

# The Analysis of CSR Reports of Serbian Companies

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## Abstract

Doing business based on the concept of the CSR could lead to competitive advantage, especially through image improvement, higher customer loyalty, increasing motivation and satisfaction of employees and attracting investments. The pressure which different stakeholders put on Serbian companies is incomparably lower than in developed countries. At the same time, socially responsible companies are not sufficiently recognized at domestic market. Implementation of CSR is relevant for investors also, because investors beside financial indicators pay attention to companies' behavior in society and its contribution to social goals. CSR report is the primary communication tool used to indicate company's CSR strategy and actions concerning its' social and environmental commitment. The weakest point in CSR systems of Serbian companies is reporting about non-financial performances. This paper is a result of comparative analysis of CSR reports of Serbian companies (15 companies). The main goals were to show which fields companies consider the most relevant and how they contribute to social problems solving. Given that CSR reporting is not mandatory, large number of companies does not prepare CSR reports, because they do not realize the need and the purpose of these reports. The results could raise awareness about CSR reporting among Serbian companies.

**Keywords:** corporate social responsibility, report

**JEL classification:** M14

## Introduction

Doing business based on the concept of the corporate social responsibility (CSR) could lead to competitive advantage, especially through image improvement, higher customer loyalty, increasing motivation and satisfaction of employees and attracting investments. Companies in Serbia (mostly big companies) are becoming more active in this field each year. The weakest point in CSR systems of Serbian companies is reporting about non-financial business aspects. CSR reports are useful communication tool for informing public and all stakeholders about company's mission and activities done in order to fulfill that mission. Many companies in Serbia do not report about CSR because they do not see the purpose and the meaning of CSR reports. From the list of the Top 100 companies in Serbia by its net profit, only 15 reports could be used in this analysis. Companies publish some information about CSR usually at their web sites, in a form of news or list of activities, but they do not prepare reports.

This paper is a result of the analysis of CSR reports of Serbian companies. The main goals were to show which fields companies consider the most relevant and how they contribute to social problems solving. There are different guidelines for preparation of CSR reports, so it was shown which were the most used by our companies. There is a trend of external assurance of CSR reports in the world, so it

was shown if our companies do that. The research results could raise awareness about CSR reporting among Serbian companies.

## Literature Review

### *The Concept of Corporate Social Responsibility and its Benefits*

Today's business conditions, where expectations from doing business are high and good relationship with stakeholders is crucial for sustainability, CSR has growing importance for company's value at the market. Economic, social and ecological challenges of contemporary world have an effect on radical transformation of business community. Globalization, technology development, depletion of natural resources, as well as other global changes, affect business and the change of goals defined by business strategy. Modern business strategy is based on the concept of corporate social responsibility and sustainability. Companies should contribute to economic, social and ecological prosperity. Sustainability and responsibility became global promoter of stable economies. Companies, beside profits, are dedicated to making positive contribution to the society through different business solutions and management systems focused on all business stakeholders.

The European Commission's (2011, p. 3) gives definition of CSR in details: "CSR is a concept by which the company integrates the care for society and environment in its business activities and interaction with its stakeholders on a voluntary basis". The practice of CSR refers to all relations made and effects produced by one company: what company produces, how it buys and sells, how it employs, develops and influences at human resources' development, how much it invests in local community and respects human and employee's rights, and how it contributes to preservation of environment (Forum za odgovorno poslovanje, 2014, p. 9).

The goal of CSR implementation is creating of higher quality of life for all stakeholders, without threatening companies' profitability. Implementation of CSR can positively influence stakeholders only if CSR activities are persuasive and sincere. Socially responsible companies have a higher reputation and a higher status in public, which enables the company to differentiate itself in the market and find a way to attract a greater number of customers (Carroll, 2015, Flammer, 2015). Perceptions about CSR influence customer loyalty (Stanisavljević, 2017). These companies have a motivated work force, lower turnover of employees and, finally trained work force (Taha et al, 2013, Vlastelica-Bakić et al, 2012). They also have better relations with local government, which does not need to be concerned about any 'bad' behavior by management. CSR activities create a positive image because the market appreciate more the companies which are less exposed to social, environmental and ethical risks. Engaging in CSR will lead to better financial performance, access to capital, increased sale, lower operating costs and increased productivity (Taha et al, 2013, p. 2). Investors more often integrate social responsibility criteria into their selective process and deny loans to companies that are not socially responsible (Đurović et al, 2011, p. 95).

