control variables are measured in the same time as corporate sustainability, as they explain the influence of corporate sustainability measured in 2011 or 2010 on future financial performance (Waddock and Graves 1997; Mahoney and Roberts 2007; Van der Laan et al. 2008; Fauzi 2009).

$$\begin{aligned} \mathrm{FP}_{t0+x} = \alpha + \beta_1 \mathrm{CS}_{t0} + \beta_2 \mathrm{SIZE}_{t0} + \beta_3 \mathrm{INDEBTEDNESS}_{t0} \\ + \beta_4 \mathrm{INDUSTRY}_{t0} + \beta_5 \mathrm{QUOTATION}_{t0} \end{aligned} \tag{1}$$

where:

CS	Corporate sustainability
FP	Financial performance
SIZE	Company size
INDEBTEDNESS	Indebtedness of a company
INDUSTRY	Manufacturing or nonmanufacturing industry
QUOTATION	Stock exchange quotation

To test the influence of financial performance on subsequent sustainability, we used a multiple linear regression (see Eq. 2), where the dependent variable corporate sustainability is measured in 2011 or 2010 (hereinafter: $t0$), while financial performance and other control variables (size and indebtedness) are measured as a 3-year average before measuring corporate sustainability (hereinafter: $t0-\text{av.3}$) (Waddock and Graves 1997).

$$\begin{aligned} \mathrm{CS}_{t0} = \alpha + \beta_1 \mathrm{FP}_{t0\text{-av.3}} + \beta_2 \mathrm{SIZE}_{t0\text{-av.3}} + \beta_3 \mathrm{INDEBTEDNESS}_{t0\text{-av.3}} \\ + \beta_4 \mathrm{INDUSTRY}_{t0} + \beta_5 \mathrm{QUOTATION}_{t0} \end{aligned} \tag{2}$$

4 Results

4.1 Descriptive Statistics

The research period was characterized by turbulent macroeconomic environment, and consequently outliers had to be eliminated. We have limited the extremes with transformation of statistics called winsorization, where all data below 5% and above 95% was transformed to the value at 5% and 95%.

Table 1 represents descriptive statistics of the main variables used in the analysis. As already mentioned, $t0$ represents the baseline period in which corporate sustainability was measured (2011 or 2010).

In the observed period from 2007 to 2014, ROA is a relatively stable variable. A median ROA of between 0.9% and 2% is achieved, while standard deviation amounts to 14.1%. Minimum ROA in the observed period amounts to negative 105.0% while maximum to 31.3%. The median of control variable indebtedness decreases from a historical average of 47% to 39.9% in the last year of the observation period.

The number of surveyed companies was 79, but certain financial information was not available for some companies (the main reason being bankruptcy); therefore, the sample was reduced by up to five companies, depending on the analyzed period.

Out of 80 companies included in the analysis of corporate SR, 38% did not publish an annual report on their website (mainly companies that are not quoted on the stock exchange). SR is based mainly on qualitative disclosures with the strongest orientation toward disclosing information related to company relationships with their employees. The frequency of sustainability disclosure on key sustainability areas on average amounted to 29.3% in 2011 or 2010, with standard deviation of 20% (Klemenčič 2012).

Table 1 Descriptive statistics

Variable	Time frame	Average	Median	Standard deviation	Minimum	Maximum	No. of companies
CS (%)	*t*0	29.98	24.07	20.01	5.56	81.48	79
ROA (%)	av. *t*0−3 (3 year historical average)	1.21	1.24	7.93	−38.36	26.72	79
	*t*0	0.46	1.28	14.05	−105.00	28.02	75
	*t*0+1	1.61	1.20	7.21	−21.50	24.61	76
	*t*0+2	0.19	0.88	12.38	−78.96	28.10	76
	*t*0+3	1.66	1.96	10.03	−30.08	31.35	75
	av. *t*0+3 (3 year average)	1.17	1.47	8.16	−26.19	25.64	76
Assets (EUR)	pop. *t*0−3 (3 letno historično povprečje)	262,331,573	45,397,090	753,353,618	153,479	5,726,579,898	79
	*t*0	267,253,983	39,143,862	756,190,884	130,958	5,529,053,959	76
	*t*0+1	264,998,424	37,387,597	760,173,597	104,644	5,626,879,758	76
	*t*0+2	257,692,972	40,918,206	753,204,090	77,231	5,644,936,606	76
	*t*0+3	251,916,357	38,674,454	744,025,043	948,646	5,556,644,000	75
	povp. *t*0+3 (3 letno povprečje)	257,145,740	39,253,905	750,610,761	376,840	5,609,486,788	76
Indebtedness (%)	pop. *t*0−3 (3 letno historično pov-prečje)	49.25	47.05	23.00	0.32	92.71	79
	*t*0	46.81	46.04	25.15	0.21	102.20	76
	*t*0+1	45.35	44.08	25.53	0.32	95.08	76
	*t*0+2	46.85	41.37	29.67	0.29	142.01	76
	*t*0+3	45.48	39.93	31.52	0.27	145.16	74
	povp. *t*0+3 (3 letno povprečje)	46.21	41.32	27.90	0.29	118.49	76

4.2 Results

The results of the regression analysis are presented sequentially for each hypothesis. The hypotheses are one sided, which means the significance level (hereinafter: p) is divided by 2. The significance level is marked in the tables by an asterisk (hereinafter: *), whereby one asterisk means statistical significance at 10% and two asterisks indicate statistical significance at 5%.

- Hypothesis 1: Better corporate sustainability leads to better average financial performance in the first 3 years after measuring corporate sustainability.
- Hypothesis 1a: Better corporate sustainability leads to better financial performance in the first year after measuring corporate sustainability.
- Hypothesis 1b: Better corporate sustainability leads to better financial performance in the second year after measuring corporate sustainability.
- Hypothesis 1c: Better corporate sustainability leads to better financial performance in the third year after measuring corporate sustainability (Table 2).

The results based on Hypothesis 1 show that better corporate sustainability on average leads to better average financial performance in the first 3 years after measuring corporate sustainability while controlling for size, indebtedness, industry, and quotation. This is consistent with the findings from Waddock and Graves (1997).

We can also conclude that better corporate sustainability on average leads to better financial performance in the first and second years after measuring corporate sustainability while controlling for size, indebtedness, industry, and quotation. The link between corporate sustainability and financial performance measured 3 years after measuring corporate sustainability is on average not statistically significant while controlling for size, indebtedness, industry, and quotation.

We find, on average, a statistically significant and negative link between indebtedness and subsequent financial performance while controlling for other variables. Companies with lower debt are perceived as less risky and will on average achieve better financial performance. This means that lower indebtedness can decrease risk related to future financial profitability. Corporate sustainability was also linked with decrease in risk, as responsible companies are more transparent and regulated,

Table 2 Regression analysis for Hypotheses 1, 1a, 1b, and 1c

Dependent variable	ROA (av. t0+3)	ROA (t0+1)	ROA (t0+2)	ROA (t0+3)
R^2	0.222	0.213	0.215	0.234
Corporate sustainability	**0.075***	**0.079***	**0.074***	**0.081**
Size	−0.306	−0.168	−0.104	−0.391
Indebtedness	−0.131**	−0.111**	−0.136**	−0.163**
Industry	−0.852	0.066	0.188	−2.147
Quotation	2.101	4.694**	2.694*	1.000

*$p \leq 0.10$, **$p \leq 0.05$

Table 3 Regression analysis Hypotheses 2, 2a, 2b, 2c, and 2d

Dependent variable	Corporate sustainability
R^2	0.613
ROA	0.199
Size	7.803**
Indebtedness	0.061
Industry	−4.558*
Quotation	−9.158

*$p \leq 0.10$, **$p \leq 0.05$

which strengthens the relationship with stakeholders. Over a longer period, markets reward company behavior that decreases risk (Orlitzky and Benjamin 2001).

- Hypothesis 2: Better average historical financial performance leads to better corporate sustainability (Table 3).

