



# New Trends and Issues Proceedings on Humanities and Social Sciences



Issue 4 (2017) 159-167

ISSN 2421-8030

[www.prosoc.eu](http://www.prosoc.eu)

Selected paper of 5th World Conference on Business, Economics and Management (BEM-2016), 12 – 14 May 2016, Istanbul Limak Limra Hotel & Resort, Convention Center Kemer, Antalya-Turkey

## CSR reporting in specific conditions of Slovak Republic

**Jana Kliestikova**<sup>a\*</sup>, University of Zilina, Faculty of Operation and Economics of Transport and Communications, Univerzitna 8215/1, 010 26 Zilina, Slovak Republic

### Suggested Citation:

Kliestikova, J. (2017). CSR reporting in specific conditions of Slovak Republic. *New Trends and Issues Proceedings on Humanities and Social Sciences*. [Online]. 04, pp 159-167. Available from: [www.prosoc.eu](http://www.prosoc.eu)

Selection and peer review under responsibility of Prof. Dr. Çetin Bektaş, Gaziosmanpasa University, Turkey.

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### Abstract

Nowadays, corporate social responsibility is an immanent part of strategic management theory and practice because only by its implementation it is possible to create a sustainable competitive advantage. But many companies (mostly small and medium) do not know how to communicate effectively their CSR activities. This fact results to the absence of estimated CSR benefits and following disillusion in relation to the CSR concept implementation. Possible way how to eliminate this unfavorable situation is to define and subsequently use the most valuable dimensions of CSR from the point of view of local consumers. Local view is important mainly because of socio-psychical and cultural specifics of consumers which impact on buying decision making and loyalty cultivation was confirmed in research provided by Geert Hofstede. According to mentioned, the goal of the realized survey, whose outputs are presented in this article, was to identify these dimensions of CSR report in the scope of Slovak consumer's perception. Based on the achieved information there are also formulated recommendations for CSR reporting dimensions usage as a tool of competitive advantage in the conclusion.

Keywords: CSR; CSR report; CSR reporting; corporate social responsibility; consumer preferences;

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\* ADDRESS FOR CORRESPONDENCE: **Jana, Kliestikova**, University of Zilina, Faculty of Operation and Economics of Transport and Communications, Univerzitna 8215/1, 01026 Zilina, Slovak Republic

E-mail address: [jana.kliestikova@fpedas.uniza.com](mailto:jana.kliestikova@fpedas.uniza.com) / Tel.: +421-41-513-3099

## 1. Introduction

Slovak scientific literature and managerial practice still give insufficient attention to the issue of company social responsibility and its reporting. Chlebikova (2015) argues that this situation results to the competitive disqualification of Slovak companies on a globalized market. According to Krizanova, Masarova, Stefanikova & Rypakova (2015), CSR is a form of corporate self-regulation integrated into a business model which consists in a continuing commitment of business to behave ethically and contribute to economic development while focusing on customers, suppliers, environment, communities and employees in the way that quality of vital performance of mentioned subjects will increase in connection with provided CSR activities. When appointing these subjects, we can conclude, that CSR is not intended to be used only in so called B2C marketing concepts but also in so called B2B marketing concepts where its importance is increasing day by day. According to Tate, Ellram & Kirchoff (2010), firms are increasingly under pressure from stakeholders to incorporate the triple-bottom line of social, environmental and economic responsibility considerations into operations and supply chain management strategies. Findings of these authors also indicated that while institutional pressure is the major driving force behind strategy development for all of the industries studied, companies emphasize different facets of social, environmental and economic responsibility upstream and downstream in supply chains based on industry, size and geographic location. Ceniga and Sukalova (2015) develop this idea in the context of sustainable development of transport logistics in the process of accelerating globalization in specific conditions of Slovak market. Moravcikova, K. & Nadanyiova

