CREATING SUSTAINABILITY COMPETENCES THROUGH REPORTING IN CROATIA

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1. INTRODUCTION

1.1. Corporate responsibility in context

Successful companies in the new economy no longer frame their activities exclusively in terms of the goal of profit maximization. Instead, they take account of the total impact of their activities on society and on the environment, in terms of the 'triple bottom line' of people, planet and profit (Harrison, 1997). These companies are no longer oriented only to shareholders in the narrow sense but, rather, seek effective engagement with all of their stakeholders, both internal, including their employees, and external, including their suppliers and consumers. They are committed to a strategic management approach which moves from short-term interactions based on expediency and opportunity, to longer-term partnerships based on shared values, mission, and objectives.

In recognition that long-term survival is increasingly concerned with the management of risks and the protection and enhancement of reputation (Lewis, 2003; Sagar and Singla, 2004), such companies build long-term relationships with significant publics, including policy makers, journalists, investors, business associations, consumer and environmental protection groups, other non-governmental organizations, and front-line communities. The see their 'license to operate' in terms of their stated commitments to, and performance in, the fields of human rights, labour standards, environmental stewardship, community development, consumer protection, corporate governance, stakeholder consultations, and the screening of suppliers on ethical grounds.

Whilst 'modern' notions of responsible and ethical business can be traced back over fifty years (Carroll, 1999; 268), the fields of 'corporate social responsibility', 'sustainability' (Le Jeune, 2004), 'corporate citizenship' (Habisch, 2003) and 'stakeholder engagement' (Haas, 2003) have evolved rapidly in the last decade, reflecting increased scrutiny of companies' practices, and demands for more responsible, accountable, and transparent behaviours (Waddock; 8). In a sense, the 'raising of the bar' of corporate responsibility by bringing it into the public domain (Klein, 2001; ch. 17) has had a range of effects in terms of companies' commitments above and beyond shifts in the legal and regulatory framework. Not the least important of these has been a more 'holistic' sense of corporate responsibility replacing a rather narrow concern with corporate giving to 'good causes'. Corporate philanthropy has, itself, been changed in this process, to be more concerned with longer-term partnerships (Saiia, Carroll et al, 2003). In addition, sustainability practices are now more likely to be integrated into the overall governance of a company than to be the responsibility of one department or to be seen only as a part of the company's public relations efforts.

Increasingly, companies are seizing the opportunities which responsible behaviour brings in terms of building consumer loyalty, being an employer of choice, retaining a skilled and motivated workforce, attracting quality investors, introducing clear, coherent and effective management structures and business procedures, and maintaining a strategic focus. Indeed, almost coming full circle, it is now suggested that responsible behaviour is correlated positively with corporate financial performance (Little and Little, 2000; Moore, 2003) through a mixture of operational and ecological efficiencies, stimulating a culture of innovation, recognizing new market opportunities, and enhanced reputation and brand loyalty.

None of this is inevitable, however. There is a need to situate companies' behaviour in its wider social, institutional and historical context. The structural and cultural settings in which companies operate vary considerably across space and time, and set limits, or act as constraints, to social action. Progress over time can be seen in terms of Dunphy *et al's* 'three waves' of sustainability from a first wave in which companies move from 'rejection', through 'non responsiveness' to 'compliance'; through a second wave of 'efficiency' and 'strategic pro-activity'; to a transformative third wave of a full commitment to sustainability (Dunphy *et al*, 2003; 15-16). The danger here is that this movement is seen as evolutionary, path dependent and automatic, regardless of context. In fact, the model itself seeks to bring agency back in, since it is the choices and actions of key people within companies, termed 'the dominant elite' (ibid.) which makes sustainability possible. The development and maintenance of sustainability is likely to be a complex product of structures, institutions, organizational culture and human agency, perhaps best expressed in Randell's 'cross-level' framework in terms of the interaction between institutional environment, organizational identity and champions' tactics (Randell, 2002; 66).

Dunphy *et al* (2003) consider that progress towards sustainability requires transformational change in organisational culture and behaviours, with sustainability becoming central to vision, strategy and action. Respected leaders who 'walk the talk' are critical in this regard.

Their emphasis on role model leadership is widely endorsed (Kotter, 1996; Binney and Williams, 1997; Elkington, 2001; Courtice and Swift, 2002; Holliday, Schmidheiny and Watts, 2002; Doppelt, 2003; Lawson and Price, 2003; Grayson and Hodges, 2003; Harvard, 2005; Kellerman, 2006). New kinds of management competences, which can be termed 'sustainability competences', combining attitudes, values, knowledge, skills and actions, are needed to develop and maintain participatory processes, effective, empowering governance structures, and incentives and feedback loops to institutionalise and progress change. Sustainability competences are, therefore, at the heart of a modern 'learning organisation' (cf. CSR Europe, 2003).

Sustainability is, perhaps, best conceived sociologically as a field (cf. Bourdieu, 1977) composed of relatively autonomous sets of practices, institutions, and techniques, and peopled by managers, consultants, academics, activists and policy makers who become 'authorised agents' (Shamir, 2004; 671). These policy fields create a space for new sets of discursive strategies in which critical pressures are deflected and redefined as opportunities. Whilst all fields, to an extent, technicise and depoliticise complex power relations, the more interesting question becomes the degree of 'fit' or lack of it between sustainability and other kinds of management competences, in the context of an uneasy tension between creative innovation and 'tick box' type management systems.

1.2 Sustainability Reporting

Just as the 'bottom-line' of profit has required ever more sophisticated kinds of financial reporting, the 'triple bottom line' is not complete without reporting on companies' environmental and social impacts and activities. Reporting in this area began in earnest only recently. As more companies report there has, also, been a trend towards integrated sustainability reporting, replacing the previous practice of separate environmental reports, which, themselves, have a longer history, and social reports. In addition, as with financial reporting, a number of reporting standards, frameworks and indicators have been developed to enable companies to report on their sustainability practices in a way which allows for comparison over time and across companies and sectors. Reporting is, in many ways, the most important link in the chain in terms of communicating performance and intentions to stakeholders in a transparent and accountable form.

