CHARLES UNIVERSITY IN PRAGUE

FACULTY OF SOCIAL SCIENCES

Institute of Economic Studies

Master Thesis

2012 **Katarína Miklovičová**

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Economic rationale of private donors

Master thesis

Prague 2012

Author: **Katarína Miklovičová**

Supervisor: **prof. RNDr. Jiří Hlaváček CSc.**

Academic year: **2011/2012**

Bibliographic record

MIKLOVIČOVÁ, Katarína. *Economic rationale of private donors.* Prague, 2012. Master thesis (Mgr.) Charles University in Prague, Faculty of social sciences, Institute of Economic Studies. Supervisor: prof. RNDr. Jiří Hlaváček CSc.

Abstract

The aim of this thesis is to analyze motivation of companies to support social, environmental and development projects. The analysis is focused on Central European companies, namely the Czech Republic, Slovakia, Hungary and Poland. In the empirical part of the research interviews with selected companies and non-profit organizations are conducted. By interviewing both sides we can see how both donors and main recipients view the motivation behind the support. Afterwards, the relationship between supporting social, environmental and development projects and long term financial performance is examined. Coefficients are assigned to each company according to their involvement in the three categories – social, environmental and development. As measures of financial performance we choose stock market returns, which are then regressed on the three coefficients and selected control variables. The regression results show that supporting development projects tends to have a positive influence on companies' stock market performance. We do not confirm that supporting social and environmental projects improves stock market performance of companies. This outcome suggests that supporting development projects is a win-win situation for both companies and non-profit organizations. Companies can improve their long-term stock market performance and non-profit organizations gain resources for a good cause.

Keywords

Corporate social responsibility, long-term financial and stock market performance, non-profit organizations

Abstrakt

Cieľom práce je analyzovať motiváciu firiem pre podporu sociálnych, environmentálnych a rozvojových projektov. Analýza je zameraná na firmy z regiónu strednej Európy, menovite z Českej republiky, Slovenska, Maďarska a Poľska. V empirickej časti výskumu sú realizované interview s vybranými neziskovými organizáciami a firmami. Tým zistíme ako obe strany, darcovia i obdarovaní, vnímajú motiváciu pre podporu. Následne skúmame vzťah medzi podporovaním sociálnych, environmentálnych a rozvojových projektov a finančnými výnosmi v dlhom období. Každej firme sú pridelené koeficienty podľa angažovanosti v daných troch oblastiach – sociálnej, environmentálnej a rozvojovej. Ako meradlo finančných výnosov sú použité akciové výnosy a tie sú regresované na spomínané tri koeficienty a vybrané kontrolné premenné. Výsledky regresie ukazujú, že podporovanie rozvojových projektov má pozitívny vplyv na akciové výnosy firiem. Pozitívny vplyv podpory sociálnych a rozvojových projektov na akciové výnosy sa nepotvrdil. Tento výsledok naznačuje, že pri podporovaní rozvojových projektov získajú obe strany – firmy si môžu zlepšiť akciové výnosy a neziskové organizácie získavajú zdroje na dobré projekty.

Kľúčové slová

Firemná zodpovednosť, finančné a akciové výnosy v dlhom období, neziskové organizácie

Rozsah práce: 109 230 znakov

Declaration of Authorship

1. The author hereby declares that she compiled this thesis independently, using only the listed resources and literature.
2. The author also declares that this thesis has not been submitted for the award of any other academic degree or diploma.
3. The author grants to Charles University permission to reproduce and to distribute copies of this thesis document in whole or in part.

Prague, May 18, 2012 Katarína Miklovičová

Acknowledgements

Hereby I would like to thank my supervisor, prof. RNDr. Jiří Hlaváček CSc., for his valuable recommendations and insightful advice throughout writing this thesis. I would also like to thank Michal Miklovič for helpful comments on earlier drafts.

Master Thesis Proposal

Institute of Economic Studies
Faculty of Social Sciences
Charles University in Prague

Author:	**Bc. Katarína Miklovičová**	Supervisor:	**Prof. RNDr. Jiří Hlaváček CSc.**
E-mail:	amalka94@gmail.com	E-mail:	jihlava@fsv.cuni.cz
Phone:	776 266 527	Phone:	222 112 318
Specialization:	FFM&B	Defense Planned:	June 2012

Proposed Topic:

Economic rationale of private donors

Topic Characteristics:

My thesis will focus on the motivation of private companies to financially or otherwise support social, environmental and development projects. Economic literature usually assumes that main reasons are enhancing image, capital availability, attracting quality employees, increasing customer loyalty and lowering costs of risk management. Recently, the focus has shifted on relationship between corporate social responsibility and financial performance. It has been shown in several studies in North America and Western Europe that investing in a socially responsible way improves company financial performance in the long term. This is an important finding as it encourages more and more companies to consider socially responsible actions. I will analyze whether and how this phenomenon has developed in the region of Central Europe. Firstly, I will conduct a series of interviews with selected private companies and non-profit organizations and elaborate how both donors and recipients view the motivation behind the support. Then, I will collect data from Central European stock markets and model the relationship between corporate social responsibility and long term financial performance. I will compare these results with the results for Western Europe and North America. I will also try to predict how supporting social, environmental and development projects by private companies might evolve in the future.

Hypotheses:

1. Socially responsible investments are viewed mostly as image enhancement strategies in Central Europe
2. The degree of social responsibility is significantly lower than in Western Europe and North America
3. Socially responsible investments are not yet generally considered as a way to improve long term financial performance but there already is an empirical evidence for Central Europe
4. There is a great potential for social, environmental and development projects to benefit from increased donations from Central European companies in the future

Methodology:

To analyze the relationship between corporate social responsibility and long term financial performance I am going to combine econometric approaches used in previous research. I will create a model explaining long term financial performance where one of the explanatory variables will be an index measuring degree of involvement in socially responsible actions. I will analyze whether the index is significant at all and hence suggests dependence of financial performance on responsible actions. I will also elaborate whether and how the significance changes with different assumptions about region, size, profitability or industry of a company.

Outline:

1. Socially responsible investments in general
   a) Theories behind social responsibility of private companies
   b) Development of social focus in private companies around the world
   c) Regional differences in social investments
2. Socially responsible investments in Central Europe
   a) Interviews with selected companies and non-profit organizations
   b) Comparison of the actual motivation to be socially responsible with theories
   c) Analysis of projects receiving the most support: social, environmental or development
3. Corporate social responsibility and long term financial performance
   a) Description of data and index of corporate social responsibility
   b) Regression analysis
   c) Discussion of the results
4. Implications for the future

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Author

Supervisor

Contents

Introduction

Many companies decide to support social, environmental or development projects. The key question is then – what motivates them to do that? It is usually assumed that companies are only willing to give up part of their profit on a socially responsible activity to get something in return. This could be good publicity and enhancing company image, increasing tax deductibles or attracting quality employees and customers.

Recent research has showed that there is also a correlation between socially responsible actions and long term financial performance of a company. Particularly in North America and Western Europe companies involved in socially responsible activities tend to perform better in the long term. This is an important finding as it might encourage more companies to consider socially responsible behavior.

The point of interest in this thesis is whether the socially responsible behavior – supporting social, environmental and development projects in particular – improves long term financial performance also in the region of Central Europe, namely the Czech Republic, Slovakia, Poland and Hungary.

The research for this thesis starts with reviewing theories about social responsibility and its development around the world. It continues with comparing corporate responsibility in different regions. The main focus is on the European Union and the policies it promotes, especially in the Central Europe. This is described in detail in Chapter 1.

In the empirical part of the research interviews with selected companies and non-profit organizations are conducted. By interviewing both sides we can see how both donors and main recipients view the motivation behind the support. This might have some implications for the recipients and their donor-finding strategies. It also gives useful insights for testing the relationship between social responsibility and financial performance. The interview results are elaborated in Chapter 2.

Afterwards, the relationship between supporting social, environmental and development projects and long term financial performance is examined. To model this, data from Central European stock markets are collected. Coefficients are assigned to each company according to their involvement in the three categories – social,

environmental and development. As measures of financial performance we choose stock market returns, which are then regressed on the three coefficients and selected control variables. The regression results show that supporting development projects tends to have a positive influence on companies' stock market performance. We do not confirm that supporting social and environmental projects improves stock market performance of companies. Data, model and the results are discussed in Chapter 3.

Finally, we identify the main areas for further research on the issue of social responsibility and its impact on companies in Central Europe in Chapter 4. We conclude by highlighting the main results and implications of the research in Chapter 5.

1. Social responsibility

There are many theories on how and why social responsibility developed among companies in different regions around the world. Before we get to that, let us define social responsibility. This term, when related to companies, is usually denoted as *corporate social responsibility* or *CSR*. We use the definition of the European Union as it directly applies to the Central European countries in our research. The European Commission defines corporate social responsibility as "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*," (COM 2006, p.2). This chapter further examines different theories about social responsibility of companies and its development in different regions.

1.1 Theories about social responsibility of companies

1.1.1 Rationality of motivation

Hlaváček et al. define motivation as "*a set of needs and objectives which constitute intentions of human behavior and which determine the behavior,*[1]" (Hlaváček 1999, p.12). They further argue that predispositions of each individual create a motivational conflict, especially in interaction with others. There are four theories of motivation and the one that applies to companies is the "theory of rational habits" (Hlaváček 1999). This theory is used to analyze altruism in company behavior.

Altruists, individuals or companies, can be split between patrons and sponsors. Patrons are believed to give financial support as an act of good will, sometimes even anonymously. Sponsors, on the other hand, only provide the support to gain something in return and hence are essentially egoists. So called hard-core altruism is therefore seen as irrational while so called soft-core altruism is rational and self-centered (Černoušek 1999). Within the interviews with private donors in the next chapter we also analyze whether there are any patrons in our region or mostly sponsors.

[1] Quote translated from Czech by the author

1.1.2 Theory of organization

Theory of organization developed in the second half of the 20th century showed that good relations between employees and their positive feeling about work significantly increase productivity of the company. A branch of the theory hence developed into behavioral theory of organization. It was established that apart from self-fulfillment employees need affiliation to perform better. A way to improve both of these is to involve employees in social, community or environmental projects (Hlaváček 1999).

Another part of theory of organization is focused on the external relations of a company. Under this part of the theory it is important for a company to set its corporate governance in a way that improves its credibility. Credibility then not only affects productivity of the company itself but also productivity of the whole economy (Mejstřík 1999). The basic purpose of conducting business – profit seeking – might lead to both ethical conduct and cheating. It has been showed that companies tend to cheat in one-shot games and act ethically and responsibly in repeated games when credibility is important to sustain business relationship.

Companies for which repeated interactions are crucial for business therefore might want to appear credible. One way to do this is to set company structure, processes and company culture in an ethical and socially responsible way. When credibility increases the companies become more attractive for business partners, suppliers, customers and other stakeholders. This in turn can be a strategy to increase long term profits (Mejstřík 1999).

1.1.3 Allocation preference

The important question for each donor, especially when dealing with an economic crisis, is how to allocate donations. In case of a patron, key factors in this decision are disposable income, relations with the potential recipients and the peril of recipient's downfall. Distribution of the support then depends on preferences of the patrons – whether they want help all potential recipients, as many as possible, at least one or other. In case of a sponsor, it is crucial whether a recipient can provide

something in return that is in line with the sponsor's motivation to act in a socially responsible way in the first place. We examine this closer in the next chapter.

1.1.4 General systems theory

Frederick et al. (1992) applied the general systems theory to businesses. According to this theory all living organisms, or systems, need to interact with and are influenced by their host environments. The ability to respond to the environment, to adapt, is the key to survival. Frederick et al. (1992) argue that this is true also for corporations where managers need to carefully consider the relationship between their system and the outside world.

The outside world is not just the marketplace anymore. Business decisions have social impact and business survival depends on society's attitude. For example, a company can be driven bankrupt by excessive taxation, labor union's demands, costly environmental regulations, or other. Altogether, business and society are "*an interactive system*" (Frederick et al., 1992). A business can impact society in both positive and negative ways and society decides whether to accept the business or not.

Within the interactive system, businesses have primary and secondary interactions with the society. Primary interactions include relationships with shareholders and creditors who provide funds, employees who provide knowledge and skills, supplier and wholesalers who build the production flow, customers and also competitors. Secondary interactions are closely related and include the government with its national and international branches, media, local communities, social activist groups, the general public and business support groups.

The main point of the interactive system is that businesses share power with all of the primary and secondary groups. Managers therefore need to be able to handle social and political issues related to the secondary groups as well as economic and financial concerns of the primary groups. "*A business firm's acceptance by society – its legitimacy as an approved institution – depends upon its performance in both the primary and secondary spheres,*" (Frederick et al, 1992, p.81).

The notion of general systems theory and interactive systems can be applied to the case of corporate social responsibility. If a company wants to do well, it needs to

respond to the environment in which it operates, i.e. to the rules and expectations of primary and secondary groups. These expectations are a crucial motivational factor for company's responsible actions.

1.1.5 Shareholder values and perception of CSR

Peggy Chiu analyzed in her book *Looking Beyond Profit: Small Shareholders and the Values Imperative* (2009) the relation between values of small shareholders and their investment decisions. She proved that there is a strong link between shareholders' values and their perception of CSR by examining stock markets all over the world. The implication for companies hence is that investment behavior of small shareholders should not be assumed merely profit-oriented. According to Chiu, companies listed on stock markets need to show solid CSR plan to attract small shareholders.

There has been a rapid increase in the number of institutional investors in most developed countries and holdings of small investors have decreased in significance. Nevertheless, small investors are "*still an important and necessary segment of the investment landscape*," (Chiu 2009, p.1). Chiu found out that a majority of small investors are highly educated people, over 45 years old, earning high incomes. They usually hold shares of fewer than ten companies and make their buy/hold decisions based on news in media and investor information. When considering long term investments small shareholders are not purely profit-seeking but tend to subconsciously look for certain values in the way a company runs its business.

Chiu conducted the analysis of small shareholders' values through qualitative and quantitative interviews and questionnaires. The first strand of analysis is shareholders' values. Chiu found that for 35.3% of small shareholders it is the most important to lead a comfortable life. Here the comfortable life means having just enough of resources to live worry-free. The second most important value is honesty with 15.9% and the third is family security with 11.4%. Prosperous life – which here means having an abundance of resources – was on the last place with only 1.3% of small investors. The analysis also showed that only for 16% of all shareholders their values have no impact on their investment decision making.

The second strand of analysis was focused on the qualities that company directors should have. For 28% of small shareholders it is the most important that

directors are trustworthy. 25.2% value competence the most, i.e. working effectively and being able to reach company goals. For 13.2% of small shareholders honesty and openness play the most important role. For 11.8% accepting responsibility for both good and bad outcomes is crucial. These two strands of analysis imply that small shareholders are not strictly focused on company profits.

The third strand of analysis deals directly with shareholders' CSR concerns. For over a third of all shareholders accurate and honest financial reporting are the most important. Ensuring financial stability is on the second place. Right behind these values is minimizing harm to the environment and other environmental concerns. Only after this is the long term growth in share price closely followed by community support. Within the community support category more than a half of small shareholders prefer active support of a local community and a fifth favors community-work programs for staff. Only 14% of small shareholders value sponsorship and 7.9% donations and charities. These two are particularly tricky as most shareholders see them as generally done for image, not altruistic reasons. Some shareholders are therefore completely against donations to charities and some require limits.

The three strands were combined in a principal component analysis and further split in a sample analysis to reach the conclusion that "*there is a logical link between shareholders' motivational values and their views of corporate responsibility*," (Chiu 2009, p.103). A nonparametric correlation analysis showed that correlation values between different shareholder values and their investment decisions are within (0, 0.49) range.