According to Musova (2012), regardless of the type of CSR usage (B2C or B2B) and in order to its effectiveness, it is vital to elaborate periodically so called CSR report to communicate realized CSR activities to those subjects which appreciate them. Stefanikova, Moravcikova & Nadanyiova (2015) define CSR reporting as a process of communicating the social and environmental impacts resulting from economic activities of the organization which implemented concept of corporate social responsibility to its business model. In accordance with mentioned, CSR report is an output of CSR reporting is a tool for managing this process and it helps to identify future opportunities and risks of the company. CSR reports also help to involve stakeholders in decision-making process. For company, CSR report is advantageous not only to report about its financial results, but also about its socially responsible activities because CSR report can be an important tool for strategic management and may help the company to respond flexibly to changes in the business environment.

There are three elementary approaches to the CSR reporting analysis:

- Fundamental approach.
- Regional approach.
- Sectoral approach.

Fundamental approach consists in the own logics of CSR concept as whole and its perception by stakeholders, i.e. it is focused on the benefits which are expected to be obtained by CSR implementation and its later communication by CSR reporting. There are two main groups of these benefits: financial and non-financial. These groups did not develop in a time sequence, so two possible theoretical dimensions of fundamental approach coexist nowadays. First one is represented by Porter and Kramer and consists in emphasizing philanthropic aspects of CSR. Second one is represented by McWilliams, Siegel, Dhaliwal and Lehutova and highlights financial benefits of CSR and its reporting.

According to Porter and Kramer (2002), when it comes to philanthropy, executives increasingly see themselves as caught between critics demanding ever higher levels of "corporate social responsibility" and investors applying pressure to maximize short-term profits. In response, many companies have sought to make their giving more strategic, but what passes for strategic philanthropy is almost never truly strategic, and often isn't particularly effective as philanthropy. Increasingly, philanthropy is used as a form of public relations or advertising, promoting a company's image through high-profile

sponsorships. But there is a more truly strategic way to think about philanthropy. Corporations can use their charitable efforts to improve their competitive context - the quality of the business environment in the locations where they operate. Using philanthropy to enhance competitive context aligns social and economic goals and improves a company's long-term business prospects. Addressing context enables a company to not only give money but also leverage its capabilities and relationships in support of charitable causes. That produces social benefits far exceeding those provided by individual donors, foundations, or even governments.

McWilliams and Siegel (2000) have reported a positive, negative, and neutral impact of corporate social responsibility on financial performance depending on specific preferences of consumers in scope of analyzed sector. Based on this knowledge, scientists analyzed influence of CSR activities perception on consumer buying behavior and loyalty cultivation, separately among sectors of national economies.

Dhaliwal, Li & Tsang (2011) apply strictly financial point of view. They examine a potential benefit associated with the initiation of voluntary disclosure of corporate social responsibility (CSR) activities: a reduction in firms' cost of equity capital. They find that firms with a high cost of equity capital in the previous year tend to initiate disclosure of CSR activities in the current year and that initiating firms with superior social responsibility performance enjoy a subsequent reduction in the cost of equity capital. Further, initiating firms with superior social responsibility performance attract dedicated institutional investors and analyst coverage. Moreover, these analysts achieve lower absolute forecast errors and dispersion. Finally, they find that firms exploit the benefit of a lower cost of equity capital associated with the initiation of CSR disclosure. Initiating firms are more likely than non-initiating firms to raise equity capital following the initiations; among firms raising equity capital, initiating firms raise a significantly larger amount than do non-initiating firms. Lehutova, Krizanova & Kliestik (2013) agree with Dhaliwal et al. and enrich their theory by verifying it also in specific conditions of transport companies.