Hence, the Global Reporting Initiative, now the generally accepted framework for sustainability reporting, defines sustainability reporting as "the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development" (GRI, 2006; 3). The recently issued third version of their reporting guidelines applies a sophisticated, holistic framework for reporting in terms of three types of disclosures: strategy and profile; management approach; and performance indicators; together with a wide range of reporting principles including materiality; stakeholder inclusiveness; sustainability context; completeness; balance; comparability; accuracy; clarity; and reliability (GRI, 2006; 8 – 17). The framework continues to allow for self-declaration in terms of the level of reporting used, combined with preference for external assurance by the GRI or another quality assurance provider. The new version of the GRI guidelines includes seven core and two additional economic performance indicators; seventeen core and thirteen additional environmental performance indicators; and twenty one core and ten additional societal performance indicators in the fields of labour practices and decent work, human rights, and society.

The latest triennial survey of corporate responsibility reporting by KPMG (2005) covers the global top 250 companies in the Fortune 500 index (G250) and 100 top companies in 16 countries (N100). It shows a considerable increase in reporting since 2002, with 52% of G250 and 33% of N100 companies issuing separate reports in 2005, compared to 45% and 23% respectively, in 2002. A more dramatic increase occurred in terms of the proportion of companies issuing full sustainability reports, from 14% to 68% of G250 companies and from 12% to 48% of N100 companies (KPMG, 2005; 9). Reporting is most common in Japan and the UK, and in industrial sectors with a relatively high environmental impact. G250 reporters most often cited economic and ethical factors as driving reporting, including innovation and learning, employee motivation, and risk management and reduction. The survey revealed that social and economic reporting remains 'superficial' compared to environmental reporting, and that both corporate governance and stakeholder consultation remain under emphasised (ibid; 5).

Thus far, there has been greater emphasis on the 'what' and the 'how' of sustainability reporting, and much less attention either to the 'why' or, even more importantly, to the 'what for', in terms of the value added of reporting. Research by CSR Europe and Accountability addresses the impacts of reporting framed in terms of six hypotheses, namely: that context matters; that pressure, strategy and values drive reporting, with pressure less important over time; that reporting aims to change perceptions but that changes in stakeholder behaviour are harder to assess; that the 'visibility' of reporting diminishes over time as the technical quality improves; that beyond a 'critical point', stakeholder perceptions can only be changed by changes in organizational culture and business systems; and that effective reporting requires diverse pathways for diverse external stakeholders (CSR Europe and Accountability (2002); 7 – 8).

At the level of theory, Zambon and Del Bello have attempted to suggest how the issuing of a dedicated sustainability report plays a subtle active role, both by substantiating and increasing the significance of certain key concepts, and in terms of affecting the company's actions and building perceptions amongst managers and stakeholders about the company's performance (Zambon and Del Bello, 2005; 134 – 135). They suggest that "it is the ensemble of … discretional choices that makes it possible for the stakeholder oriented reporting to translate concepts and implemented activities into company-specific narratives, structures and data, thus permitting this document to play an active role in the management-driven representation of stakeholder responsible ideas and behaviours". (ibid; 139.)

2. SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORTING IN CROATIA

2.1 CSR in the Croatian Context: legacies, transition, and institutions

Whilst there is a massive literature on corporate social responsibility in the developed world (see above), and an emerging literature regarding social responsibility in the developing world (UNIDO, 2002; Utting (ed.), 2002; Nelson and Prescott, 2003; Whitehouse, 2003), there is still very little research or analysis on CSR in the post-communist transition countries of Central, Eastern and South Eastern Europe (IBLF, 2002). In any case, this literature is of limited use in exploring the development of CSR in Croatia since the broad transition context has to be understood alongside the specificities of war and independence, on the one hand, and the legacy of Yugoslav 'self management' socialism, on the other. One of the first, and still most often cited, surveys of CSR in Croatia (Bagić, Škrabalo and Narančić, 2004) suggests that the specific 'worker's self-management' form of Yugoslav socialism, notwithstanding its rhetorical function and noted inefficiencies, introduced the value and practice of participation into corporate managerial processes, such that "the current endorsement of teamwork and stakeholder consultations in the Croatian business community seems to be a combination of contemporary Western approaches to quality management and corporate governance with this older legacy" (ibid; 28).

In part as a result of war and the break-up of Yugoslavia, Croatia experienced a kind of 'delayed' or 'extended' transition, with war lasting from 1991 to 1995; full territorial integrity not achieved until 1998; and the full consolidation of democracy not achieved until the election of a more internationally open coalition government in January 2000, committed to the goal of EU membership. The transition from socialism to capitalism, however, began in 1991, under conditions of political instability, with a wave of privatization labelled by a leading Croatian economist as "legalized robbery through different forms of fictitious or politically dictated transactions" (Baletić, 203; 287). Croatia, not unlike earlier transitions in Latin America, and akin to parts of South Eastern Europe and the former Soviet Union, developed a kind of 'crony capitalism' which was "characterized by the dominance of insider interests, extreme clientelism, non-market based financial sector allocation, and a close link of the state and government with entrepreneurs and the financial sector" (Bićanić. n-d; 1), leading to "a large institutional and democratic deficit" (Bićanić and Franičević, 2003; 16).

The dismantling of 'crony capitalism' in the new millennium had to deal with this legacy in terms of the dubious reputation and low public esteem and legitimacy of the 'early winners' of privatization, many of whom exhibited a rather curious form of charismatic business leadership, in the cause of 'speculative entrepreneurship' which tended to crowd out 'productive entrepreneurship' (ibid; 19), and led to "arbitrariness, inefficiencies and various forms of ethically questionable behaviour" (Račić and Cvijanović, 2004; 429). The private sector still only accounts for some 60% of Croatia's GDP, little changed since the late 1990s (World Bank, n.d.), and there is considerable industrial concentration, with the top 400 companies, representing 0.6% of all registered companies in Croatia, accounting for 51.5% of pre-tax profits, 49.7% of gross revenue, and 33.4% of those employed in 2005 (Privredni vjesnik, 2006; 14; Note: the survey does not include the banking and financial services sector).

