CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL SUSTAINABILITY

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ABSTRACT
Many determinants and concepts of corporate governance, such as Corporate Social Responsibility (CSR), were primarily developed and intended for achieving higher business efficiency. The final expression of such efficiency is overall business result represented by different financial categories. Those categories are usually planned within the company financial strategy and they should be in alignment with a company declared CSR policies. However, it is usually understood that concept of CSR refers only to issues such as global scale sustainable development or developing acceptable green models of business growth. Such understanding is often extremely superficial and it doesn't respect the importance of CSR when setting crucial financial goals and strategies. This claim is based on the exclusivity of a CSR as a concept of balancing financial, ecological and social aspects of doing business. Defined as such, CSR can be a strong management tool for achieving diversified business impacts, especially sustainable financial results.
The purpose of this paper is to analyze basic premises and possibilities of aligning CSR policies that can be used when developing contemporary financial strategy of a company.

Keywords: *corporate social responsibility (CSR), sustainability, financial strategy, crisis, business cycles*

1 INTRODUCTION

During the recent global crisis different social subjects, from companies to their individual consumers, financial and also many government institutions, confronted diversified types of contemporary crisis: 1) financial, 2) energetic 3) environmental and 4) social crisis. This brought up a relevant question of maintaining business sustainability and development in constantly changing economical, political and energetically unstable global conditions. Companies become aware that business problems they encounter can only be solved by strong interaction with a wide range of society members and not just those directly related to their business, such as consumers or suppliers. The assumption is that only such broader involvement can result in significant solutions for emergent global financial, environmental and overall social problems. Such premises about company social activity are being strongly expressed within the concept of Corporate Social Responsibility (CSR). This concept represents strong awareness of companies about issues concerning their holistic impact, not only in the business community, but also in social one, and in the whole environment. Implementing CSR requires change in classic managerial thinking and paradigm of corporate governance because it implies company actions that go beyond the profit interest and encourage linking with the interest of broader social community and its environment.

Overall community including employees, local population and business partners are always significantly affected by operational activities of a company with witch they cooperate. CSR forces management to take these effects into account when making decisions, especially because they can directly relate to financial aspects of doing business. Movement of corporate responsibility grew prominently during the last two decades. It was mainly due to next relevant business and social events:

1) big corporate frauds (e.g. Enron, Parmalat, WorldCom),
2) significant environmental and social damages caused by companies operations (Exxon, British Petroleum, Nike ˝Sweatshops case˝, Envio Recycling etc.),
3) growing concern and peoples cognition related to their need for sustainable impacts produced by companies in their proximity, not just in the future, but right now, in the current moment, and
4) management concerns about aspects regarding the triple-bottom line (financial, social and environmental business results, according to Elkington, 1997)

When first models of corporate responsibility came to the spot of the business world at the beginning of the 1970´s they were often being marginalized and neglected. Usually the reason was their inadequacy with mainstream business thinking of that time. It was especially expressed by the neo-liberal mainstream which marked CSR as a non-profit, and therefore, unnecessary activity. Milton Friedman refused any other type of responsibility beside that of being responsible to shareholders profit interests (Friedman, 1970). He and his supporters argued that a company can’t be responsible because it is not a living being and its responsibility is limited only to shareholders but not to the whole society. In contrast to such interpretations real life and business situations during the 1970´s and the 1980´s led to strong social activism and consequently to the development of strong stakeholder structures. Term ˝stakeholder˝ was intended to highlight differences with regard to traditional shareholders. This new term represented different kinds of interests related to a company, not just from its owners (shareholders, or stockholders) but also from its employees, suppliers, government, media and local community or non-governmental institutions. This new trend was also brought up by globalization and before mentioned corporate scandals. There were also crucial questions regarding global climate changes and alarming ecological issues that came up on a local scale, and mostly they were a result of company operations. So balance between profit and society was sought, which in most cases came thru main aspects of CSR.

It was especially during the last 15 years that CSR came to the interest of the whole business community as a useful managing model. Requirements of different natures which came from numerous stakeholders created a significant pressure on managers, especially in decision making process. Simultaneously in the last two decades business success was not only about fulfilling big profit demands. It became more the ability of a company in fulfilling multiple stakeholder interests, especially environmental ones. When crisis in 2008 strongly hit global markets Milton Friedman's neo-liberal ideas came to a question because the profit sustainability model wasn't so sturdy at the time.

Previous studies indicate that there is a significant and strong relationship between CSR and good business results (De Bakker, Groenewegen, Den Hond, 2005, Orlitzky, Schmidt, Rynes, 2003). Caring about environmental and social problems can be reflected favourably on many business elements such as sales, organization, innovative technology and product quality. Above all it may contribute to overall reputation of a company. Consideration of a certain company as a highly responsible social subject may be understood in terms of fulfilling whole set of strictly defined legal and broader social obligations when doing business. For example if a person recognizes one of two (or more) companies as a more effective one in fulfilling environmental standards or in successful dealing with social problems, it has prerequisites to be more inclined to that company. As a result of that when this person occurs as a customer it may have higher confidence in products or services of the company he considers more responsible. This way CSR can positively affect not only revenues, but also it can have numerous other positive side effects. For example eco-friendly companies will definitely be prone to technological solutions based on renewable energy (solar cells, hybrid energy for their fleet of vehicles). In the long term this can provide not only positive effects for the environment but also it will bring significant savings for the company. Using green technologies implies cost reduction, especially with today high prices of electric energy; oil and gas are taken into account. Also companies that use such technologies are more resistant to future changes of energy resource prices, especially for energy ensured from conventional sources.

All of this should be a big argument when management is defining crucial financial strategies, especially in times of crisis. What are basic CSR politics and ideas that could lead to such managerial thinking is the subject of next content elaboration.

