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CSR Testing in Bosnia and Herzegovina—Empirical Study

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Today, companies are no longer judged only on the basis of financial gain but also on the basis of contributions to the wider community. Empirical research has identified differences in the extent of published information about corporate social responsibility activities considering the size of the bank. It was found that big banks in Bosnia and Herzegovina published significantly less information on their websites about social responsibility even though their parent banks have a good practice of socially responsible behavior. The paper proposes a systematization of socially responsible reporting and points out underdeveloped areas of corporate social responsibility activities of banks.

Keywords: corporate social responsibility, reporting, banks, Bosnia and Herzegovina

Introduction

Corporate social responsibility has origins in the social activism of the 60s and 70s of the last century. The awareness of issues such as equal opportunities for all, racial equality, and health and safety in the workplace first encouraged the public to take a closer review of previous business practices, and then to put these commitments into legal frameworks (Heath, 2001; Le Jeune, 2004). Companies could no longer justify their existence only through economic success, nor could their responsibility be restricted only to the shareholders, which is occupied by Friedman (1970). Now, when they are perceived as social factors, companies that wanted to preserve their reputation, should find a new response that is consistent with their social responsibilities and is aimed at wider audience (Bowie, 1991). Andriof, Waddock, Husted, and Sutherland Rahman (2002) note progress in thinking about corporate social responsibility, first as part of the social contract of company, and now as a strategic component of business practices. Dougherty (2001) draws attention to the risk of an important "lack of legitimacy", which is a result of disparities between public expectations and the company's business, and participants can jeopardize the company's reputation.

Definitions of corporate social responsibility passed trough their evolution, so now the term is used interchangeably with the terms "social responsibility", "sustainable development", "corporate citizenship". Also, the term is associated with the related area of business reputation, where underdeveloped corporate social

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responsibility is a big threat to the reputation, and on the other hand, developed corporate social responsibility is insurance for damage of reputation, which is evident in business management in best practices. This in turn reflects the management reporting of the triple effect—the economic, environmental, and social level (together called 3P: “profit”, “plant”, and “people”). In recent years, scientists have criticized existing models, suggesting that it in the heart of the program of corporate social responsibility there should be responsibility towards the society, instead of operating liabilities or motives that induced the public (Moore, 2003). Some others argue for a more comprehensive inclusion of dialogue (which is an essential part of the corporate social responsibility) between organizations and their stakeholders (Roberts, 2003). Such discussions reflect the recognized status of corporate social responsibility as a fundamental question in business. This is evident also in the generally accepted definitions of corporate social responsibility.

In the context of corporate social responsibility there has been developed voluntary reporting, which represents expanded reporting of financial accounting, although some segments are not expressed in financial terms. The paper discusses the disclosure of information about socially responsible activities of banks operating in Bosnia and Herzegovina.

The Term of Corporate Social Responsibility

Corporate social responsibility refers to the concept where company on a voluntary basis integrates the care of social issues to environmental protection in their business operations and relationships with stakeholders (Krkač, 2007). In addition it includes contributions to improving the quality of life of stakeholders, social responsibility and contributes to sustainable economic development. Stakeholders are all individuals, organizations, or institutions that can affect the project or its activities. Stakeholders can affect them positively or negatively (Nikolić, 2010). Corporate social responsibility and behavior of companies in the last decade have had exponential growth. Many companies integrate the social responsibility in all aspects of their business as a way to build reputation in the community and wider social acceptance, strengthen competitiveness, and achieve long-term sustainable development. Businesses should uphold high standards of corporate governance, to take care of employees, sustainable development and protect the environment and be a responsible member of society (Bagić, 2006).

Key activities that the company should introduce into their business plan include the development and education of employees, equality regardless of gender, race or age of employees. The key is to employ young, creative people. The aim of corporate social responsibility of corporations is to contribute to raising awareness of the need for sustainable development, develop products and services that enhance the quality of life and productivity, and enable more effective use of natural resources (Kotler & Lee, 2004).

