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Corporate Social Responsibility and Ownership Interrelation: Evidence from Estonia

Irina Glushkova, Tallinn University of Technology, Estonia

Natalie Aleksandra Gurvits-Suits, Tallinn University of Technology, Estonia

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Abstract

With time Corporate Social Responsibility (CSR) attracts has become a matter of high attention and it is obvious that its influence on companies is increasing. More and more organizations both in Estonia and worldwide are voluntarily implementing non-financial reporting as a part of their business strategy. These initiatives seem to have high impact on the reputation and recognition of the company by stakeholders. The aim of the present research is to investigate whether the type of ownerships is related to the way the company presents CSR related information and the focus of these disclosures. Authors studied the available information of top100 Estonian most successful companies to find out the type of ownership and the type of CSR-related disclosures (web-site or non-financial report) as well as the focus of the reporting about the most popular and commonly used certificates related (health, safety, environment and quality). The findings of the present research clearly demonstrate that Estonian companies have implemented CSR reporting practices with website being the main channel of presentation of CSR related information. It is also important, that the leading issue of CSR disclosure for all types of companies are environmental performance as well as environmental and quality management certification. Results indicated that in case of individual ownership CSR disclosures are less frequent and less aspects are reported, while in case of corporate and institutional ownership, CSR reporting is widely adopted, and the wide scope of aspects is reported. In general, it may be concluded that the type of ownership has impact of the type and focus of CSR reporting.

KEYWORDS: CSR, ownership, disclosures, reporting, corporate governance

With time, Corporate Social Responsibility (CSR) has become a matter of high attention and it is obvious that its influence on companies deepens rapidly (Guo et al., 2019). More and more organizations both in Estonia and worldwide are voluntarily implementing non-financial reporting as a part of their business strategy. These initiatives seem to have high impact on the reputation and recognition of the company by stakeholders, moreover “companies with outstanding sustainable development are most likely to be rewarded by investors” (Lo & Sheu, 2007). However, according to Ali et al. (2017) the main driver of CSR reporting may differ depending on culture, type of industry, size of company and other corporate governance mechanisms. Researchers also argue that the CSR reporting practices may differ in in developing and developed country contexts (El-Bassiouny & El-Bassiouny, 2019). While the studies of Ali et al. (2017) revealed that in the case of developing countries CSR reporting is initiated by the international stakeholders (investors, clients etc.), while in case of developed countries the pressure from the public sector is less heavy.

Numerous studies investigated CSR reporting and its interrelation with corporate governance

Introduction and literature review



(Li & Zhang, 2010; Choi et al., 2013; Ashfaq & Rui, 2019) suggesting that there is a positive relationship between board of directors (Fuente et al., 2017), presence of audit committee (Fallah & Mojarrad, 2019), CEO duality (Khan et al., 2012) board gender representation (Barako & Brown, 2008), company size (Dias & Craig, 2017) and ownership type (Akin & Yilmaz, 2016) and concentration (Majumder et al., 2019).

In authors opinion the ownership structure is one of the most challenging elements of corporate governance as while abovementioned corporate attributes vary a lot and may be changed or amended, ownership seems to be more constant and reluctant to changes and therefore appeared in focus of numerous researchers. Prior researches suggest that ownership structure is associated to corporate social responsibility (CSR) and influences the level of CSR disclosures (Eng & Mak, 2003). Based on the study of 267 annual reports of Saudi-Arabian non-financial listed companies during five year period Habbash (2016) concludes that the type ownership matters in case of CSR reporting or CSR disclosures and that government and family ownership are positive determinants for CSR disclosures. These findings were later confirmed by Cordeiro et al. 2017 indicating positive impact of family management and control on the general level of CSR engagement, however, public ownership revealed a negative impact. The results of studies of Khan et al. (2018) also revealed that the reduction of state ownership among Chinese listed companies had negative impact on the CSR performance.

Researchers also revealed positive relationship between the internalization of the company i.e. presence of foreign investors and the extent of CSR disclosures (Chau & Gray, 2002; Attig et al., 2016). Similar results were also received by Soliman, et al. (2013), who examined 42 Egyptian companies during the three-year period and revealed positive relationship between CSR ratings and the institutional ownership and especially foreign investors.