2 COMPANY AS A RESPONSIBLE SOCIAL SUBJECT

Company as a part of macroeconomic system represents basic economic unit with different functions (production, distributive, technological etc.). At a same time it is a social unit, networked in society thru its economic function. To understand the social role of a company the general purpose of the whole economy first has to be observed. This role is to improve people's quality of life by ensuring their material basis, that is, to ensure production resources to those who stated their demand. Economy as a social system develops from satisfying social needs which can be physiological, security, acceptance, self-affirmation and respect. Managing companies in such economy implies that companies are, as a social ˝organism˝, in interaction and under influence of other forces from their surroundings (Frederic, Post, 1992, p. 5). On the other hand by executing their operations companies contribute, change, evolve, materially and intangibly enrich other members of the society. Now, it is presumed that these effects are always positive, but unfortunately many of them in practice have a negative sign. For example, not dealing with standards that administer environmental pollution can bring significant trouble to company finances. In their book *˝Green to Gold˝* authors Esty and Winston (2006, p. 1-2) explained an interesting case of *Sony's Expensive Christmas*: *˝In the weeks before Christmas 2001, the Sony Corporation faced a nightmare. The Dutch government was blocking Sony's entire European shipment of PlayStation game systems. More than 1,3 million boxes were sitting in a warehouse instead of flying off store shelves. So why was Sony at risk of missing the critical holiday rush? Because a small, but legally unacceptable, amount of the toxic element cadmium was found in the cables of the game controls. Sony rushed in replacements to swap out the tainted wires. It also tried to track down the source of the problem - an eighteen-month search that included inspecting over 6,000 factories and resulted in a new supplier management system. The total cost of this "little" environmental problem: over $130 million.˝* That is a very good example of how corporate ir/responsibility and oversight of health or environmental demands can cause major financial troubles. More important, it proves that such items should be a part of a general financial plan or a financial strategy. However, company social role doesn't stop at a delivery of given product to a customer on the market – it actually starts in that moment. Activity that a company undertakes to make a product or provide a service to a customer does not reflect only to him but to all society members. In Sony's case cadmium which came to the product would not only contaminate its final users but it would previously probably contaminate suppliers of the product, workers in the assembly line and potentially community near by the production utilities.

Macan (2007, p. 103) defines a society as *˝permanent and effective relations between peoples in achieving common goal or values… Desirable common goal of a society is some kind of good which is valuable to achieve, and which promises enrichment of community members.˝* Company, as a part of the community, is responsible to develop its operations in alignment with community sustainable development. Recognizing relevant and fast gaining business influences for social standard an environment during the 20th

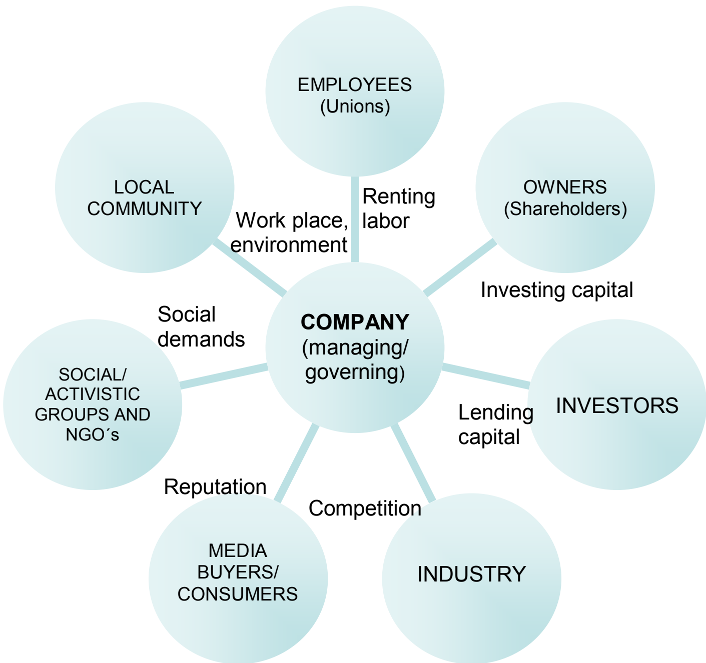
century World Commission on Environment and Development – WCED defined sustainable development as *˝development that meets the needs of the present without compromising the ability of future generations to meet their own needs.˝* Company as a ˝person˝ has intention to produce goods for society (in terms of earnings or any other value for owners-shareholders, management and employees). This role goes beyond one-dimensional understanding of a company as an assembly of economic functions and goes into the three-dimensional area where company is a social body, one of the living social organs. According to Debeljak (2007, p. 201) business relations are integrated into ˝complex network of interpersonal relations – between producers and consumers, employers and employees, managers and shareholders, corporation members an community members where those corporations operate. These are economic relations, created thru exchange of goods and services, and therefore they contain moral characteristics.˝ Link between companies and other social subjects is based on the fact that companies represent economic basis of all societies (for example, importance of shipyards 3. Maj and Viktor Lenac for the city of Rijeka and its surrounding economy, Podravka Corporation for Koprivnica or Karlovacka Brewery for the city of Karlovac). Those companies are responsible at a certain level for impacts on the community they are a part of. However, a fact that a company is a social subject doesn't mean that it is automatically socially responsible for its actions. Only when it comes to identifying company activity with social goods in management systems it will be possible to conduct sales, marketing, investment, ecological or energetically social responsible activities. This also indicates the importance of corporate social responsibility concepts which, based on stakeholders relevance, incorporate social aspects into business strategies.