The historical 3 year average ROA indicator does not statistically explain the level of corporate sustainability while controlling for size, indebtedness, industry, and quotation. Based on Hypothesis 2, the results indicate that there is no link between historical financial performance and subsequent corporate sustainability. This is not consistent with the conclusion of Waddock and Graves (1997), but there are many other researchers who came to a similar conclusion. Fauzi (2009), for example, while controlling for size and indebtedness, too, concluded that there is no such link.

- Hypothesis 2a: Larger corporations achieve better corporate sustainability.

The size of the company has a statistically significant and positive effect on corporate sustainability, meaning that on average larger companies achieve better corporate sustainability while controlling for other independent variables. This is partially in accordance with the slack resource theory, as the larger the company, the larger the pool of resources it has at its disposal to invest in sustainability. Also larger companies have greater visibility and so receive greater pressure from stakeholders and various institutions. Orlitzky (2001) is of the opinion that size influences the level of sustainability, as smaller companies that are in the growth phase focus more on survival and market share acquisition than on ethical and philanthropic activities.

- Hypothesis 2b: Less indebted corporations achieve better corporate sustainability.

Indebtedness does not provide a statistical explanation for the level of corporate sustainability. This contradicts the majority of research conclusions, which state that indebtedness should be an indicator of how risky the company is, which should, in turn, influence the relationship between corporate sustainability and financial performance. The preliminary financial risk of the company should be negatively correlated to the subsequent level of sustainability, which means that companies with lower indebtedness or risk invest more in sustainability as this does not increase risk. Moreover, Orlitzky and Benjamin (2001) proved that investments in corporate sustainability decrease the risk of the company, which means that companies with high risk can invest in corporate sustainability as this will not be negatively perceived by the market. Based on this theory we can conclude that there is no relationship between indebtedness and investments in corporate sustainability, as companies which have less or more debt will not achieve negative market response. Indebtedness is not one of the factors on which investment in corporate sustainability is based.

- Hypothesis 2c: Corporations from manufacturing industry achieve better corporate sustainability.

Industry has a negative statistically significant influence on the level of corporate sustainability, meaning that manufacturing companies on average achieve better corporate sustainability while controlling for other variables. The manufacturing industry is, in general, subject to greater influence for socially responsible operations, due to the larger amount of negative externalities that it produces. Difference exists among different industries related to environmental and social influences and regulation (Griffin and Mahon 1997).

- Hypothesis 2d: Corporations that are traded on stock exchange achieve better corporate sustainability.

Quotation has a negative statistically significant influence on the level of corporate sustainability, meaning that companies which are quoted on the stock exchange on average achieve better corporate sustainability while controlling for other variables. Companies that are quoted on the stock exchange have to operate more responsibly and disclose as much information on corporate responsibility as possible, as they are under greater scrutiny from stakeholders.

5 Discussion

The results show that better corporate sustainability on average leads to better average financial performance in the first year, second year, and in the first 3 years after measuring corporate sustainability while controlling for size, indebtedness, industry, and quotation. Based on our research, we can also conclude that there is on average no statistically significant link between average historical financial performance and subsequent level of corporate sustainability, which means that the relationship is not simultaneous, but one sided. Even though financial performance does not influence the level of corporate sustainability, other variables as size, industry, and quotation on the stock exchange do influence it, mainly due to the greater regulation and visibility which they are subject to, as already proven by Slapničar (2004).

Even though investments in corporate sustainability do increase costs, research shows that these investments, in the long run, lead to better financial performance. Profit maximization is an important corporate goal, but it is not the only one, as the company should operate in a sustainable manner. If managers wish to operate successfully in the long term, they have to take into account the interests of the various key stakeholders, the natural environment, and society at large. Sustainable operations improve corporate reputation and relations with stakeholders, and consequently the company has more and better options for cooperation with partners and can attract better employees (Bhattacharya and Sen 2004). A higher level of corporate sustainability also increases employee satisfaction and loyalty, which has a long-term influence on competitive advantage (Perini et al. 2009). Companies have the power to act as a role model, as they can encourage consumers and the wider community to also begin to support specific socially responsible initiatives or practices (Bhattacharya and Sen 2004).

Different stakeholders respond differently to the responsible operations of companies. Consumers respond with enhanced purchasing behavior and better loyalty, employees with increased productivity, investors with increased purchases of share, and society with a decrease in lawsuits and boycotts (Peloza and Papania 2008). One of the most important stakeholder groups is consumers. Research performed in 2008 on a sample of 156 Slovenian consumers showed that they respond positively to corporate sustainability. Ethical consumers are more informed and positively respond to corporate sustainability in the form of a purchase or activism. One open question remains, however, whether there is a link between behavioral purchase intentions and actual purchases (Svetlič 2008).

Customers respond much more strongly to irresponsible business practices than to responsible ones. Yet, at the same time, companies that operate responsibly have more loyal customers, who are more resistant and more likely to overlook negative information about the company (Bhattacharya and Sen 2004). The consequences of socially irresponsible business may not be visible during normal operations, and if stakeholders do not pay enough attention to sustainability, then the company can still generate profits. In the event that a major problem occurs which also attracts media attention, such a company normally quickly gets into trouble and increasing the level of sustainability as a crisis management response will not be received positively by the stakeholders. Socially irresponsible business therefore may not have visible consequences in the short term; however, over the longer term, the dissatisfaction of stakeholders accumulates, public confidence decreases, and so the company operates with more and more expenses (Murray and Vogel 1997).

The relationship between corporate sustainability and financial performance is complex. The main reason for different research results assumed by Ullmann (1985) is the fact that there is no clear link and too many unclarified variables that influence the relationship. According to Ullmann it is also difficult and subjective to measure sustainability as this is an intangible variable.

Our study has several limitations. When interpreting the results, we need to pay attention to the fact that it is not necessarily true that corporate SR or disclosure reflects the actual level of sustainability performance. When corporate sustainability was measured (2011 or 2010, respectively), there was no active legislation in Slovenia relating to corporate SR. Voluntary disclosure can be biased. The question remains, how well sustainability disclosures reflect the actual level of sustainability performance in the company. Ullmann (1985) concludes that the strength and direction of link between corporate sustainability and related disclosure depends on three factors: the stakeholders' power, the company's strategy related to sustainability, and financial success. When the power of the stakeholders is large, the company has an active sustainability strategy and the company is profitable, then corporate sustainability disclosure will be a good indicator of the company's corporate sustainability performance. When the power of stakeholders is lower, the company's sustainability strategy is more passive, and the company does not have good financial performance, sustainability disclosure represents an increasingly distorted picture of true sustainability performance. In such cases, the company's management tends to present biased information due to marketing goals. Ullmann (1985) concludes that studies which use disclosure of sustainability as an indicator of corporate sustainability can be unreliable.

Based on their literature review, Griffin and Mahon (1997) state that there are different conclusions related to the link between corporate sustainability and financial performance, mainly due to the different methodologies used, conceptual and methodological differences in measuring these two variables, and the use of different control variables. As mentioned, one of the biggest limitations of this study is measuring sustainability, which is hard to measure and quantify. One of the limitations is also measuring financial performance, which was measured with only one accounting variable, ROA. Further limitations of the study are also the small sample size (79 companies) and the inclusion of companies from different industries. Griffin and Mahon (1997) claim that research on this topic should be performed within one industry, as the accounting ratios can differ among industries, as do internal and external pressures. The time period is also one of the limitations of the study as the period includes a crisis period when a lot of companies were fighting for survival.

6 Implications for Managers

The purpose of this article is to show how important it is to understand the connection between corporate sustainability and financial performance, mainly for managers to be able to make better decisions in relation to resource allocation toward corporate sustainability. Sustainable practices do not always lead to win-win scenarios. In fact, in the short run, win-lose scenarios are quite common—doing some good for the society/environment/economy but not being able to provide any benefit for the business. And yet, sustainability should be about the business case. This, of course, requires clarity of objectives. The sustainability business case and payoffs must be clear. Managers need to understand the causal relationships between the various alternative actions that can be taken and the impact of these actions on sustainability performance. They need to understand the likely reactions of the company's various stakeholders to sustainability performance and to financial performance. By carefully identifying these interrelationships and by establishing relevant performance metrics to measure success, a company can improve operational decision-making and make the "business case" for corporate sustainability. In this case, both sides will win.