Regional approach consists in CSR reporting specifics across regions. CSR reporting, while not mandatory in most countries, has been adopted by many large companies around the world and there are now a variety of competing global standards for non-financial reporting, such as the Global Reporting Initiative and the UN Global Compact. However, while some companies have a long standing tradition in reporting non-financial information, other companies provide only limited information, or in some cases, no information at all. This is the reason why Chen and Bouvian (2007) examine a sample of leading companies in four countries (US, UK, Australia, and Germany) and test whether or not membership of the Global Compact makes a difference to CSR reporting and is overcoming industry and country specific factors that limit standardization. They conclude that Global Compact membership is having an effect only in certain areas of CSR reporting, related to the environment and workers, and that businesses from different countries vary significantly in the extent to which they promote CSR and the CSR issues that they choose to emphasize in their reports. These country differences are argued to be related to the different institutional arrangements in each country.

Roca and Searcy (2012) continue with the theory of CSR reporting national specifics and identify the indicators that are currently disclosed in corporate sustainability reports from the national point of view. Canada is used as a case study in their research. The indicators were identified based on a content analysis of 94 Canadian reports from 2008. The findings show that a total of 585 different indicators were used in the reports. The use of indicators suggested by the Global Reporting Initiative (GRI) was also investigated. It was found that 31 of the 94 reports included indicators explicitly identified as GRI indicators. The most reported GRI indicators appeared in 28 of the reports, while the least reported indicators appeared in 5 of the reports.

Based on theory of Hartman et al. (2007), American companies would tend to communicate about and justify CSR using economic or bottom-line terms and arguments whereas European companies

would rely more heavily on language or theories of citizenship, corporate accountability, or moral commitment. Results supported this expectation of difference, with some modification. Specifically, results indicated that EU companies do not value sustainability to the exclusion of financial elements, but instead project sustainability commitments in addition to financial commitments. Further, U.S.-based companies focused more heavily on financial justifications whereas EU-based companies incorporated both financial and sustainability elements in justifying their CSR activities. In addition, wide variance was found in both the prevalence and use of specific CSR-related terminology. Cross-cultural distinctions in this use create implications with regard to measurability and evidence of both strategic and bottom-line impact.

Sectoral approach is based on the assumption that there have to be different approach to the CSR reporting in different sectors regardless national specifics or fundamental perception of CSR concept and its implementation in the business model.

In this way, Palazzo and Richter (2005) abstract from general CSR research and focus their research on CSR implementation and subsequent reporting in specific sectors. Later, Hraskova and Bartosova (2014) define CSR as an immanent part of reporting in Slovak transport companies. Font, Guix & Bonilla-Priego (2016) analyze CSR reporting in specific conditions of cruising focusing on shared value creation principles implementation in practice. Szczepankiewicz & Mucko (2016) provides own research in terms of CSR reporting practices of polish energy and mining companies. Jiang and Wong (2016) focus on CSR reporting analysis in specific conditions of China mining industry.

Siegel and Vitaliano (2007) also argue that recent theories of the strategic use of corporate social responsibility emphasize the role of information asymmetry and how CSR is likely to be incorporated into a firm's product differentiation strategy. A key empirical implication of these theories is that firms selling experience or credence goods are more likely to be socially responsible than firms selling search goods. Using firm-level data, we report evidence that is consistent with this hypothesis.

But there are also quite numerous groups of authors representing so called combined approach. For example, De Villiers and Marques (2016) study the different levels of corporate social responsibility disclosures of the largest European firms. They find that firms are more predisposed to disclose more CSR information in countries with better investor protection, higher levels of democracy, more effective government services, higher quality regulations, more press freedom, and a lower commitment to environmental policies. Their analysis of the association of different levels of CSR disclosure with share prices indicates that a high level of CSR disclosure is associated with higher share prices, whereas a low level of CSR disclosure in sensitive industries is associated with lower share prices (compared to no disclosure). These authors report that the overall effect of the association of higher levels of CSR disclosure with higher share prices is stronger in countries with more democracy, more government effectiveness, better regulatory quality, and more press freedom. Therefore, market participants find CSR disclosures more informative in countries where investors are in a better position to voice their concerns and where there is better regulation and more effective government implementation of regulations.

