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**Corporate social responsibility and business success in Croatian companies**

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**ABSTRACT:**

In recent years, a Corporate Social Responsibility (CSR) practice has in light of occurring economic, social and climate changes grown in scope and importance. Corporate social responsibility is the voluntary commitment by company managers to integrate social and environmental considerations into their business operations. Alongside with companies CSR nonfinancial benefits, such as: increase in reputation, higher employee retention, and encouraging innovation, it is useful to demonstrate the business success measured by financial ratios.

Recent research suggests that there are three directions in which CSR affects the company: positive, neutral, or negative. Our task is to examine which direction is dominant in Croatian CSR companies, and present findings of their success. We assume that CSR companies attain above average financial results. In our research we are using yearly financial reports as source of data, and have calculated Key Performance Indicators (KPI’s) to measure the level of success. Our sample encompasses CSR Croatian companies, and compares them with their respective branches/ industries KPI’s.

Our findings indicate that companies which have commendable CSR practices are on average displaying higher level of liquidity, productivity, efficiency and profitability and are more successful according to the examined KPI’s compared with their respective branch/ industry competitors. Thus, without going into the discussion which was the primary driver of such results (the success, or the CSR), the results for CSR companies indicate above average financial results, and therefore support the view that success and CSR are going hand in hand.

**Key words:** Corporate social responsibility (CSR), Croatian companies, business success, financial indicators

**Journal of Economic Literature (JEL) Classification System:** Q01 - Sustainable Development

**CORPORATE SOCIAL RESPONSIBILITY AND BUSINESS SUCCESS IN CROATIAN COMPANIES**

1. **Introduction**

Companies in South Eastern Europe, as well as Croatia are facing changes in business environment where they must meet the challenges of European integration, globalization, and liberalized internal markets. As the process of stabilization and accession to the EU is advancing, the Croatian companies are bringing their policies and practices in line with EU standards. One policy that is rapidly growing in importance in the EU is the Corporate Social Responsibility (CSR), as an integral part of EU commitment to sustainable development (EU Commission 2001 & 2009).

We assume that CSR companies are more successful. Our goal is therefore to examine if CSR companies in Croatia have achieved higher level of business success compared to their branch/ industry averages.

The remainder of this paper is organized as follows: defining CSR and discussing measures of business success through financial ratios is a broader perspective of our research. Later on follows the empirical research: methodology, data and limitations. Lastly, we present the research results with the implications for the business practice.

**2. Corporate social responsibility**

Corporate Social Responsibility (CSR) can be described by various definitions, some of which describe CSR as “actions that appear to further some social good, beyond the interest of the firm and that which is required by law” (McWilliams & Siegel, 2001). A point worth noticing is that CSR is more than just abiding the law. Another similar view of CSR is that it is “a business strategy which is integrated with core business objectives and core competencies of the firm, and from the outset is designed to create business value and positive social change, and is embedded in day to day business responsibility” (McElhaney, 2009).

According to Caroll, CSR activities can be grouped into four main categories: economic, legal, ethical and philanthropic (Carrol, 1979). Such classification assumes abiding by the CSR principles, where company’s responsibility towards the society is based on normal profit maximization, following of the legal rules, and moral responsibility as well as philanthropic activities, which are displayed by the following picture:

Graph 1: CSR pyramid

Source: Carroll 1979.

CSR as a concept is based on relationship between business world and society, and on behavior of company’s towards its main interest groups such as: employees, buyers, investors, suppliers, local community and special interest groups (Hick 2000). The definition of CSR that we adhere to in this article is based on the Business for Social Responsibility definition, where corporate social responsibility is described as “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment” ([www.sustainability.com](http://www.sustainability.com), 2010). In essence the concept of responsible companies includes taking into account a view broader than merely company’s looking exclusively into financial result, although it still remains the primary driver and prerequisite of company’s growth and prospect, where now the century old industrial company view has evolved with the change in paradigm to include all interested company stakeholders and beyond. CSR has become a standard for modern companies, therefore it is not uncommon to look at the CSR as the realization that companies can and should play an important role in their communities, across the nation and around the world, while making a profit.

In order for organization to be sustainable it must be financially secure, decrease its negative environmental impact and act in conformity with the expectations of society. Although the prime focus of business is generating profits, corporations can also contribute to social and environmental goals by applying corporate social responsibility as a strategic line in their core business practices, corporate governance, and management instruments.