Our research concludes that financial performance is not an important factor when managers consider sustainable investments. Companies which are larger, operate in the manufacturing industry, and are quoted on stock exchange are more visible and subject to increased oversight by stakeholders, regulators, and the larger public, in general. Management should be aware of the fact that sustainable investments can positively influence a company's operations in turbulent times (e.g., during a crisis), if the investments are in accordance with the overall business model and strategy. Corporate sustainability strengthens core values, even if it is does not lead directly to improved financial performance (Fernández-Feijóo Souto 2009).

Managers should also be aware that investing in sustainability is also important in terms of lowering the risk of the company. Companies with higher levels of corporate sustainability are more transparent and have better relations with stakeholders. Such companies can better cope with future negative effects, and the frequency of negative impacts (risk of corruption incidents and actions) is expected to be lower (Orlitzky and Benjamin 2001). In addition, socially responsible companies have easier access to capital (Johansson et al. 2015).

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Sustainability Reporting in Croatia: The Challenges of Sustainable Business

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1 Introduction

In December 2014, the European Parliament adopted the Directive 2014/95/EU about nonfinancial reporting. That directive is part of a wider European Union (EU) initiative about corporate social responsibility that includes a consistent approach to reporting and support of smart, sustainable, and inclusive growth in the EU under the Europe 2020 objectives. Starting on January 1, 2017, companies of public interest with 500 or more employees will have to include a nonfinancial statement in their management report. Nonfinancial reporting encompasses reporting on environmental, social, and employee matters, as well as on human rights, anti-corruption, and bribery matters. It also includes a description of the business model, outcomes and risks of the policies on the above topics, and the diversity policy applied to management and supervisory bodies.

The key issue that we deal with is the imbalance in the relationship planet-people-profit and the role of companies in that imbalance. Our research questions can therefore be formulated as follows:

What are the similarities and differences between the terms and structure of sustainability reporting (SR), integrative reporting, and nonfinancial reporting?
What principles are recommended in nonfinancial reporting?
Which motives stimulate companies to report about their sustainable business, and which stakeholders do they address?
How does information and communication technology (ICT) contribute to SR?

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What is the current experience of national business practice regarding these questions?

The primary contribution of this paper is to identify the present experience and degree of preparedness of companies in Croatia for SR. Second, our empirical research results reveal the present characteristics of companies in Croatia, which could be a good starting point for stimulating companies and stakeholders to further develop SR. Third, we explore the role of ICT in SR and the possibilities for its improvement. Finally, we discuss the question of the use of mathematical methods to explore the relationship between investment in sustainability business and the level of profit that companies report. With this paper, we aim to provide help and support to domestic companies in the process of adopting and implementing SR.

2 Research Problem and Questions

The main problem, of course, is the state of the planet: the emission of greenhouse gases caused by human activities results in progressive warming thus leading to climate change. Indeed, we could pretend that climate change is not our problem, if only we could ignore its consequences. However, these consequences are overwhelming: climate change causes unexpected droughts and floods, glaciers melting, migrations of population, and a drastic decrease in biodiversity. Furthermore, air, water, and soil pollution is growing significantly just like light, noise, and electromagnetic pollution. All of these different forms of pollution are the consequence of human activities, more precisely, the consequence of company activities. Interestingly enough, within the 100 largest economies in the world, 51 are companies, and 49 are national economies (Anderson and Cavanagh 2000).

Companies are indeed more powerful than ever, and with great power comes great responsibility for company's behavior toward people, the community, and the environment. A short-term focus on profit is disastrous for all. A balance between short-, mid-, and long-term monetary and non-monetary business goals is highly necessary (Osmanagić Bedenik et al. 2010). Sustainable business reporting finds its place here, encompassing not only the economic effects of business activities but also the effects on people, the wider community, nature, and the environment as well. So far, sustainable reporting has been implemented on a voluntary basis in companies, but it is increasingly becoming obligatory, as required by Directive 2014/95/EU.

A sustainability report is an organizational report that provides information about economic, environmental, social, and governance performance. Integrated reporting integrates sustainability information together with traditional financial information in a single report to provide a holistic picture of value creation over time (KPMG 2011). However, only those reports that simultaneously include all three dimensions of sustainability can truly be regarded as "sustainability reporting," while one-dimensional reports are merely sustainability related because they cover only isolated aspects of sustainability. In this sense, the so-called sustainability reports also often exclude important aspects especially from the economic pillar which are usually disclosed in separate annual reports (Friedman 1970). Nonfinancial reporting provides a meaningful and comprehensive view of the position and performance of companies. The common bases for those reports are social and ecological aspects of business. While sustainability and nonfinancial reports can be published alone, the integrated report presents one report that includes both social and ecological aspects as well as economic ones. In that sense, integrated reports reflect a holistic perspective on business activity.

3 Methodology and Research Sample

The goal of our research was to explore the present level of experience in SR and the level of preparedness of largest companies in Croatia to adopt Directive 2014/95/EU (EUR-Lex 2014) regarding the obligation for nonfinancial reporting. An online questionnaire was sent to managers responsible for controlling, sustainable development, sustainable reporting, and strategic development.

Our study used two samples selected with a special purpose (see Fig. 1): group A, consisting of 33 companies—members of the Croatian Business Council for Sustainable Development (CBCSD, Cro. HR PSOR)—and group B, consisting of 50 of the largest companies according to their revenue listed on the Zagreb Stock Exchange. Group B companies include representatives from the manufacturing, retail, information and communication, and energy industries. We assumed that companies in group A would have a more active relationship to SR than companies from group B, although the latter group includes the companies targeted by the directive on nonfinancial reporting (Directive 2014/95/EU) since they have 500 or more employees.

We conducted our empirical research with an online questionnaire including 14 closed questions on frequency and intensity. Empirical research was conducted in the period September–December 2015. After establishing contact with the companies, we defined our initial sample: group A with 33 companies and group B with 39 companies. We then sent online questionnaires to companies in three iterations. Our final research sample is based on 17 companies in group A (return rate 51.5%) and 12 companies in group B (return rate 30.8%).

There are various determinants affecting the adoption of SR. These determinants can be divided into internal and external determinants of sustainable reporting. The only internal determinant that is consistently found to have a positive effect on SR is company size. Consequently, media exposure and stakeholder pressure as external determinants are also consistently found to have a positive influence on SR (Hahn and Kühnen 2013).

First, ownership is a very important characteristic because owners influence decisions and direct business activities. In our study, foreign ownership dominates in group A (52.9%), while domestic ownership dominates in group B (59%). The predominance of foreign ownership could mean a stronger influence of different business standards when compared to usual standards in the companies under domestic ownership (see Fig. 2).