Specific example of combined approach is visible in theoretic apparatus elaborated by Reverte who highlights financial benefits and examines whether firms with higher CSR disclosure ratings are more valued by market participants. In his research, it is found that CSR disclosure does have both a direct and indirect effect on stock prices by modifying the value-relevance of earnings and book value of equity. Moreover, CSR disclosure by companies operating in environmentally-sensitive industries is associated with higher market valuations than CSR disclosure by companies operating in nonsensitive industries. This may be due to the fact that CSR disclosures provide information that allows investors to make better assessments of the increased risk related to potential litigation and future environmental liabilities, thereby reducing information asymmetries and the risk of adverse selection.

When discussing existing approaches to the CSR reporting, there is also important to mention existing frameworks of CSR reporting. There are various frameworks of CSR reporting – CDP Driving Sustainable Economies, Dow Jones Sustainability Index, GRESB – Global Real Estate Sustainability Benchmark, SASB – Sustainability Accounting Standards Board and so on. Brown, de Jong & Levy (2009) and Tokarcikova and Ponisciakova (2014) define Global Reporting Initiative (GRI) as the best-known framework for voluntary reporting of environmental and social performance by business worldwide. We definitely agree with this point of view and therefore, we focus our research on the consumer's perceptions of CSR activities.

## 2. Research results

The basic research problem was the insufficient usage of CSR reporting by Slovak companies caused by weak relationship between realized activities and marketing goals fulfillment. In previous research we assumed, that there is a positive correlation and causality between CSR activities and buying decision making of Slovak consumers. We verified this hypothesis, so we analyzed why Slovak companies do not exploit benefits from this finding. Obtained results detected that the reason is insufficient knowledge about the preferences of Slovak consumers in scope of CSR activities and about its efficient communication. So, the aim of survey was to detect CSR disclosure priorities of Slovak consumers. The importance of mentioned is based on the new so called G4 directive of GRI reporting which allows companies to communicate only those significant socially responsible activities that are identified as strategic in their own value chain.

Realized survey was conducted from January to March 2015. According to scientific recommendations of Krizanova et al. (2014), we used a standardized method of the direct questioning. As a tool of this survey it was chosen a semi-structured written questionnaire. A basic set of surveyed respondents was formed by Slovak citizens older than 15 years (depending on the size of the basic set, the survey sample was 384 respondents). That age limit was set on the base of the essential prerequisite for autonomous buying decision making (actual age limit for labor law competence according to a valid Slovak law).

Survey results related to GRI report category disclosures are shown in table 1. As it could be seen, there are two approaches to the obtained results evaluation. First one focused on relative importance score detection of aspect disclosure through categories and the second one focused on its absolute importance score detection in scope of whole GRI report.

**Table 1. Specific Standard Disclosures According to Results of Realized Survey.**

Category	Subcategory	Aspect	Relative importance	Absolute importance
Economic		Economic performance	0,72	0,1
		Market presence	0,07	0,01
		Indirect economic impacts	0,06	0,008
		Procurement practices	0,14	0,02
Environmental		Materials	0,02	0,005
		Energy	0,02	0,006
		Water	0,01	0,003
		Biodiversity	0,02	0,005
		Emissions	0,07	0,02
		Effluents and waste	0,04	0,01
	Products and services	0,02	0,006	