**3. Business success measured by financial ratios**

Regarding the constantly increasing pressure of society towards better company’s social responsibility, the need for exploring the link between CSR and financial success rose as well. It is fairly simple to indicate the main advantages of responsible business practice, but it is a difficult and demanding task to quantify and measure the direct benefits of CSR on company’s success. Such measurements are conducted through empirical methods to identify the link between CSR and financial performance.

The empirical literature examining the relation between CSR and corporate financial performance is extensive. Measuring financial performance by itself is complicated as performance can be analyzed through a prism of measures and approaches. In that manner, certain researchers have used market measures, while others have put forth the accounting measures, while some adopt both of these. Even during analysis there are several possible approaches, ranging from: financial analysis, reputation indices, to survey analysis, where each approach has its advantages as well as shortages. Focus of our analysis is on accounting measures, where the shortcoming of this approach is in sense that it only captures historical data and aspects of a company (McGuire, Sundgren and Schneeweis, 1988). Such information is however subject to general managerial discretion of fund allocation and thus reflects internal decision making capabilities and managerial performance, rather than external market responses to organizational action (Cochrane, 1984).

The causality of CSR and financial performance could be twofold. As previous literature has stated, the sign of the relationship may be negative, neutral or positive. “Whatever the sign of the relationship, it is also possible that CSR influences financial performance, or inversely that financial performance influences CSR“(Trebucq & D'Armicoles, 2002). Different theories in the management literature predict various bonds between corporate social performance and financial performance. One of the theories is a good management theory or instrumental stakeholder theory which suggests a positive relation between corporate social performance and financial performance. Opposing view is according to slack resources theory (Ullmann, 1985; Waddock and Graves 1997), where the causality is reversed: financially strong companies can afford to engage in extensive CSR activities, which in turn can likely improve financial performance of the company, especially when the CSR activities are carefully aimed towards stakeholder preferences. According to the examined literature, there are three possible outcomes (Trebucq and D’Amicoles, 2002): 1. Higher financial performance results in better CSR, ceteris paribus. 2. Better CSR leads to higher financial performance, ceteris paribus, and 3. There is a neutral relationship between financial performance and CSR.

Based on the premise that company’s engage in CSR in order to obtain economic and social benefits for strategic reasons, and as the results from the literature of the previous CSR research indicate predominantly higher level of general success, in our work we examine whether socially responsible companies according to the “CSR Index” are indeed more successful than their branch competitors based on the accounting and financial ratios. With that goal in mind, measures of firm performance are used, using accounting and financial measures of profitability (see, for example, Aupperle, Carroll, and Hatfield, 1985; McGuire, Sundgren and Schneeweis, 1988; and Waddock and Graves, 1997). The results from these studies have also been mixed and the least to say inconclusive. Spicer (1978) finds a positive association between stock price and corporate social performance and suggests that the latter provides information about management competence. Aupperle et al. however found no relationship between Corporate Social Performance (CSP) and profitability, McGuire et al. found that prior performance was more closely related to CSP than was subsequent performance, and Waddock and Graves found significant positive relationships between an index of CSP and performance measures such as ROA in the following year. As a synthesis of discussion in which direction the CSR acts, we can look at the work of Roman et al. (1999), where based on the meta-analysis of 33 studies he managed to prove the existence of a positive relationship between CSR and financial performance, in 14 studies the results were unclear, i.e. there was no specific connection, and only in 5 studies a negative relationship was found. Such results lead to conclusion of the existence of the “virtues cycle” (Waddock and Graves, 1999) between CSR and financial success. Following the just stated, Simpson and Kohers (2002), believe that companies which “do good” are often the ones which are more successful.

**4. Empirical research and methodology**

The aim of this research is to contribute to a better preliminary understanding of the relation between CSR and business success of the companies by providing evidence from Croatia. This study aims to address the issue of what is happening with CSR practice in Croatia: whether CSR companies according to financial indicators of liquidity, productivity, efficiency and profitability are more successful than the companies which do not behave socially responsible?

As a part of rising interest and focus on CSR issues we have decided to conduct an analysis on most socially responsible companies as voted by the “Croatian Business Council for Sustainable Development (CBCSD)”, the leading business association focused on the promotion of sustainable development in business practices, which was founded in 1997 as a non-profit institution by a group of Croatian companies and NGOs, and is a member of the World Business Council for Sustainable Development (WBCSD), which is a “CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development” (WBCSD, 2010).