The question is, of course, what this means for companies. One of the results is that small shareholders have a tendency to avoid long term investments in companies dealing with tobacco, alcohol, guns or gambling and exploiting child labor or environment. Chiu also believes that this analysis will debunk the ordinary investor stereotype because "*shareholders do not meet the stereotype of being strictly rational self-interested economic maximizers*" but are a combination of *homo economicus* and *homo sociologicus* instead (Chiu 2009, p.134).

The impact for CSR development is that "*small shareholders – as pragmatic long-term investors – will have a strategic part to play in their companies' uptake of corporate social responsibility*," (Chiu 2009, p.153).

1.2 Development of social responsiveness in companies around the world

As was described above, the main point of Corporate Social Responsibility (or sustainable business, corporate conscience or any other concept of strategic corporate behavior) is that the company goes beyond the basic responsibilities of making profit and complying with the law. The company takes on moral, ethical and philanthropic responsibilities, as well.

The questions for this sub-chapter are when, how and why companies decided to take on these new responsibilities. Barnett (2012) provides a historical overview starting with Adam Smith and ending with the current situation around the world. Adam Smith suggested that if all individuals act in their own interest they would not only deliver goods and services and make profit but they would also meet the needs of others. This has become the basis of the classical economics and is still used in debates about free markets versus state intervention. Smith also suggested that for this concept to work, people would have to be just and honest with each other.

Adam Smith's ideas influenced the ongoing Industrial Revolution. Standard of living improved and large corporations developed. Owners of the corporations gained wealth and power quite quickly. At the same time the theory of Social Darwinism came to life. This theory implies that in basic natural selection only the best and most talented people survive and do well which justifies strong competition and reduces concerns about employees, community or society.

At the beginning of the twentieth century a wave of criticism started. Corporations were criticized for exploiting employees and not caring about the society. As a result, new laws and regulations were passed to protect employees, consumers and the society. More attention was brought to the working classes.

Major change started in the 1960s with environmental and civil rights movements. Expectations of businesses started to change. The new idea was that great power should also mean great responsibility. An increasing pressure was put on businesses to be more proactive – to solve problems of the society instead of causing them. Issues such as equal employment opportunity, work place safety, product safety and environmental protection were included into corporate law. Expectations placed on corporations have changed gradually and by now reached most parts of the world.

A crucial moment in changing corporate attitude came with the term "stakeholder" which was first described in R. Edward Freeman's *Strategic management: a stakeholder approach* in 1984. A stakeholder was described as "*any group or individual that can affect or is affected by the achievement of a corporation's purpose*" (Freeman 2004, p.229).

This influential book, which became the basis for stakeholder theory, has the following logical schema (Freeman 2004, p.231):

No matter what the ultimate purpose is and no matter what the basic values are a company must consider the impact of its actions on others, as well as the potential impact on itself.

To do that, it is crucial to understand stakeholders – their behavior, values, background and societal context. It is also important to set own values, especially in the long term.

A company needs to understand three levels at which relationships with stakeholders work. The first level is the rational one and is important for the organization as a whole. The second level is the process one and is used in all operating procedures. The third level is about transactions and day to day bargaining.

These ideas can be applied in different ways, either through new business functions, processes or the whole structures. Particularly the strategic planning needs to be redesigned to include stakeholders in all decisions.

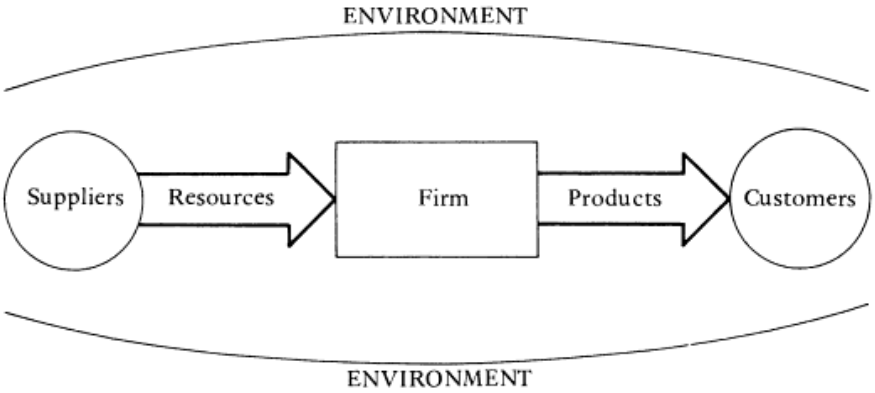
Different stakeholders have different interests. A company needs to make sure to keep a balance between these in the long term.

Lawrence et al (2002) explain the stakeholder concept from a similar perspective. Stakeholder has an interest or share in company's operations. This might be connected to legal rights, which is the case for employees or owners. Other stakeholders might not have any legal rights, for example an environmental group, but still might believe they have a moral right to question company's policies and lobby for a positive change.

One way to split stakeholders is to organize them into primary and secondary ones. Primary stakeholders have a direct interest in the organization. These are owners, employees, business partners, creditors, customers and other. Secondary stakeholders do not have a direct interest in the company but are still affected by its business. These include competitors, media, industry groups, civic institutions and groups, regulatory bodies, the government and other. The question is into which of these two groups to place communities, environment and future generations. Views on this question differ.

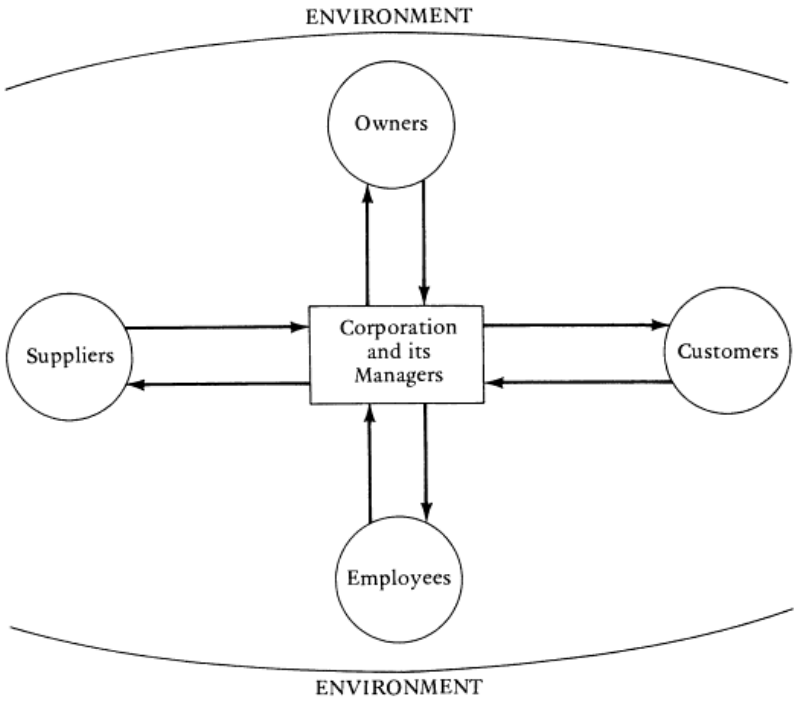
The new focus on stakeholders caused a change from a production point of view of a company, illustrated in Figure 1-1, to a managerial point of view of a company, illustrated in Figure 1-2. The production point of view simply focuses on what a company needs to produce and what it does with the production. The managerial view, on the other hand, acknowledges that the crucial relationships work both ways. A company therefore needs to pay attention to keep good relationship with all parties involved in running its business. According to Freeman, if a manager does not pay sufficient attention to either party involved the business might just fail. For example, if the relationship with employees is not set well it could easily cause strikes or work stoppages.

Figure 1-1: Production point of view



Source: Freeman, 2010

Figure 1-2: Managerial point of view:



Source: Freeman, 2010

In the new perspective of the managerial point of view, managers need to spend time analyzing the stakeholders. Knowing the stakeholders and their possible influence might be of a great advantage to the company. Stakeholder analysis follows these major steps (Frederick et al., 1992, p.85):

- Mapping stakeholder relationships
- Mapping stakeholder coalitions
- Assessing the nature of each stakeholder's interest
- Assessing the nature of each stakeholder's power
- Constructing a matrix of stakeholder priorities
- Monitoring shifting coalitions

While mapping stakeholder relationships it is crucial to go into detail with each stakeholder group. In the case of creditors, for example, a manager can put down not just their names but also the percentage of debt that they represent. For suppliers, it is

important to include what exactly they provide, in what quantities and how they can be substituted. This is a stepping stone for mapping stakeholder coalitions. In more and more companies, this is done separately for each issue that the company decides on to better assess the decision's impact.

Managers are also becoming more aware of the differences in between stakeholders' interest. As each stakeholder is involved in the business in a unique way, this needs to be taken into consideration and combined in an optimal way. Assessing stakeholders' power has become a commonly used practice to avoid issues such as negative publicity, lawsuits and ultimately loss of customers. Types of power are voting power, economic power and political power (Frederick et al., 1992). Voting power is usually related to shareholders while economic power is in the hands of customers, suppliers or wholesalers. Political power is exercised by the government through laws and regulations that might greatly impact the likelihood of lawsuits.

After the necessary information is collected it is helpful to design a matrix that would capture interest and power of all the different stakeholders. Finally, a practice that has become commonly used is monitoring changes within stakeholder coalitions. Here the dependencies on the company and other stakeholders are of concern.

The stakeholder analysis has become a common practice for businesses around the world. One of the results is the increased attention to corporate social responsibility in a way that would optimally match interest of the key stakeholders and ensure the company stays in business in the long term.

1.2.1 Pros and cons of social responsibility

Throughout the development of social responsibility in business attitude many debates about the pros and cons took place. Supporters of socially responsible businesses argue that since the modern corporation has created numerous social problems, it should also help to solve these problems. Corporations should at least improve their practices and conduct business in an open and honest way.

Another theory states that companies should keep a balance between their power and responsibility: "*The Iron Law of Responsibility says that in the long run, those who do not use power in ways that society considers responsible will tend to lose it*"

(Frederick et al., 1992, p.36). This basically means that society and especially customers can take down a company that does not act responsibly. This is true for companies that carelessly dispose toxic waste or market hazardous products. They might be pushed out of business by competitors who comply with the expectations of the society.

If a company acts responsibly, it has better prospects for the future. Doing business responsibly might mean doing business for a longer time. This idea suggests that companies should act responsibly purely as another form of self-interest. It applies especially in situations where a company recalls an unsafe product or supports educational programs. Sacrificing short-term profit increases goodwill and public favor.

A further important issue is that if companies act responsibly on their own, it lowers the chances that the government starts to regulate the business. Regulation reduces freedom of business and society. As freedom is a desirable good and increases the scope of decision-making, it is in companies' interest to try not to lose it. Preventing government regulations keeps power decentralized which is beneficial for the overall balance of power in the society (Frederick et al., 1992).

Another argument is that large corporations have many resources and reserves, especially financial, and should therefore use at least a small part of them to help solve social problems. Supporters of this argument claim that as large corporations have annual revenues higher than is the whole budget of some countries, the corporations should take their extra resources and devote them to improving the social issues. Opponents of this argument state, however, that rates of return and margins are usually more important than profits in absolute figures.

An obvious argument in favor of social responsiveness is improving company's public image. When a company acts irresponsibly it gradually adds to a low opinion and it is then difficult to start over and gain society's acceptance. Companies that choose not get involved in responsible activities also tend to look bad compared with companies that build a positive image in this area.

The arguments against social responsibility in business are based on Milton Friedman's opinion that "*there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud*" (Friedman 1970). Friedman was the main supporter of the

idea that self-interest on a free market, in a given legal framework, leads to positive outcome for society. If social problems arise it is not the companies' responsibility to solve them. The government should be the one addressing social problems.

Some companies state that corporate social responsibility lowers their efficiency and profits. If a company uses its resources for social purposes it has higher costs than necessary and lower profit. In turn, shareholders get a lower return on their investment and this could make it difficult for the company to raise additional funds in the future. This would, however, depend on shareholders' and creditors' view of CSR of the company.

Other arguments against social responsibility stress that it is not economically feasible and might cause a great competitive disadvantage compared to companies that do not take any social actions. The extent, however, depends on how customers value corporate responsibility. The issue arises especially in the global competition. If one country demands more social responsibility from companies than another country, corporations operating there are disadvantaged on the global market.

Some argue that even if a company appears to pay for social benefits and responsible activities, it is the society that actually pays the costs. As businesses try to recover their costs, society pays in form of lower dividends, lower salaries or higher prices. The argument therefore is that if the society knew it has to pay the costs anyway, it would not require socially responsible actions from businesses (Frederick et al. 1992).

Another argument against social responsibility is that corporations are usually not well equipped to deal with social issues. Managers and executives are experts in finance, operations or marketing and do not necessarily have the skills to solve social problems. This argument goes as far as saying that corporation might make the situation worse by acting without appropriate skills and knowledge. Corporations should therefore stick to what they do best – provide quality products at affordable prices. The social problems should be left to others. Who these others might be is not specified (Barnett 2012).

Some critics say that by giving companies responsibility for solving social problems, we increase their power which is already high enough. To avoid concentrating important decisions into business there should be public institutions to take care of social problems. Placing more players in the decision-making process

allows keeping a pluralistic society and preventing corporations from gaining too much power (Frederick et al. 1992).

Finally, it is argued that increasing corporate responsibility is misguided as the focus should be on individual responsibility. Organizations do not make decisions. It is people who decide on company's policies. So if company managers want to support social projects they should do it out of their own pocket and not with company resources.

There are many other arguments for and against corporate social responsibility. It is difficult to make a clear judgment and so companies need to listen to the prevailing opinion in their business locations to evaluate all consequences carefully.

1.2.2 Main social issues impacting business

Let us now have a look at the main contemporary social issues that corporations need to deal with – environmental, global and technology.

Environmental issues are the most pronounced ones. Corporate responsibilities in this area are vigilantly observed. Companies are often criticized for damaging the environment by conducting their business carelessly. Focus of the criticism is mostly on wasting natural resources and contributing to pollution and global warming. The pressure to eliminate harm to natural environment comes from both government and society. Government designs laws and regulations while society poses demands on voluntary changes in production processes.

Global issues are put under the spotlight by customers in more developed countries. The issues are mostly related to the impact of globalization on development. Opponents of globalization claim that it leads to exploiting developing nations, especially their natural resources and workers. They also state that globalization widens the gap between the rich and the poor. Proponents of globalization, on the other hand, argue that it leads to an increased standard of living all over the world as wages increase and economic development advances.

Large corporations operating in numerous countries and regions thus have important legal and ethical decisions to make. These are often a part of their CSR policy. An example of that could be choosing labor standards for workers in different

location. Each multinational corporation needs to decide whether to comply with local standards or use the same high standard for all their locations. The first option could mean that the rules of work place safety or employing children are lower in some countries than in other. This is often criticized by customers and civic organizations from more developed countries. Another decision to be made is whether to continue selling products that were already banned on some markets.

Technology issues are related to the effect new technology has on society. Certain technological improvements also bring the possibility of abuse. Current issue is privacy and security of confidential information, particularly in the context of selling the information and using it for marketing purposes. Other technology issues that need to be addressed from the point of view of ethics and corporate responsibility include genetic engineering, use of embryonic stem cells or cloning.

There are many other social issues that companies need to face. Research has showed that socially responsible companies are perceived better by their stakeholders and in turn have a better financial performance in the long term. This relationship is analyzed closely in chapter 3.

1.3 Regional differences in corporate social responsibility

Previous research on corporate social responsibility concentrated mostly on North America and Western Europe. As this thesis focuses on Central Europe, we first outline the main regional differences and their sources. Aguilera and Williams discuss different approaches to CSR in their study *Corporate Social Responsibility in a comparative perspective* from 2006. They found that differences in CSR among countries are caused by numerous aspects.