Numerous studies have been carried out to reveal the impact of the institutional ownership structure on the extent and level of CSR disclosures. Suyono & Farooque, 2018, who investigated the impact of corporate governance mechanisms including ownership on the CSR disclosure and revealed that institutional ownership has a significant positive impact on CSR. These results were also confirmed by the findings of Suttipun & Bomlai, (2019), who investigated the level of integrated reported among 150 companies listed at Thailand Stock exchange between 2012 and 2015 and found positive relationship between institution-owned companies and the level of integrated reporting.

However, while numerous researchers outline the positive relationship between CSR disclosures and ownership type as well as the strong impact of ownership type on CSR reporting, several studies do not find this evidence. For example, Dissanayake et al. (2019) investigated the reporting of 84 publicly listed companies in Sri Lanka during the years of 2015-2015 and the results did not show strong influence of ownership on the extent of CSR reporting. The studies of Abu Qa'dan & Suwaidan (2019) among reporting of Jordanian companies listed on the Amman Stock Exchange revealed that the percentage of shares held by institutional investors had a significant negative impact on the level of CSR disclosures.

The main purpose of the present research was to investigate whether the type of ownerships is related to the way the company presents CSR related information and the focus of these disclosures. To achieve the goals, authors studied the available information of top100 Estonian most successful companies to find out the type of ownership and the type of CSR-related disclosures (web-site or non-financial report) as well as the focus of the reporting about the most popular and commonly used certificates related (health, safety, environment and quality). And while current research is highly inspired by the research carried out by Dam and Scholtens (2012); authors

would like to outline that the main tasks of the present research is not only to find out whether the level of CSR disclosures reports differs among companies with different ownership; but also to reveal the type of CSR disclosures preferred by each type of ownership.

The remainder of the paper is organized as follows: The first part outlines the importance of CSR disclosures in regard to their relation to the type of ownership and gives various perspectives of the examination of research topic. The following section discloses the methodology of the research followed by the discussion of the results and the main conclusions.

Methodology

The authors have selected Top100 Estonian most successful companies ranked by the leading Estonian business newspaper *Äripäev* for the year of 2015. The sample included first hundred companies without any exclusions, as the purpose of the research was also to reveal the level of CSR reporting by the most successful companies. Authors studied the available information to find out the type of ownership and the type of CSR-related disclosures (web-site or non-financial report) as well as the reporting about the most popular and commonly used certificates related to occupational health and safety management systems (OHSAS 18001), environmental management systems (ISO14001), quality management system (ISO 9001) and the voluntary pact encouraging companies to implement socially responsible policies and report on their adoption (UN Global Compact).

Authors have studied the Estonian version of annual reports of the selected 100 companies submitted to the state via reporting system and if available, the English and/or Russian version of the annual report in order to find CSR related information in any of the sections. Authors have also investigated the information published and publicly available on the companies' website in order to figure out what CSR-related information is presented to the stakeholders. In authors' opinion, for a customer, a company's website serves as the most accessible and important source of information about the company, while annual report as a source of information about CSR activity is more tailored to professionals. The criteria for the choice and presentation of information was the binary system, there one point was granted in case the information for the selected characteristics was disclosed and zero if no information was found. Later these results were transferred into share in percentage. [Table 1](#) presents the sample distribution.

Table 1

Core business of the selected companies

Business area	Share of companies (in%)
Manufacturing	32
Wholesale and retail trade	30
Construction	11
Information distribution and sale	5
Transport	5
Real estate	3
Entertainment	3
Finances and insurance	3
Agriculture	2
Energy distribution and sale	2
Health and social care	1
Other	3
Total:	100

Source: Authors' basis publicly available information about the companies.

Data of the table 1 reveals that most sampled companies are related to manufacturing and wholesale and retail trade. It should also be noted that net-turnover of the selected companies remains in the range of 15,2 till 945.2 mln. EUR (including consolidated data), 5% of the selected companies are stated-owned and 95% are private companies. It should also be noted that four of the selected companies got the index of being socially responsible.