There remains a lack of a clear and consistent enabling legislative and policy environment for socially responsible business practice in Croatia with little dialogue, beyond the 'formal and tokenistic' (Gregory and Tafra, 2004; 14), between businesses and government such that there is a rather *ad hoc* combination of over-regulation in some spheres of activity and under-regulation in others. In addition, this 'regulatory deficit' is compounded by a 'watchdog deficit' with little or no tradition of organizations in civil society systematically monitoring the actions and activities of Croatian businesses (Bagić, Škrabalo and Narančić, op. cit; 29 and 56-57), although a significant number of developmental NGOs are involved in cross-sectoral partnerships with businesses. The survey pointed to company ownership structure, size, industry sector, and leadership capacity as key factors affecting sustainability performance in Croatia, suggesting that the main areas of good practice could be found in corporate giving and community involvement, on the one hand, and core business practices, including quality standards, human resource development, and eco-efficiency, on the other (ibid; 34-36).

Interestingly, a second edition of the report, some two years later (Bagić, Škrabalo and Narančić, 2006), charts a paradigm shift, from low level attention to the issue of CSR to the now almost ubiquitous reference to 'social responsibility' in business conferences, in sections of the media, and in training activities (ibid; 6). Crucially, there has also been a concomitant expansion in the size, sophistication, and impact of, and inter-relationship between, institutional support structures for corporate social responsibility in the same period. The Croatian branch of the World Business Council for Sustainable Development (HRPSOR) was founded in 1997 by leading Croatian businesses as a membership organization to promote sustainable development in the private sector. It now has thirty three members and, under a dynamic new leadership, has shifted its focus towards more holistic understandings of sustainability and, in particular, to the promotion of sustainability reporting based on the GRI indicators (http://www.hrpsor.hr). In addition, following a large multi-stakeholder conference and set of activities under the labels 'Agenda 2005' and 'Agenda 2006', the Croatian Chamber of Commerce, following its publication and promotion of a Code of Business Ethics, has established a Community for Corporate Social Responsibility within its Sector for Industry. The new preface to the CSR survey also notes a large number of, mainly externally-funded, time-limited, projects and programmes promoting CSR in Croatia, involving, amongst others, UNDP and UNIDO, AED and USAID, IBLF, the Croatian Association of Business Consultants, and MAP Savjetovanja.

Whilst corporate giving remains the most visible of companies' CSR activities, the last two years have seen the development of more strategic approaches in this area, including an increase in public grant competitions, the establishment of Foundations, and more long-term partnerships, such as those involving UNICEF and a range of leading Croatian companies (http://www.unicef.hr) . The main findings of the 2003 survey on CSR in Croatia, however, remain relevant today, namely that: "Although different aspects of CSR are advocated and implemented in the Croatian business sector, most of them are not strategically structured, and existing practices are not regularly reported" (Bagić, Škrabalo and Narančić, 2006; 7). The 'sustainability field' in Croatia has been strengthened, in terms of inter-relationships within the field, and now consists of a core of business leaders, academics and researchers, consultants, international actors, and local NGO activists engaged in a large number of inter-linked activities. The impact of the field on businesses outside it, however, has been slower to develop and has not yet, we would argue, reached a critical 'point of no return' in which even the majority of the larger enterprises in Croatia consider sustainability practices as a part of their 'license to operate'. In addition, the impact of the field on small and medium enterprises remains rather limited.

2.2 Sustainability Reporting in Croatia: leadership in practice

As might perhaps be expected, what is true for CSR and sustainability in general in Croatia is even more the case in terms of reporting which remains significantly under-developed. HRPSOR, which has led the campaign to promote reporting in Croatia, lists only ten companies which have reported on their environmental and/or social performance in stand-alone reports. As Table 1 below shows, seven of the ten are HRPSOR members, and two others, INA and HEP, are the two leading Croatian companies in terms of revenue. The third non-HRPSOR member company listed, *Petrokemija d.d.*, issued a report on its environmental performance some time ago (the link from HRSPOR's web site no longer works), but has not maintained or expanded its reporting (the company's web site shows only limited environmental data). Only five of the ten reporters have used the GRI guidelines, beginning with Coca-Cola in 2003 and INA in 2004, joined in 2005 by Zagrebačka Banka with its social report. Coca-Cola issued the first full sustainability report in 2005, using the guidelines, to be joined a year later by Podravka and, to a limited extent, by PLIVA.

Table 1. Companies' Environmental, Social and Sustainability Reporting in Croatia