Most transition countries are far behind developed countries, because of late implementation of market economy. First steps in development of CSR practice in transition countries were made by companies with foreign ownership, particularly companies which are part of multinational companies. Multinational companies often have innovative approach to CSR and they are trying to adapt its global approach to CSR to specific local conditions. These changes forced local companies to adapt and to implement some of these practices.

Since political and socioeconomic transition in Serbia started later than in most other countries, a lot of companies do not have developed consciousness about the benefits from CSR activities which are often considered useless and impractical (Centar za razvoj neprofitnog sektora, 2010). Those are the main reasons why it is necessary to improve consciousness about CSR in business world, government, public and civil society organizations, develop collaboration and encourage better understanding of benefits which are made by doing business in socially responsible way. National strategy for development and promoting CSR in Serbia for period of 2010-2015 defines CSR on three key levels: it involves compliance with legal obligations and industry standards, it includes minimizing or eliminating the negative effects of business on society and managing risks, and it concerns increasing the positive effects of business and creating value through innovation, investment and partnership aligned towards social and environmental good (Službeni glasnik RS, 2010, p. 2). Development of socially responsible business can contribute to economic and social development of Serbia. If companies adopt the concept of CSR in its business, that can improve the quality of life in local community as well the condition of environment. If that concept improve the work of civil society organizations, that could lead to higher standard of services to citizens. If the public is well informed, higher public support could be given to CSR. All of this could lead to development of CSR culture among companies, which will lead to positive results everywhere.

### *CSR reporting*

An important part of social responsibility is CSR reporting. Implementation of CSR requires at the same time a chance to measure the effects of that concept. CSR or sustainability reporting is a process of communicating the social and environmental effects of an organization's economic actions to particular interest groups within society or to society at large (Sotorio et al., 2010, p. 273). It refers to a holistic view of business results, which including financial, social and environmental component of the overall results (Štojanović-Aleksić et al., 2016). It helps companies to set goals, measure performance, and manage change in order to make their operations more sustainable (GRI, 2015, p. 3). The company's success should be measured not only by traditional financial indicators, but also based on social and ecological results. It is strategic for a business to include elements of social accountability among its aims, not only in order to improve stakeholder relations, but also to increase profitability (Romolini et al., 2014, p. 67)

CSR reports should contain the basic information of the company, its sustainability/CSR vision, its objectives towards sustainability, and a list of indicators illustrating the performance of the organization. A sustainability report conveys disclosures on an organization's impacts – be they positive or negative – on the environment, society and the economy (GRI, 2015). The quality of CSR reports depends on the content; a report can be considered a sustainability report if it is public and tells the reader how the company is meeting corporate sustainability challenges (Romolini et al., 2014, p. 69). The quality of reporting is also an opportunity for leading companies to distinguish themselves from the competition (KPMG, 2015). Carnevale, Mazzuca and Venturini (2012, p. 172) showed in their research that, in certain countries, the stock price and the accounting values were higher for banks that publish social reports. The research results from the KPMG Survey of Corporate Responsibility Reporting 2015 shows growth in corporate responsibility reporting. The research results from 45 countries (45.000 companies – N100) showed that 73% of N100 companies report on CSR, 79% of companies was from Asia-Pacific, 77% of companies from Americas, 74% of companies from Europe, and 53% of companies

from Middle East and Africa (KPMG, 2015, p. 31). The most of the world's largest companies now have their data independently assured. Third party independent assurance of CR information was established among the 42% world's biggest companies (N100). Mostly, 64% of external assurance was done by major accountancy organizations (KPMG, 2015, p. 40).