Corporate Social Responsibility Reporting

Corporate social responsibility is self-regulated by a business entity, so the reporting on the part of business covers various aspects and has a wide frame. There are three basic dimensions of reporting on corporate social responsibility: economic dimension (covered much of the financial statements), the social dimension, and the dimension of the environment. In practice, reporting on social responsibility is often equated with reporting on sustainability. Sustainability reporting has foundations in reporting on the impact on the environment from which they eventually developed accounting sustainability that includes a social component as well as information about the pro-environment activities. The report on social responsibility mainly includes the following information arising from relations with the different categories of stakeholders:

- Human resources (information on the structure of employees due to education, gender, etc., employment, spending on training of employees, absenteeism from work, remuneration and other benefits for employees, communication whitin organization, occupational health and safety, employee satisfaction, employee rights, employee empowerment, disciplinary measures);
- Shareholders (analysis of the price movement of shares and other information that are associated with them, corporate governance, investor relations);
- Customers (market development, customer satisfaction, customer loyalty, information about products and services, information on products/services that cover ethical and environmental issues);
- Suppliers (policy management relationships with suppliers, contracting conditions);
- The financial partners (e.g., relations with banks and insurance companies);
- The public sector (relations with local authorities, prevention of corruption and compliance with the law);
- Community (direct assistance to community support through non-profit organizations, charitable activities);
- Environment (consumption of energy, water, materials, emissions and waste, transport, bio-diversity, environmental strategies, environmental projects).

Empirical Research Results: The Case of Banks in Bosnia and Herzegovina

The study included 26 commercial banks in Bosnia and Herzegovina: 17 commercial banks from the Federation of Bosnia and Herzegovina and nine banks from the Republic of Srpska. The survey was conducted online from November 2015 to January 2016. Through the examination of their official web-sites it was found that 90% of banks publish their financial statements on the Internet. However, publication of the information contained in the annual report is far behind the publication of standardized financial statements.

Table 1

Publication of the Fundamental Elements of the Annual Report (n = 26)

The annual report	Frequency (%)
Subsequent events	34.38
The most likely future development of the bank’s	53.13
Research and development	62.50
Information on purchase of own shares	71.88
The existence of a bank branch	71.88
Financial instruments	87.50
Financial risk management	87.50
The bank’s exposure risks	87.50
Statement on application of corporate governance	34.38
The principles of corporate governance	28.13

The review of Table 1 shows that the banks partly fulfill the obligation of publication of the annual report (in terms of its prescribed content) and that it usually contains information regarding the use of financial instruments, objectives, and policies of financial risk management and exposure to various business risks.

Corporate social responsibility of banks is observed through the implementation of activities presented in Table 2, established on the basis of relations of banks with their key stakeholders. Based on the above activities there was designed Bank Social Disclosure Index (BSDI), which is a part of development path that marks out the voluntary reporting in this segment, based on previous research (Branco & Rodrigues, 2006).

Table 2

The Constructs of the Social Responsibility Report of Banks

Human resources	1. Motivation (reward, shares owned by employees, satisfaction at work) 2. Training (seminars, training, etc.) 3. Safety at work 4. Employment (number of employees) 5. Equality between the sexes (i.e., number of women in management)
Community involvement	6. Investments (special regional investment projects) 7. Special products for the local community 8. Loans to special groups (pregnant women, newly-unemployed, pensioners, etc.) 9. Donations to hospitals and donations for health projects 10. Donations for programs of science and education 11. Donations and sponsorship of projects in arts and culture 12. Donations and sponsorships of sports projects and organizations (clubs)
Benevolence	13. Direct activities of charity (donation to charity organizations and humanitarian program) 14. Indirect activities of charity (donations to charitable organizations)
Relations with clients	15. Customer relationship management 16. Customer satisfaction and awards 17. Special services
Products	18. Development of products (new bank products/services) 19. Product awards
Environmental protection	20. Internal environmental policy 21. External environmental policy 22. Special products for environmental projects 23. Donations for environmental projects