3 FINANCIAL RELEVANCE OF STAKEHOLDERS

Companies are founded due to different interests; owners are interested in starting production, company market and profit realisation; employees are interested in their wages and working in favourable business environment. Suppliers want to bill accounts in contracted period while state wants to collect taxes on time. All of the abovementioned are groups of interest related to the company. At the same time institutional, activist or non-governmental institutions and media have the possibility to influence a certain company tangible or intangible portfolio. They could be called groups of influence related to the company. The term "stakeholders˝ is used for both types of these groups, either interest or influential ones. It is based on interest of society members such as owners, workers, managers, investors and financial institutions, different associations or even the state. These groups are connected to a company by formal or informal contracts based on which they claim for a *stake* of all tangible or intangible effects provided by a company. That is, they can be formal or informal *holders* of a certain *stake* in company operations they are related to. It is crucial to differentiate the term of stakeholder and the term of shareholder. Shareholders (stockholders) have legal right to a part, or to a whole company, based on stock (or shares) ownership, while at the same time stakeholders don't (for example suppliers or banks). On the other hand shareholders are also the stakeholders at the same time, which is not the case with other stakeholders in *vice versa* situation (exception is only if they have stock ownership rights).

Although shareholders of the company have the greatest power based on their voting and governing rights, it doesn't mean that management will devote them the most of attention at a given time. Omazić (2008, p. 345) highlights a study conducted in the United Kingdom from 1980 to 2000, which shows a decline of management focus on shareholder profits by 10% and a simultaneous increase of concentration on other stakeholders targets by 20%. This is very significant because, in a way, it represents important historical change in corporate governance models performed by the management. A definition stating that stakeholders are all of those groups interested and that have influence in company operations, management decisions, business policies and strategy, changed mainstream concepts of management paradigm. According to Figure 1 internal and external stakeholders and their areas of interest or influence can be strictly distinguished. Most of them correlate with the company through relations that have mostly financial character. Many of these relations can influence revenues, labour or capital costs, total costs, and in the end contribute to the overall financial performance. Stake of each group depends on their social status, role and power which spring from relation of a company towards them.

Figure 1. Relations between company and different stakeholders



Source: Authors modification according to Frederick, W.C., Post, J.E., Davis, K. (1992) Business and Society: Corporate Strategy, Public Policy, Ethics, 7th edition, McGraw Hill, New York, p. 10-12

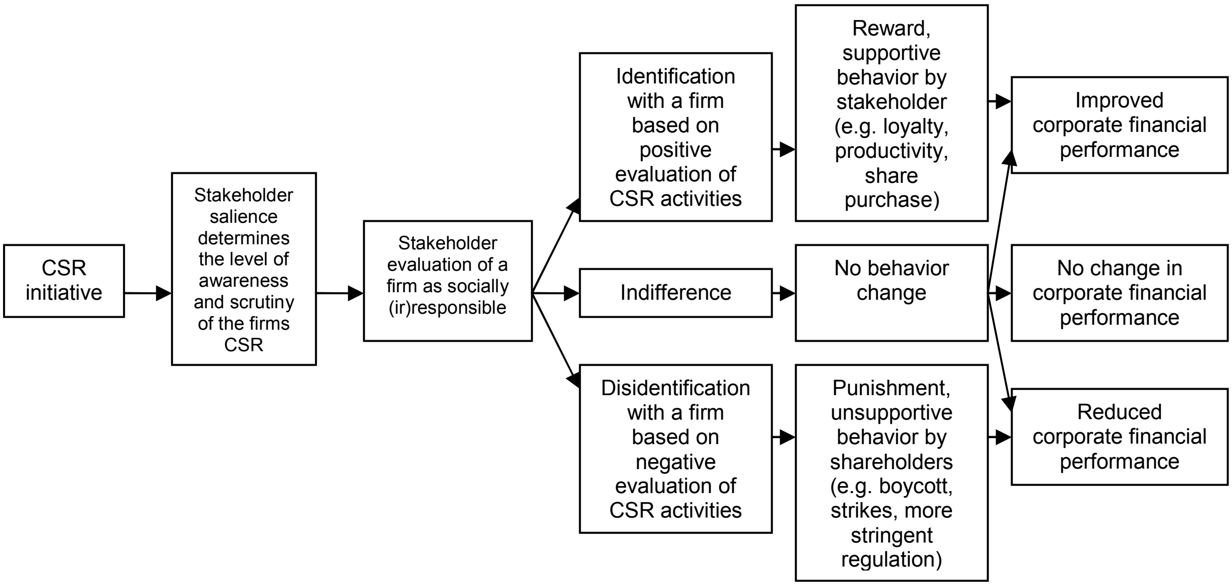
For a company to operate all of these groups and social subjects have to join together and interact at the same time. For example company is connected to society exclusively over market. Market not only enables basic economic function but also communication function that takes place between society members. In this communication consumer individual needs are recognized and company develops abilities to satisfy them. Pyndick and Rubinfeld (2005, p. 7) define this type of communication, called the market, as ˝a collection of buyers and sellers who through their actual or potential interactions, determine the price of the product or group of products.˝ In this definition social interaction of these two interest and influential stakeholders group on the market very well describes the fundamental economic system. It is crucial to emphasize that stakeholder relevance is based on thesis that a company doesn't exist only because of shareholders, but because of all of those who add value and their resources so the company is enabled to operate business successfully. Stakeholders have to be aware of their influential power on company business results.

Different stakeholders have different influents (or forces). There are three types of influences they can provide (Frederick, Post, Davis, 1992, p. 14):

1) Voting power – (it doesn't apply to political, electoral votes) implies that the stakeholder has a legitimate right to vote. For example, each shareholder (stockholder) has voting rights in proportion to the shares he owns. Based on this, he has the right to decide about important business issues regarding the protection of his investment.
2) Economic power – coming from the customers, suppliers and distributors (wholesalers) who have a direct economic impact on the company's business. Suppliers can stop deliveries if contractual obligations to them are not fulfilled. Customers can boycott products or the entire company for a number of reasons: product prices not related to its quality, uncertainty or lack of suitability of the product in use etc.
3) Political power – state forms the legal framework, implemented by regulation and legislation. In an open, democratic society activist groups can exert pressure on the government to adopt new laws or regulations that may be negatively related to the business.