The breakdown in the type of ownership of the selected companies is presented in Figure 1.

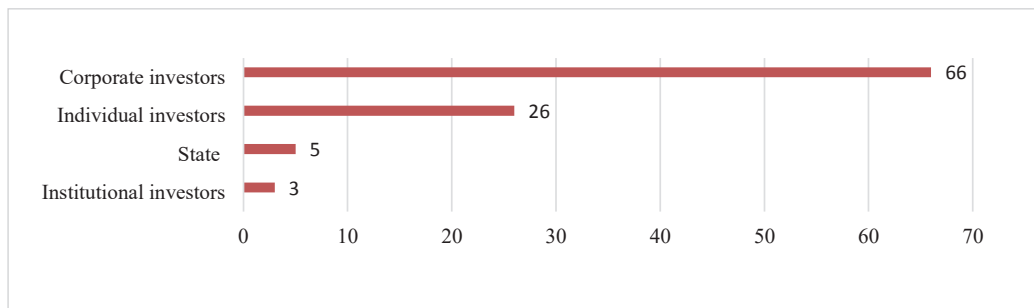


Figure 1

Type of ownership of the selected companies, share in percentage (Authors').

Data of the figure 1 reveals that most companies have either corporate (66%) or private (26%) ownership, while only 5% are stated-owned and 3 % have institutional type of ownership.

The present section summarized and the results, which in authors opinion are most important and worth attention.

In the Table 2 there are presented ways of CSR related disclosures as well as the presence of most commonly used certificates and initiatives. The most actively disclosing group are companies owned by corporate investors while institutional investors seem to be less active.

Main characteristics of disclosure	Individual investors	Institutional investors	State	Corporate investors
CSR related information at website	16	3	7	74
CSR related section on website	11	4	4	81
Non-financial report	6	6	0	88
UN Global Compact	8	0	0	92
ISO 14001	18	8	5	69
OHSAS 18001	24	5	0	71
ISO 9001	24	2	7	66

Results

Table 2

Disclosure of CSR related information among the selected companies (share in %)

Source: Authors' basis publicly available information about the companies.

Data of the table 2 also confirmed that UN Global compact related reporting is present in the case of nearly all selected companies with corporate ownership while individual investors seem to be more concerned about compliance with ISO 9001 and OHSAS 18001.

The following table 3 represents the stakeholders, with whom the selected companies cooperate.

Data of the table 3 reveals that for all companies the key target stakeholders remain employees and clients.

Table 4

Disclosure of CSR related information among companies with individual type of ownership

Main parameters	Individual investors (%)
CSR related information at website	35%
CSR related section on website	19%
Non-financial report	4%
UN Global Compact	4%
ISO 14001	27%
OHSAS 18001	19%
ISO 9001	38%
Disclosed CSR information about environment	15%
Disclosed CSR information about ethics	4%
Disclosed CSR information about stakeholders	5%

Source: Authors' basis publicly available information about the companies.

Table 5

Disclosure of CSR related information with institutional type of ownership (percentage)

Main parameters	Individual investors (%)
CSR related information at website	67%
CSR related section on website	67%
Non-financial report	33%
UN Global Compact	0%
ISO 14001	100%
OHSAS 18001	33%
ISO 9001	33%
Disclosed CSR information about environment	56%
Disclosed CSR information about ethics	33%
Disclosed CSR information about stakeholders	26%

Source: Authors' basis publicly available information about the companies.

Table 6

Disclosure of CSR related information of the state-owned companies (share in %)

Main parameters	Individual investors (%)
CSR related information at website	80%
CSR related section on website	40%
Non-financial report	0%
UN Global Compact	0%
ISO 14001	40%
OHSAS 18001	0%
ISO 9001	60%
Disclosed CSR information about environment	27%
Disclosed CSR information about ethics	20%
Disclosed CSR information about stakeholders	11%

Source: Authors' basis publicly available information about the companies.