		Compliance	0,01	0,003
		Transport	0,03	0,007
		Overall	0,74	0,2
		Supplier environmental assessment	0,01	0,002
		Environmental grievance mechanisms	0,01	0,003
Social	Labor practices and decent work	Employment	0,13	0,002
		Labor / management relations	0,06	0,001
		Occupational health and safety	0,13	0,002
		Training and education	0,19	0,003
		Diversity and equal opportunity	0,06	0,001
		Equal remuneration of women and men	0,13	0,002
		Supplier assessment for labor practices	0,13	0,002
		Labor practices grievance mechanisms	0,19	0,003
	Human rights	Investment	0,03	0,003
		Non-discrimination	0,20	0,02
		Freedom of association and collective bargaining	0,30	0,03
		Child labor	0,10	0,01
		Forced or compulsory labor	0,05	0,005
		Security practices	0,05	0,005
		Indigenous rights	0,20	0,02
		Assessment	0,02	0,002
		Supplier human rights assessment	0,02	0,002
		Human rights grievance mechanisms	0,03	0,003
	Society	Local communities	0,53	0,08
		Anti-corruption	0,13	0,02
		Public policy	0,13	0,02
		Anti-competitive behavior	0,07	0,01
		Compliance	0,07	0,01
		Supplier assessment for impacts on society	0,05	0,007
		Grievance mechanisms for impacts on society	0,02	0,003
	Product responsibility	Customer health and safety	0,61	0,2
		Product and service labeling	0,31	0,1
		Marketing communications	0,01	0,004
		Customer privacy	0,06	0,02
		Compliance	0,01	0,002

### 3. Optimal CSR report content proposal

According to the results of realized questionnaire survey, we can propose an optimal CSR report content for Slovak market. As it could be seen, there is big difference between GRI report categories

perception by Slovak consumers. The most important category is product responsibility (32,6%) followed by environment (27%). Focusing on disclosure importance perceived by Slovak consumers, other categories are: society (15%), economy (13,8%), human rights (10%) and labor practices and decent work (1,6%).

According to this, it is important to include chosen aspect to the GRI report not only according to its position in consumer preferences rating, but mainly according to the perceived importance of whole category respectively subcategory (shown in figure 2).

**Table 2. Recommended indicators of most perceived GRI report categories**

Aspect	Indicator
Economic performance	Direct economic value generated and distributed Financial implications and other risks and opportunities for the company's activities due to climate change Coverage of the company's defined benefit plan obligations Financial assistance received from government
Overall environmental impact	Total environmental protection expenditures and investment by type
Local communities	Percentage of operations with implemented local community engagement, impact assessments and development programs Operations with significant actual and potential negative impacts on local communities
Customer health and safety	Percentage of significant product categories for which health and safety impacts are assessed for improvement Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products during their life cycle, by type of outcomes
Product and service labeling	Type of product information required by the company's procedures for product information and labeling and percentage of significant product categories subject to such information requirements Total number of incidents of non-compliance with regulations and voluntary codes concerning product information and labeling, by type of outcomes Results of survey measuring customer satisfaction
Marketing communications	Sale of banned or disputed products Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes
Customer privacy	Total number of substantiated complaints regarding breaches of customer privacy and losses of data
Compliance	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products

#### 4. Conclusion

CSR reporting is an immanent component of the CSR concept and forms base for consumer's perceptions of CSR activities. It is because only those CSR activities whose are communicated effectively have real impact on marketing goals fulfillment. This should be accepted by all companies which want to build valuable brand and competitive advantage in a long term perspective. But the

Slovak reality is different. Even if companies have implemented CSR, they mostly do not know how to communicate it effectively. The reason is that until recently, there was very rigid universal reporting frame (GRI G3) which did not take into account possible specifics of region or sector. Now, the situation is different. CSR reporting frame GRI G4 establishes only three basic disclosure levels in whose recommended aspects are covered. So, it is very important to detect the importance of these aspects to obtain the most effective results from realized CSR activities. Based on own survey, we detected that these categories are: economic performance, overall environmental impact, local communities, customer health and safety, product and service labeling, marketing communications, customer privacy, compliance. If implemented well, this knowledge will contribute to the development of CSR concept application in practice of Slovak companies which are still skeptic to CSR benefits from the company's point of view due to the structure of GRI reporting frame G3 used until recently.

### **Acknowledgements**

This research was financially supported by the scientific project Krizanova, A. et al.: THE FUNADAMENTAL RESEARCH PERCEPTION OF CORPORATE SOCIAL RESPONSIBILITY AS A VALUE FOR CUSTOMER (Grant NO. VEGA 1/0024/15).

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