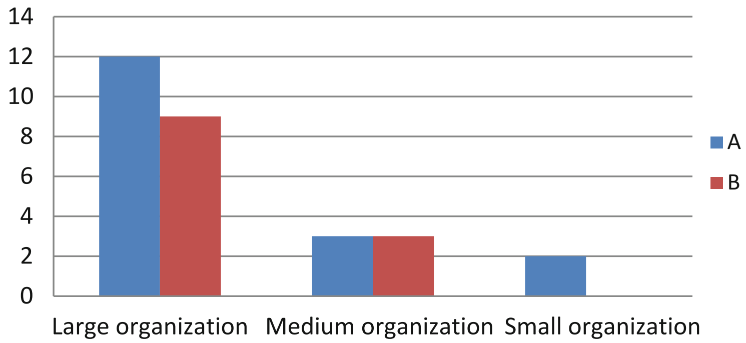

Fig. 1 Structure of sample regarding organization size

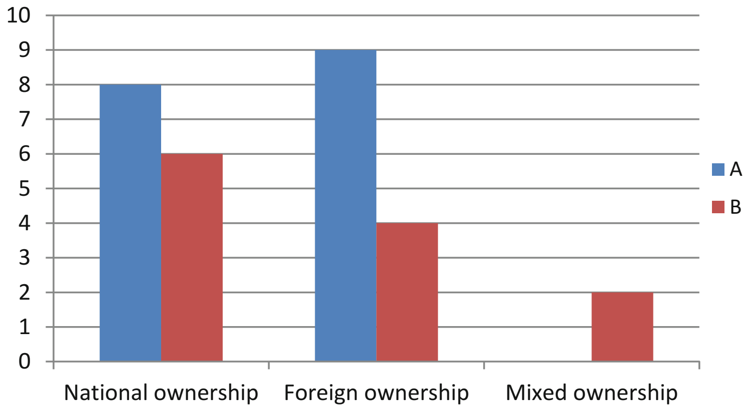

Fig. 2 Structure of sample regarding ownership

After the descriptive statistical analysis, the cross-sectional research is intended to provide a more thorough insight into the results of the research, as well as to test certain assumptions. Hence, nonparametric statistical tests were conducted: Kruskall-Wallis test, Mann-Whitney test, Spearman's rank order correlation analysis test, and comparison of data through the use of cross tabulation (contingency table).

The factors underlying sustainable business are sometimes divided into "push" and "pull" factors. "Push" factors are media, NGOs, and legislature, while "pull" factors are consumers, competitors, and rating agencies in sustainability. For instance, reaction to external pressure prevails in German companies (Colsman 2013). The major themes subject to reporting are energy consumption, training and further education, emission, sewage, and waste. Companies report about the themes that have economic relevance for them (Colsman 2013).

Our research results show that companies from group A reported more often (41.18%) in the period 2006–2010 (see also Fig. 3). In contrast, companies from

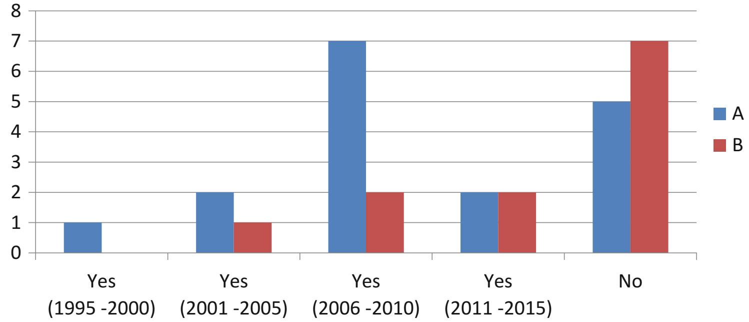

Fig. 3 Do you publish sustainable development reports?

group B mainly do not report on sustainability (58.3%). These results can be interpreted in many ways. First of all, companies from group A are members of *HR PSOR*, a national organization of the World Business Council for Sustainable Development (WBCSD), which means that they actively promote sustainable development and sustainable business. In contrast, companies from group B do not actively promote sustainable development and business, and they are still not exposed enough to external pressure in SR. Nonetheless, companies from group A are under foreign ownership (52.94%) more often than companies from group B (33.3%). This fact surely contributes to a faster implementation of SR.

4 Motives for SR

The main question regarding companies' motives to embrace sustainable reporting is, of course, "why," namely, why should companies invest additional effort and report about social and environmental aspects of their business? "There are many justifications and theories for the emergence of companies' responsibility beyond the financial responsibility to their shareholders. They include: new awareness, growing and visible environmental pressure, policy gaps in the protection of public good; and material risk, including reputational. CSR has also undoubtedly led some companies to find new opportunities to create value and ensure their durability, setting targets publicly in recognition of serious global problems such as climate change, and as a means to differentiate themselves from less responsive companies (Kramer et al. 2006). Other companies were established by visionary entrepreneurs with good corporate responsibility as their foundation" (Baron 2014).

According to our research results (see Fig. 4), the most important motives in group A are reputation (4.67), followed by strategic advantages (4.59), innovations (4.41), and finally by supply chain (3.88). In group B, the primary motives include ethics (4.83), altruism (4.67), customers (4.67), innovations (4.08), and the capital market (4.08). It is obvious that employees are not the top-rated motive for SR. It is also important to stress that risk management is not considered an important

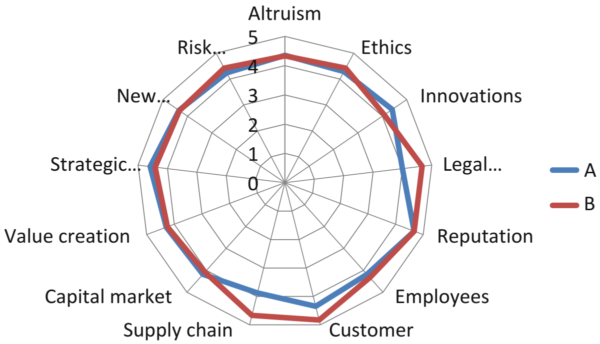

Fig. 4 Motives for sustainable reporting

motive. It is evaluated with 4.24 in group A, and in group B, it is at the very end of motives with 4.08. Although there are no large differences in how companies ranked different motives (which were scaled from very important to highly important), the question of how companies evaluated particular motives does open room for discussion and questioning of priorities.

In order to test whether statistically significant differences exist between various levels of importance in the motives for reporting on sustainable development and the organizational size, a nonparametric Kruskall-Wallis test of rank variance analysis (H test) was used. Based on the conducted statistical analysis (with 5% level of significance), it can be concluded that in group A, there are statistically significant differences present among the groups in their perception of the importance of certain motives for reporting on sustainable development with respect to organizational size. In comparison to medium- and small-sized organizations, large organizations assessed the following categories as highly significant motives for reporting on sustainable development: altruism, supply chain/improving relations with suppliers, and capital markets/improving relations with investors and banks. Regarding other analyzed categories concerning the level of importance of motives for reporting on sustainable development, within group A, there are no statistically significant differences present with respect to differences in organizational size. In group B, according to the analysis conducted in all categories, there are no statistically significant differences.

5 Importance of Stakeholders for SR

A strong influence on today's understanding of profitability was made by the American economist and Nobel Prize winner Milton Friedman (1970), who wrote that "the social responsibility of business is to increase its profits." Friedman argued that a company should have no "social responsibility" to the public or society because its only concern is to increase profits for itself and for its shareholders and that the shareholders in their private capacity are the ones with social responsibility.

Freeman is generally considered as the father of the stakeholder theory. Stakeholders are individuals or groups that affect, or are affected, directly or indirectly, by a corporation's policies, operations, and decisions (Tsoulfas and Pappis 2012). In that context, a company should create value for its stakeholders and to balance their requirements by making choices and setting priorities. The stakeholder theory has emerged as a dominant paradigm in CSR and sustainable reporting.

Stakeholders can be categorized in different ways. For instance, there are business and nonbusiness stakeholders, primary and secondary stakeholders, etc. Stakeholder relationships are constantly becoming more important for any corporation. Therefore, the perspective is changing from stakeholder management to stakeholder dialogue in order to explore potential arrangements and build trust between individuals and organizations. In addition, the quality of stakeholder relationships and the ability to create value over a longer period of time are two sides of the same coin (Tsoulfas and Pappis 2012).

Numerous research studies exist about investors', consumers', and employees' interests. Let us begin by asking what interests investors. Research results show that 64.5% of investors usually evaluate the ecological and social aspects of business, while only 35.5% conduct little or no analysis of these aspects (EY 2015).

As for consumers, it is evident that they show a strong interest in sustainable business. The latest data on consumer trends is quite clear:

- 55% of consumers actively seek green products and services.
- 72% of consumers want to learn more about corporate sustainability initiatives.
- 75% of consumers would be more likely to buy a product or service if the company was making an effort to be sustainable.
- 82% of consumers are more likely to purchase a product that represents corporate social responsibility than one that does not.
- 93% of Americans have done something to conserve energy in the last 2 years.