These forces can primarily reflect on company financial performance in different ways. Identification of certain stakeholders with company responsibility in performing its operations is realised on individual level and represents a psychological effect. By gaining more and more stakeholders identified with certain company responsibility politics, possible effects of any nature can have mass impacts, preferably positive and reflected on company brands, their revenues and overall financial performance. This can be comprehended by observing Figure 2 which explains how stakeholder understanding of CSR activities can influence company financial performance.

Figure 2. Stakeholder salience and identification network



Source: Peloza.J, Papania, L. (2008) The Missing Link between Corporate Social Responsibility and Financial Performance: Stakeholder Salience and Identification, Corporate Reputation Review, Volume 11, No. 2, p. 171

Financial impacts associated with stakeholders emerge from forces and power they have in the society. Consideration of these forces provides management with understanding of the key business success factors related to stakeholders. Appreciating the power of interest and influential groups is basic for developing responsible business actions and gaining financial benefits form CSR investments. Ignoring these groups can lead to misconceptions about a particular group, its impacts and their importance for a company. This is relevant because the characteristics and strengths of each stakeholder group should be incorporated into business plans, management decisions and business processes. It is also crucial to foresee in which way certain group can represent a risk for company.

4 FOUNDATIONS FOR FINANCIAL IMPLICATIONS OF CSR

Overview of CSR theoretical basics provides very good ethical reasons to use it as a model of business governance. However, financial reasons are still frequently mentioned in terms of debate regarding legitimacy or value creation in CSR process. What overcomes any kind of debate is increasing demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance (Tsoutsoura, 2004). In those terms even socially responsible effects of a company performance become a subject of business analysis, just like financial ones. World Business Forum for Sustainable Development (WBCSD) defines CSR as *˝continuing commitment by*

business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large". From financial perspective costs of CSR actions are immediate while their benefits have long term orientation. This can produce a significant doubt with managers on CSR validity and that doubt can only be removed by evaluating those benefits. This is a classical trade-off situation where given lemmas have to be taken into account.
Longer time span of studies (Alexander, Buchholz, 1978, Aupperle, Carroll, Hatfield 1984, Blackburn, V. L., M. Doran, and C. B. Shrader, 1994, Orlitzky, Schmidt, Rynes, 2003, Peloza, 2009, Kapoor, Sandhu, 2010) confirm that there is a strong interdependence and positive correlation between CSR and business success. It is an undeniable fact that this correlation is mutual and therefore companies who have better financial results are capable to dedicate more to CSR while at other companies CSR significantly contributes to successful business performance (Orlitzky, Schmidt, Rynes, 2003, p. 427).

Table 1. Overview of the studies results on the relation between CSR and corporate financial performance (by financial performance measure)

Financial performance indicator	Number of studies	Positive relation	Negative relation	Mixed relation	No relation
Market-to-Book[1]	4	4 (100%)	0 (0%)	0 (0%)	0 (0%)
Return on Assets	36	27 (75%)	0 (0%)	0 (0%)	9 (25%)
Stock market returns	27	7 (26%)	9 (33%)	3 (11%)	8 (30%)
Total	67	38 (57%)	9 (13%)	3 (5%)	17 (25%)

Source: Dam, L. (2006) Corporate social responsibility in a general equilibrium stock market model: Solving the financial performance puzzle, CCSO Working paper 2006/03, June, CCSO Centre for Economic Research, University of Groningen, p.31

Data provided by Dam (2006) in Table 1 based on three relevant financial performance indicators also confirmed correlation with CSR in a large number of studies, 134 exactly. Within them only 18 indicated negative relation, at low levels of certainty. While great number of studies explored by Dam shows high certainty levels on positive CSR and financial performance relation (4 studies with 100%, 27 with 75% and 38 with 57% certainty), mixed and non-correlated data occurs in smaller number and they regularly have lower certainty levels. Such findings are indicative and favour strong positive connections of CSR and financial performance.
Why this interesting and strong correlation occurs probably is best to explain with a practical CSR example. One of them is already aforementioned Sony cadmium trouble which had direct financial effects in terms of unnecessary $130 million costs for this company bottom line. Due to diversity of subjects included in CSR model other examples do not only relate to costs, but

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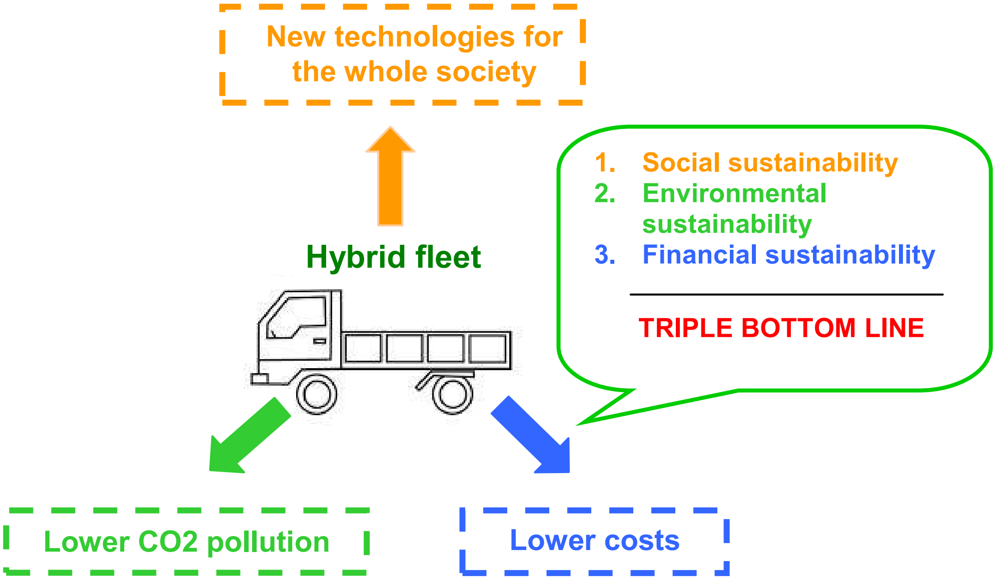
[1] Also called Tobins Q; this ratio is devised by James Tobin of Yale University, Nobel laureate in economics, who hypothesized that the combined market value of all the companies on the stock market should be about equal to their replacement costs. The Q ratio is calculated as the market value of a company divided by the replacement value of the firm's assets.