From CBCSD we have obtained a “CSR Index“, a joint project between “Croatian Business Council for Sustainable Development (CBCSD)“ and “National Chamber of Commerce“. The aim of the project was to enable transparent insights into voluntary practice of CSR in business most successful small, medium, and large Croatian companies according to the criteria of “Zlatna Kuna” (a National Chamber of Commerce award). “CSR Index“ is a methodology which allows Croatian companies to assess their CSR practices and compare them among the companies. The evaluation is defined through six sections: economic sustainability, level of CSR inclusion in the strategy of a company, working environment, environmental protection, market relations and company's relations towards the society. The methodology is based upon similar methodologies such as Dow Jones Sustainability Index and Business in the Community CR Index (CBCSD, 2010). Answering of the questionnaire was on voluntary basis. The analyzed information is for the year 2009, and it was the second time a CSR Index awards were presented. Our analysis is based on the 40 most socially responsible companies according to the described Index. Similar study of this matter does not exist in Croatia to our knowledge. The source of our data is “FINA” database (31 December 2008), where financial information for industries/ branches was extracted according to the CSR Index companies. The data covers 40 Croatian Business Council for Sustainable Development socially responsible companies conducting business in Croatia, as well as accompanying 40 branches of industry in which those companies operate. Needles to say the financial view of the CSR performance is only one of several ways to evaluate the company performance, others being tracking and analysis of the stock prices and comparing CSR companies listed on the stock exchange to its non CSR competitors.

We derive our analysis from the yearly financial reports, which are very important source of information in decision making, especially for the stakeholders such as the shareholders, suppliers, buyers, government, and broader public. Financial reports give insights in various aspects of conducting business, and together when analyzed as one whole part can reflect the business performance. Financial analysis cannot be done without the ratios (Cochran, 1984). In analyzing the financial results, various Key Performance Indicators (KPI’s) and accordingly financial ratios can be measured, and one way of classifying them is through looking in terms of time horizon. In that sense short term indicators and goals are liquidity and solvency, on the next level (quarterly) goals are profit productivity, and efficiency, following with profitability goal, while in the long run (time horizon longer than a year) important aims are research and development (Osmanagic Bedenik, 2010).

We are aware of certain limitations of this study that need to be addressed in future studies. First limitation concerns a possible bias in sample selection, drawn from a population of firms selected by the CBCSD Sustainability Index. The selected companies are chosen by the CBCSD from the pool of companies which have voluntarily participated in the CSR survey, while the vast majority of Croatian companies which have not took part in their survey have been excluded, which by no means implies that other companies are less CSR oriented, but rather that they are unwilling to provide and share publicly the CSR measures they are conducting. As always, use of secondary sources in research limits the design and possibilities of research, and conversely the analysis potential. In the future there is a room for improving both the criteria of selection, as well as in the process of qualitative and quantitative assessment to determine the future results. Other limitations deal with the choice of analyzed ratios, where strengths and weaknesses in order to be fully addressed, need to be carefully analyzed for each CSR company in depth. The business practice mainly focused on profitability ratios, because managers primarily want to see the bottom line benefits, although other financial ratios can show a lot of information on the stability and long run company potential, and those are some of the issues to be taken into account in the next study.

**5. Bussiness success- research results for CSR companies in Croatia**

When we start to look at the analyzed sample of CSR companies in Croatia (n= 40), the companies are fairly evenly spread across the categories of small, medium and large sized companies, with larger companies being slightly more represented. The research was conducted from January to June 2010.

Table 1: Categories of CSR companies from the sample, sorted by number of employees

|  |  |
| --- | --- |
| **Company size** | **Number of companies from the sample** |
| Small 1-49 | 11 |
| Medium 50-250 | 13 |
| Large 251+ | 16 |
| **Total** | **40** |

In analyzing the liquidity, as a first indicator we have used and calculated the current ratio (*assets \* 100/ liabilities*).

Current ratio reflects the ability of a company to settle all its debts within a year. In practice in USA, positive referral values are above 200%, while in the European business practice that ratio is between 130% and 140% (Osmanagic Bedenik, 2010). By looking at table 2, we can find certain divergence of CSR companies from their branch averages according to the current ratio. 10 companies have below average results compared to their branches, while 30 CSR companies (75%), have above average or equal current ratios to their branches. In our set, the CSR awarded companies are on average significantly more liquid than the branch averages. It is however important to note that liquidity ratios are calculated on a certain date from a balance sheet, and do not give a future indications, but since the difference is considerable, the strengths of CSR Index companies are evident, meaning they have higher liquidity.