Company	Industrial Sector	Ranking 2005	2005 Revenue in HRK***	No. of employees 2005	Types/titles of reports (date published)	GRI Used?	HRPSOR member (from)
Coca-Cola Beverages Hrvatska d.d.	Non-alcoholic beverages	70	863,012,234	796	Environmental (2002) Social (2003) Sustainability (2005)	Yes (Social and Sustainability)	Yes (2000)
Hartmann d.o.o.*	Packaging materials	-	92,000,000	180	Sustainability 2004 (2005)	No	Yes (2006)
Hrvatska Elektroprivreda d.d.	Energy	2	9,393,082,901	413	Environmental 1999-2000 (2001) Environmental 2001-2002 (2003) Environmental 2003-2004 (2006)	No	
Holcim (Hrvatska) d.o.o.	Construction materials	147	441,676,713	240	Sustainability 2004 (2005)	No	Yes (1997)
INA – Industrija nafte d.d.	Oil	1	20,050,286,405	10,057	Environmental 96-97 (1998) Environmental 1998 (1999) Environmental, Health & Safety 2002 (2003) CSR 2003 (2004); CSR 2004 (2005); CSR 2005 (2006)	Yes (CSR 2003-)	No
LURA d.d.	Food industry	14	2,063,950,219	1,556	Environmental 1998 (1999) Environmental 2001 (2002) Environmental 2002 (2003) Environmental 2003 (2004)	No	Yes (1998)
PLIVA Hrvatska d.o.o.	Pharmaceuticals	9	3,100,693,499	1,990	Sustainable development 2003 (2004); Sustainable development 2004 (2005); Sustainable development 2005 (2006)	Yes (latest report partly)	Yes (1997)
Podravka d.d.	Food industry	21	1,799,633,636	4,005	Sustainable development 2003 (2004); Sustainable development 2004 (2005); Sustainable development 2005 (2006)	Yes (latest report)	Yes (1997)
Petrokemija d.d.	Fertilizer production	24	1,645,204,902	2,695	Environmental 2003 (2004)	No	No
Zagrebačka banka d.d.**	Banking and finance	-	1,098,000,000	4,400	Social 2004 (2005)	Yes (Social)	Yes (1997)

* Information from company press release, http://www.hrpsor.hr/upload/hartmann_cert_dop.pdf
** Company financial report for 2005., http://www.zaba.hr/info/abo/Investitor_hr/financijska.htm
*** €1 = 7.35 HRK (HNB rate 28.12.2006)
Source: Privredni vjesnik, "400 najvećih Hrvatskih tvrtki u 2005.", no. 3449., Croatian Business Council for Sustainable Development, www.hrpsor.hr

Comparing the reports shows a wide variation, even amongst those using the GRI guidelines. In particular, this variation can be found in terms of the use, or not, of external verification and in the degree of detail regarding priorities for the future and monitoring and follow-up of these. In addition, issues of stakeholder consultation and of corporate governance structures and risk management arrangements, receive, at best, cursory treatment, itself, as noted above, a reflection of wider reporting trends. Reporting companies are concentrated in sectors with a high environmental impact (such as energy, cement, packaging, and fertilizers) and/or in highly competitive sectors (the food and drinks industry). Thus far, only one bank has produced a social report.

Research carried out by the Zagreb School of Economics and Management in 2005 (Šulenta, Koričan and Mušura, 2006) surveyed the on-line and annual reporting of forty eight companies, including all those listed on one of two Croatian stock exchanges, together with public utility companies and leading banks and financial institutions. Using a methodology developed by the East-West Management Institute, companies' performance is rated against what a foreign investor would want to know about corporate governance and CSR activities. Five of HRPSOR's ten reporters (Coca-Cola, Hartmann, Holcim, Lura, and Petrokemija) are not included in the survey.

The top five companies in terms of CSR reporting, combining scores for corporate governance, environmental and social reporting, were: HEP (19/30 points); INA (19 points); Ericsson Nikola Tesla (18 points); PLIVA (18 points) and T-HT Hrvatski Telecom (12 points). Three of these are HRPSOR reporters and one other (Ericsson Nikola Tesla) is a founder member of HRPSOR and widely recognized for its leadership on CSR. Two other HRPSOR reporters, Podravka and Zagrebačka Banka, appear in the top ten in terms of on-line reporting, in second and joint fifth place, respectively. The report notes general improvement in reporting between 2004 and 2005, including the issuing of stand-alone CSR reports and the use of the GRI guidelines. Importantly, however, Croatian companies still lagged behind their Central and Eastern European counterparts and, whilst, 92% of companies surveyed had some CSR information on their websites, and 44% in their annual reports, only 13% (6 companies) issued a CSR report.

Recalling Randell's 'cross-level' framework cited above, the low level of reporting appears, in part at least, to be related to the institutional environment. This is apparent at the macro-level in terms of being a transition country. Indeed, it is notable how many of the leaders in one form of sustainability reporting or another are wholly owned by foreign, Western companies, in partnership with such companies, quoted on Western stock exchanges, and/or active in Western markets. It is also apparent at the micro-level in terms of company size and sectoral significance.

Crucially, whilst institutional support for CSR has been growing in Croatia, support for reporting is much more recent, with the GRI guidelines only very recently existing in an official Croatian language translation. The conditions are emerging, however, for greater emphasis on reporting, since Zagreb was one venue for discussion of the third generation of GRI guidelines and will be amongst the first to have an official translation. In addition, there is a growing number of CSR consultants and peer support structures are being developed to aid the next generation of reporters. The significance of organizational identity is more complex although leadership in corporate governance and in corporate philanthropy appears to be relevant, with even leading Croatian companies still operating within Dunphy *et al*'s 'second wave' of sustainability behaviour. The individual level of 'champion's tactics' also appears important as, in many of the top reporters, a small number of managers within the company, often active in wider debates about the role of business in society, appear to have been driving both sustainability competences and reporting.

2.3 For a reflexive comparative case study methodology

In the absence of a body of research evidence on sustainability reporting in Croatia, we chose to look in depth at the reporting practices of two Croatian companies, Coca-Cola Beverages, Hrvatska and Zagrebačka Banka in order to gain a deeper understanding of the motives for reporting and the impact of reporting in terms of the development and spread of sustainability competences. The two companies were chosen as a result of our familiarity with, and direct involvement in, their reporting, rather than in terms of any 'representative' qualities. In each case, our own knowledge and awareness has been complemented by a re-reading of the relevant reports and in-depth interviews with the person responsible for the company's reporting and, in the case of Coca-Cola Beverages, Hrvatska, a member of the senior management team. Time and access constraints led to the cancelling of a planned interview with a third Croatian company.

