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Péter Horváth • Judith M. Pütter
Editors

Sustainability Reporting in Central and Eastern European Companies

International Empirical Insights

Springer
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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; Kolik 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 Lilfs 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).

¹The 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 Fikfa 2011; Hahn and Künn 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" (Fikfa 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 (Fikfa 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.

²For 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 and WEC.

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.
- 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:

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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).

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4Only one interview was conducted in Bulgaria.
5Data sample for Bulgaria has been collected by IPRI gGmbH.
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 neglection 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 fulfilled, as this was considered a hindrance to survival in the new competitive environment (Lewicka-Strzelecka 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 Dahlström (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 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,

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6Of 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.

7The Brundtland Report was produced by a commission under the chair of Gro Harlem Brundtland convened 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 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 Sarcy 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 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.
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.

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
relatively small share of stand-alone sustainability reports in CEE countries was found in previous empirical studies (Higgins 2011; Stubbis 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. 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 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. This is in line with many other studies on SR that investigate the impact of corporate characteristics (Fiška 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 affect whether a company issues a stand-alone report or not.

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8The 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.

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

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<tr>
<th>Country</th>
<th>Sample Size</th>
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<tbody>
<tr>
<td>Croatia</td>
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<tr>
<td>Czech Republic</td>
<td>63</td>
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<td>Estonia</td>
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Fig. 14 Distribution of the samples by country

![Main sections of the questionnaire](image)

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.
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.

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).
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 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).
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 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 (Fishka and Pobirzhan 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) (Isemann 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 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).
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 accidentally 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

assessments are 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\(^1\) where SR is located. In the CEE sample, only 15%...

\(^1\)This also includes health, safety and environment, sustainability development or corporate responsibility departments.
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 sustainability 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 (Fikfka 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.

References