The first important aspect is legal environment. Aguilera and Williams state that national laws on CSR are “uniquely powerful” in three areas. Firstly, they form social expectations towards businesses. Secondly, the social expectations in turn create incentives for firms to comply with the legal requirements. Thirdly, the laws give a signal about the importance of the subject in a specific country. This is amplified by business culture in the country, actions of investors, consumer preferences, corporate

governance regime, effectiveness of NGOs and individualistic versus collectivist nature in country's social philosophy (Aguilera, Williams, 2006).

Apart from the legal aspect, CSR is also influenced by institutional specifics. Aguilera and Williams (2006) claim that national path dependencies play an important role in institutional set-up and hence in CSR development, as well.

Aguilera and Williams (2006) distinguish two main attitudes towards CSR – Anglo-American and Continental European, which also prevails in Japan. The main differences in CSR are similar to differences on in corporate governance. Anglo-American part of the world has an "outsider" system while Continental Europe and Japan have an "insider" system. This is based on shareholder and stakeholder view of the company and different cognitive styles in various cultures. The UK is believed to be in between the two systems and approaching the Continental European one. This is inevitable as the UK needs to follows requirements of the European Union.

CSR in Asian countries is quite specific as it is not related to economic development but to the level of international trade (Aguilera, Williams, 2006).

The next two sub-chapters focus on specifics of Corporate Social Responsibility in the European Union and in the Central Europe in particular.

1.3.1 Corporate Social Responsibility in the European Union

European countries, together with America, were the first to promote Corporate Social Responsibility among their businesses by adopting public policies on the issue. United Kingdom, France and Scandinavian countries introduced some of the most renowned and innovative policies. CSR first appeared on the common European Union agenda ten years ago and it has since become a well-established concept. This concept aims to stimulate inclusive, smart and sustainable growth, in line with the Europe 2020 Strategy.

CSR policy framework is now established on the Union level by the European Commission and also on the Member State level. The European Commission issued two CSR Communications, in 2002 and in 2006. Their purpose was to establish a common understanding of CSR across the EU and hence support reaching the Lisbon Strategy objectives. The 2006 Communication set eight priority areas in CSR: awareness-rising

and good-practice exchange, support for multi-stakeholder initiatives, cooperation with Member States, consumer information and transparency, research, education, SMEs, and the international dimension of CSR (Knopf et al., 2011). The EU tries to actively support these priorities by numerous initiatives.

The European Commission CSR initiatives are supported by various member states. To review progress and identify new areas for improvement, the European Commission organized European Multi-stakeholder Forum on CSR in 2009. Since then six multi-stakeholder workshops on company disclosure of social, environmental and governance information took place. The European Commission wants to base the next communication on input from these workshops and independent studies.

In order to support CSR in new Member States and candidate countries, the European Commission launched two initiatives. The first initiative named "Accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonisation, competitiveness and social cohesion in the EU" was run by the United Nations Development Program in 2006-2008. Aims of this initiative were situation analysis, promotion of multi-stakeholder initiatives and good-practice exchange, and national and local capacity building. The United Nations Development Program continued to carry out the support with a special focus on creating a system to measure CSR on government and company levels. Within the second initiative, the European Commission co-financed "Support to National CSR Platforms" in 2009-2011. The aim was to improve CSR performance in European enterprises.

CSR engagement is also increasing on the Member State level. The CSR framework on national level can be established by adopting the EU level CSR action plans and strategies. This approach is recommended mostly to countries that do not have a long tradition of CSR. So far the EU level CSR action plan was adopted by Belgium, Denmark, Germany, the Netherlands, Bulgaria and Hungary. Some Member States base their CSR public policy on national surveys and research studies. This way the policies are tailored to specific needs of the country, its civic groups and businesses. This approach was successfully used by France, Finland and Cyprus. There are also Member States that do not have a strategic document on CSR in place even though they have a strong CSR profile, for example the United Kingdom and Sweden (Knopf et al., 2011).

The European Commission advises that national CSR policy can be developed through six steps: identifying country specifics in CSR, defining CSR, defining CSR public policy rationale, integrating CSR in government institutions, choosing CSR policies and monitoring outcome. The European Commission findings show that Member States tend to have significantly different views on the last four steps.

CSR public policy rationale provides the reason why to engage in CSR activities in the first place. The rationale differs across the Members States, depending on the national economy and its integration in the world economy. Small economies with a high ratio of SMEs, such as Belgium or Portugal, financially support companies that are active in the social economy and try to increase transparency. Member States that are traditionally more export-oriented, such as Denmark, Finland or Sweden, are more active in the international CSR initiatives. And then there are Member States that both support SMEs and are active internationally, for example Germany.

There are several possibilities how to integrate CSR into the government infrastructure. Member States seem to have quite different preferences in this matter. As several government departments are usually involved in CSR – for example labor and social affairs, economy and foreign affairs – France, Belgium and Cyprus set-up an inter-ministerial work group. By contrast, some Member States established new organizations to handle CSR issues. There is a Group for Corporate Responsibility Issues, an auxiliary body of the Prime Minister's office, in Poland; Government Center for CSR in Denmark or National CSR Forum in Germany. The UK and Portugal set up specialized councils. France and Sweden created CSR centers strongly related to their foreign policy.

In terms of establishing CSR policy, there is a choice of implicit or explicit framework, or a combination of both. Implicit framework refers to institutions that are not primarily designed for and labeled with CSR. Examples of this are the constitution, labor or environmental regulations. Explicit framework consists of all institutions that were established with the purpose of promoting CSR.

Outcome of CSR policies needs to be monitored to determine their success and plan further development. CSR policies can be measured against targets set in the EU action plans and strategies. A few Member States use international instrument to

measure the policy outcomes to be able to compare results with countries outside the EU.

As the European Union has only issued Communications on the topic of Corporate Social Responsibility, it is up to each Member State to determine the best way how to implement the topic into national law. As a result, we can observe several ways of rationalizing CSR, integrating it into government institutions, selecting specific policies and monitoring their outcomes. This helps Member States and Candidate Countries to find inspiration for improvement but at the same time it leaves the option to stay behind.

1.3.2 Corporate Social Responsibility in Central Europe

This part discusses CSR in Central Europe as the empirical research in chapters 2 and 3 focuses on this region.

As a part of the "Accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonisation, competitiveness and social cohesion in the EU" project financed by the European Commission and conducted by the United Nations Development Programme in 2006-2008, a report on CSR in Central Europe was written (Braun, Line, 2007). According to the report, the main difference from Western Europe is that it is the business itself that drives the change in Central Europe. The business gets support from local membership-based business organizations and international institutions. Involvement of the governments differs by country. Generally, government incentives and initiatives to improve responsibility of business are missing. Nevertheless, surveys showed that both companies and the public believe that government should take care of social responsibility issues.

Nongovernmental organizations (NGOs) seem to have only limited power to put pressure on the government and companies. For most of the NGOs companies represent a source of funding. For this reason and also due to an ongoing market transition, there is not a tradition of criticism or raising issues with companies.

Media in the region are reported to fail in exposing irresponsible business activities. Research on consumer expectations from companies in terms of social responsibility is limited and companies therefore do not feel the consumer pressure to

change the way of conducting business. The two largest initiatives promoting CSR in Central Europe are UNDP and the Global Compact initiative which is also run by the United Nations. These efforts are nevertheless well integrated with the work of membership-based business organizations, such as Business Leaders Forum Network.

The part of research conducted on a company level revealed that key corporate drivers of socially responsible behavior are multinational companies committed to local and global economic success. In most cases, these companies simply apply general standards of responsible business and imported CSR models from their headquarters.

Overall, companies in Central Europe seem to be open to dialogue with stakeholders. On the other hand, little progress has been made in the areas of public disclosure and governance practices (Braun, Line, 2007).

2. Social responsibility in Central Europe

In this chapter interviews with selected non-profit organizations and companies in Central Europe are assessed. The interview answers are compared with the theories of corporate social responsibility described in the previous chapter. We also analyze how the views of donors and recipients differ in terms of CSR motivation and what the non-profits might do to attract more donors.

2.1 Interviews with non-profit organizations and companies

The interviews were first conducted with selected non-profit organizations and companies one by one. Based on the answers, questionnaires were assembled and distributed by e-mail to reach more respondents in different locations at once.

2.1.1 Interviews with non-profit organizations – the recipients

During the first interviews with non-profit organizations the following questions were asked:

- Who are usually the donors? What type of donors prevails (multinational corporations, large national companies, small and medium sized enterprises, individuals (families, pensioners) or other)?
- What types of projects do the donors prefer (environmental, development, focused on unprivileged children or social groups, supporting the non-profit organization as such, or other)? Is there a relation between type of a donor and type of a project they choose to support?
- What is the usual donation pattern (percentage of profit, constant amount or other)?
- What do you think motivates donors to support your organization?

The first non-profit organization interviewed was **ADRA**. ADRA stands for Adventist Development and Relief Agency and it is one of the largest non-profit organizations in the world, operating in 125 countries. It was granted a Consultative Status in the United Nations Economic and Social Council in 1997. As the interviews were conducted separately with several members of ADRA Czech Republic working on different positions, these are be used as a case study.

ADRA Czech Republic

ADRA started its activities in the Czech Republic twenty years ago by establishing ADRA Foundation for collecting and redistribution of funds. ADRA civil association was established later to organize projects and it has become one of the three largest humanitarian agencies in the country. Czech ADRA runs short-term relief projects, e.g. in case of a natural disaster, as well as long-term development projects in 23 countries around the world. They also established an educational project “Prvák” [first-grader] in the Czech Republic with the aim to increase general knowledge about developing countries and development cooperation among children and youth. They run centers for volunteers in eleven Czech cities focused on helping the disabled and seniors. The humanitarian office coordinates a psycho-social intervention team helping people to overcome extreme events.

ADRA civic association and ADRA Foundation have separate annual reports. In 2010 ADRA civic association received 55 million CZK from private and public entities (individuals, companies, municipalities, etc.) which was the largest source of income (57.6%). Over 32 million CZK were gained from 61 public subsidies (33.7% of income). Sale of services and membership contribution accounted for less than 9% of resources. ADRA Foundation accepted around 900 thousand CZK in contributions and over 20 million CZK in grants. Out of the 20 million, one third was a contribution from RWE Company. Almost a half was gained from anonymous donations through public collections and from Donors Message Service. (ADRA Annual Report 2010)

ADRA’s largest donors among companies are RWE, Passerinvest Group, Lagermax, OKD Foundation, Genius Media, Digital Resources, Air France, ČSOB and Škoda Auto.

Interview with Radomír Špinka, Chairman of the Board of Directors in ADRA Foundation and Coordinator of "BangBaby" Project[2]

1. Who are usually the donors?

"Majority of the donors are individuals from different parts of society. Most of them are from the Czech Republic, some are from Slovakia and a few are from other European countries. When it comes to types of donors there is a large group from the Seventh-day Adventist Church. That is because ADRA was established by the church and so the members are well informed about ADRA and its activities. Project BangBaby is also supported by hundreds of individuals and companies."

2. What types of projects do the donors prefer?

"Most of the donors support projects after natural disasters that appear in the media. Of course there are also donors that support us regularly. I cannot tell whether there is a relation between type of a donor and type of a project supported."

3. What is the usual donation pattern?

"I cannot estimate this."

4. What do you think motivates donors to support your organization?

"Donors are particularly generous in case of humanitarian aid after natural disasters (floods, earthquakes, tsunami, etc.). It is much more difficult to find support for development projects. Donors are certainly influences by media where they hear about urgent needs after natural disasters. I think they are also influenced by personal experience with particular non-profit organizations."

[2] BangBaby is an educational program that Czech ADRA runs in Bangladesh. ADRA civic association allocated one fifth of all donations to this project in 2010.

Interview with Lenka Hájková, Methodologist and Project worker from ADRA Center for Volunteers in Frýdek-Místek

1. Who are usually the donors?

"Our branch is supported from government resources (Ministry of the Interior, Ministry of Health and this year also Ministry of Education, Youth and Sports). In 2010 we were also supported by regional authority which included grants for voluntary work into its budget. We are further supported by municipalities where we run projects although support from some is very limited. Our activities are supported by different foundations, mostly from our region, as well. Large amount of support comes from individuals and legal entities. Main donors are mostly legal entities, usually limited liability companies or joint-stock companies. These companies are Czech and conduct their business in places where we run our projects. In 2010 we had seven main donors that provided financial or in-kind support of more than 20 000 CZK. The next division is between donors who gave more than 10 000 CZK or less. In 2010 we had 90 donors in this category from our region. Eleven companies provided in-kind support."

2. What types of projects do the donors prefer?

"With state, regional, municipal or corporate foundations it depends on the type of grants they award each year. Multinational corporations and also large Czech companies, e.g. Česká spořitelna, KB, etc., have their own policy for CSR which includes policy for donations. These companies usually choose their area of interest in advance. It is mostly environmental and cultural projects or projects focused on children and the disabled. It is an exception if a company chooses to support a project for seniors. Nevertheless, there are some large companies and small and medium enterprises that do not have a fixed CSR policy. It then depends on the ability of a fundraiser from a specific non-profit organization to "sell" their projects.

Voluntary work and volunteer projects are usually not eligible for grants and not in line with company CSR policies. It is only possible to gain support through emphasizing the target group of the voluntary work."

3. What is the usual donation pattern?

“In 2010 we gained 648 101 CZK from companies, both financial and in kind support. We further obtained 78 439 from public collections, 283 900 from foundations and 995 300 from public grants.”

4. What do you think motivates donors to support your organization?

“ADRA in general and also our regional branch have a good reputation. Our organization works a lot with media and is therefore well-known country-wide. People recognize ADRA from TV and leaflets. People know our logo. What helps our branch is a good relationship with media and we try to improve it in the long term. Our great advantage is also a long-term cooperation with fundraisers. We now have a very capable fundraiser who is a longtime supporter of ADRA. We think it’s important that she is a business person. She knows how to approach companies and apart from her own contacts she knows how to gain new ones and how to build good relations with companies. Voluntary work is generally a neutral issue and media respond well to it; they are willing to publish articles promoting “good deeds”.”

Interview with Petra Kurfürstová, Director of ADRA Center for Volunteers in Prostějov

1. Who are usually the donors?

“In our branch it’s mostly small and medium enterprises from the region.”

2. What types of projects do the donors prefer?

“Our donors support the whole branch and usually don’t care how we use the money. Target groups of our projects are seniors and the disabled.”

3. What is the usual donation pattern?

“Donors mostly give constant amounts.”

4. What do you think motivates donors to support your organization?

“On regional level it’s the good reputation of our branch, on national level it’s the media coverage that influences donors the most.”

Interview with Šárka Hejnáková, Coordinator of BangBaby, ADRA’s largest project

1. Who are usually the donors?

“ADRA is supported by different types of companies as well as individuals. It’s difficult to determine which group is the most significant. We don’t have sufficient data to find out. Specific feature of ADRA is a large support of Adventists as it is essentially an Adventist organization. We also get financial support from public subsidies.

I suppose that project BangBaby in particular is supported by mostly by “ordinary people”, individuals, families, groups of friends. Interesting donor groups are schools and family centers. The spectrum is really wide. Of course we also receive support from small, large and multinational corporations. There are no public subsidies for this particular project.”

2. What types of projects do the donors prefer?

“Donors support mostly humanitarian aid projects because they see who and where currently needs the help. If news of a natural disaster is widely reported in our media donors respond quickly and donate generously. It’s much more difficult with development projects. Long-term support is needed and the choice of a project usually depends on individual preference. I suppose that people usually prefer projects helping children or providing medical assistance but that’s just my personal opinion. I think there’s for sure a relationship between type of a donor and type of a project they support: pharmaceutical companies support medical projects, schools support educational projects. But I don’t have sufficient data for an objective answer.”