regarding CSR nature, to diversified side effects. For example Wal-Mart managers led by Lee Scott, the CEO of the company, made commitment to the shareholders on improving the company's financial performance by investing in environmental performance (Esty, Winston, 2006, p. 7).: *˝Wal-Mart will cut energy use by 30 percent, aim to use 100 percent renewable energy (from sources like wind farms and solar panels), and double the fuel efficiency of its massive shipping fleet (6,000 trucks). In total, the company will invest $500 million annually in these energy programs.˝* Investment represented a huge cost, but will it pay off? In a way, this company managers predicted energetic crisis which was induced by economic downturn in late 2007. It was logically not to expect that prices of fuel as a non-renewable energy source would stay the same and Wal-Mart leaders rationally decided to be prepared. They decision was most interesting because of their large transport fleet, which produced significant pollution to the environment on the one hand, and high fuel costs for the company on the other. To create positive environmental and financial effects of its fleet Wal-Mart invested in development of their own concept truck WAVE (Walmart Advanced Vehicle Experience). These vehicles are using micro-turbine hybrid power train than can run on diesel, natural gas, bio-diesel and "probably other fuels still to be developed" (http://corporate.walmart.com, 13.6.2014 and http://thinkprogress.org/climate, 16.6.2014). They are aimed to incorporate sustainability into companies operations both ways: environmentally and financially. Not only that WAVEs are lowering pollution because they are 20% more aerodynamic and have trailers that are made out of carbon fibers, but they are also saving a lot of money that the company would spent on raising oil prices in the future. By doing this Wal-Mart trucks will double their fuel efficiency from 8.85 kilometers per gallon, what is standard for semi trucks, to 16,09 kilometers per gallon. This way company will realise direct cost savings of $25,000 (or more) per almost 200,000 kilometers, total of over $40 million in 2015. All of this affects company financial bottom line and all the ratios provided from it, like Tobins Q or Return on Assets (ROA).

Given multiplicative effects occur because CSR lies on a triple bottom line concept that enables companies to improve short term operational effectiveness and gain long term financial welfare. Figure 3 explains how new technologies in this company fleet provide better effects for the environment, company financials and society in the whole.

Figure 3. Effects of WAVEs on Wal-Mart Triple Bottom Line (TBL)



Source: Authors based on Elkington, J. (1997.) Cannibals With Forks: The Triple Bottom Line of 21st Century Business, Capstone Publishing Limited, Oxford

It is evident from Wal-Mart example that this company successfully deals with eco-efficiency[2] and cost-efficiency as determinants of what is called the *triple bottom line (TBL, Elkington, 1997)*: 1) economic (financial), 2) environmental and 3) social bottom line. TBL concept insists that companies measure not only their financial performance but also social and environmental performance. This is very important because these performances are interconnected. Evaluation of only one of them provides insufficient data on company success factors. For example financial analysis is the most common one and provides usual financial ratios as Return on Assets, Equity and Sales (ROA, ROE and ROS). However, from such data potential investor can't read out business success related to environmental or social issues. Example of Nike sweatshops recalls such problem of business analysis *blindness*. Due to its popular products this company achieved trend of high profits from $1,84 billions in 1995, $2,89 billions in 2000 to $6,1 billions in 2010, with average annual revenues growth of 4,35%. Even the global crisis couldn't slow down this Nike´s success trends. In 2011 activists revealed (Keady, 1998) that Nike makes his products in sweatshops[3] which had strong public response. This fact down trended this company financial performance: fall of revenues of 5% in 2011 and further 8% during the 2012 compared to 2010. To fix the damage Nike spend

[2] Management philosophy that aims at minimizing ecological damage while maximizing efficiency of the firm's production processes, such as through the lesser use of energy, material, and water, more recycling, and elimination of hazardous emissions or by-products.

[3] A factory or workshop, especially in the clothing industry, where manual workers are employed at very low wages for long hours and under poor conditions

additional $600 million dollars during 2010, total of $2,35 billions in 2011 and additional $750 millions in 2012. So, in this case, at a glance very good financial performance didn't reflected badly on components of social performance, in terms of Nike irresponsibility to its overseas workers. Because of bad corporate approach this single case of social irresponsibility ruined very good business results.
Consequences of disregarding CSR issues don't just have to be expressed financially. Inappropriate handling of toxic waste can result by incarceration of corporation leadership. Beside that Esty and Winston (2006, p. 13) explain that *efforts to cut waste and reduce resource use, often called "eco-efficiency," can save money that drops almost immediately to the bottom line.˝* Redesigning a process to use less energy lowers exposure to volatile oil and gas prices. Redesigning product so it doesn't have toxic substances will cut regulatory burdens and avoid possible value-destroying incidents down the road. All of this lowers business risks while protecting the reliable cash flows, brand value, and customer loyalty that companies have painstakingly collected over time (Esty and Winston, 2006, p. 13). Therefore there are significant impacts of CSR regarding financial and other business aspects that have to be considered as a part of a broader business strategy. Primarily this has to be done to eliminate the risk of threats on company financial stability. Consequently CSR activities may contribute to easier capital approach, greater customer loyalty and reputation of the company, increase sales, attract quality employees and reduce business risk. These are all factors that contribute to positive financial effects and therefore managing them is of the utmost importance for the company success.