Of all the activities (Table 2), banks usually (in 38% of cases) publish an offer of special products (mostly loans) for the development of the local community, information about new products (34% of the banks), information on donations or sponsorship of projects in the field of art and culture (31%), information on donations in health projects such as, for example, donations of equipment to hospitals (28%), information on donations or sponsorships of sports projects (28%), and information about special services (benefits) offered to customers (25%). On the other hand, the rarest published information are about security and safety, information about winning the award for some product, and information on specific products for environmental projects, such as, for example, more favorable lending. Of the six elements of reporting on corporate social responsibility, banks are the most prone to publishing activities in the domain of involvement in the local community.

Table 3

Index of Reporting on Corporate Social Responsibility (BSDI) Considering the Size of Banks

Bank size	N	Mean	Standard deviation	Standard error	95% confidence level		The lowest value	The highest value
					Lower limit	Upper limit		
Small	21	2.5217	3.56587	0.74353	0.979	4.063	0.00	16.00
Medium	2	7.0000	7.93725	4.58258	-12.717	26.717	1.00	16.00
Large	3	7.5000	3.72827	1.52206	3.587	11.412	2.00	11.00
Total	26	3.8750	4.49193	0.79407	2.255	5.494	0.00	16.00

Composite BSDI index (Kundid & Rogošić, 2011), with a maximum theoretical value of 23, is calculated considering the size of the banks (Table 3). An examination of Table 3 shows that big banks on average publish most of the observed information (7.5000), while small banks publish minimum 2.5217. However, most information have published two banks of which one small and one medium-sized bank, while large banks most accomplished BSDI 11.

Table 4

Test of the Influence of Size of the Bank on BSDI (ANOVA)

	The sum of of squares	Degrees of freedom	The mean value of squares	F	Sig.
Between samples	159.688	4	79.844	4.585	0.019
Within samples	508.312	21	17.528		
Total	668.000	25			

Analysis of variance has shown statistically significant BSDI difference in the categorization of banks by size (Table 4). These test (Table 4) demonstrates statistically significant ($\alpha = 0.019$) difference in reporting about social responsibility activities among large, medium, and small banks, which can confirm the assumption about the impact of the size of the bank to the extent of published information. However, it may be concluded that the major banks in Bosnia and Herzegovina, owned by prominent European financial institutions, fell short in reporting on corporate social responsibility. In fact, by examining the reports on the social responsibility of the parent banks, which released six large banks, it is evident that these banks have philanthropic orientation, socially sensitive, pro-environment-minded and and that they are prone to different forms of employee motivation. This becomes particularly evident if one considers the extraordinary profitability of large banks in Bosnia and Herzegovina. Ultimately, we can conclude that banks in Bosnia and Herzegovina modestly publish their philanthropic and other socially responsible activities. This may be due their lack of inclination to such actions, perceived modest public interest in this aspect of their business or lack of awareness that trough the developed practice of corporate social responsibility reporting banks can mitigate the negative connotations that accompany them in realizing extra profit.

Conclusion

Financial reporting is expanding its scope in the direction of reporting on corporate social responsibility that includes information on the activities of entrepreneurs to improve relations with their stakeholders, including the pro-environment activities. A large and profitable enterprises are often regarded as bearers and leaders of such action. Since banks in Bosnia and Herzegovina, on average, recorded high profits, it was interesting to explore the practice of their reporting on corporate social responsibility activities. It was found that the big banks, compared to the medium and small banks, on average publish more information in the domain of corporate social responsibility.

However, compared with the published activities of parent banks abroad, it may be concluded that large banks in Bosnia and Herzegovina have less pronounced practice of engaging in humanitarian projects and development projects of the local community, promoting environmental policies, motivation and education employees. Despite having their role models in the field of socially responsible activism, large banks in Bosnia and Herzegovina do not show pronounced affinity towards CSR observed at least through the publication of information on selected activities on the official website. It is expected that this practice will become more pronounced with the perceived growing activism of civil society, and in times of protracted economic downturn and simultaneous persistence of extra profit of banks.

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