3. What is the usual donation pattern?

“I cannot answer this question objectively. I suppose that in case of the BangBaby Project the donations vary. I know from communication with the donors that some of them have limited income but they still want to and do help the kids in our project. In BangBaby project we receive constant amounts of 450, 550 or 650 CZK a month, depending on which category a child is in. Payments can be made monthly, quarterly, semi-annually or annually. Some donors support two, three or even more kids at the same time. On the other hand, we have cases where two or three donors support one kid. In some cases there are mothers from a family center who collect the minimum amount. It’s really variable. It’s also variable in other projects. We have donors who support specific projects on regular basis or simply support ADRA in general with regular similar amounts. Other donors always respond to humanitarian crisis. Some support us only once or irregularly.”

4. What do you think motivates donors to support your organization?

“ADRA is a huge organizational network. It has a good reputation and many people trust it because of longtime positive relations and everything it’s accomplished. It’s an Adventist organization which of course motivates members of the church to support it. At the same time, ADRA is supported by non-members, too, because people know that ADRA makes no differences between donors based on religion, race, origin or political views.”

An important outcome of the first interviews was that it helped to evaluate how clear the questions were and how they needed to be changed in order to get more specific and relevant answer. In the next round of questionnaires, questions focused more on support that non-profit organizations receive from companies. Also, the questions were shortened and simplified. Based on Chiu (2009), when sending out questionnaires to organization were the questionnaire author has no personal relationship, it is best to keep the questions short, simple and clear. Complex questions might result in a lower response rate.

The questionnaire was simplified in the following way:

- What companies support your organization? (small enterprises/international corporations/firms from a specific industry/other)
- What projects do companies usually want to support? (with focus on environment/education/organization's work in general/ other)
- What support do you receive from companies most often? (material support/one-time payment/regular financing/other)
- What do you think motivates companies to support your organization?

This basic questionnaire was sent out to non-profit organizations in the Czech Republic, Slovakia, Hungary and Poland. In the Czech Republic, the questionnaire was sent to all non-profit organizations that are registered on the portal nezikovsky.cz and have at least one company listed as their supporter within the last three years. Number of non-profit organizations receiving support from the private sector is 191 out of 440 of registered organizations. The number of responses collected is 58 which gives a 30.36% response rate. This response rate is in line with findings in Chiu (2009) who stated that response rate to e-mail questionnaires from an unknown person tends to be around one third.

The 58 Czech non-profit organizations that responded to the questionnaire include the largest organizations (e.g. People in Need) and several small organizations, as well. Different national (e.g. Maltezska pomoc), regional (e.g. Charita Ostrava) and

even local (e.g. Občanské sdružení Sirius Třebíč) organizations took part. As for the scope of the organization's work, response was received from organizations specializing in a particular field (e.g. Alzheimercentrum) as well as from organizations with a wide scope of activities (e.g. Red Cross). A complete list of organizations that responded is included in Appendix 3.

Number of Slovak non-profit organizations receiving the questionnaire is 26. Those are the organizations listed on the Slovak NDGO Platform that also receive some funding from the private sector. They are also the largest non-profit organizations in Slovakia. Other non-profit organization databases provide insufficient data to look up organizations one by one. Number of organizations that have responded is 8, which gives a response rate of 30.77%.

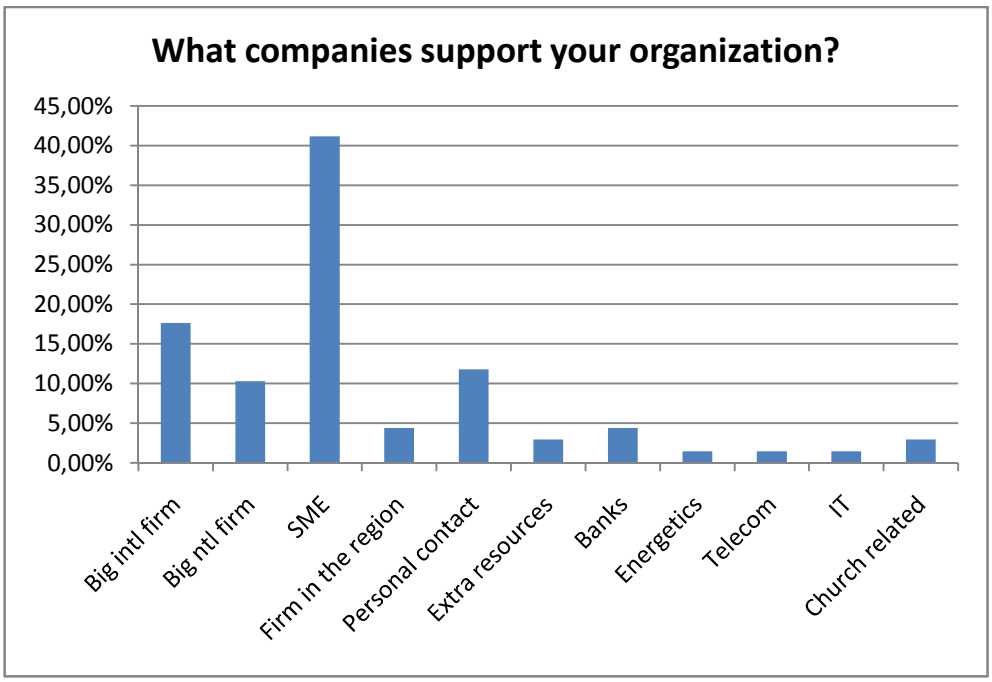
The Slovak organizations that responded to the questionnaire include the largest non-profit organizations in Slovakia (e.g. UNICEF or Pontis Foundation). Three organizations have some connection to the Christian religion (e.g ADRA, eRko, Slovak Catholic Charity). Two organizations are involved in international relations and one in health issues. A complete list of organizations that responded is in Appendix 3.

In case of Hungarian and Polish non-profit organizations there is a language barrier and so both searching for organizations supported by private sector and getting in touch with them was more challenging than in case of Slovak and Czech organizations. 12 Hungarian non-profit organizations selected through the nonprofit.hu portal received the questionnaire in English and 2 responded. In Poland, the 8 largest non-profit organizations received the questionnaire in English and one of them replied. However, Polish platform for non-profit organizations ngo.pl responded that they are conducting a research very similar to this one among 400 Polish organizations and their results should have been available at the beginning of May. Unfortunately, publishing of the results was postponed until the end of May and so they cannot be included here.

Let us now have a look at how the non-profit organizations answered the questionnaires. As for the first question - What companies support your organization? (small enterprises/international corporations/firms from a specific industry/other) – 41% of non-profit organizations claimed they were mostly supported by small and medium enterprises. 18% of non-profit organizations receive most support from large international corporations. Large national companies were reported by 10% of the non-profit organizations. 4.5% of organizations stated that they are supported by companies from the region without specifying the size of the companies.

Industries that were specifically mentioned in the questionnaire answers were banking, telecommunications, energy and IT. 12% of non-profit organizations reported that they are only supported by companies where they know someone personally. Some organizations stated they are only supported by companies that have leftover resources that they cannot put in a better use. Two organizations are supported by companies that are somehow connected to a specific church. The answers are displayed graphically in the Figure 2-1 below.

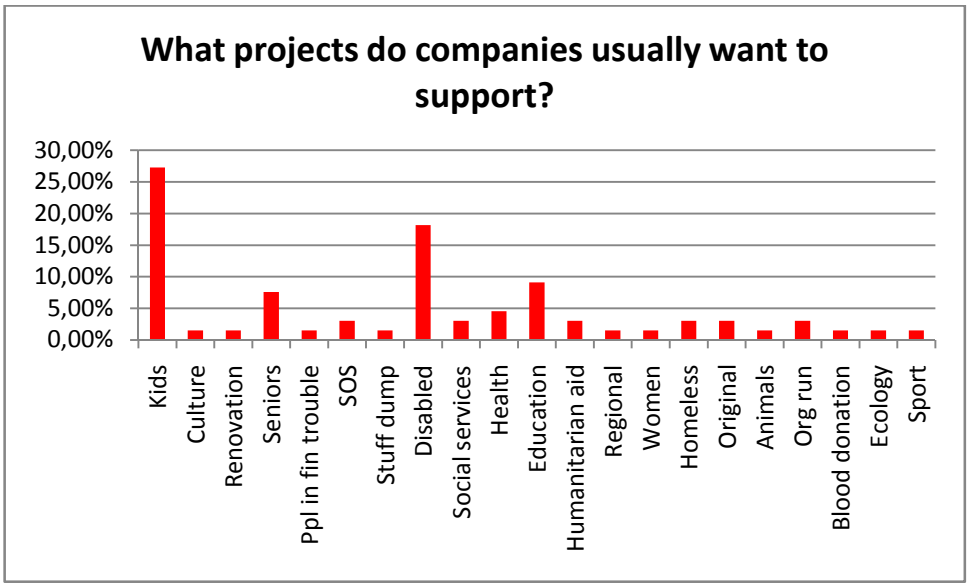
Figure 2-1: Answers of non-profit organizations to Question 1



The second question - What projects do companies usually want to support? (with focus on environment/education/organization's work in general/ other) – brought a large number of different responses. 27% of organizations stated that firms are most likely going to support projects focused on children. Even though some organizations mentioned that the tendency to choose children projects over others is not as strong as it was 10 years ago, it still seems to be prevailing. Projects for the disabled receive the second highest support according to the non-profit organizations. Among the better supported are also educational projects (9%) and projects for seniors (7.5%).

Other types of projects receive a lower support from companies. These include projects focused on health, more specifically fighting cancer or addiction; or projects of humanitarian aid and relief, such as after-flood restorations or ShelterBox. A few non-profit organizations receive support to cover their operational costs and running project support. Two organizations stated that companies want to support unique projects, no matter what area they are in. Included in the answers were also projects focused on sports, culture, ecology, blood donations, homeless people or people in financial troubles. Projects focused on women, regional development, animals and landmark restoration were also mentioned. A graphic display of all answers can be found in Figure 2-2 below.

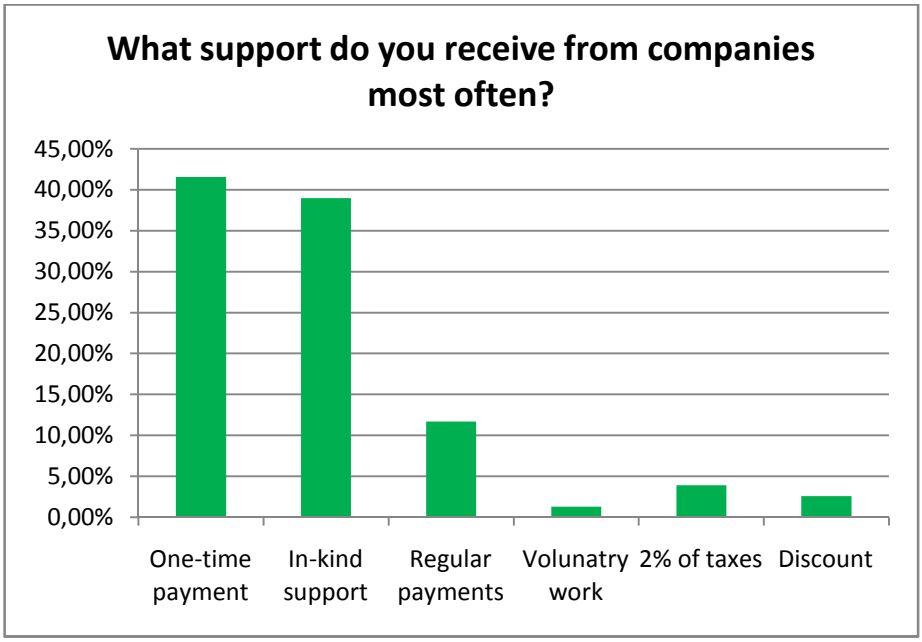
Figure 2-2: Answers of non-profit organizations to Question 2



Answers to question number 3 - What support do you receive from companies most often? (material support/one-time payment/regular financing/other) – were more straightforward. Most non-profit organizations receive one-time payment from companies. These payments usually come at the beginning of a new project. Most organizations wrote that if a project goes well, companies are willing to support them again with a single payment for another project. The second popular type of support is in-kind or material support. Organizations receive free materials that they need for their projects, or free services, such as consultations or web page design. These two types account for 80% of all support.

The type of support that non-profit organizations state would be the best for them is regular payments. 12% of support from companies has this form. The support can also have the form of voluntary work for the organization or a discount on companies' products or services. A specific category is the 2% of taxes donations which is a significant source of funding for Slovak non-profit organizations. According to Slovak law, each legal entity or individual can allocate 2% of their income taxes to a non-profit organization officially registered for this purpose. All answers are displayed on Figure 2-3 below.

Figure 2-3: Answers of non-profit organizations to Question 3

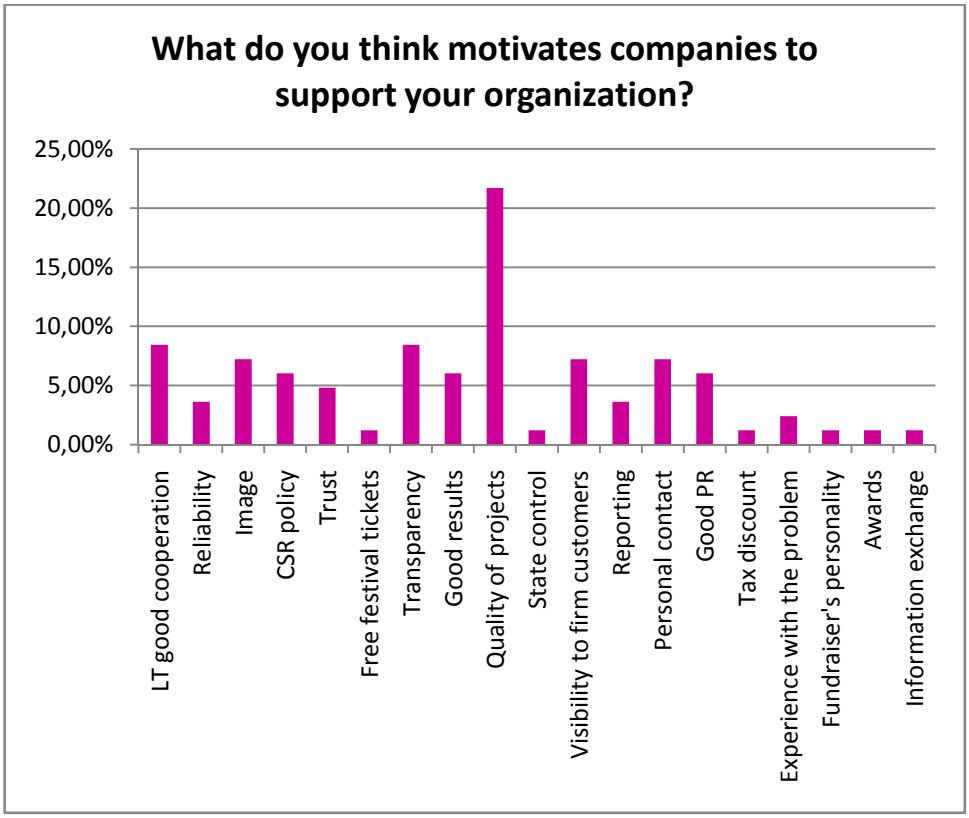


The fourth question - What do you think motivates companies to support your organization? – was the most important one in the questionnaire. The point of this research is to find out what might motivate companies to support social, environmental and development projects. This support is usually given through non-profit organizations. It is therefore crucial to find out how non-profit organizations perceive the motivation and whether this matches the companies' responses.

22% of the non-profit organizations believe that the most important factor is quality of the project. This includes quality of the project plan, project running and organization. At the same time only 6% of the organizations think that good project results are the most important motivational factor. Long-term good cooperation and transparency of the project financing were each mentioned by 8.5% of non-profit organizations. 7% of organizations believe it is crucial to know someone in the company to gain its support. 20% of organizations believe that companies support them to improve their image, fulfill their CSR policy targets or gain more visibility of their customers. 6% of organizations wrote they have been receiving more support since they improved their PR.