The younger generation is showing even stronger green consumption trends (Solar City Inside Energy 2013).

Employees are an important stakeholder group as well. Many prospective employees use environmental policies as a measure of corporate value. In 2007, MonsterTRAK (EY 2015) reported that 92% of students and entry-level workers seek an environmentally friendly company for employment. According to a 2011 SHRM survey, 89% of organizations rate the importance of sustainability strategy as "important" or "very important" in creating a positive employer brand that attracts top talent. A 2011 Deloitte survey found that 70% of millennial job seekers said that a firm's community image is an important determinant in job selection. Clearly, your sustainability message and image have an impact on attracting the best talent (Kohl 2013). When asked to rank the top three stakeholder groups in driving their company's sustainability initiatives, employees ranked second (cited by 22% of respondents), behind customers (37%), and ahead of shareholders (15%) (EY 2011).

According to our research results, there are differences in the importance of particular stakeholders in groups A and B (see Fig. 5). In group A, consumers are

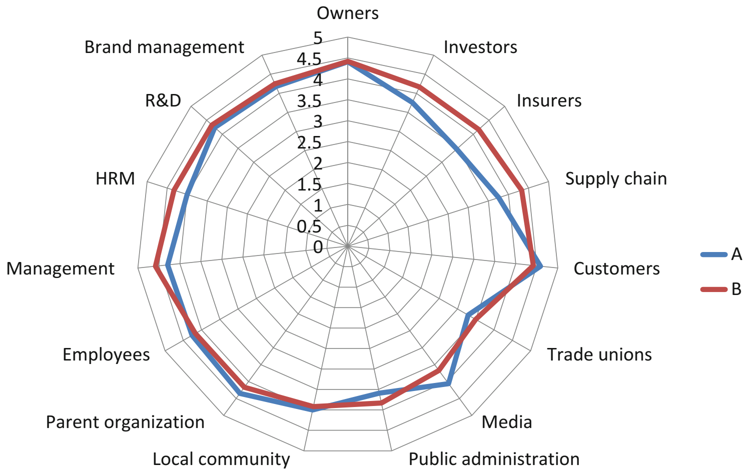

Fig. 5 Importance of individual stakeholders

the most important stakeholder (4.59), followed by owners (4.41) and parent organization (4.35), while employees are in the fifth place (4.26). In group B, management is the most important stakeholder (4.58), followed by owners (4.42) and customers (4.42), while employees come in fifth as well (4.17). Companies in group A are aware of the great importance of consumers, while management is the most important stakeholder in group B. For both groups, owners come second in importance, and employees are not seen as very important, as is evident by their fifth place.

In analyzing the importance of certain stakeholders for reports on sustainable development with respect to organizational size, a nonparametric Kruskall-Wallis test was used. In group A, in comparison to medium- and small-sized organizations, large organizations assessed the following categories as very significant stakeholder groups for reports on sustainable development: investors (banks/other investors) and insurance companies and local communities. Regarding other analyzed categories concerning the importance of motives for reporting on sustainable development, within group A, there are no statistically significant differences present with respect to differences in organizational size. In group B, according to analysis conducted in all categories, there are no statistically significant differences.

6 The Role of Information and Communication Technologies in SR

The development of information systems in companies is guided by two essential determinants: developments in ICT and the needs of management. Nowadays, we are witnessing a very rapid development and application of ICT in business so that today there are almost no business processes in a company of any size which are not supported by, or somehow connected with, ICT. The application of ICT in enterprises is expanding in all aspects of business. Similarly, management requires more and more information as a result of constant pressure from changes on the market. In this sense, the need for reporting is increasing and so is the need for data that can serve as the basis for business decision-making. A growing number of companies voluntarily prepare reports on sustainable development. According to research conducted by the Governance and Accountability Institutes from 2011, less than 20% of the S&P 500 companies prepared reports on sustainable development, but in 2013, their percentage exceeded 70%. It should be added that within this latter figure, over 30% adhere to Global Reporting Initiative (GRI) guidelines. The research conducted by KPMG confirms that reporting on sustainable development has become a standard part of the business reporting plan (KPMG 2011). In this sense, the expectations of investors grow. For instance, the research conducted by PwC from 2014 shows that 61% of investors from the United States are not satisfied with the company's published data on sustainable development.

The consequence of all this is that in the medium-sized and large enterprises, the spreadsheet, which has been a basic tool for making reports, is being complemented and replaced by programs for reporting, especially by the new generation of programs for integrated reporting and business intelligence tools (Gartner 2013). However, since these software solutions are quite expensive, a large number of both small businesses and medium-sized companies still commonly use spreadsheets as a basic tool for preparing management reports and the report on sustainable development.

Our research results indicate that published reports are mainly static (A 35.29%, B 66.7%) and that they enable dialogue only partly (A 35.29%, B 8.33%), while only a small segment of reports (A 29.41%, B 25%) enables dialogue between users, i.e., posing questions and receiving more detailed information (see Fig. 6). Enabling dialogue-based reports requires more complex technologies, but dialogue-based reports allow users to receive more detailed and specific information. Establishing dialogue-based reports increases the focus on the recipient of the reports. Thus, it is interesting that the companies listed on the Zagreb Stock Exchange (group B), which should pay more attention to stakeholders, do not enable dialogue as much as companies from group A (members of *HR PSOR*).

In further analysis, Spearman's correlation statistical analysis test was conducted. Spearman's rho (r_s) association coefficient within the group A and variables "Does your current reporting on sustainable development meet the informational needs of stakeholders?" and "Is your report on sustainable development interactive and does it enable dialogue with the users of report?" is 0.489 with the level of significance of 5%. Therefore, we rejected the null hypothesis that there is no statistically significant correlation present and accepted the H1, which states that a correlation exists between the variables.

Furthermore, Spearman's rho (r_s) association coefficient was measured in group B between variables "Does your current reporting on sustainable development meet the informational needs of stakeholders?" and "Is your report on sustainable development interactive and does it enable dialogue with the users of report?" is

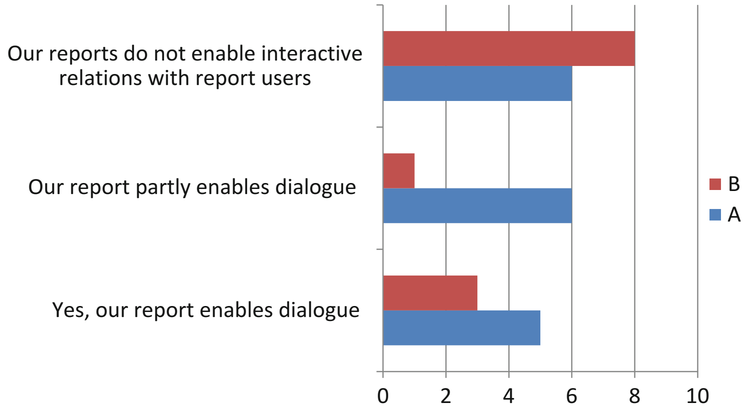

Fig. 6 Interactivity of reports and possibility of dialogue

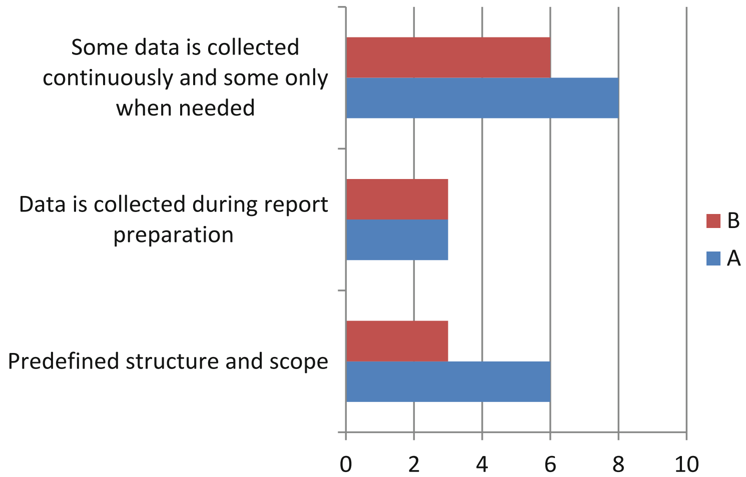

Fig. 7 Data collecting for SR

0.798 with the level of significance of 1%. Therefore, we rejected the null hypothesis that there is no statistically significant correlation present and accepted the H1, which states that a correlation exists between the variables.