The comparative case study method (CCSM) used here is appropriate, in particular, when researchers have substantial knowledge of each case, within a sub-sample which is itself small. Rather than testing explicit hypotheses, CCSM seeks to formulate, elaborate and refine concepts which can be utilized, later, in larger studies, to test hypotheses and develop theory. The approach explores 'configurations of characteristics' seeing how they fit together in each case and how they differ across cases (Ragin, 1987 and Ragin, 2000). In this study, we move towards a merging of CCSM with Dvora Yanow's plea for more 'reflexivity' in organizational studies which eschews false 'objectivist' claims and, instead, re-inserts the self as a form of 'interpretative authority' into texts. Above all, reflexive CCSM asserts that "interpretative methods are no less methodical and systematic" (Yanow, 2001; 60) than more 'traditional' or 'mainstream' social scientific methodologies. The case studes can, therefore, be built on in subsequent work with a more representative sample of companies, in order to render our findings here generalisable within Croatia.

3. CASE STUDIES

3.1 Coca-Cola Beverages Hrvatska d.d

Sector and profile

The food and beverages industry is by far the most important part of the manufacturing sector in Croatia. According to Croatian Chamber of Commerce data, it represents 18.8% of the total value of the manufacturing sector, compared to, for example, the tobacco processing sector, which amounts to 2.7% of the total. In 2004, 46,000 people were directly employed in the food, beverages and tobacco sector. Consequently, it is one of the more competitive sectors, since food and, especially, beverages consumption in Croatia is related also to the size of the tourism sector. Hence, some of the largest Croatian companies, including Agrokor, Lura and CCBH sell diverse beverages through various outlets or channels. In recent years, companies have tended to diversify in terms of their involvement in carbonated soft drinks, fruit juices, and bottled water.

Operating in Croatia since 1968, Coca-Cola Beverages, Hrvatska (henceforth CCBH) became part of the Coca-Cola Hellenic Bottling Company (CCHBC) after a merger in 2002. It is now almost entirely owned by CCHBC, Europe's largest soft drinks company, operating in twenty five European countries and Nigeria. CCBH produces, bottles and sells Coca-Cola beverages in Croatia, under license from the Coca-Cola Company. It currently employs around 800 people in six locations in Croatia. Whilst CSD's still accounted for 87% of total sales in 2004, the company also sells juices, ice-teas, water, and sports drinks. The market for soft drinks in Croatia increased between 2000-2005, growing at an average annual rate of 3.9%. CCBH remains the leading company in the market. In 2004, it held on to just over 60% of the market share of CSD sales in Croatia, a steady decline from just over 67% in 2001, but had built up its share of fruit juices (to about 20%) and ice-teas (19.5%) and had entered the water market with a 3.4% share in 2004, on less than a full year of production. Its reported after-tax profits for 2005 were around 53 million HRK (Privredni vesnik, 2006; 54).

Reporting

CCBH published an Environmental Report, not based on the GRI guidelines, in May 2002. In November 2003, it was the first Croatian company to produce a Social Report based on the GRI guidelines, covering performance in 2002, with 2000 and 2001 data also covered. In October 2005, it became the first company in Croatia to produce an integrated Sustainability Report in accordance with the GRI guidelines (CCBH, 2005), covering performance in 2003 and 2004. It is committed to such reports every two years, with the next report due to be published in 2007. All reports were produced in Croatian and in English languages and the current report is available on the company's web site. The Table of Contents of the Sustainability Report, totalling ninety four pages, is shown in Box 1 below.

Box 1 **CCBH Sustainability Report, October 2005**

The parent company CCHBC has produced annual Social Responsibility Reports covering the years 2003, 2004 and 2005, all of which can be downloaded from its web site (http://www.coca-colahbc.com/community/download_center.php). The first report includes GRI indicators only for the environment, whereas the 2004 and 2005 reports, the former more extensively, use the GRI indicators. The latest report, fifty two pages in length, includes sections on the business, governance, a special section on water, and performance reports and goals for the future relating to the marketplace, the workplace, the environment, and the community. The report includes a GRI index but no external verification.

CCBH's Social Report includes an appendix on methodology, in part as an exercise in transparency and, in part, in order to promote reporting by other companies in Croatia. Essentially, the method for compiling the Sustainability Report remained the same, with external consultants (two of the authors of this paper) working closely with the editor of the report (the other author of this paper) and a senior management group. The Sustainability Report introduces the idea of a link between CCBH's reporting and the Institute of Economics consultants, offering an assessment of progress made in terms of goals from one reporting cycle to the next.

Drivers for reporting

Quite a clear progression can be traced in terms of the drivers for reporting over time. The environmental report was a direct attempt at risk management and strengthening of company reputation in the face of external pressures, namely criticisms regarding the environmental impacts of the company's Zagreb production plant. The positive results from this report itself, and dialogue in place of critique, coincided with a thoroughgoing modernisation of country-level corporate culture.

The first social report, using an external consultant (Stubbs) and reporting according to the GRI guidelines, was driven by a mixture of intellectual curiosity and clear leadership by a small group of senior managers, including Tafra-Vlahović, in the absence of any similar reports in Croatia and, indeed at that time, no reporting tradition within the parent company. In retrospect it was a 'brave' step involving considerable exposure, revealing the company's average annual salary and market share for the first time, and a degree of self-criticism (the results of an employee satisfaction survey were included explicitly for this reason). In the words of a senior manager, it involved "opening ourselves up to our stakeholders and saying - well, this is what we are". Turning a 'threat' into an opportunity, the report was a first step in terms of raising awareness within the company, and explicitly recognising the positive social impacts of aspects of the company's performance which had not, up to that point, been recognized, a kind of shift from a lack of recognition of competence to an increased awareness of competence.

A similar process was at work in regard to the parent company, still at the time a largely unfamiliar corporate culture, which allowed CCBH to operate in terms of 'freedom within a framework'. The report was cleared with CCHBC and external validation by the International Business Leader's Forum, of which the Coca-Cola Company is a member, was seen as important in linking the 'pioneering' role of CCBH with best international practice. The report prioritised relationships with employees, the local community, customers and consumers, with less attention paid to dialogue with suppliers, NGOs, business organisations, and even less to central and local government (Gregory and Tafra, 2004; 20). The report also drew out of a wish to report on the national and local activities and commitments of a 'global' brand.