Possible motivation that was mentioned by less than 5% of the non-profit organizations includes reliability and trust, precise reporting of how the project is going, tax discounts or state control over the non-profit organization. A few organizations think companies support them because the employees who decide where the support goes have personal experience with the problem the organization focuses on. One fundraiser wrote that companies support the organization because of her personality. One Slovak organization believes companies support them to improve information exchange and one organization stated it is important to companies that the organization received official awards for their projects. One Hungarian organization wrote that companies support them to get free festival tickets. Answers are displayed in Figure 2-4 below.

Figure 2-4: Answers of non-profit organizations to Question 4



Let us now continue with non-profit organizations' comments on development of company support. Representative of OliMali – a Czech civic association that runs charity projects for children in Ukraine – stated that even though projects for children are still getting the most support, this trend has unfortunately declined in the past ten years. He wrote that companies prefer to support new and unconventional projects that attract more publicity. It is therefore important to present a unique project. Also, more support is coming from IT firms that design web pages. The representative of OliMali wrote that these firms offer free web page design to non-profit organizations as a part of their promotional activities. OliMali itself now has a brand new web page and name of the IT firm that designed it is written right on the top.

Founder and director of non-profit organization Prosperity also shared interesting views on how the project support from companies evolves. Prosperity is a Czech organization that supports entrepreneurs in becoming more independent and self-sufficient. It offers educational courses, makes interviews with successful entrepreneurs

to pick their minds on how to run a business better and provides legal services to help start-ups. According to the director it is easier to raise funds for the disabled than for talented people. Similarly to the representative from OliMali, Prosperity's director stated that it is crucial to come up with a unique project with good media coverage to gain more support from companies.

A project leader from the non-profit organization New School wrote that the current trend, especially among companies with developed CSR policies, is to invest into the future and so firms are most likely to choose to support educational projects for children. He stated that it is also the general trend in the society to try to help children get a better education and through that improved prospects for a successful professional career in the future. The organization New School supports education of minorities, particularly Roma people and children of foreigners.

Fundraiser from the senior home Sue Ryder stated that companies tend to choose a particular type of projects to support and it is then almost impossible to get support for a different type, especially without a personal connection in the company. In general, it is easier to get support for projects focused on children or animals. Once the non-profit organization gets the first support the continuation depends on the relationship between the company and the non-profit organization.

A questionnaire response that illustrates how difficult it might be to gain support for a well-designed project came from chairman of the Association of landmark restoration. The association's project plan is to restore a cultural landmark Zbenice castle, build a museum, lecture halls and a historical library and organize both fun and educational activities for children and adults. The chairman of the association wrote that he contacted over two hundred organizations without success.

So after evaluating all questionnaire responses it seems that original and quality projects focused on children in the areas of education or disabilities are the most likely to gain some support from companies. Nevertheless, a project that fits these criteria might still fail to gain sufficient support. What it is that makes the difference remains a question for a more thorough research, which is outside of the scope of this thesis.

2.1.2 Interviews with companies – the donors

The following questionnaire was sent out to companies:

- What types of projects does your company support? (focus on children/culture/sports/other)
- What criteria do you use to choose between specific projects?
- What motivates your company to support social, environmental or development projects?
- If you donate money/resources to non-profit organizations, what do you expect in return? (company logo visibility, continuous reports on how the resources are used, other)
- Recent studies show that companies with good CSR policies have better financial performance in the long term. Do you think this theory is applicable to Central Europe? Is this something you consider when designing a CSR policy?

This questionnaire was sent to all companies that are included in the study of the relationship between supporting social, environmental or development projects and long-term financial performance in Chapter 3 of this thesis. In total, it was 48 companies from the Czech Republic, Slovakia, Hungary and Poland.

The response rate was rather low. Some companies did not reply at all. A few companies post an outdated e-mail address for investor relations inquiries on their web page and so it is not even possible to get in touch with them. Incidentally, these are the companies that also have the lowest CSR rating. Some companies replied that they cannot answer the questions because it would violate their internal policy.

Only few companies provided what seems to be a thorough and honest response – Polish Bank Millennium, Magyar Telekom, CME and Telefonica. As each of these companies is a representative of one of the countries included in the research, these answers are used as case studies.

Bank Millennium is a Polish commercial bank established in 1989. Its strategic shareholder is Banco Comercial Portugues. The bank is listed on the Warsaw Stock Exchange where it is included in the RESPECT Index. The Index comprises socially responsible companies listed on the WSE Main List.

The answers from Bank Millennium's CSR Consultant Anna Pulnar are as follows:

What types of projects does your company support? (focus on children/culture/sports/other)

"Bank Millennium supports projects related to Clients, Employees, Business Partners, Society and Environment."

What criteria do you use to choose between specific projects?

"Our projects are designed in order to meet the needs of the main Stakeholder groups of the Bank. When defining those needs, we base on a survey of Customer and Employee satisfaction, questions addressed to the Bank by the external auditors and research centres, discussions with Customers, investors, business and social partners."

What motivates your company to support social, environmental or development projects?

"The main motivation for conducting a responsible business in Bank Millennium:

- The main CSR values are identical with corporate values (e.g.: Trustworthiness, Openness to the customer, Ethics and Responsibility in action, Excellence – high quality of services rendered, Innovativeness, Respect for stakeholders.)

- Compliance of CSR standards have positive impact on Stakeholders satisfaction and build better cooperation between them and the Bank

- Implementation of CSR standards ensures long term presence on the market, build credibility and competitive advantage"

If you donate money/resources to non-profit organizations, what do you expect in return? (company logo visibility, continuous reports on how the resources are used, other)

"It depends on the project. Regarding sponsoring, we mostly expect company logo visibility and donations – that the reports will be produced."

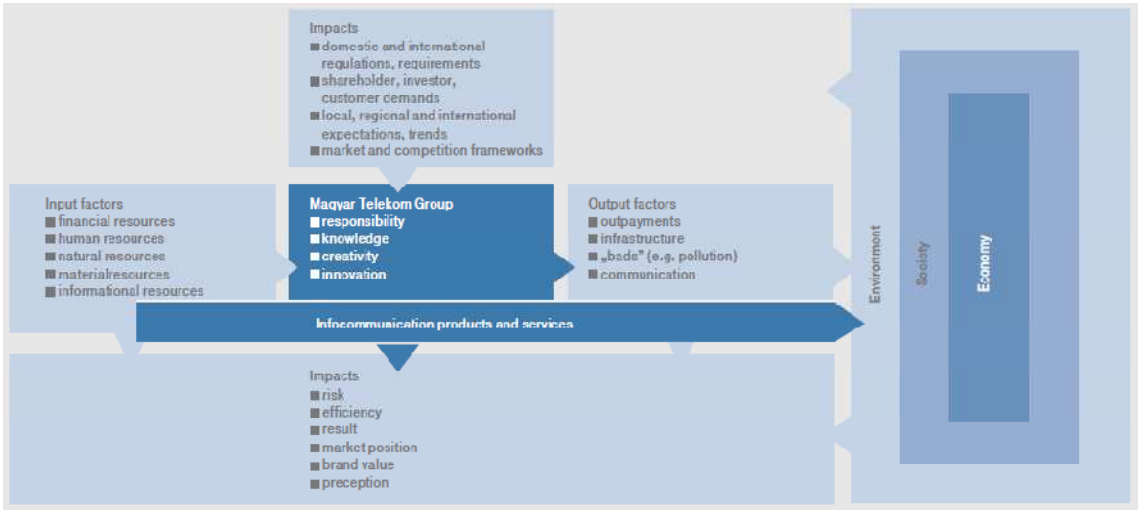
Recent studies show that companies with good CSR policies have better financial performance in the long term. Do you think this theory is applicable to Central Europe? Is this something you consider when designing a CSR policy?

"When designing the CSR policy we take into the account that the companies with good CSR policies are more credible for Investors and may have better financial performance in the long term. That is why Bank Millennium is listed on the "Respect Index". This index comprises companies listed on the Warsaw Stock Exchange, which comply with highest standards for corporate governance, information governance and investor relations as well as environmental, community and employee relations."

Magyar Telekom Group has operated on Hungarian market since early nineties. It conducts business in two main areas: fixed line and mobile communication services for residents and SMEs; and corporate services for enterprises. It has operations in South-East Europe, as well. Its majority shareholder is Deutsche Telekom AG. It has been listed on Budapest Stock exchange since 1997.

Magyar Telekom introduced a three year Sustainability strategy for 2008-2010. Its strategic objective was to "*make the leading sustainability role achieved by Magyar Telekom so far visible for the employees and the customers, too*" (Magyar Telekom 2011). The overall approach is illustrated on the Figure 2-4 below.

Figure 2-5: Structural approach of sustainability, by Magyar Telekom



Source: Magyar Telekom 2011

This figure illustrates all the different areas that need to be considered when talking about sustainable business. Based on its Sustainability Reports, Magyar Telekom seems to have the ideas about sustainability and responsibility well outlined and also implemented.

The answers to the questionnaire from Magyar Telekom's Corporate Sustainability Manager Rita Abraham follow:

"In advance a short summary of our approach:

- main guidelines come from Deutsche Telekom which is the main owner of Magyar Telekom; we keep those topics that are relevant in the Hungarian market and try to leave those that are not

- at Magyar Telekom we talk about sustainability not CR or CSR

- in 2010 we created a sub brand ("hello holnap" which means hello tomorrow) in order to label those products, services and activities that are related to sustainability"

What types of projects does your company support? (focus on children/culture/sports/other)

“Regarding sponsorship we focus on youth (music festivals), sports (water polo, kayak/canoe, swimming - these are very popular sports in Hungary), and culture (we are one of the main sponsors of Budapest's biggest and most prestigious music hall called MÜPA)

Regarding sustainability and corporate social responsibility we call three times a year a so called thematic tender for civil organizations. We determine topics that are related to sustainability.”

What criteria do you use to choose between specific projects?

“We prefer those projects that are match with our 5-year sustainability strategy.”

What motivates your company to support social, environmental or development projects?

“Sustainability for MT is a long term strategic principal. Being an info-communication company development is part of our profile, innovation is one of Telekom's three brand character. Any project that is in connection with innovation is welcome. Since telecommunication and info-communication are affected by environmental issues (networks, wires, data traffic-data centers, used mobile devices) we put a strong emphasis on environment protection.”

If you donate money/resources to non-profit organizations, what do you expect in return? (company logo visibility, continuous reports on how the resources are used, other)

„We expect the listed things: company logo, half time and final report including financial report.”

Recent studies show that companies with good CSR policies have better financial performance in the long term. Do you think this theory is applicable to Central Europe? Is this something you consider when designing a CSR policy?

"CR or sustainability is about money in the long term and about image in the short term. According to a research conducted in 2011 people in Hungary tend to pay more for those products and services that come from a sustainable company. Nowadays it is a little bit harder because of the economic crisis, clients are more price conscious than before."

CME is a media and entertainment company operating 30 commercial television stations in six markets of Central and Eastern Europe. It was founded in 1994 and the first television station was Nova in the Czech Republic. It is listed on Prague Stock Exchange and NASDAQ in New York.

The answers from CME's Investor Relations Executive Jana Knazko follow:

What types of projects does your company support? (focus on children/culture/sports/other)

"Across our markets we engage in hundreds of CSR projects every year, in fact too many list here. They cover a broad spectrum including children's charities, championing causes for the terminally ill, sport, youth events, supporting the mentally or physically challenged, environmental issues, culture, health. Our team in Slovenia, for example, estimated that they execute two new CSR campaigns a month.

A few examples of very recent campaigns:

Bulgaria is currently running the Magnificent Six campaign in collaboration with UNICEF to help find families for orphans. In Romania, Pro TV campaigned and succeeded in getting the government to change legislation to make it easier to adopt the 40,000 children that are currently in orphanages. We also positively impacted the adoption process in Croatia where five national bills were changed. We support humanitarian programs for orphans in Slovakia. In the Czech Republic last year we held a sports and dancing event for children from children's homes across the country.

Generally we support a number of local causes such as youth football teams and other sporting events and clubs.

We regularly raise awareness of health issues and educate people on how to prevent them. We raise money for hospitals, run campaigns to promote blood, marrow and organ donation, cancer treatment, in some regions support institutes for Cerebral Palsy and many others. Pro TV continues to campaign for a better public medical system in Romania.

We raise money for the physically and mentally challenged, for example in Slovenia, Pro Plus staff and famous sportsmen and women ran 340km across the country to raise money to build a Down syndrome center. In the Czech Republic every year TV Nova stars perform to a stadium full of children with learning difficulties from across the country.

We run environmental campaigns and associate with the Let's Do It! movement in three markets. We also run environmental programming for example in Slovenia, educating viewers on how they can help protect the environment using efficient strategies endorsed by experts. We have also run tree planting initiatives in several countries.

We support film schools, and organize a wide range of cultural events and festivals. We also raise money for international disasters."

What criteria do you use to choose between specific projects?

"The criteria differ from region to region and project to project based on local need, legislation, current events and resources."

What motivates your company to support social, environmental or development projects?

"Our employees and our viewers motivate us. Our employees love to work on CSR projects, it's good for morale and gives everyone a great sense of achievement. We are often asked by employees how they can do more.

Our viewers also enjoy being given the opportunity to get involved, and our campaigns make it easier for them to do so. People appreciate our educational programs as is evidenced the popularity of our programs on health and the environment."

If you donate money/resources to non-profit organizations, what do you expect in return? (company logo visibility, continuous reports on how the resources are used, other)

"We would absolutely expect reports on the use of support and we research organizations very thoroughly before engaging in activities with them. It's very important to be sure that any money raised is going to the right places and that our brand name is in no way misused. Usually we don't have to ask organizations for visibility, they are very happy to be associated with our television channels, and in fact ask us if they can use our name in their promotional materials. It makes sense that the more big names you can associate with your charitable organization, the more credence and coverage it adds to your cause."

Recent studies show that companies with good CSR policies have better financial performance in the long term. Do you think this theory is applicable to Central Europe? Is this something you consider when designing a CSR policy?

"Organizational ethics are essential no matter where you are in the world. If you are socially and corporately responsible and you have a strong ethical code which runs throughout your organization it affects all facets of your business. Gone are the days when businesses could live in a bubble motivated purely by economic factors. The actions of a business can potentially affect huge communities of people at the same time for good or for bad.

It is why we are incredibly proud to be voted the most trusted brand in three markets by independent consumer surveys for many years running and to have millions of Facebook fans. People can see that we are engaged in the community through our campaigns, they trust that we are about more than the bottom line. This trust in us means that our news programs, for example, are the most watched in every market by a significant amount. This drives audience share, which drives advertising revenues. Our ethics affect the way partners and suppliers deal with us, and the way we deal with

them. It affects the happiness of our employees and how they perform. It affects our reputation and ultimately our share price."

A short summary of the responses and comparison with theories from chapter 1 and questionnaire answers of non-profit organizations follow in the next sub-chapter.

2.2 Comparison of interview answers with theories

What the company responses have in common is that they all expect financial reports and their company logo visibility in return for supporting non-profit organizations. When comparing this with the theory of rationality of motivation, we see that the companies are not purely patrons but they are sponsors. Expecting to gain something in return for their support (here we mean company logo visibility) suggests the companies are rational and self-centered.

When applying the theory of allocation preference it seems, however, that there are some patron-specific features in the company decisions. It is not only what companies are going to get in return that is relevant, it is also the amount of their disposable income and positive relationship with the recipient that matter.

Theory of organization suggests that good relations with employees and business partners make the company more attractive which increases company profit. It pays out to act ethically and responsibly, especially in repeated games. All interviewed companies are important players on their respective markets in the long term. They confirmed that part of their motivation to run responsible business is building a sustainable strategy, which is attractive for employees, customers and other stakeholders. Corporate responsibility also improves company's credibility and provides a competitive advantage.