The predefined structure and scope of data reflect a systematic approach to indicators and both their monitoring and preparation of the reports (see Fig. 7). Only a smaller portion of data is collected continuously (A 35.29%, B 25%). The results indicate that the largest portion of respondents collects some data continuously and some of them at the time when they needed it (A 47%, B 50%). Since some data is collected at the moment of report preparation (A 17%, B 25%), this

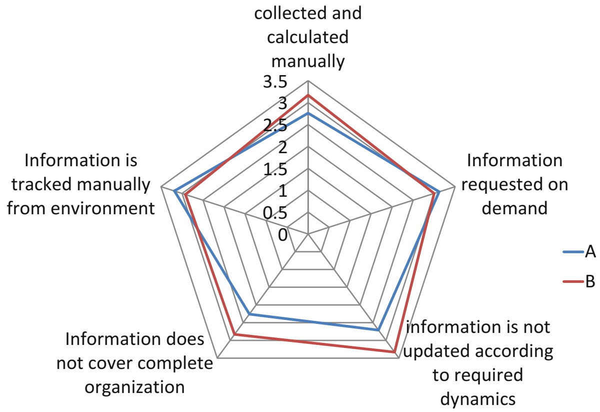

Fig. 8 Information collecting for sustainability report

could be an indication of procedural or technological shortcomings in the process of monitoring the indicators.

The analysis of software solutions used indicates that apart from software solutions which are used by large and medium-sized companies (SAP A 3.12; B 2.5 Microsoft A 3.41; B 3.83 and Oracle A 1.82; B 1.83), companies still mainly use spreadsheet programs. This result is understandable if it is connected with how indicators are monitored. In other words, this should be connected with the finding that a large number of data are collected at the moment when it is needed. This can also point to an insufficient amount of indicator coverage through continuous monitoring and reporting.

The responses indicate the current situation and problems related to ICT solutions in the collection of needed indicators (see Fig. 8). Data collection about the environment is still mainly carried out manually (A 3.18; B 2.92). Some indicators are still monitored manually (A 2.76; B 3.17), some indicators do not cover the whole organization (A 2.26; B 3.33), and some indicators are collected with an unsatisfactory dynamics (A 2.26; B 2.83).

Responses indicate that significant improvements in ICT support for reporting can be made in all key segments in both groups of companies. First, it is interesting that group A companies consider these improvements more important than group B companies quoted on the stock exchange. Both groups, however, say that some improvements are needed even though there are small differences in how they see the importance of monitoring and calculating all indicators (A 4.59; B 3.83; see Fig. 9). Second, there are small differences in how they assess the importance of the following elements, including all necessary data (A 4.59; B 4.09), including all company organizational units (A 4.59; B 3.92), and including all necessary data to monitor external indicators (A 4.53; B 3.67).

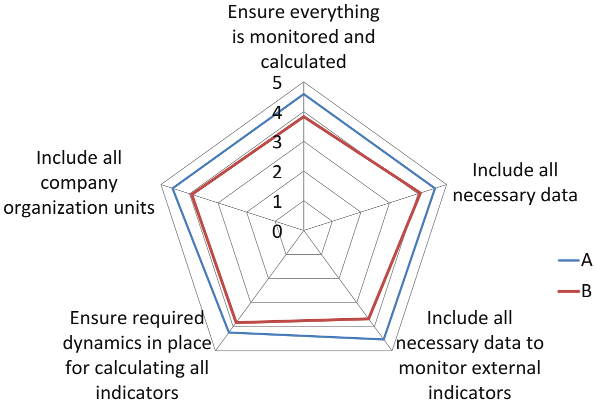

Fig. 9 The role of IT sector and possibilities to improve SR

7 Monitoring the Effects of Investing in Sustainability

According to foreign research studies, monitoring the relationship between achieved profit and sustainable business investment is very important for successful business. According to Chanthao and Suriya (2014), Srikaew and Suriya (2014), and Sudtasan and Suriya (2013), besides qualitative monitoring of the relationship between sustainability of profit and corporate social responsibility, quantitative models are increasingly being used worldwide. They provide interesting and precise guidelines for successful long-term corporate governance. That is why it is very important to stimulate the application of these models in Croatian companies as well.

It is in the interest of every company to generate maximum profit, but mathematical models prove that an excessive desire to achieve high profit is opposed to the principles of sustainable development. A mathematical model of a phase diagram (Chanthao and Suriya 2014; Srikaew and Suriya 2014; Sudtasan and Suriya 2013) shows how a company can achieve sustainability of maximum profit by satisfying, at the same time, a desired level of sustainable business. The phase diagram can determine the state which the company is in right now considering the level of profit generated and sustainable development. It can also produce concrete guidelines for management to generate maximum profit with the given level of investment in sustainable development.

The hierarchical structure of the company in which one level wants to maximize profit and the other level wants sustainable business development can be presented with bi-level programming models which can then offer exact solutions and guidelines for business activities acceptable to both levels (Hseuh 2015). On the other hand, if all stakeholders in the company share the same goals (i.e., maximum profit and sustainable business), this problem can be solved by models of multi-criteria optimization which can yield interesting and favorable results (Huo 2012). In any case, international literature shows that mathematical models can certainly

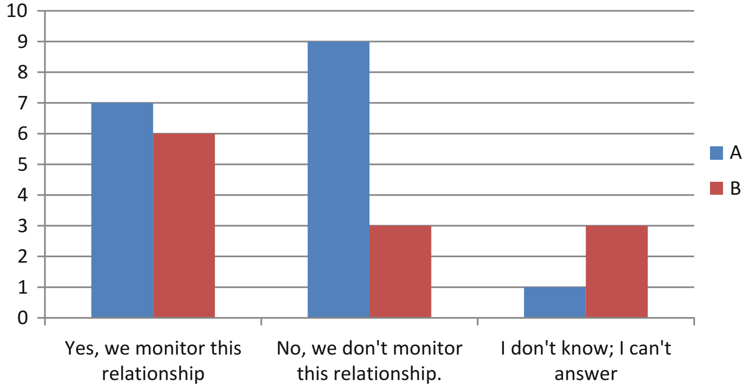

Fig. 10 Monitoring the relationship between investment in sustainability and profit level

give results of high quality as well as guidelines for good corporate governance, which can be beneficial to Croatian business practice as well.

According to our research results, there are often experts in companies (group A 41.18%, group B 50.00%) who monitor the relationship between investment in sustainable development and achieved profit (Fig. 10). However, group A companies predominantly answer that there are no such specialists and that the relationship is not monitored (52.94%). A notable potential in improvement of monitoring that relationship is in the answers "I do not know" and "I can't answer" (group A 5.88%, group B 25%). Moreover, in group A, 76.47% respondents respond that they thought about using mathematical methods, while only 25% respondents in group B say the same.

The most important potential in the application of mathematical methods is hidden in the answers "I do not know" and "I can't answer" (group A 23.53%, group B 41.67%). Although the application of mathematical methods in monitoring the relationship of investment in sustainable business and achieved profit is not easy, such research studies still provide quantified evidence about the long-term profitability of responsible and sustainable businesses.

8 Conclusions and Recommendations

Directive 2014/95/EU adopted by the European Parliament about nonfinancial reporting is the authors' main motivation for this paper. We wanted to explore the level of present experience and preparedness of large companies to adopt the directive. Nonfinancial reporting encompasses reporting on environmental-, social-, and employee-related matters, as well as reporting on human rights, anti-corruption, and bribery matters. It requires companies to describe the business model and outcomes and risks of the policies on the above topics and to specify the diversity policy applied to management and supervisory bodies. Starting on

January 1, 2017, all companies in the EU with 500 or more employees will be required to adopt this directive. We have seen that nonfinancial reporting is similar to SR and integrated reporting in that the core of these reports is based on the triple bottom line, i.e., a balance between economic, social, and ecological business aspects.