The subsequent Sustainability Report, already a commitment from the previous Social Report, continued to be driven by an internal management desire to be both first and best, within Croatia and within the group. It was also driven by, and reflected back, a change in the corporate culture towards a more explicit commitment to sustainability, to an elaboration of stakeholder dialogue, and to a more holistic and systematic set of policies and processes in place to support this. By this time, the second, and more coherent CCHBC Social Responsibility Report had been issued which, particularly in the area of environmental reporting, also formed a benchmark. The CCBH Sustainability Report focused less on community activities and much more on governance structures. Its final, expanded, section on future commitments included an assessment of progress and merged the goals of the parent company's report with six key themes for 2005 and 2006.

Impacts of reporting

The reporting has contributed to, and is itself a product of, strengthened and modernized management structures which is also reflected in the pursuit of a wide range of ISO certification for various business processes. It has gained acceptance as part of the normal routines of doing business. Of particular note is the attention to explicit policy statements in the time between the Social Report and the Sustainability Report, including group statements on human rights and sales and marketing in relation to children, as well as a CCBH policy regarding HIV/AIDS. Crucially, the Sustainability Report was able to reflect changes in corporate governance towards a more explicit recognition of the importance of CSR. In 2004, a Council for Social Responsibility had been formed by CCHBC and this led to the founding of a local team for CSR within CCBH consisting of the Deputy General Manager, the Public Affairs and Communications Manager, and the Quality Assurance Manager which, in fact, formed the key Steering Group for the Sustainability Report. The report notes the need to add the Human Relations manager to this group and raises the possibility of including CSR objectives within executive remuneration.

Stakeholder consultation remains a clear commitment although, in terms of the impacts of reporting, it has, perhaps, been emphasised less than the technologies of reporting according to the indicators and principles of the GRI. Reporting has certainly contributed to a clearer awareness of the need to invest in research and actions to assess and improve communication and consultation processes. In terms of relationships with employees, the underlying conditions are difficult and, indeed, there was a strike in CCBH soon after the publication of the report. The background to this was the management's commitment to continued restructuring and a degree of downsizing to concentrate on core business activities. Within this, CCBH has focused on strengthening its human resources, improving training opportunities, and offering choices to those employees faced with redundancy.

Reporting has reinforced a tendency to focus more on longer-term localized partnerships than on corporate philanthropy, in part at least, based on an assessment that CCBH cannot compete with some of the leading Croatian companies in this regard. More emphasis on work with policy makers also appears to have derived from a wider recognition of the company's leading role in sustainability practices. Key managers from CCBH continue to play a leading role in the sustainability field in Croatia. Polices and practices in relation to advertising, to labelling, and to suppliers, have also improved, both nationally and globally.

Assessment

Whilst maintaining a leadership position in terms of CSR and sustainability, there has been a shift from some of the more public aspects of this towards a strengthening of reputation amongst peers and policy-makers. The company has sought to complement, or even re-orient, its image as a global brand to one of a company committed to sustainable development at the national and local level. A changed organizational culture now reflects a commitment to modern management approaches, combining stated policies and procedures with space for innovation and creativity. Within this, there is a much greater recognition of the value of sustainability competences in and for themselves but also in terms of reframing general management approaches. In some ways, the most interesting and most complex issue is the evolving relationship between CCBH and CCHBC. The group has now not only caught up but, in many ways, taken the lead in terms of sustainability reporting. This suggests that, in the future, the balance between national and trans-national commitments and processes will be a more explicit subject of formal negotiations around the concept of ‘autonomy within a framework’.

3.2 Zagrebačka banka d.d.

Sector and profile

The market structure of the banking sector has undergone significant changes in many countries in transition over the past ten years, and Croatia has been no exception. The change of bank ownership structure from state ownership to foreign-bank ownership is particularly important in Croatia. Between 1996 and 2003, following a series of bank crises, the share of assets held by foreign banks increased dramatically. By 2003 more than 90% of the banking sector’s total assets were foreign-owned. Thus, the Croatian banking system is characterized by a high degree of foreign ownership (Slijepčević and Živković, 2005).

Liberalization of the banking system began in 1993 in Croatia with the adoption of the Act on Banks and Savings banks. Of numerous banks in Croatia, Zagrebačka banka (ZaBa) is one of the oldest financial institutions in Croatia (existing since 1914). After privatisation of the Bank, it was purchased by the Italian-based UniCredit Group in 2002,which owns almost 82% of all shares. On the basis of the financial strength of the foreign owner - UniCredit Group has more than €89bn in assets - ZaBa is currently the leading bank in Croatia, with more than 4400 employees, 1.2 million clients and 903 million HRK profit in 2005, holding a quarter of the total market share in credit financing and almost one third in deposits.

Reporting

ZaBa produced its first Social Report in November 2005, covering performance in 2003 and 2004 with some statistics from 2002 also included. It was prepared in accordance with the GRI guidelines and indicators, including eight additional indicators drawn from the GRI Financial Services supplement, although it contains no independent verification statement. Produced in both English (eighty four pages) and Croatian (eighty pages) language versions, the contents of the report are shown in Box 2 below. The report can be directly linked to and downloaded from the Bank’s home page (ZaBa, 2005), with more detailed online reporting on sustainability planned as part of a new website currently under construction.