Another part of companies' motivation to support social, environmental and development projects is the positive influence on shareholders. This is in line with the theory that there is a link between shareholder values and their perception of corporate social responsibility and hence the quality of company's CSR influences investment decisions of small shareholders. Chiu (2009) stated that especially companies listed on

the stock exchange need to show a solid CSR plan. This also came up in the company questionnaire responses. Magyar Telecom's representative mentioned that according to a 2011 research Hungarians are willing to pay more to sustainable businesses. She also mentioned, however, that this tendency decreases with the impact of financial crisis.

In a response to the fifth question all companies agreed that there is relationship between a good CSR policy and financial performance in the long term. Magyar Telecom's representative even stated that "*CR or sustainability is about money in the long term and about image in the short term*". This relationship is tested on stock market data in chapter 3.

When we bring our focus back to the non-profit organizations we see that what they perceive as the main motivational factors of company support is generally in line with the company responses. Logo visibility of the donor, good PR of the non-profit organization and good project reporting seem to be the key factors. However, even though companies admitted image and long-term profitability are main drivers of their support, they still choose projects that fit their company's sustainability strategy.

When analyzing where most of the support comes from, non-profit organizations stated that 41% is from small and medium enterprises and 18% is from large international corporations. The report of United Nations Development Programme from 2007 showed, however, that multinational corporations are the key drivers of change in the CSR field in Central Europe (Braun, Line, 2007). Even if the multinational corporations bring the positive change to the region, it seems that local small and medium enterprises are catching up fast.

Companies that responded to the questionnaire include the largest players on Czech, Slovak, Hungarian and Polish market. Even though this is a good outcome given how difficult it is to get companies to answer student questionnaires, it would still be beneficial to collect more responses in further research so that the answers are more representative.

3. CSR and long-term financial performance

The relationship between corporate social responsibility and long-term financial performance is best observable on publicly traded companies. As was mentioned in the theories in the first chapter, company culture which involves CSR influences investors, among other stakeholders. Small and individual investors are influenced the most. This in turn has an impact on how a company wants to present itself in the public and how its shares are traded on the market. Before modeling the relationship between CSR and long-term financial performance on Central European stock markets, previous research on the topic is summarized.

3.1 Previous research

Bird et al. published their research on American corporate system in *What Corporate Social Responsibility Activities are Valued by the Market?* in 2007. They compared two attitudes towards CSR – neoclassical and stakeholder theory. In neoclassical economics profit-making is considered to be the only responsibility of a corporation. In stakeholder theory, no group has a priority over the others. The key question in this dispute is: In whose interest should companies operate?

The basic premise is that "indeed the capacity of a firm to generate sustainable wealth over time, and hence its long-term value, is determined by its relationship with critical stakeholders" (Bird et al. 2007, p.3). The relationship with critical stakeholders can be largely improved by a good CSR policy. Benefits of developing a CSR policy include an increase in company's goodwill, dissuading future government control or cost-saving, for example when a company decides to use resources more efficiently as a part of their environmental policy.

To find out what CSR activities are actually valued by the market, Bird et al. used CSR rating of KLD, a provider of investment decision support worldwide. Five CSR areas were analyzed separately: community, diversity, environment, employee and product. For each area, both strength and weaknesses were rated by company. Data were collected from 340-420 companies each year during 1991-2003.

Bird et al. regressed excess market returns on CSR classification for each area measured over time. Then they pooled and also divided the data into sub-samples to see how the results change over time. The outcome was that all the five areas of CSR are significant and therefore valued by the market to a certain degree. They also found that some CSR activities were valued by the market in the past but not anymore. An important finding is that market does not reward companies that are overly generous.

Graves and Waddock (1997) focused their research on the link between corporate social performance and financial performance. The link was examined on data from S&P 500 companies. Similarly to Bird et al., KLD's rating was used to capture corporate social performance. Graves and Waddock took accounting measures of financial performance and used a correlation matrix to assess the link.

They also considered that the causality could work in both directions, i.e. good social performance causes an improvement in financial performance, or good financial performance results in extra resources invested into social performance. They examined the direction of causality and found out that it indeed works both ways. Companies that have slack resources invest into their social performance and that further improves their financial performance in the long term.

McWilliams and Siegel (2000) claimed that all research on the correlation between corporate social responsibility and financial performance is inaccurate if it does not include R&D in the explanatory variables. They used data for companies included in both KLD and Compustat, which is an international database of financial, statistical and market information. They concluded that after R&D is included in the model, CSR seems to have neither positive nor negative impact on financial performance but it remains neutral.

Brammer and Millington (2008) narrowed down the topic to the relation between corporate charitable giving and financial performance. They used data from London Stock Exchange. The analysis showed that companies with both unusually low and usually high levels of charitable giving have better financial performance than other

firms. Unusually poor social performers do best financially in the short term, while good social performers do best financially in the long term.

3.2 Stock markets in Central Europe

Before we model the relationship between social and financial performance we compare the four stock markets and share ownership structures in Central Europe.

Warsaw Stock Exchange is by far the largest in the region in terms of trading figures for shares. Its market capitalization was over 142 billion EUR at the end of 2010. Turnover in that year was almost 60 billion EUR through more than 13 million trades. Number of companies listed was 585.

Prague Stock Exchange was the second largest by market capitalization in 2010 with almost 32 billion EUR. Turnover of over 15 billion EUR was made through more than million trades. PSE has the lowest number of companies listed – 27.

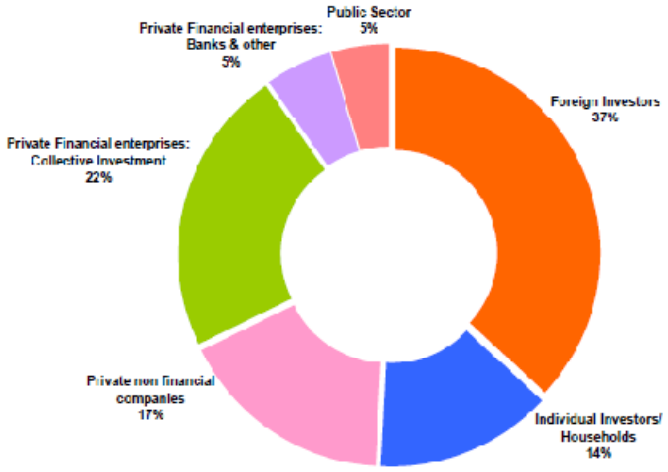
Budapest Stock Exchange had lower market capitalization than PSE in 2010 (around 20 billion EUR) but it had a higher turnover of almost 20 billion EUR through 2.6 million trades. There were 52 companies listed.

Bratislava Stock Exchange is clearly the least significant. Even though there are 165 officially listed companies, activity on the market is low. Market capitalization was slightly over 3 billion EUR in 2010. Turnover in shares was 231 million EUR through fewer than 7000 trades.

Detailed information about the markets can be found in Appendix 1.

To compare the share ownership structure the Federation of European Stock Exchanges' *Share Ownership Structure in Europe* from 2008 are used. When we look at the European Stock Exchanges on average, individual investors and households account for 14% which is slightly less than in previous years. The most significant shareholders are foreign investors with 27%. This increase is attributed to the Euro introduction. The Figure 3-1 below shows relative significance of other owners.

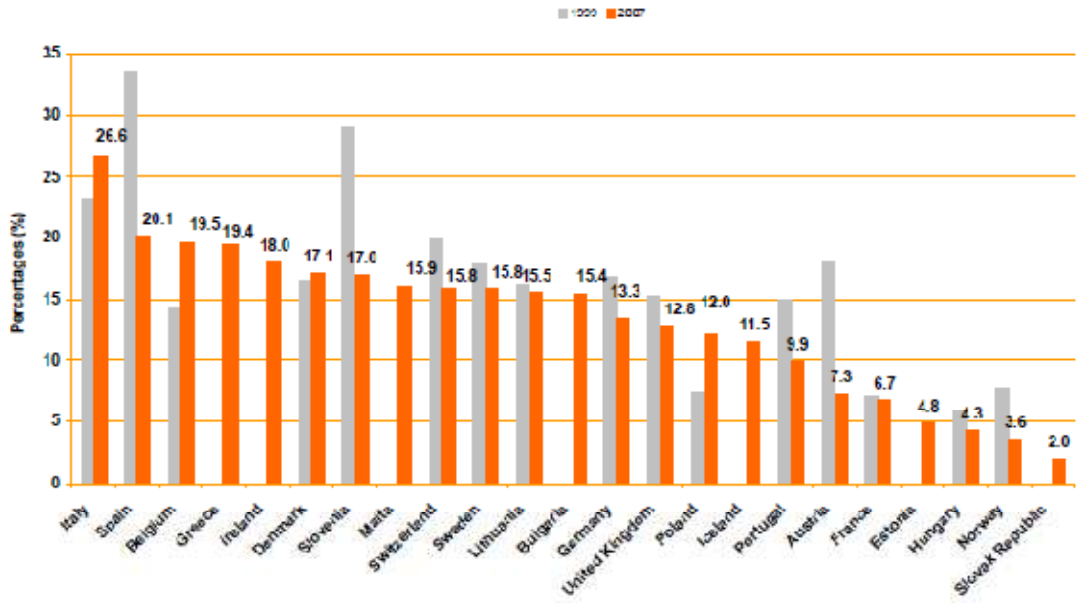
Figure 3-1: Share ownership structure of European listed companies, end 2007



Source: FESE Share Ownership Structure in Europe, 2008

When we compare the ownership of individual investors and households on stock markets across Europe we see that it is lower in Central Europe, especially in Hungary and Slovakia. Nevertheless, the individual investors and households still cannot be disregarded and their expectations of companies matter.

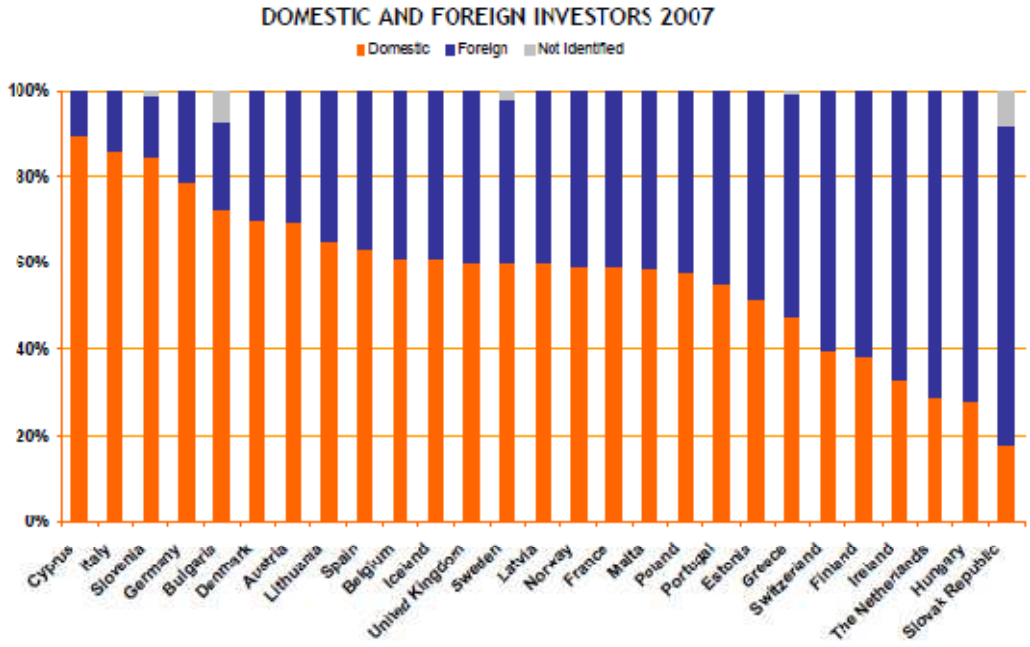
Figure 3-2: Individual investors and Households, Evolution 1999-2007



Source: FESE Share Ownership Structure in Europe, 2008

As we can see in Figure 3-3 below, foreign investors are particularly important for Central European stock markets. We can therefore expect that a large number of foreign-owned companies are influenced by foreign standards in terms of CSR. The implication for newly listed companies is that to attract foreign investors, they might need to consider appearing as a sustainable and responsible business.

Figure 3-3: Domestic and Foreign Investors, end of 2007



Source: FESE Share Ownership Structure in Europe, 2008

Ownership statistics for individual Central European stock markets are included in Appendix 2.

3.3 Index of CSR and the Model

The basic idea for the model is taken from Bird et al. (2007) and it is adjusted according to suggestions in Dam (2008), Graves and Waddock (1997), McWilliams and Siegel (2000) and Brammer and Millington (2008).

General outline of the model is as follows:

$$r_i = \alpha + \sum_{j=1}^{m} CV_i^{\,j} + \sum_{p=1}^{3} RA_i^{p} + \varepsilon_i$$

r_i is a dependent variable measuring financial performance. There are several possibilities how to measure financial performance. Bird et al. (2007) used market return, market-to-book ratio and price-to-earnings ratio. Their analysis showed that "*valuation multiples are picking up different phenomena*" (Bird et al. 2007, p.202) and so they recommended using market return as the dependent variable. Dam (2008) suggested using either market-to-book ratio, or an accounting profit ratio, such as return on assets, or stock market return composed of capital gain and dividend gain. The last option was evaluated as the best option. For that reason, we are going to use market return, as well. The market return is calculated as $\frac{P_1 - P_0}{P_0} + \frac{D_1}{P_0}$, where P_1 is the current share price, P_0 is share price from exactly a year ago and D_1 is current dividend.

$\sum_{j=1}^{m} CV_i^{\,j}$ is a set of control variables that should help explain stock market return. CSR could influence financial performance in terms of profitability, ROE, ROA, etc., which are likely to affect stock market returns. The control variables might therefore be used to capture this effect and see if there remains a direct link between CSR and stock returns, i.e. if CSR has an effect on stock market returns in itself. Bird et al. (2007) used logarithm of market capitalization, market-to-book ratio, return over previous months to capture the share price momentum and debt-to-asset ratio. Graves and Waddock (1997) recommended capturing the size of the company, risk, and industry in which the company operates. McWilliams and Siegel (2000) added R&D and advertising intensity. Brammer and Millington (2008) used R&D/sales ratio, labor intensity, cash/sales ratio and dividends.

After a careful consideration of all the options and data availability on Central European stock markets our model includes these ratios: market-to-book, debt-to-assets, R&D-to-sales and cash-to-sales; and industry as a dummy variable.

$\sum_{p=1}^{3} RA_i^p$ is a set of variables that measure corporate social responsibility. In this thesis, the focus is not on all CSR aspects but only on a part – supporting social, environmental and development projects. Since there is no index which would measure any part of CSR consistently in the region of Central Europe, approach of Graafland et al. (2004) is used: All companies included were reviewed and given three separate scores: for social, environmental and development area. The score could be 0, if company does not do anything more than is legally required; 0.5 if company makes an extra effort to diminish its negative impact in the respective areas; 1 if a company actively supports or creates projects in the three areas. All of these are assessed based on companies' annual reports, CSR reports and information from stock markets.

3.4 Data Description

Data was collected from Central European stock markets. From each market, the most frequently traded companies were selected for the analysis. This was determined from stock market reports. The number of companies selected in each market was determined such that the ratio of the numbers of companies from each market matches the ratio of stock market capitalizations. There is only one company on Bratislava Stock Exchange with liquid and frequently traded shares. To keep the ratio of stock market capitalizations, 5 companies were selected from Budapest Stock Exchange, 8 from Prague Stock Exchange and 34 from Warsaw Stock Exchange. Altogether data from 48 companies were used (see Appendix 4 for details).