A growing number of companies publish sustainability business reports. For some companies, this has led to innovations, better risk management, new business opportunities, and an enhanced capacity to create value in the future (Baron 2014). Many stakeholders are interested in sustainable business: customers, present and future employees, and investors are particularly important because they can make choices that better reflect socioeconomic and environmental impacts.

Companies in Croatia already have some experience with sustainable reporting. The first sustainability reports were published in the period 1995–2000, but most of them (group A 41.18%) were published in the period 2006–2010. Most companies from group B (58.3%) do not publish sustainability reports yet and have very little experience in that field.

If companies publish their sustainability reports, they primarily use GRI principles (group A 48.1%). In general, external motives for using SR dominate. They include ethics, altruism, reputation, and customers, even though these motives have a different meaning for different groups of companies. The internal benefits of SR such as increased understanding of risks and opportunities, emphasizing the link between financial and nonfinancial performance, influencing long-term management strategy and policy and business plans, streamlining processes, etc. are not recognized as important motives yet.

The company creates value for its stakeholders and seeks balance between the conflicting interests of different stakeholders. Companies with experience in SR (group A) consider customers (4.59) as the most important stakeholder, followed by owners (4.41), and the parent organization (4.35). The companies that mainly have no experience in SR (group B) evaluated management (4.58) as the most important stakeholder, followed by owners (4.42), and buyers (4.42). The differences in evaluating the role of investors are interesting across the groups: 3.76 in group A vs. 4.17 in group B. Investors are more important for listed companies than for the other group of companies. The role of employees is also interesting: listed companies evaluate them as less important (group B 4.17) than other companies (group A 4.26). Even if these deviations are not large, they are indicative of recognizing the value of present and future employees and their interest in sustainable business of the company.

According to our research, companies most often have no feedback on stakeholder satisfaction with their sustainability reports, and dialogue does not exist. Our research results show a moderately strong to strong correlation between meeting the informational needs of the stakeholders and the potential for dialogue within sustainable reporting. In other words, this result could stimulate better dynamics of sustainable reporting and open the dialogue with stakeholders.

The data for sustainable reporting is mainly collected through a combination of methods: some data was collected continuously, and some was collected when it was needed. This of course raises the question of the system for data collection and preparation. Data about the environment is collected manually irrespective of the company's characteristics. It is clear that spreadsheets are mainly used. The answers show that there is significant room for improving the role of IT support in SR in all key segments.

There are mathematical methods for monitoring the relationship between investments in sustainability and profit levels. According to our results, experts in this area are rare, but that relationship is nevertheless somehow being monitored.

The final research results show that companies in Croatia have experience with SR. We anticipate further development and adoption of nonfinancial reporting in the following directions: education, discussion about priority motives and stakeholders, and in the further development and use of ICT. This way, every company can build a responsible relationship for its processes and its results, not only economic results but social and ecological ones as well.

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Corporate Sustainability Reporting: Summary and Conclusions

Judith M. Pütter

1 Brief Summary

With this book we break new ground by providing the first study that compares the recent status of sustainability reporting (SR) in Central and Eastern Europe (CEE) with parts of Western Europe (WE) and by providing country-specific reports about CEE.

In public and scientific literature, it is often suggested that the audience for corporate reporting is growing and with it also the demand for SR. The chapters of this book show the current state of SR in both the entire CEE region (see joint study) and in each individual country (see country contributions). On the one hand, they confirm the growing relevance of understanding and awareness of SR in this region. On the other hand, it became clear from the investigated sustainability reports and the inquired reporting structures from the joint chapter that despite considerable academic and practical efforts, companies in CEE do not report on their SR activities sufficiently.

It is particularly apparent that the publication of stand-alone reports is quite low in the CEE region compared to other forms of publication. Companies in CEE (except for Romania and Poland) prefer to disclose sustainability information in the annual report.

This may be explained by country-specific factors like regulatory, civil society density, or cultural differences (Pütter 2017) or due to internal factors as several authors of the country-specific contributions consider. The small number of sustainability reports, for example, in Hungary, Latvia, or Estonia, is explained by a lack of internal motivation. SR is rather seen as a financial burden and

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time-consuming than a possibility (see Tirnitz 2017; Lääts et al. 2017; Dimante and Alksne 2017). This statement shows that companies need to learn to integrate SR processes within management practices and not to merely use SR as an external communication device (Pérez-López et al. 2015). We also find differences in the content and quality of SR. While the majority of sustainability reports in CEE and WE are based on international frameworks like the GRI, companies from WE seek independent verification of their reports more often than companies from CEE which could be an indicator for quality. Further, CEE companies dedicate slightly more room to environmental issues (according to the number of pages) than those in WE, thus demonstrating a difference in content emphasis.

Differences in content and quality weaken the transparency of companies regarding their sustainable activities and prevent comparability between different reports. In order to increase transparency, all authors agree that firms have to disclose more about their sustainability data and activities. This has also been recognized by politics. The European Union (EU) introduced a new directive on nonfinancial reporting in 2014, which is welcomed by many of the authors of this book to increase the number of sustainability reports.

KPMG predicted that when the EU directive on nonfinancial reporting comes into force in January 2017, unequal distributions and divergences of sustainability reports across Europe "will be consigned to history at least in part" (see also joint study) (KPMG 2015). However, the new directive also brings new challenges, especially for CEE companies as they will need to rethink their internal reporting structures. The contributions of this book also have shown that most CEE companies use SR primarily as a communication tool although reporting structures exist. In order to generate higher benefits internally, CEE companies need further encouragement. The next sections describe which challenges and developments may affect CEE companies.

2 The EU Directive on Nonfinancial Reporting: A Nudge in the Right Direction for CEE Companies?

There has always been a demand for transparency concerning financial and environmental issues, but it has been considerably greater since the financial crisis in 2008. Politicians have recognized the necessity for rebuilding the trust of investors and customers in markets, partly through a better information policy regarding risk management and sustainability. Out of this necessity, both the European Commission and the European Parliament started to actively promote SR, pushing companies toward disclosing their degree of sustainability and thereby improving the competitive position and the operating efficiency of European businesses. Six years after the crisis, the "EU directive on non-financial reporting (2014/95)" was approved.

The directive will apply to large companies with 500 or more employees. The objective of the directive is to improve the average quality and consistency of nonfinancial reporting across Europe (Federation of Accountants 2016). The nonfinancial report or "statement" should contain information relating to environmental matters, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters.

Overall, around 6000 of the largest companies across Europe are expected to report compared to approximately 2500 companies today (Global Reporting Initiative 2014).

All EU member states will have to transpose the directive into national law by December 2016. The EU countries are affected differently by the new directive depending on their experiences and history of voluntarily disclosing nonfinancial reporting within well-established reporting frameworks. Countries which have already introduced mandatory SR in the past (e.g., Denmark or the United Kingdom) are likely to maintain their current legislation with only slight modifications. Other countries with less experience, like most CEE countries, face greater difficulties in transposing the directive. Like Poland, they may tend to take a restrictive approach and only adopt the bare essentials into national law (Dyczkowska et al. 2016), while other countries, due to existing legislation and relevant experiences in SR, may use their flexibility to go beyond the minimum requirements.

To avoid bigger complications in the CEE region, a few governments of CEE countries already provide specific implementation guidance for companies concerned. In Latvia, for example, the government is developing nonfinancial reporting guidelines especially for state companies and governmental and municipal bodies. Advice on strategies companies could adopt is also provided, for example, by the Federation of European Risk Management Associations. They suggest companies should focus on reporting their corporate social responsibility risks (Federation of European Accountants 2016). Another approach is the German sustainability code which also conforms with the new directive.