ZaBa’s parent company UniCredit Group has produced annual Social and Environmental Reports covering performance each year from 2000 up to and including the latest 2005 report which presents the company’s new profile as a ‘truly European Bank’, following mergers with the German HVB and Austrian Ba-Ca banks (UniCredit Group, 2006). The one hundred and fifty two page 2005 report, which includes a verification by the auditors KPMG, appears to be loosely based on the GRI guidelines although the indicators listed are not cross-referenced as required in order to be ‘in accordance’ with the GRI standard. The web site states explicitly that the report “is a document of value not only in communication terms, but also a form of management tool, telling us what, how and how much has been achieved and for whom. In recent years efforts have been concentrated on clarifying the coherence between business and management strategies and our relations with stakeholders" (http://www.unicreditgroup.eu/DOC/jsp/navigation/include_content.jsp?parCurrentId=0b0030398031b035&parCurrentPage=bilancio_soc_ambient.html&locale=en).

Box 2: **Zagrebačka Banka Social Report 2004**

PART 1: INTRODUCTION
1. Chairman's statement
2. Reporting Method
3. Organization Profile
4. Values as Guidelines: our vision and mission
5. Governance Structure and Management Systems
6. Significant Shareholders

PART 2: EFFICIENCY – ACTIVITY AND IMPACTS
1. Economic Impacts and Efficiency
2. SOCIAL IMPACTS AND EFFICIENCY
A. At Your Service – Customer Protection And Product Responsibility
B. Respecting Human and Labour Rights
C. Consumer Development and Philanthropy

PART 3: LOOKING AHEAD
1. Objectives and Future Commitments

APPENDICES
1. Code of Professional Conduct
2. List of Indicators
3. List of Tables
4. Glossary of Terms
5. (Separate) Questionnaire

ZaBa contracted consultants from the Institute of Economics including one of the authors of this paper, who were responsible for supporting the process, clarifying and translating the GRI guidelines, running a series of workshops with managers designated to collect and interpret information, helping plan the report structure, and commenting on drafts. The report was written by a core team from the Bank's Department for Corporate Communications and Marketing.

Drivers for reporting

As a founder member of HRPSOR, joining in 1997 and, in particular, as a company which had profiled itself in terms of an explicit sustainable development policy and practice, the commitment to produce a social report was a natural progression. In particular, the Bank had been the first Croatian company to introduce a public tender competition for donations for projects which improve the life of the community, in 1999. The annual competition was refined in 2003 and now includes four categories: Children and Young people; Humanitarian activity; the Arts; and Cultural Heritage, with a separate fund for environmental projects. Another driver was the Bank's position as the leading bank in Croatia, a large employer, and recipient of a number of awards. The initial work on CSR was steered by one person but this spread to others within the Department for Corporate Communications.

In broad terms, the key internal driver was a desire to demonstrate to employees that ZaBa's leading market position was matched by leadership in corporate social responsibility. In the five or so years of intense activity in CSR, there had been a feeling that this was not sufficiently known about, understood or even, to an extent, supported, by most of the staff. In a way, the issuing of the report sought to raise awareness of what had been done and act as a catalyst to spread the values of CSR more widely within the company. At the same time, this was matched by an external driver in terms of a wish to communicate more effectively and systematically with external stakeholders, primarily customers and potential customers, but also with policy makers and potential investors, regarding the Bank's general profile and products and, in particular, its commitments. This can be seen in the descriptions in the report of socially relevant investments and lending with a high social benefits (pp. 27 – 33); on customer privacy (p 35); and, most clearly, regarding corporate giving (pp. 53 – 63). In many ways, the report was a charter of achievements over a five or six year period, with the explicit intention of being a catalyst for the further and deeper development of sustainability competences throughout the company.

Interestingly, there was no pressure for reporting, either explicitly or implicitly, from UniCredit Group, which asked ZaBa to contribute data and information for its annual Environmental and Social Report but which allowed the company complete freedom in terms of whether or not, and in what form, to report on ZaBa's own sustainability practices. Beyond reference to the parent company's reports, and a note on activities under the umbrella of the Unidea UniCredit Foundation (p 63), there is no uniformity between the ZaBa Social Report and UniCredit's reporting.

Impacts of reporting

The methodology used for producing the report was designed explicitly to achieve the goal of raising awareness within the company both in terms of sharing information but also in terms of sending a message that social and sustainability reporting was about more than figures, facts and a few human interest stories. The consultant-led workshops, attended by some twenty key staff, served as awareness raising sessions in this regard. The process helped in a redefinition of CSR within the company from being concerned primarily with a charitable or philanthropic conception, based almost entirely on donations, to an awareness of the importance of impacts on customers, employees, and, to an extent, on the environment. The report was one part of a consistent effort by a small dedicated team, which also included organizing a high profile seminar on Social Responsibility involving senior management from ZaBa and a representative of the UniCredit Foundation, focused, in particular, on discussing the reporting of CSR in the media.

A crucial change can also, in part at least, be traced to reporting, namely a decision to introduce a social responsibility dimension into key bank products, notably in terms of a grace period for loan repayments coinciding with parental leave. In addition, as an example of cause-related marketing, new home loans include a ZaBa donation towards a house for young people leaving institutional care. Something of the seed for both ideas was laid by increased awareness of such practices in reporting through familiarity with the Financial Services supplement of the GRI.

In addition, induction training for new employees now includes, for the first time, a section on the Bank's commitment to CSR. ZaBa is also one of the leaders in Croatia in terms of employee volunteer schemes. Whilst the annual grants programme continues to act as a flagship in terms of the Bank's corporate philanthropy, more long-term partnerships are also being developed with particular NGOs and institutions, including UNICEF, a Guide Dogs for the Blind NGO, and a manufacturer of ecological foods. Indeed, one of the features of the

Social Report is the inclusion of testimonials by key partners although, in part because of time constraints, an initial idea of having a team of external verifiers drawn from different sectors was abandoned.

Crucially, the corporate governance structures have been changed to reflect a more holistic commitment to sustainability, with a newly formed Corporate Responsibility team directly responsible to the Bank's CEO. The medium-term goals of this team reflect an ambitious programme of integrating dimensions of CSR which have, perhaps, not been so well developed, to finding synergies between the different activities, as well as consolidating policies, practices and procedures. The Bank will issue its first Sustainability Report, again working with a team from the Institute of Economics, according to the GRI guidelines, in 2007.