5 PREMISES OF COMPANY FINANCIAL AND SUSTAINABLE DEVELOPMENT

Most company theories evaluate growth and development thru financial objectives like revenues, capital sources and investments, relations of production and consumption, input and output prices which should always be optimised. Recent crisis proved that those variables are not the only ones which reflect company sustainable development. Companies can have billions in revenues while destroying social and natural environment which questions sustainability of any kind, even financial one (for instance British Petroleum incident in the Gulf of Mexico). On macroeconomic levels company growth can be related to macroeconomic variables. Successful companies will have the ability to impact on macroeconomic variables, like growth of export or GDP. On microeconomic level every company primarily is founded for realisation of direct long term impacts for its shareholders. it is his most important function. As aforementioned, by doing this company achieves certain indirect benefits for the society in the whole.
Almost every company as its objectives defines:

1. growth based on business success, and at the same time
2. development which enables that a company thru time changes and improves factors of its business efficiency (like technological and intellectual capital).

Variables of company growth and development are of the most importance for the whole society. Development of business stems from general society development. Therefore the most important management objective is to successfully and sustainably manage company development function. Responsibility for the development implies responsibility towards company owners and to society which has different benefits from business operations. Therefore responsibility is interconnected with growth and development as business objectives and social obligation of a company. Company growth and development in basics depends on realisation of two main business objectives that have strict financial character; growth of earnings and increase of productivity (Gašparović, 1996, p. 62). Because of that these two objectives at the same time reflect main variables of sustainable financial strategy. Growth of earnings is the basis of company growth which can be fulfilled only if a company exercises its raise of productivity on the market. However if a company records significant growth of quantity effects (products and services) it doesn't necessary mean it develops at the same time. Its development depends not only on internal technologies or ˝know how˝, but very often on the effects related to environment and surrounding community. This is more evident when analysing internal and external factors of growth and development. According to Gašparović, (1996, p. 100) basic internal factors are:

1. Capital (financial type) is needed for business start-up and acquisition of production means. Return and increase of invested capital is primer financial objective. Investing into new technologies, knowledge and managemet systems usually represents the source of new, added value. By that certain cost reductions can be made thru optimisation of the whole business process. Unfortunately companies don't always dispose with the needed amounts of capital, so they borrow it. In the moments of economic crises prices of capital are high and they disable the companies in potential investments. Lack of capital in those terms can represent a crucial restriction in company growth and development.
2. Work force (physical and intellectual capital) – in modern business environment it has lower physical productive role and higher intellectual productive intentions. Employees are crucial in capital consolidation and for innovations needed for growth and development. Investing in employees therefore can be very profitable and it is in the field of employer's good care.

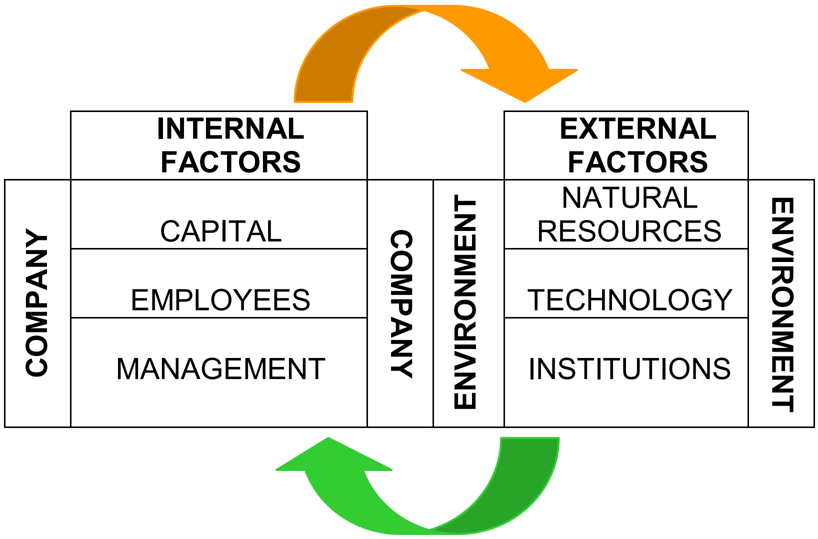
Company environment represents the frame of its development possibilities and external growth and development factors are fixed within it, and company can hardly affect them. These external factors are (Gašparović, 1996, p. 103):

1. Natural resources that represent material base of production and growth possibilities and therefore they are a mean of any development type. Technical processing of such resources gives them new applicable and market value. Availability of such resources is crucial for companies depending on their proximity to them. Due to non-renew ability of many natural sources, companies are forced to act responsible in economic, social an ecological way when using them.

2. Technology (production, communication, informatics, distribution and transport etc.) is infrastructural base of solid development. Technology allows better, more precise, easier and simpler execution of complex business operations. Companies usually buy finished technological solutions although many of them get involved in R&D processes in order to create solutions that suit their needs the best way possible.
3. Institutions (governmental or non-governmental) by their regulations, rules and frame of actions, legally can direct and supervise company operations. It does not impose limits on the growth of the company if it is based on proper and ethical decisions but it can be penalized when not in conformity with the social objectives of growth and development. The existence of institutions and their legislative sometime forces the company to align with the rules of society.

Given overview indicates that crucial financial variables, as capital returns or growth of earnings, can't be expected without engagement of the external social and environmental factors that induce growth and development (such as people comprising the workforce or natural resources needed for business operations). All of these factors interacting are needed for the company to gain sustainable growth and development (Figure 4).