At company level, all affected companies have to comply with the reporting requirements in their disclosures for accounting periods commencing on or after January 1, 2017 (European Union 2014). However, unequal distributions and divergences of sustainability reports across Europe (see also joint study) will disappear only partially with the directive coming into force. Despite this, differences in the distribution of sustainability reports in small- and medium-sized enterprises (SMEs) will remain, as these companies are still allowed to voluntarily decide whether to report on nonfinancial data or not (Cahan et al. 2015). This will quite have an effect for Europe as the share and the value-added share of SMEs is especially high for some of the CEE countries like the Baltic states, Slovenia, and Slovakia, where the value-added share of the Baltic states is higher than 60% compared to 53.1% in Germany (European Commission 2015). As a result, the majority of companies in CEE remain unaffected.

Nevertheless, differences also will presumably remain or will be strengthened regarding depth and width of the content, form, quality, and quantity of the report, as the new directive has no specific requirements for the regarded companies (see chapter “Sustainability Reporting in Central and Eastern European companies: Results of an International and Empirical Study”). Companies that see only a burden in reporting still have the possibility to disclose as little as possible and as much as necessary. Other, more intrinsically motivated companies may take the opportunity to portray themselves in as good a light as possible. As long as no further requirements regarding format and content exist, it will still be difficult to compare sustainability reports, which is detrimental to transparency. Moreover, the application of standards may also lead to other obstacles (see next section).

3 Standards and Frameworks as a Starting Point

On the one hand, the lack of a framework regarding measures, form, quality, and quantity means companies remain flexible in their choice of a form of reporting. They may revert to a form that fits their needs and use already established international reporting frameworks or standards. Considering standards are being continuously developed, and reporting in a global economy must be compatible; flexibility is necessary to some degree. On the other hand, too much flexibility can lead to inconsistencies and incomparability across Europe.

Existing reporting frameworks like the GRI can be therefore a good starting point for companies seeking to comply with the requirements of the new directive but should be reconsidered and eventually adapted to industry-specific and also to country-specific requirements. As seen in Pütter (2017), the countries in CEE vary regarding culture, political, and economic situation which may lead to different requirements and emphasis in SR. In order to ensure a minimum level of requirements, frameworks should therefore consist of a general part with a common base level of KPIs to be used by all affected companies to improve consistency and comparability of sustainability disclosures across Europe (Pütter forthcoming). The frameworks should also include industry-specific parts and a country-specific part, each also with a defined base level of KPIs. In order to implement such a framework, more guidance and ideas are needed from regulators and researchers who closely work with the member states to ensure efficient and coherent application.

Many companies in CEE are further overwhelmed when it comes to not only measuring and collecting but also analyzing and using data internally and strategically (Pütter forthcoming). Most CEE companies use data on sustainability only for external communication (Horváth et al. 2017). Frameworks should also provide more support on how internal processes should be designed. Research on SR needs to focus more on how to successfully implement SR internally and how to use the reports to drive better decision-making and thereby improve business performance toward sustainability (Pütter et al. 2014).

4 Motivation for Internal Use of SR

According to the GRI and different auditing companies (like Ernst and Young and KMPG), the value proposition for SR may lead to outstanding performance. By increasing disclosure and communicating company goals and performance, SR may enhance trust in the brand, improve reputation, mitigate risk, and drive performance and innovation. Many companies in CEE which are considering SR so far have been deterred from doing so, not because they are not familiar with the benefits but rather are overwhelmed in the face of measuring and analyzing sustainability data. They are often not able to estimate costs and complexity. Other companies in CEE which already collect sustainability data but only use it for communicational purposes and not for internal reasons (see Horváth et al. 2017) can derive only a portion of the potential benefits SR can offer.

Companies which are now legally obliged by the new EU directive to publish sustainability data may tend to only publish the required minimum and/or will continue to use SR as an external communication tool, without taking internal advantages.

For companies in CEE it is therefore important to understand that SR is not only an administrative burden on businesses to placate the demands of other stakeholders. Implementing the internal processes which are required to fulfill transparent reporting can have long-term benefits for the company in question, particularly by focusing its attention on the key risks and opportunities that could impact on its business. It also provides a means to communicate those aspects where the company has taken an innovative approach in corporate sustainability matters, which could provide them with a competitive advantage over less innovative competitors. Companies which have already built internal reporting structures to collect sustainability data need to find a way to incorporate this data in their decision-making processes.

Both CEE governments and consulting firms would be well advised to provide concrete best-practice examples regarding internal structures and to provide a comprehensive overview of the costs, resources, capabilities, and complexity of this task.

5 Integrated Reporting as a Framework

It is assumed that the real potential of SR comes from providing context for financial disclosures by integrating financial and nonfinancial information, thereby producing a holistic view of the company's business. As seen in chapter "Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study," integrated reporting has not been established in CEE (or in other parts of the world) yet. The exceptions include the integrated reports of INA (Croatia), Tallinn Airport (Estonia), or Grupa Azoty (Poland). The development of integrated reporting in CEE goes hand-in-hand with the development of integrated reporting worldwide. As companies are often not able to measure the direct financial impact of social and environmental issues, they rarely attempt to publish integrated reports (Federation of European Accountants 2016).

Although the future of corporate reporting may lie in integrated reporting, as long as the link and difference between SR and integrated reporting, existing standard methods, and the integrated reporting framework are not entirely clear, companies will find it hard to choose integrated reporting. Especially those companies in CEE which are still in the orientation phase of SR need to gain more necessary experience before looking at integrated reporting. Thus, we can only expect a slow increase in the prevalence of CEE. Moreover, there is still little research on integrated reporting in CEE, case studies, or best-practice studies on integrated reporting in CEE companies.

6 Outlook: Sustainability Awareness Is Growing

With our research we have confirmed that the understanding and awareness of SR is **growing** in this region. However, there is still much room for improvement as reports and reporting processes are unevenly distributed and vary significantly.

With the EU directive 2014/95 coming into force, a significant step has been taken politically to reduce disparities. We can expect to see more European companies than ever reporting in 2017. The directive is seen as a welcome step in the right direction to force companies to report about their economic and social impact. The countries of the CEE region need to implement the directive in national law. Affected companies which to date do not publish sustainability data will now be forced to do so.

The directive may lead to more transparency especially in parts of the CEE region where reporting is not widely distributed. However, there is also a risk that with the exception of distribution everything will continue in the same old way regarding the quality of the information disclosed. In order to increase the transparency and credibility of sustainability reports and to implement them as an effective internal strategy tool, companies need to recognize the advantages linked with SR and need to be encouraged to use sustainability data not only for communication but also for internal decision-making.

Without a minimal reporting standard that satisfies country- and industry-specific conditions, sustainability reports will remain different in terms of content and quality. A framework like the GRI reporting standards is a good starting point, but it needs to be modified, as especially CEE is quite different regarding culture, politics, and economic situation so that requirements on SR may differ. Whether future corporate reporting will be integrated or not remains to be seen.

Regarding the directive itself, it is important to review the effectiveness of the implementation of the directive in CEE. The European Commission plans to submit a report on the efficiency, effectiveness, and level of guidance in December 2018.

Additionally, a comparison of how countries from CEE have translated the directive into national law is also needed to decide whether improvements are necessary. An option exists to then modify or add further legislation.

Experts on SR do not rule out that later modifications of the directive will bring more companies within the scope of the requirements (see chapter "The Main Aspects of Sustainability Reporting"). Especially Germany and also the CEE countries, whose share and value-added share of SMEs are especially high, will be affected more severely. In comparison with large companies, very few medium-sized enterprises prepare nonfinancial reports to date, so a nonfinancial reporting mandate could impose significant administrative burdens on this sector in the respective regions and may lead to competitive disadvantage. CEE governments will have to prepare accordingly in order to support SMEs if required.

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Erratum to

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There was a typo error in the author name (Piotr Ratajczak) of chapter 10.1007/978-3-319-52578-5_2. The change has been done and has been updated to “Ratajczak” from “Ratjaczak”.

The updated online version of the original chapter can be found at
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