Assessment

The first Social Report by Croatia's leading bank, actually confirmed its leadership role in aspects of corporate social responsibility in Croatia, being a description and stock-taking of achievements thus far, and a catalyst for a widening and deepening of its sustainability practices in the future. A series of events meant that the report was also used as a catalyst for improved communication with external stakeholders and a deepening of commitments to longer-term partnerships. The process of compiling and writing the report, whilst it served to raise awareness within the various Departments of the company, was a lengthy and time consuming process and, perhaps, had detrimental consequences in terms of the abandonment of plans for an innovative form of external verification. In addition, although perhaps in keeping with a first report, the concluding section in terms of commitments for the future is short and somewhat general. Perhaps the most striking contrast with the other case study is the apparent lack of any impact in terms of the Bank's relationship with its parent company. It will be interesting to see in the future whether this changes and, indeed, whether ZaBa's leadership in CSR and in reporting has impacts on other banks in Croatia and/or on the banking sector, including UniCredit subsidiaries, elsewhere in Central and Eastern Europe.

4. CONCLUSIONS

There are many similarities between the two case study companies, in particular, in terms of the motives for, and impact of reporting. Both are long-standing Croatian companies and, now, part of a larger, multi-national, parent company. Both are clear market leaders in their particular, highly competitive, sectors. Both have long-standing commitments to CSR practices, led by key champions but increasingly spread throughout the organization. Both sought, explicitly, to use reporting as a way of raising awareness of their CSR commitments within the company and for external stakeholders. Both have changed their corporate governance structures to prioritise sustainability. Both are now committed to a cycle of bi-annual Sustainability reporting based on the GRI standard. In terms of Dunphy *et al*'s stages, both can be seen to be close to entering a third wave of a transformative commitment to sustainability.

There are also a significant number of differences. ZaBa relies on its national reputation whereas CCBH seeks to solidify a national reputation in the context of a global brand. CCBH began reporting earlier and has, in consequence, reached a more advanced form of reporting and, in particular, has in place an embryonic benchmarking and monitoring system for chasing sustainability goals. ZaBa has profiled its corporate philanthropy leadership more as its 'flagship' for CSR, whereas CCHBC, perhaps, sees reporting and peer reputation as more important. Table 2 summarises the main points of similarity and difference between the two companies in terms of reporting.

TABLE 2: Case Studies Compared

ISSUE	CCHBC	ZABA
Leadership	Domestic market leader, group is international market leader	Domestic market leader, part of international group
Reporting Status	Advanced – Sustainability; GRI, Benchmarking Performance; External Verification	Beginning – GRI on social reporting; Limited Benchmarking; No External Verification
Governance Structures	Transitional – Policy commitments in place	Beginning – Policy commitments undeveloped
Themes Emphasised	Holistic – Stakeholder Oriented	Community Development – Customer and Civil Society Oriented
Reputation	Moving from Negative to Positive – Domestic and International	Positive – Focus on Philanthropy
Parent Company	In advance of PC though catch up occurring	Behind PC – No Plans for Convergence
Future	Innovation Through Delivering Value	Innovation through Move to Sustainability Reporting

In terms of some of the hypotheses regarding reporting noted earlier, the case studies appear to show the importance of leadership in the context of the Croatian CSR field but also the relevance of the transition context. In a 'field' marked by no more than a dozen regular reporters and a mere handful of GRI 'in accordance' reporters, there has not yet been any evidence of the diminished impact of reporting. Crucially, whilst CCBH's initial environmental report was, in part, driven by external pressure and a desire to manage reputation, the subsequent Social Report was more a stock-taking venture, and the Sustainability report was driven fully by strategy, values and a kind of assertiveness that transparency, honesty, and dialogue work in the interests of all. ZaBa, which did not face external pressure, is now developing a more holistic strategic sustainability framework under a longer-term timescale. Both companies have changed their structures and developed new narratives in the process of reporting. The most underdeveloped issue for both companies is that of stakeholder dialogue and, in particular, the design of diverse channels for diverse stakeholders.

The evidence presented here suggests that there is a clear link between the development of a range of developmental imperatives within companies, sustainability competences and reporting practices. The in-depth case studies presented here need to be complemented by wider surveys of managerial attitudes and practices among a range of reporters. The reasons why many leading companies, including leaders in sustainability practices, still do not report regularly and systematically in Croatia, also deserves special attention. In the context of interest in the economic value of 'clusters' in Croatia (cf. Redžepagić and Stubbs, 2006), it will be interesting to see whether 'sustainable business clusters' in which companies work together, and with other stakeholders, to deliver long-term social and environmental benefits (cf. Zadek, 2004 ch. 29; Regional Futures, 2004) will also be developed in Croatia. In the future, research on the nature of competences in different fields will need to explore the link between emerging sustainability clusters and networks and wider responsible competitiveness. This paper has, we hope, opened a door to promote more diverse methods and analysis of the symbiotic relationship between reporting, sustainability and management practices in Croatia.

Further research is needed to build on the findings of these case studies and generate hypotheses which can be tested and lead to generalisable statements regarding the role of reporting in Croatia. The following appear to us to offer the most important lines of inquiry:

- What factors encourage Sustainability Reporting in Croatia? Why have some leaders in CSR practices not yet entered into systematic reporting?
- Are managerial attitudes, practices and competences in terms of sustainability reporting a good predictor of other aspects of the management function?
- Are leading reporters more networked within the sustainability field than other companies?
- What are the motivations for reporting in a range of reporters? How does this vary with sector; size; leadership; and corporate governance?
- Is there evidence of lesson learning and transfer of sustainability competences from elsewhere or are they more often 'home grown'?
- How does sustainability reporting relate to companies' definitions of key stakeholders? How do companies seek to measure stakeholder impact?

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