For each company, market return was calculated year-on-year, comparing market data from April 2012 with market data from April 2011.

To avoid issues with direction of causality – good financial performance results in better social performance or good social performance improves financial performance – there is a time gap between dependent and explanatory variables. All explanatory variables – control variables and responsibility variables – were taken for 2010. Using

the time gap has both advantages and disadvantages. The advantage is that the issue of causality is improved, although it would be better to use a larger gap. In practice, however, increasing the time gap would be difficult as most companies do not publish changes in their CSR policies every year. The disadvantage is that market return is more likely to depend on current and expected values of control variables, not the past values. Nevertheless, most of the companies included have not published their annual reports for 2011, yet.

Data for calculation of control variables were taken from companies' annual reports and stock market statistics. To capture industry, three dummy variables were created: industry, services, finance. All 48 companies were split into these groups. There are 12 companies in the Services group, 22 companies in the Industry group and 15 companies in the Finance group.

To measure how companies support environmental, social and development projects, three separate variables are used. In each category, a company gets a score – 0, 0.5 or 1. Details are explained in the previous sub-chapter. Information to assign the scores was collected from companies' web pages, annual reports and stock markets. Average scores are 0.51 for environmental, 0.73 for social and 0.22 for development projects.

3.5 Regression analysis

Data collected from the four stock markets were put together and analyzed using the Gretl software, an open-source package for econometric analysis. The method used for analyzing the data was Ordinary Least Squares (OLS). This method was also used in the previous research. Table 3-1 below presents results of the analysis.

Table 3-1: Analysis results

		coefficient	std. error		t-ratio	p-value	
Const		0,266190	0,251512		1,058	0,2966	
Market_to_Book		0,143031	0,0425811		3,359	0,0018	***
Debt_to_Assets	-	0,629930	0,213907	-	2,945	0,0055	***
Services	-	0,393877	0,196476	-	2,005	0,0522	*
Industry	-	0,489301	0,201253	-	2,431	0,0199	**
RnD_to_Sales		0,0212607	0,101106		0,2103	0,8346	
Cash_to_Sales	-	0,330568	0,160858	-	2,055	0,0468	**
Environmental	-	0,0218170	0,101977	-	0,2139	0,8317	
Social		0,120324	0,0987996		1,218	0,2308	
Development		0,116176	0,062917		1,8465	0,0726	*
R-squared		0,414282	Adjusted R-squared			0,275559	

To check whether OLS is an appropriate method for the analysis, homoskedasticity and normality of errors were tested. Test results are below.

```
Breusch-Pagan test for heteroskedasticity -
  Null hypothesis: heteroskedasticity not present
  Test statistic: LM = 16,0821
  with p-value = P(Chi-Square(9) > 16,0821) = 0,0651873

Test for normality of residual -
  Null hypothesis: error is normally distributed
  Test statistic: Chi-square(2) = 2,31318
  with p-value = 0,314557
```

On a 5% level of significance we cannot reject the null hypothesis of homoskedasticity and normality of errors. Therefore, it seems that OLS is an appropriate method to analyze the data which is also supported by previous research.

3.6 Discussion of the results

As we see on Table 3-1 above, 6 out of 10 variables are significant. Market-to-book and debt-to-asset ratios are significant on 1% level of significance. Market-to-book coefficient is positive which suggests that higher ratio has positive impact on market return. Debt-to-asset coefficient is negative which suggests that an increase in company's debt compared to assets leads to lower market return of that company.

Cash-to-sales ratio and dummy variable Industry are significant on 5% level. Cash-to-sales coefficient is negative which suggests that if a company increases its holding of cash compared to sales, it has a negative impact on its market return.

Dummy variable Services and variable Development are significant on 7% level. The negative coefficients of dummy variables Services and Industry[3] suggest that companies from the Finance group tend to have better market return.

R&D-to-sales is insignificant in our data which does not support findings in McWilliam and Siegel (2000).

The main points of interest are the variables Environmental, Social and Development. It seems that only one of them – Development – is significant on 7% level. As Environmental and Social are insignificant on any reasonable level, we can conclude that whether and how much a company supports environmental or social projects does not have an impact on its market return. Supporting development projects, on the other hand, seems to have a positive impact on company's market return.

These results are surprising to some degree as most companies support either social or environmental projects and expect an improved financial performance in the long term. There are only few companies that support development projects. Even non-profit organizations stated in the questionnaires that gaining support for development projects is difficult as companies are usually not very motivated to do that. Nevertheless, the few companies that do support development projects tend to have a better stock market performance in the next periods.

[3] Dummy variable Finance was omitted because it would otherwise cause direct correlation with the other two dummy variables.

4. Suggestions for further research

The issue of corporate social responsibility – supporting social, environmental and development projects in particular – could be further examined in several areas.

Firstly, it might be interesting to elaborate on the concern raised in the UN regional study that non-profit organizations in Central Europe do not criticize corporations for irresponsible and unethical actions. The criticism from media and non-profit organizations is usually what raises awareness in the general public and increases pressure on corporations. It would therefore be useful to find out whether Central European non-profit organizations still stay behind in this area and what could be done to change that. As the attitude of non-profit organizations towards companies also influences whether and how much funding the companies provide, this issue might impact the results of this thesis. The current status-quo could be examined by including the issue in the questionnaires addressed to the non-profit organizations. Ways how to improve the situation could be based on examples from neighboring EU countries.

Secondly, the research could be extended by sending out the questionnaires to a higher number of non-profit organizations and companies. Based on the experience with this research it seems that contacting organizations and companies in Hungary and Poland in their official languages might bring a significantly higher response ratio. It would also be helpful to contact corporations not listed on stock markets and reach out to small and medium enterprises as they were listed as the main source of support. This would provide a broader picture on company motivation.

Thirdly, as the main reason for development of corporate social responsibility is improving relations with all stakeholders, it would be beneficial to do a study of how different stakeholders in Central Europe perceive corporate social responsibility. This could be done through a survey with shareholders, customers and employees of different corporations. Especially a study on employees might have an impact on our results as it is in the end an individual employee who decides where the company support goes. The main challenge of the study would be to gain contact information for all these stakeholders and to get in touch with them.

Fourthly, the influence of decision-making time-horizon would be worth exploring. Each stakeholder might consider company's responsible actions in a different

time frame. This in turn has an impact on whether the company should improve its policies in the current period or present a CSR plan for the next decade. It could be done as a part of the survey mentioned in previous paragraph. Afterwards, the time frame in the empirical part of the research could be adjusted to better match stakeholders' expectations.

Last but not least, further research is definitely required in the area of EU-level policies on corporate social responsibility. The European Commission issued a communication in October 2011 where it outlined a plan for CSR development until 2014. The Communication focuses mostly on monitoring CSR, making comparisons among Member States and encouraging new CSR policies on national level. The European Commission also calls on businesses to "uptake responsible business conduct" and set clear targets for 2015-2020. It seems that the European Commission mostly wants the Member States to be in line with guidelines and principles of the UN, OECD, ILO and ISO 26000. The question is whether this is the right course of action. Further research could examine whether more specific rules on the EU level would be beneficial in certain areas and to what extent, especially in fulfilling the Europe 2020 – Europe's growth strategy.

Conclusion

The aim of this thesis is to analyze motivation of companies to support social, environmental and development projects. The analysis is focused on Central European companies. As supporting social, environmental and development projects is a part of corporate social responsibility, this term was used often throughout the thesis.

Theories and previous regional studies were compared with real life data. Interviews with non-profit organizations revealed that in contradiction to the UNDP study, it is more often small and medium enterprises rather than large international corporations who provide the most support. Interviews with companies confirmed that sponsors are more common than patrons, relations with stakeholders are considered important and company image is the strongest motivation for running responsible business in the short term. In the long term, however, companies take into account the relationship between their responsible actions and their financial performance.

The relationship between corporate social responsibility and long-term financial performance was established in previous research. This thesis examined how the long-term financial performance depends on supporting social, environmental and development projects. The companies included in the analysis belong to the largest companies in the region. Most of them already support social and environmental projects, at least to a certain extent. The regression analysis did not confirm though that this would have a positive impact on financial performance which was unexpected. On the contrary, development projects are supported by only a few companies and non-profit organizations confirmed that gaining support for these kinds of projects is difficult. Nevertheless, the regression analysis showed that supporting development projects tends to have a positive impact on stock returns.

This outcome is important since it suggests that supporting development projects is a win-win situation for both companies and non-profit organizations. Companies can improve their long-term stock market performance and non-profit organizations gain resources for a good cause.

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Stock markets:

Warsaw Stock Exchange: www.wse.com.pl

Prague Stock Exchange: www.pse.cz

Budapest Stock Exchange: www.bse.hu

Bratislava Stock Exchange: www.bsse.sk

Portals for non-profit organizations:

Czech Republic: www.neziskovky.cz

Slovakia: www.mvro.sk

Hungary: www.nonprofit.hu

Poland: www.portal.ngo.pl

Other:

European Union: www.europa.eu

Magyar Telekom: www.telekom.hu

Appendix

List of Appendixes:

Appendix 1: Central European Exchange Reports 2010

BRATISLAVA STOCK EXCHANGE

Name	Bratislava Stock Exchange	Type of Company	Joint-stock company
			For profit
Address	P.O.Box 151 Vysoká 17 814 99 Bratislava 1	Listed	No
Phone	+421 2 49 236 111	Sectors	Cash EU regulated markets
Fax	+421 2 49 236 128		Wholesale bond markets
Email	info@bsse.sk		Clearing houses
Website	www.bsse.sk		Central Securities Depositories / Settlement companies
Year established	1991		
Year of current legal status	1991		
Country of Incorporation	Slovakia	Number of employees	26 (end of year)
Active in	Slovakia		

Trading figures 2010

	Equity									
	Shares			Sec. Derivatives		ETFs		UCITs	
	Electronic Order Book Trades	Off EOB	Reporting Trades	Electronic Order Book Trades	Off EOB	Electronic Orde Book Trades	Off EOB	Electronic Order Book Trades	Off EOB
Turnover (EUR m)	22	209	0	-	-	-	-	0	0
Trades	6,276	469	0	-	-	-	-	0	0
Market Cap. (EUR m)	3,380			-		-		0	
Listed companies	165			-		-		0	

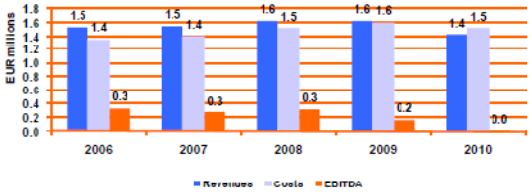
	Bonds		Derivatives		
	Electronic Order Book Trades	Off EOB		Stock/Index Options and Futures	Bond Options & Futur	Commodities
Turnover (EUR m)	55	6,509	Notional Turnover (EUR m)	-	-	-
Trades	348	1,234	Contracts Traded	-	-	-
Listings	132					

Financial figures 2010

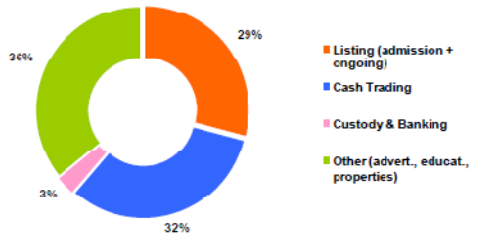
Main financial results 2010
EUR '000

Revenues	1,424
Costs	1,513
EBITDA	5
EBIT	-100
Net Income	-89

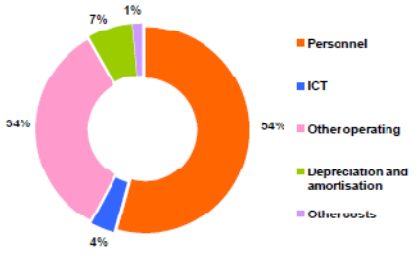
Revenues, Costs and EBITDA
2006 - 2010



Revenue Breakdown 2010



Cost Breakdown 2010



Footnote
Financial figures are under the following financial accounting protocols:
2006: SAS
2007-2010: IFRS
Financial figures refer to the exchange and not to the parent company owning the exchange
Notes
Figures mentioned not include subsidiaries.

Source: FESE European Exchange Report 2010

BUDAPEST STOCK EXCHANGE

Name	Budapest Stock Exchange	Type of Company	Joint-stock company For profit
Address	H - 1063 Budapest, Andrássy, út 93.	Listed	Traded OTC regularly
Phone	+36 1 429 6857	Sectors	Cash EU regulated market
Fax	+36 1429 6899		Derivatives markets
Email	info@bse.hu		Wholesale bond markets
Website	www.bse.hu		IT infrastructure and software providers
Year established	1990		
Year of current legal status	2002		
Country of Incorporation	Hungary	Number of employees	60 (end of year)
Active in	Hungary		

Trading figures 2010

	Equity									
	Shares			Sec. Derivatives		ETFs		UCITs	
	Electronic Order Book Trades	Off EOB	Reporting Trades	Electronic Order Book Trades	Off EOB	Electronic Orde Book Trades	Off EOB	Electronic Order Book Trades	Off EOB
Turnover (EUR m)	19,925	77	3	205	-	2	-	35	0.3
Trades	2,612,330	135	7	166,301	-	569	-	8,647	2
Market Cap. (EUR m)	20,624			-		-		1,089	
Listed companies	52			48		1		85	

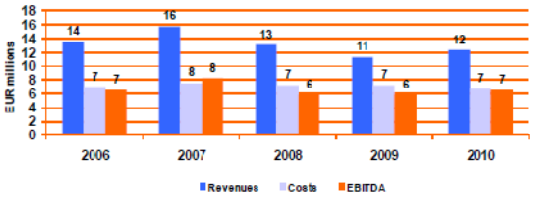
	Bonds		Derivatives		
	Electronic Order Book Trades	Off EOB		Stock/Index Options and Futures	Bond Options & Future	Commodities
Turnover (EUR m)	805	30	Notional Turnover (EUR m)	7,524	-	126
Trades	1,630	12	Contracts Traded	4,668,597	-	6,854
Listings	107					

Financial figures 2010

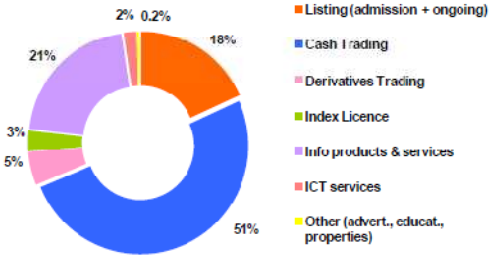
Main financial results 2010
EUR '000

Revenues	12,383
Costs	6,678
EBITDA	6,590
EBIT	6,352
Net Income	4,795

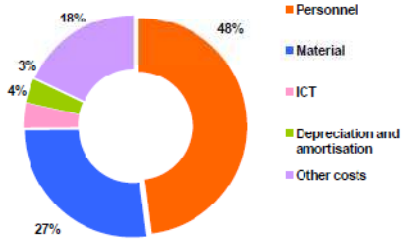
Revenues, Costs and EBITDA
2006 - 2010



Revenue Breakdown 2010



Cost Breakdown 2010



Footnote
Financial figures are under GAAP financial accounting protocol
Financial figures refer to the exchange and not to the parent company owning the exchange
Notes
Figures mentioned include subsidiaries.