Figure 4. Interaction of internal and external factors of growth and development



Source: Authors based on Gašparović, V. (1996.) Teorija rasta i upravljanje rastom poduzeća, Školska knjiga, Zagreb

Some of the aforementioned growth factors or resources are strictly financial, linked to production and market. However, company will use all of the available factors and engage them for the sake of demand satisfaction. Company own growth depends on ability to satisfy demand. To do this companies mostly use natural resources which they process or buy from other companies. In this process companies usually take care exclusively about sales, prices, revenues and profit growth, not attending to the holistic growth-development relations. In the end, all of the companies as the base of their production process and their development use certain natural resources. Črnjar (2009, p. 96-97) indicates that ˝planet Earth has limited resources and that their expenditure caused by economic growth can't last for ever. Sooner or later Earth will exhaust its own capacity due to three major limitations:

1. non-renewable natural resources that can be depleted,
2. environmental problems regarded to pollution and possibilities of its absorption, and,
3. renewable resources that can't be reproduced or they give smaller returns because of their uncontrolled usage.˝

Main problem in growth and development realisation could be resource limitations and economy aggressive access of their usage. Such financial growth can be characterised as greedy and insatiable. However, growth and profit go ˝hand-by-hand˝, because growth feeds profits. Growth rates in the first decade of the 21st century broke all the records in developing countries. In developing China and India ˝insatiable hunger ˝ of millions and millions of citizens for material goods, energy and transport solutions forces growth. At the same time these countries environment, and planet as a whole, suffers the consequences of such unsustainable growth. China took over USA first place in greenhouse gas emissions forcing growth at any cost, even its population health. This proves that growth doesn't always represent survival and development. Recent crisis also confirmed that only profit oriented subjects are often left without their financial values in times of crisis. It is very hard to accept the fact that they engaged, spent and irretrievably destroyed many of natural resources to create these profits during years and than lost it in only few months of crisis. Created new value due to which all the resources were engaged, is now lost. At the bottom line, effect of those companies is equal to zero, even negative, because economic and environmental damage is significant. Reason for this is that economic growth often isn't being correctly induced by the elements of social and environmental sustainability but only on financial one that depends on whimsical market conditions. This is why internal and external growth factors have to be carefully balanced in any business strategy.

The possibility of balanced growth and development for companies, environment and societies at the same time imposed as the main question within the last two decades, not only for business leaders, but for all the community. This question is fairly general and implies answers from social and economic area. Lay (2007., p. 20) implies that ˝sustainability occurs as internal pursuit and ability of biological and social entities to self-renew through self-creation.˝ Besides financial sustainability companies in their economic life also have to look for sources of sustainability in other areas. Therefore companies have to interconnect their growth and development capabilities in three areas, given by the CSR model:

1. economic,
2. environmental and
3. social one.

CSR can have a major role in this balancing because it interconnects financial objectives of the company and non-financial objectives often imposed by the society and environmental stakeholders. Predominantly social and natural resource limitations can reflect significantly to company financials and therefore it implies responsibility in their manipulation. This responsibility is prerequisite for sustainability. Company success factors can't be separated form success determinants of the whole society. In the end any form of prices, demand and company psychical or intellectual capital derives from society and it has to be respected in any form.

6 SUSTAINABLE FINANCIAL PERFORMANCE BASED ON CORPORATE SOCIAL RESPONSIBLITY

Correlation of CSR to company financial performance (cfr. supra Chapter 4) can be of great relevance, especially in times of crisis. Recent global crisis is a good example for determination of company sustainability issues in modern ages. According to the Oxford Dictionary term *˝sustainability˝* refers to ability of being maintained at a certain rate or level or the ability to be upheld or defend. As an adjective it most often refers to phrases such as *sustainable economic growth*, *sustainable development and environment*. However it is less used in the sense related to operational or micro aspects of doing business, such as financial sustainability. When observing the Triple Bottom Line model it is evident that holistic business sustainability clearly can not be ensured without simultaneous fulfilling of sustainability principles in financial, social and environmental aspects. This is utmost visible in crisis when aspects of sustainability, especially financial one, comes to the challenge. When whole economies come to the downward trend of business cycle, either because of lower demand or more difficult access to a new capital, companies immediately face financial troubles, such as obtaining liquidity or insolvency. For instance, basic issues that companies all over the world experienced during the crisis which began at the end of 2007 were (Osmanagić-Bedenik, 2003, p 12):

1. maintaining the ability to pay dues at any time (principle of liquidity),
2. achievement of maximal revenues or cost coverage (avoiding unbalanced or excessive loss),
3. creating and preserving crucial potentials of their success.

Recent global crisis was a real destroyer of companies' development potentials, and by doing that it shook macroeconomic foundations of many national economies. First of all, in a very short time crisis down turned companies' financial performance and by doing that their sustainability came to question. This is clearly evident even on the example of financial performance of domestic, Croatian companies, given in the following table.

Table 2. Financial performance of Croatian companies for the period of 2006 – 2010

Ratio	2006	2007	2008	2009	2010
I. Financial stability - indebtness and liquidity					
1. Debt ratio (%) *(total assets/total liabilities)*	45,3	42,9	40,7	39,4	35,8
2. Quick ratio (*short-term asset - stock/short term liabilities)*	0,87	0,87	0,81	0,78	0,75
3. Current ratio *(short-term asset/short term liabilities)*	1,18	1,18	1,13	1,08	1,04
4. Debt (in years) *(total liabilities/earnings after taxes + depreciation)*	7,6	8,0	8,8	10,5	10,7
II. Liquidity turnovers					
1. Total asset turnover *(total revenues/total assets-loss in excess of capital)*	0,70	0,69	0,74	0,59	0,56
2. Days of current receivables	95	101	118	110	111
III. Business success					
1. Economic efficiency *(total revenues/total expenses)*	1,05	1,05	1,04	1,02	1,01
2. Return on Assets - ROA (%) *(earnings before taxes /total assets)*	2,4	2,6	2,3	0,91	0,41
3. Return on Equity - ROE (%) *(earnings after taxes /capital and reserves)*	5,2	5,5	4,0	1,03	-0,43