Table 2: Current ratio comparison of CSR companies to their branch averages

|  |  |  |
| --- | --- | --- |
|  | **Current ratio** |  |
| **Company** **(a)** | **CSR companies****(b)** | **Branch/ Industry****(c)** | **Index (b/c)****(d)** |
| 1. | 2184 | 118 | 18,45 |
| 2. | 913 | 127 | 7,17 |
| 3. | 436 | 92 | 4,77 |
| 4. | 272 | 83 | 3,26 |
| 5. | 495 | 155 | 3,20 |
| 6. | 553 | 173 | 3,19 |
| 7. | 412 | 132 | 3,11 |
| 8. | 217 | 83 | 2,61 |
| 9. | 445 | 172 | 2,58 |
| 10. | 240 | 108 | 2,21 |
| 11. | 268 | 140 | 1,92 |
| 12. | 285 | 162 | 1,75 |
| 13. | 320 | 185 | 1,74 |
| 14. | 205 | 118 | 1,74 |
| 15. | 194 | 115 | 1,68 |
| 16. | 155 | 105 | 1,47 |
| 17. | 145 | 103 | 1,41 |
| 18. | 98 | 73 | 1,33 |
| 19. | 157 | 118 | 1,32 |
| 20. | 153 | 118 | 1,29 |
| 21. | 144 | 113 | 1,28 |
| 22. | 151 | 118 | 1,28 |
| 23. | 207 | 164 | 1,26 |
| 24. | 249 | 198 | 1,26 |
| 25. | 284 | 234 | 1,21 |
| 26. | 131 | 113 | 1,16 |
| 27. | 171 | 164 | 1,04 |
| 28. | 109 | 106 | 1,03 |
| 29. | 139 | 138 | 1,00 |
| 30. | 288 | 288 | 1,00 |
| 31. | 124 | 128 | 0,97 |
| 32. | 104 | 109 | 0,95 |
| 33. | 98 | 102 | 0,95 |
| 34. | 106 | 118 | 0,90 |
| 35. | 132 | 154 | 0,86 |
| 36. | 90 | 113 | 0,80 |
| 37. | 174 | 247 | 0,71 |
| 38. | 96 | 139 | 0,69 |
| 39. | 449 | 651 | 0,69 |
| 40. | 159 | 247 | 0,64 |
| Arithmetic mean of index |   | 2,15 |
| Standard deviation of index |   | 2,93 |

Graph 2: Box and whisker plot diagram for current ratios of CSR companies



**Current ratio**

 Outlier

Maximun

75% of values

Average-50%

25% of values

Minimum

Source: Authors statistical analysis using SPSS

Another way to analyze the results is by using the Box and Whiskers box plot. Based on the 40 calculated values it is visible that average current ratio of all CSR companies from the sample indicates a value of 189%, which is indicated in the graph by the parallel black line within the box, while the box marks the boundaries of the lower 25% and upper 75% of all sample values, and the lines outside the box represent minimum and maximum values from the sample. Along all mentioned, there are also 4 outliers (extreme, atypical values), where one of them is presented with number 2 on the graph (3 more outliers are not visible on the graph due to scale, and their values are 2184, 913 and 553). From the presented it is visible that:

* CSR companies are liquid in 90% of cases,
* 92% of CSR companies have higher liquidity (measured by the current ratio) compared to branch average and are according to this criteria more successful.

Our next ratio analysis focuses on the business success, where structure and dynamics of business are analyzed. To be successful in economic terms means to generate enough revenue to cover all the expenses and make a profit on top. Here we concentrate on indicators of: productivity and efficiency, which are important for assessing basic economic principles of success.

Productivity indicators in our paper are expressed by the ratio of total revenue, and number of employees, that is productivity of labor *(net profit/ number of employees at the end of the year*), where results are presented in Euro’s in the following table:

Table 3: Comparison of labor productivity based on CSR companies and their branches profit expressed in Euro’s *(Converted from Croatian Kuna to Euro at the average Croatian National Bank currency exchange ratio on 31 December 2008, where 1 EUR= 7,32 HRK)*

|  |  |  |
| --- | --- | --- |
|  | **Productivity of labor based on profit** |  |
| **Company** | **CSR companies** | **Branch/ industry** | **Indices (b/c)** |
|  **(a)** | **(b)** | **(c)** | **(d)** |
| 1. | 77.669,72 | 6.870,86 | 11,3 |
| 2. | 20.188,31 | 1.824,51 | 11,07 |
| 3. | 10.748,60 | 1.824,51 | 5,89 |
| 4. | 9.101,19 | 2.471,26 | 3,68 |
| 5. | 62.753,91 | 17.614,97 | 3,56 |
| 6. | 16.994,05 | 6.870,86 | 2,47 |
| 7. | 16.397,68 | 6.870,86 | 2,39 |
| 8. | 22.685,07 | 10.406,88 | 2,18 |
| 9. | 12.449,15 | 5.919,83 | 2,1 |
| 10. | 14.012,61 | 6.870,86 | 2,04 |
| 11. | 43.792,86 | 26.474,77 | 1,65 |
| 12. | 6.578,69 | 4.020,01 | 1,64 |
| 13. | 12.507,15 | 8.063,37 | 1,55 |
| 14. | 10.067,83 | 7.044,16 | 1,43 |
| 15. | 6.983,81 | 5.114,53 | 1,37 |
| 16. | 6.163,66 | 4.627,31 | 1,33 |
| 17. | 868,51 | 661,99 | 1,31 |
| 18. | 22.097,59 | 17.405,77 | 1,27 |
| 19. | 7.861,38 | 6.365,39 | 1,24 |
| 20. | 10.460,22 | 8.847,90 | 1,18 |
| 21. | 29.974,23 | 28.441,44 | 1,05 |
| 22. | 1.686,46 | 1.624,43 | 1,04 |
| 23. | 17.754,57 | 17.434,67 | 1,02 |
| 24. | 26.073,93 | 26.474,77 | 0,98 |
| 25. | 23.382,57 | 26.474,77 | 0,88 |
| 26. | 11.612,51 | 15.051,89 | 0,77 |
| 27. | 2.467,72 | 3.359,49 | 0,73 |
| 28. | 6.399,03 | 9.047,37 | 0,71 |
| 29. | 5.247,05 | 7.429,76 | 0,71 |
| 30. | 5.244,41 | 7.429,76 | 0,71 |
| 31. | 4.056,69 | 6.870,86 | 0,59 |
| 32. | 5.283,17 | 9.116,35 | 0,58 |
| 33. | 5.982,93 | 12.047,82 | 0,5 |
| 34. | 3.175,34 | 6.870,86 | 0,46 |
| 35. | 13.350,63 | 35.765,30 | 0,37 |
| 36. | 768,79 | 3.918,66 | 0,2 |
| 37. | 181,22 | 952,15 | 0,19 |
| 38. | 14.378,45 | 113.295,29 | 0,13 |
| 39. | 24,92 | 303,24 | 0,08 |
| 40. | 509,27 | 6.818,53 | 0,07 |
| Arithmetic mean of index | 1,81 |
| Standard deviation of index | 2,45 |
|  |  |  |  |

In order for comparison to be possible between CSR companies and branches in which they conduct their business, labor productivity indices were calculated, which indicate whether each CSR company is above or below their competitor’s average. By looking at table 3, more than half, or 23 out of 40 CSR (58%) of companies have above average results, while by looking at the indices, 81% of CSR companies are above the branch average as measured by the arithmetic mean of the indices. Such results need to be considered with a notion that there is a high standard deviation (which is 2,45) ranging from extremely small value (0,07) to extremely high value of index (11,3) which is a difference of 163 times, meaning that the arithmetic mean in this particular case is not the best indicator of the average value.

The following ratio which was calculated is business efficiency as measured by formula: $\left\{\left(Total revenue×100\right)/ Total expenses\right\}$. This ratio reflects the fundamental economic success principle, based on which a company needs to cover through its revenues all its expenses and make a financial net gain.

Graph 3: Business efficiency of CSR companies measured by indices in comparison with according branch values (CSR Company/ branch)

Efficiency threshold

Indices

Source: Authors calculation

CSR companies in large number of cases from our sample have significantly higher level of business efficiency than their branch averages (in 32 out of 40 cases, or in 80%), which is visible from the graph by the number of columns above the horizontal line which represents efficiency minimum (100%) and it therefore tells us that:

* CSR companies cover their expenses and attain positive financial result, i.e. they are efficient in economic terms.
* 80% of the CSR companies attain above average or equal level of business efficiency in comparison with their branch averages.