This report can be prepared either separately from the annual report or in a section inside the annual report or in other forms tailored for a wider group of stakeholders (Noronha et al, 2013, p. 30). CSR reporting is usually prepared on a voluntary basis; however, some countries have issued regulations to make mandatory disclosures on CSR issues.

The Global Reporting Initiative (GRI) is the most popular voluntary reporting guideline worldwide (KPMG, 2015, Romolini et al., 2014, Asif et al, 2013). The GRI Sustainability Reporting Guidelines are periodically reviewed to provide the best and most up-to-date guidance for effective sustainability reporting. The first guideline was issued in 2000, and in 2013 was issued the latest version, G4. The aim of G4 is: to help reporters prepare sustainability reports that matter, contain valuable information about the company's most critical sustainability-related issues, and make such sustainability reporting standard practice. G4 has an increased emphasis on the need for companies to focus the reporting process and final report on those topics that are material to their business and their key stakeholders. This 'materiality' focus will make reports more relevant, more credible and more user-friendly. This will, in turn, enable companies to better inform markets and society on sustainability matters (GRI, 2015, p. 3). The Guideline could be used for the preparation of sustainability reports by organizations, regardless of their size, sector or location.

The United Nations Global Compact is the world's largest corporate sustainability initiative which represents a call to companies to align strategies and operations with universal principles on human rights, employees, environment and anti-corruption, and to take actions that advance societal goals (UN Global Compact, 2017). There are more than 12.000 signatories (9.000 companies and 4.000 non-businesses) in 170 countries. The Ten Principles of Global Compact are often used as a guideline for presenting CSR information to public, also.

In 2013 the European Commission confirmed its devotion to CSR by announcing legal framework by which big companies will be obligated to report about non-financial performances. The EU Non-Financial Reporting Directive was approved by the council of the European Union in September 2014, and EU Member States are required to transpose the NFR Directive into national legislation by 6th of December 2016. It requires large public-interest companies with more than 500 employees to provide a non-financial statement that discloses relevant and material environmental and social information, employee matters, respect for human rights, and anti-corruption and bribery matters in their annual report (CDSB, 2016, p. 4). It also introduces disclosures relating to business model, principal non-financial risks and non-financial key performance indicators. This was a huge step forward to introducing an obligation for sustainability reporting. The aim of this Directive was to improve transparency of European companies.

In Serbia annual reporting is regulated by Law on Accounting (Službeni glasnik RS, 2013). Companies are obligated to produce financial reports; there is no mandatory reporting about non-financial performances. National strategy for development and promoting CSR in Serbia (2010) emphasized that reporting about non-financial performances, i.e. about influences at society and environment, is the weakest link in the system of CSR.

## Methodology

As already mentioned, there is a growth in reporting about CSR in the world. The companies are becoming aware of its influence on society and environment and the need to report about their CSR activities. The subject of this paper was the comparative analysis of CSR reports of Serbian companies. The main goals were to show which fields of CSR companies consider the most relevant and how they contribute to social problems solving. Additional goals were set: to determine if companies use some international guidelines in reporting, to identify if companies were awarded for CSR activities and to show if companies use external assurance of the reports.

Given that CSR reporting is not mandatory, large number of Serbian companies does not report about CSR, because they do not realize the need and the purpose of these reports. Some companies publish information about their CSR activities at their web sites as news, but the most of them do not publish reports. The results could raise awareness about the need of CSR reporting among Serbian companies.

The content and comparative analysis was used in research. The sample consisted of 15 companies from the list of the Top 100 companies by its net profits in 2015 (APR, 2016) and which CSR or sustainability reports were available online on companies' websites. In Table 1 is given the structure of companies by sectors.

Table 1

Companies by sector of industry

Sector	Number of companies
Retail	1
Financial services	5
Telecommunication	3
Mining	1
Manufacturing industry	4
Electric power industry	1
Total	15

Source: Author

## Results

There were 15 analyzed reports. The great majority of the analyzed companies that issue a CSR report were international companies. Even though these companies were a part of international corporations, they published CSR reports for the domestic market, explaining the goals and CSR activities in Serbia. They all emphasized that CSR strategy and mission in Serbia was in accordance with the group's interests and goals. In one company the majority of the shares belonged to the state.