Tables 4-7 represent the disclosure of CSR related information by companies depending on the type of ownership (%).

Data in table 4 reveals that the CSR reporting is not very popular among the companies with individual ownership as only 58% disclose some sort of CSR related information and the most frequently disclosed information is related to ISO9001 certification and environmental issues. While in case of institutional investors, the situation is quite different as presented in table 5.

It is obvious that these companies have implemented CSR reporting practice and use web site as the main way of disclosures with standalone CSR reporting being not very popular (33%). It is also evident, that such companies are more focused on environmental aspects (56%) and environmental management certification (100%). While in case of state ownerships, website remains the main channel of CSR reporting, but in case of certification, the main focus is shifted towards quality management as presented in table 6. Data in table 7 represents results for the companies with corporate ownership broken up between companies with local and foreign investors.

Data in [table 7](#) clearly indicates that CSR reporting via website is preferred by both types of companies, while mainly companies with foreign ownership as well as reporting about the UN Global Compact compliance prepare non-financial reports. While environment and quality management are, the most frequently reported aspects in both cases.

Main parameters	Local investors	Share (%)	Foreign investors	Share (%)	Total number of companies	Share (%)
Total number of companies	30		36		66	
CSR related information at website	15	50%	28	78%	43	65%
CSR related section on website	11	37%	27	75%	38	58%
Non-financial report	1	3%	14	39%	15	23%
UN Global Compact	0	0%	12	33%	12	18%
ISO 14001	8	27%	19	53%	27	41%
OHSAS 18001	6	20%	9	25%	15	23%
ISO 9001	11	37%	16	44%	27	41%
CSR related aspects						
Disclosed CSR information about environment	18%	43%	31%			
Disclosed CSR information about ethics	7%	40%	25%			
Disclosed CSR information about stakeholders	9%	28%	19%			

Source: Authors'.

The findings of the present research have various implications. First, they clearly demonstrate that the CSR reporting practice has been widely adopted by the Estonian companies, as 58% of the selected companies publish CSR related information on their corporate website and 47% have a separate CSR section. However, standalone non-financial reporting is mainly used by companies with corporate and institutional ownership, in authors' opinion this may be caused by the fact that preparation of standalone CSR report is quite time and effort consuming, which in maybe crucial in choosing the way of reporting in case of companies with state and individual ownership. It is also important to note, that the leading issue of CSR disclosure for all types of companies are environmental performance as well as environmental and quality management certification. It is obvious that in case of individual ownership CSR disclosures are less frequent and less aspects are reported, while in case of corporate and institutional ownership, CSR reporting is widely adopted, and the wide scope of aspects is reported. In general, it may be concluded that the type of ownership has impact of the type and focus of CSR reporting. Authors also believe that more education in the field of CSR accounting and reporting is needed in the form of courses in the university curriculum, various trainings and workshops for the companies as well as conferences and open seminars. These activities will outline various benefits of CSR reporting and assist to reduce costs and make this process less time and effort consuming and therefore, more attractive.

Table 7

Disclosure of CSR related information for companies with corporate type of ownership

Conclusions

Further research can be expanded by increasing the sample and the number of dimensions of corporate social responsibility. It is also possible to use statistical methods and econometric models for further research. It will also be useful to investigate the dynamics among different types of owners regarding CSR disclosure.

Authors are aware of the limitations of the present study: the sample of the selected companies is quite narrow; however, in future authors consider it useful to enlarge sample and provide comparison between companies representing more wide selection of different business areas.

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IRINA GLUSHKOVA

MA

Tallinn University of Technology

Fields of research interests

CSR accounting and reporting

Address

Akadeemia tee 3,
Tallinn 12618, Estonia
E-mail: natalja.gurvits@taltech.ee

NATALIE ALEKSANDRA GURVITS-SUITS

PhD

Tallinn University of Technology

Fields of research interests

CSR, Accounting and Business Ethics, Sustainability accounting and reporting

Address

Akadeemia tee 3,
Tallinn 12618, Estonia
Ph. + 372 6 204 007
E-mail: natalja.gurvits@taltech.ee

About the authors