The last level of indicators measures profitability which reflects the market success of CSR companies in Croatia, and those measures in our case include Return on Investment (ROI=*Net profit\* 100/ assets*), Return on Equity (ROE=*Net profit\* 100/ Stockholders' Equity*) and Return on Sales (ROS=*Net profit\* 100/ Sales*). Each of the stated accounting measures provides different information about the company’s success (McGuire, Sundgren & Schneeweis, 1988).

When we synthesize the data and compare the profitability indices for CSR companies with their branches, we can see in the lower chart the summary results in three categories of profitability. In order for data and according results to be as precise as possible, as an additional indicator we have calculated the adjusted CSR average value index (adjusted for smaller number of recurring branches in the sample in comparison to CSR companies, where in places of a larger number of CSR companies from the same branch, average was calculated).

Table 4: Descriptive analysis for ROI, ROE and ROS of CSR companies and their branches

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ratio****(a)** | **Average CSR company value****(b)** | **Standard deviation of CSR company****(c)** | **Average value index (CSR company/ branch)****(d)** | **Adjusted average value index (CSR company/ branch)****(e)** |
| ROI | 14,68 | 13,69 | 3,75 | 3,43 |
| ROE | 23,09 | 22,31 | 4,35 | 3,88 |
| ROS | 9,67 | 6,33 | 1,52 | 1,37 |

Source: Authors calculation

In cases where ratios of CSR companies are significantly above their branch averages measured by ROI, ROE and ROS, they do to certain degree ascribe the internal efficiency of such companies. From our sample analysis it is observable that the CSR companies in general have above average results according to measured ratios, which leads to conclusion that CSR companies are more successful on average than the non CSR companies. By calculation of the liquidity, productivity and efficiency ratios, and in part in profitability (ROI category), above average results of CSR companies are apparent, while in other categories of profitability (ROE, ROS), although positive, the indicators show very similar results as the average non CSR branch values. Through comparing above and below average values of the ratios for CSR companies in all our categories, we can prove the hypothesis that CSR companies achieve above average results in their branches, so they are more successful. The commitment to socially responsible behavior can have positive or at least neutral financial impact on majority of the companies which conduct business under CSR principles. In summary results from our empirical research of Croatian CSR companies indicate:

* CSR companies in 75% of the cases attain higher or at least equal liquidity compared to their branch averages;
* CSR companies in 81% of cases attain above average or average branch productivity of labor;
* CSR companies in 76% of cases attain business efficiency higher than their branch average;
* CSR companies in 68% of cases attain higher ROI than their branch average;
* CSR companies in 63% of cases attain higher ROE than their branch average;
* CSR companies in 55% of cases attain higher ROS than their branch average.

Based on the provided results we can conclude that CSR companies in Croatia are more successful by the measured criteria as they attain above average results in their branches.

**6. Conclusions and implications**

The market rules apply for all companies alike. The more responsible companies, no different than the less responsible ones, must at the end survive in highly competitive markets, where CSR can potentially give the practicing companies one more additional tool in terms of brand strengthening, customer loyalty, higher employee morale, and other values to successfully strive in turbulent, competitive environment. As the deterioration of environment and social rights continues, people will become more aware of the need for change, and demand companies to act accordingly, where companies that ignore the risks associated with ethics, governance, and the “triple bottom line” of economics, environmental and social issues- are courting a disaster. In one way or another, corporations must be forced into sustainability, and serve as a catalysts of change, or else we are all collectively doomed.

This study addressed the question whether corporate social performance is linked to business success measured by financial ratios. By using scientific methods, we looked at the success of the CSR companies in Croatia and their branch averages in categories of liquidity, productivity, efficiency, and profitability. We have explored and proved that CSR companies in Croatia achieved a much higher level of business success than their corresponding branch averages. Hence, we can conclude that Croatian CSR companies from our sample generally perform well by being socially responsible, and through being responsible, they can act in good causes, and in that manner demonstrate the existence of a virtuous self reinforcing cycle.

To conclude, according to presented empirical research, and analysis based on financial ratios, CSR companies are performing above average by every examined ratio, and in general even if more responsible firms are not necessarily more profitable, at the very least neither are they less so! A CSR business practice can therefore only be a source of competitive advantage for the companies.

Future research in this area could proceed in several directions. Besides exploring quantitative CSR aspects, it would be interesting to conduct extensive studies which could explore and assess the reputation of CSR companies as a qualitative approach. Another aspect which is worth researching would be to analyze the annual financial reports of the CSR companies for several years, and see whether the CSR practice improves their business success in the long run.

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