The GRI Sustainability Reporting Guidelines, version G4, was used in 60% of companies. All reports based on GRI G4 presented the list of indicators used in the report. The United Nations Global Compact was also used in 86% of companies. Most companies used simultaneously GRI G4 and UN Global Compact. The reports counted from 9 to 124 pages, in average 59 pages per report. Considering the time when these companies started with CSR reporting, most of the companies (86,6%) have started publishing CSR reports in 2010.

There were also differences in the naming of the reports. CSR reports were published by 46% of companies, Sustainability reports were published by 40% of companies, and 13% of the companies published the Report on Progress in

Implementing the Principles of the UN Global Compact. Two companies published the CSR report as a part of annual report. The external revision of CSR reports was done in 33% of the companies, by KPMG or Ernst & Young.

Each company formulated mission and vision in accordance with CSR dedication. Often there was given a list of corporate values which supported mission and vision. Developed relations with stakeholders were imperative for most companies. Using questionnaires, interviews or meetings companies collected information about the areas which concerned the most their stakeholders. Recent literature on CSR emphasizes the importance of stakeholder dialogue in order to align business activities with the interests of different social actors and to demonstrate the coherence between stakeholder engagement, sustainable development and business strategy (Romolini et al., 2014, p. 67). The most meaningful areas of interest for stakeholders and companies were: environment protection, contributions to education and culture, promoting sports (health), helping young, inclusion of marginalized social groups. Many companies have implemented standards as ISO 14001, ISO 8001, ISO 50001, SA 8000, which enabled them to improve their dedication towards social and ecological goals. Companies most often used financial donations as a mean for making contribution, but also donations in form of products. Employees' voluntary work was a common way to contribute to society. There were also good examples of employees who donated their knowledge and skills. In a few cases employees collected donations among themselves for certain causes. Partnerships with organizations dedicated to the same goals were identified in several cases, especially those with UNICEF and other non-profit organizations.

The awards for corporate volunteering, for contribution to local community development, for contribution to the development of non-financial reporting, for corporate philanthropy were only some of the awards gained by analyzed companies. Particularly relevant for this research is that 33% of companies got the acknowledgment for contribution to the development of non-financial reporting. This award was founded by CSR Forum Serbia.

CSR Forum functions in Serbia since 2008 and it is a network of CSR companies which contribute to social development. Its mission is to encourage development of socially responsible businesses and establishment of long-lasting and stable socially responsible practices in business world. From companies involved in this research 66,6% were members of CSR Forum Serbia.

## Discussion

Environment protection, contributions to education and culture, promoting sports (health), helping young and inclusion of marginalized social groups were the most significant areas of CSR for analyzed companies. Financial donations and volunteering were the most common used method to contribute to social and environment problems solving. The majority of companies used GRI G4 guidelines for preparation of CSR reports, most of them were signatories of UN Global Compact. The reports' length and the practice of preparing CSR reports differed. Rewarding companies for their efforts on CSR is becoming a standard practice in Serbia. That way companies are motivated to continue and improve CSR.

The research limitation was an orientation towards the reports of companies without comparing them with the reports of the whole group (as the most analyzed companies were a part of international corporations). Second limitation refers to the sample size. If the sample was bigger, more relevant conclusion could be obtained.

## Conclusion

Corporate social responsibility report is the primary communication tool used to indicate company's CSR strategy and actions concerning its' social and environmental commitment. CSR is mostly implemented by big companies in Serbia, mostly parts of international companies. The weakest point in CSR systems of Serbian companies is reporting about non-financial performances. The most companies publish information about CSR activities on company's web sites, but a very small number of companies publish reports about non-financial performances and CSR activities. It could be noted that the intensity of CSR reporting is growing since 2010. Many companies had been acknowledged for their contributions on development of non-financial reporting, so it could be assumed that the trend of publishing CSR reports will be continued.

Future research could be dedicated to the comparison of CSR reports in domestic country and abroad or to the comparison of reports in the period of time (a few years back), so the improvement of reports and CSR could be analyzed.

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