Source: FESE European Exchange Report 2010

PRAGUE STOCK EXCHANGE

Name	Prague Stock Exchange	Type of Company	Joint-stock company For profit
Address	Rybna 14 110 05 Prague 1	Listed	No
Phone	+420 221 831 111	Sectors	Cash EU regulated markets Cash EU not regulated (exchange regulated) markets Derivatives markets Clearing houses / CCP services providers Central Securities Depositories Companies managing settlement
Fax	-		
Email	info@pse.cz		
Website	www.pse.cz		
Year established	1993		
Year of current legal status	1993		
Country of Incorporation	Czech Republic	Number of employees	90 (end of year)
Active in	Czech Republic		

Trading figures 2010

Equity

	Shares			Sec. Derivatives		ETFs		UCITs	
	Electronic Order Book Trades	Off EOB	Reporting Trades	Electronic Order Book Trades	Off EOB	Electronic Orde Book Trades	Off EOB	Electronic Order Book Trades	Off EOB
Turnover (EUR m)	15,258	133	-	7	-	-	-	-	-
Trades	1,162,508	135	-	914	-	-	-	-	-
Market Cap. (EUR m)	31,922			-		-		-	
Listed companies	27			44		-		-	

Bonds

	Electronic Order Book Trades	Off EOB
Turnover (EUR m)	0	20,915
Trades	28	6,495
Listings	106	

Derivatives

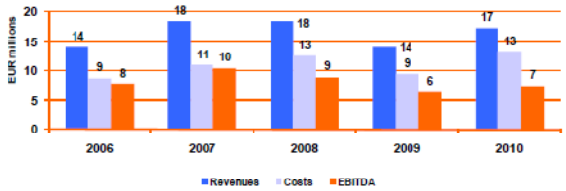
	Stock/Index Options and Futures	Bond Options & Futures	Commodities
Notional Turnover (EUR m)	8	-	-
Contracts Traded	1,736	-	-

Financial figures 2010

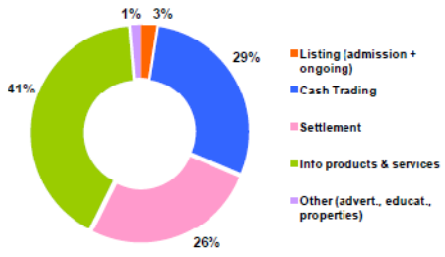
Main financial results 2010
EUR '000

Revenues	17,288
Costs	13,221
EBITDA	7,441
EBIT	4,991
Net Income	4,067

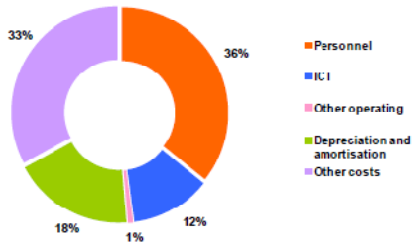
Revenues, Costs and EBITDA
2006 - 2010



Revenue Breakdown 2010



Cost Breakdown 2010



Notes
Figures mentioned include subsidiaries.

Source: FESE European Exchange Report 2010

WARSAW STOCK EXCHANGE

Name	Warsaw Stock Exchange	Type of Company	Joint-stock company
		Listed	Yes
Address	Ksiazeca 4 00-498 Warsaw	Sectors	Cash EU regulated market
Phone	+4822 628 32 32		Cash alternative (exchange regulated) market
Fax	+4822 628 17 54		Derivatives markets
Email	gpw@gpw.pl		Wholesale bond markets
Website	www.gpw.pl		Retail bond markets
Year established	1991		
Year of current legal status	1991		
Country of Incorporation	Poland	Number of employees	209 (end of year)
Active in	Poland		

Trading figures 2010

Equity

	Shares			Sec. Derivatives		ETFs		UCITs	
	Electronic Order Book Trades	Off EOB	Reporting Trades	Electronic Order Book Trades	Off EOB	Electronic Orde Book Trades	Off EOB	Electronic Order Book Trades	Off EOB
Turnover (EUR m)	52,260	7,467	-	71	0	18	4	27	1
Trades	13,120,775	5,076	-	23,480	4	2,629	5	16,150	3
Market Cap. (EUR m)	142,272			-		-		1,015	
Listed companies	585					1		58	

Bonds

	Electronic Order Book Trades	Off EOB
Turnover (EUR m)	320	74
Trades	21,793	51
Listings	137	

Derivatives

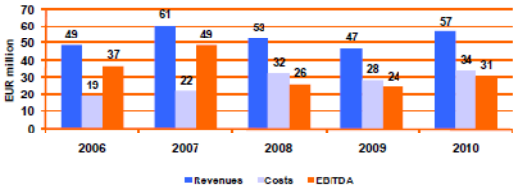
	Stock/Index Options and Futures	Bond Options & Futur	Commodities
Notional Turnover (EUR m)	88,605	-	-
Contracts Traded	14,601,479	-	-

Financial figures 2010

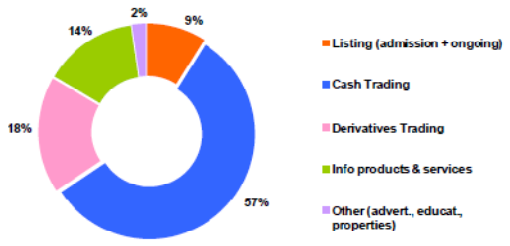
Main financial results 2010
EUR '000

Revenues	56,769
Costs	33,800
EBITDA	30,692
EBIT	22,969
Net Income	23,739

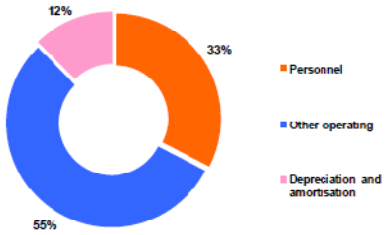
Revenues, Costs and EBITDA
2006 - 2010



Revenue Breakdown 2010



Cost Breakdown 2010



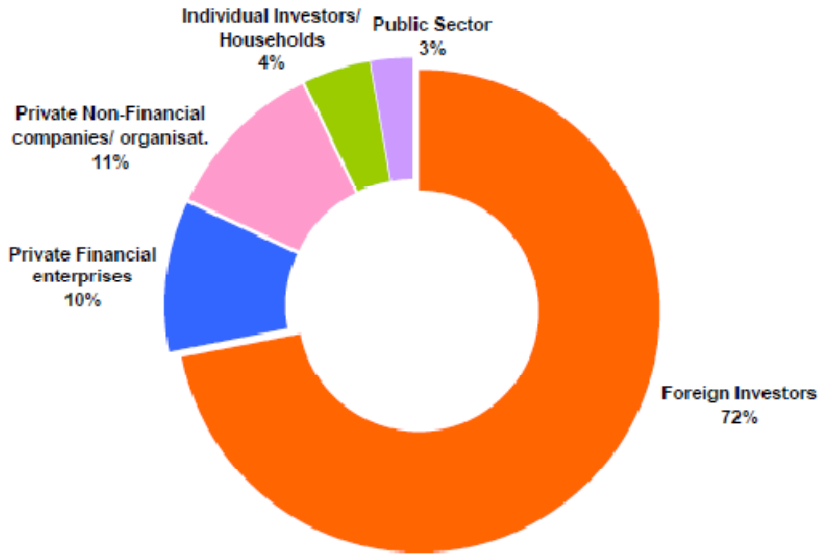
Footnotes
Operating revenues and costs (excluding financial revenues and costs)
Figures are under International Financial Reporting Standards (IFRS) protocol

Notes
Figures mentioned include subsidiaries.

Source: FESE European Exchange Report 2010

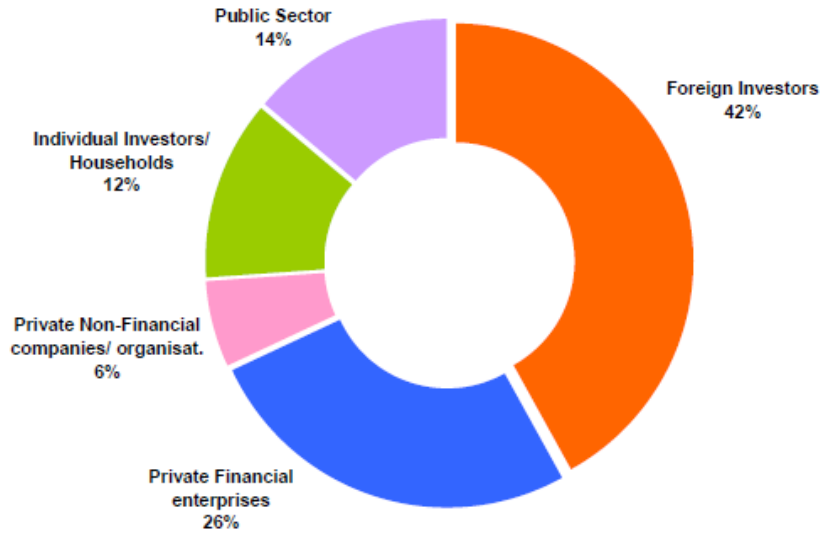
Appendix 2: Share ownership structure in Central European Stock Markets

Figure A-1: Share ownership structure, Hungary 2007



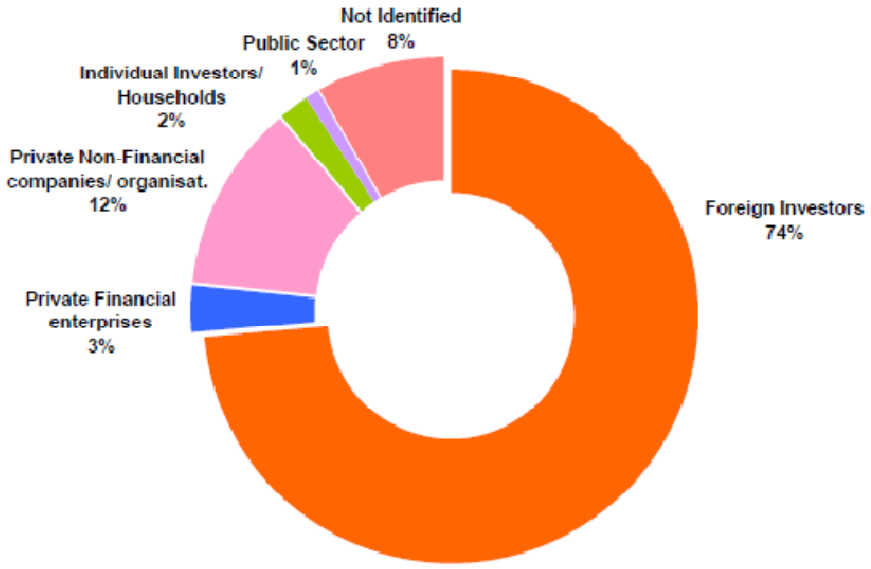
Source: FESE Share Ownership Structure in Europe, 2008

Figure A-2: Share ownership structure, Poland 2007



Source: FESE Share Ownership Structure in Europe, 2008

Figure A-3: Share ownership structure, Slovakia 2007



Source: FESE Share Ownership Structure in Europe, 2008

Appendix 3: List of non-profit organizations participating in the survey

Czech Republic: ADRA; Adam; Alhelp; ALEN - sdružení žen postižených rakovinou; Alzheimercentrum; Asistence o.s.; ASNEP - Asociace organizací neslyšících, nedoslýchavých a jejich přátel; Brandýský matýsek o.s.; Centrum pro všechny; Český helsinský výbor; Charita Javorník; Charita Ostrava; Člověk v tísni; Dobrovolnické centrum Kladno, o.s.; Domov Sue ryder, o.p.s.; Helppes - Centrum výcviku psů pro postižené; HESTIA, o.s.; Informační středisko pro rozvoj Moravských Kopanic, o.p.s.; LORM - společnost pro hluchoslepé; Maltézská pomoc, o.p.s.; Nadace Mezinárodní potřeby; Nadace Vodafone Česká republika; Nadační fond Betlém nenarozeným; Neziskovky.cz; Nová škola, o.p.s.; Občanské sdružení "Pomocná ruka"; Občanské sdružení Benediktus; Občanské sdružení KOLUMBUS; Občanské sdružení Nová Ves; Občanské sdružení Rozum a Cit; Občanské sdružení Sirius Třebíč; Občanské sdružení Svítání Jablonec nad Nisou; Oblastní spolek ČČK Prachatice; Oblastní spolek Českého červeného kříže Hradec Králové; OliMali o.s.; Pardubický spolek historie železniční dopravy; Pestrá společnost, o.p.s.; POHODA – společnost pro normální život lidí s postižením; Pomocné tlapky o.p.s.; Poradna při finanční tísni, o.p.s.; Pro táborníky

o. s.; Prosperita, o.p.s.; Rotaract club Ostrava City; Sdružení pro obnovu historických památek, o.s.; Společnost rodičů a přátel dětí s Downovým syndromem, o.s.; Středisko prevence a léčby drogových závislostí DROP IN; Středisko pro ranou péči Praha; Tosara; TyfloCentrum ČR, o.p.s.; Vaizard; VAVÁKY, o.s.; Ženy50.

Slovakia: ADRA; eRko - Hnutie kresťanských spoločenstiev detí; Nadácia Pontis; Slovenská katolícka charita; Slovensko-juhoafrická spoločnosť; Slovenský výbor pre UNICEF; Výskumné centrum Slovenskej spoločnosti pre zahraničnú politiku; Združenie Albert pre podporu Fakulty zdravotníctva a sociálnej práce Trnavskej univerzity v Trnave.

Hungary: Magyar Közlekedési Klub Egyesület; Spirit Alapítvány.

Poland: Fundacja Przestrzen Kobiet.

Appendix 4: List of companies included in the regression analysis

ASSECO POLAND SPÓŁKA AKCYJNA
BANK HANDLOWY W WARSZAWIE SPÓŁKA AKCYJNA
BRE BANK SPÓŁKA AKCYJNA
BORYSZEW SPÓŁKA AKCYJNA
GLOBE TRADE CENTRE SPÓŁKA AKCYJNA
JASTRZĘBSKA SPÓŁKA WĘGLOWA SPÓŁKA AKCYJNA
KERNEL HOLDING S.A.
KGHM POLSKA MIEDŹ SPÓŁKA AKCYJNA
GRUPA LOTOS SPÓŁKA AKCYJNA
LUBELSKI WĘGIEL BOGDANKA SPÓŁKA AKCYJNA
BANK POLSKA KASA OPIEKI SPÓŁKA AKCYJNA
PGE POLSKA GRUPA ENERGETYCZNA SPÓŁKA AKCYJNA
POLSKIE GÓRNICTWO NAFTOWE I GAZOWNICTWO SPÓŁKA AKCYJNA
POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA
POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA
SYNTHOS SPÓŁKA AKCYJNA
TAURON POLSKA ENERGIA SPÓŁKA AKCYJNA
TELEKOMUNIKACJA POLSKA SPÓŁKA AKCYJNA
TVN SPÓŁKA AKCYJNA

APATOR SPÓŁKA AKCYJNA
ZAKŁADY AZOTOWE W TARNOWIE - MOŚCICACH SPÓŁKA AKCYJNA
BANK BPH SPÓŁKA AKCYJNA
BUDIMEX SPÓŁKA AKCYJNA
CIECH SPÓŁKA AKCYJNA
ELEKTROBUDOWA SPÓŁKA AKCYJNA
DOM MAKLERSKI IDM SPÓŁKA AKCYJNA
ING BANK ŚLĄSKI SPÓŁKA AKCYJNA
ZESPÓŁ ELEKTROCIEPŁOWNI WROCŁAWSKICH KOGENERACJA SPÓŁKA AKCYJNA
KREDYT BANK SPÓŁKA AKCYJNA
BANK MILLENNIUM SPÓŁKA AKCYJNA
NETIA SPÓŁKA AKCYJNA
PBG SPÓŁKA AKCYJNA
MONDI ŚWIECIE SPÓŁKA AKCYJNA
ČEZ, a.s.
Komerční banka, a.s.
Erste Group Bank AG
Telefónica Czech Republic, a.s.
New World Resources Plc.
Central European Media Enterprises
UNIPETROL, a.s.
Philip Morris ČR, a.s.
OTP Bank Plc.
MOL Plc.
Magyar Telekom Plc.
Richter Gedeon Nyrt.
Egis Pharmaceuticals Plc.
Tatry Mountain Resorts a.s.