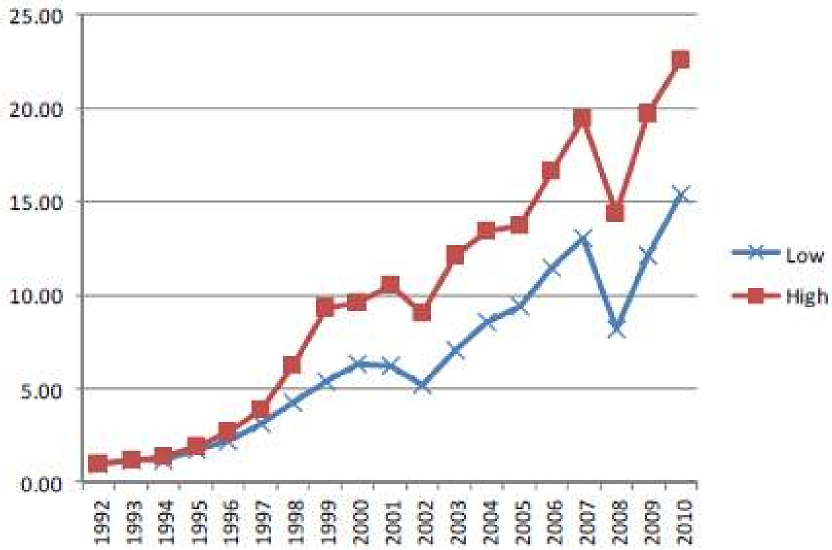
Source: Author calculation based on Kovačić, D. (2009), Illiquidity and insolvency – causes and cosequences of recession, 44th Symposium of the Croatian Community of accountant and financial workers, (HZRFD), Zagreb

Already in 2007 ratios representing Croatian companies' financial performance began to slightly decline as a result of the global economic crisis. This wasn't only the case with domestic companies. During the crisis companies all over the world faced multiple troubles crossing classical frames and types of economic crisis. As mentioned before, problems for companies as social subjects occurred in three basic aspects; financial, environmental and in the area of energetic efficiency. It would be also of great benefit to point that those three critical socio-economic elements caused and referred to fourth aspect of the global crisis, the social crisis. This was because the national economies social role is often represented by aforementioned three basic aspects. Unfortunately critical trend of those aspects also shatters social structure. Such complex crisis endangered sustainability of any company and because of this managers had to resort governing models based on sustainability preservation. In a way companies faced multi-crisis, not only an economic one, but truly a global crisis in its true meaning which had mixed social, environmental and financial causes.

Beside negative movements which occurred on financial markets and simultaneous turmoil of banking institutions, crisis occurred in whole new areas, such as energetic sector and on encouraging environmental issues. High oil and gas prices literally ˝ate˝ the rest of the companies' financial capital which wasn't scribed by illiquidity or insolvency problems. This immediately pushed-up environmental questions in the first plan making resource efficiency a significant part of any business and financial strategy. Also due to that sustainability models came to a ˝hot-spot˝ of business community. The word responsibility got a whole new meaning. It wasn't only being responsible to survival principal of the business in crisis, but being responsible to sustainability of endangered environment and its limited resources of society defined by its natural boundaries.

Why and how did CSR concept fit in as a part of the solution for global economic, environmental and social problems? At the peak of the crisis already known and before tested economic models, such as Keynesian or supply-side economics, unfortunately didn't work. Due to the lack of successful solutions many economists started to highlight CSR as valuable when dealing the consequences of the global crisis. Even the former critics of social responsibility in those moments quickly turned to CSR paradigm because it contained the adjective "sustainable" as opposed to the notion of destructive crisis. Unfortunately, many of them used populist approach (e.g. Kotler and Lee, 2009). Because of that social responsibility was often misrepresented only as a current marketing trend which needs to be supported by strong public relations activities. On the other side many realized that CSR has strategic perspective and that in the essence objective of the whole concept was to establish sustainable development as a permanent social and business process. Yet the analysis and review of strategic effects of CSR confirmed that it is not only the tool of increasing operating profits (Porter, Kramer, 2006), while it is a strategic framework based on radical changes and rethinking the governing business mode (Porter, Kramer, 2011). In critical moments CSR seemed as the governing concept with prospects to preserve crucial values of the shareholders and the stakeholders. It was acceptable because it had potentials to deal with many negative side effects of the global economic crisis. The relevance it had in preservation of future financial values wasn't to be diminished and it started to correlate with financial planning and strategy. That way relevance of CSR for the financial sustainability grabbed the momentum. Reasons were numerous; CSR governing concepts successfully coped with environmental issues and raging energy prices at one side, and gaining financial advantages based on cost reduction on the other. Companies that implemented CSR policies in their business already started dealing with questions of environment or eco-efficiency in the pre-crisis period. Because of that many companies were better prepared for financial turmoil which swept whole economies. Researchers from Harvard Business School analyzed the adoption of various environmental and social policies among 180 companies which were divided into *High Sustainability* companies and *Low Sustainability* companies, due to implementation of corporate culture based on sustainability, such as CSR or other TBL variants. In their working paper Eccles, Ioannou and Serafeim (2012) found that high sustainability companies outperformed their counterparts on the stock market and in accounting performance. They state that *˝the outperformance is stronger in sectors where the customers are individual consumers, companies compete on the basis of brands and reputation, and in sectors where companies' products significantly depend upon extracting large amounts of natural* *resources.˝* Special concern is the value of investing in sustainability policies and the return it creates (Chart 1).

Chart 1. Evolution of 1$ invested in the stock market for value-weighted portfolios of high and low sustainability companies



Source: Eccles, R.G., Ioannou, I., Serafeim, G. (2012) The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance, Working Paper No.12-035, May 9th, Harvard Business School, p. 54

Based on the given overview high sustainability companies perform better over time and reflect better financial positions in terms of investment and portfolio values. Although they were hit by crisis in 2008 subjects that were promoting and implementing CSR principles succeeded in obtaining higher investment value. Maintaining this trend those companies made CSR an important operational part of securing sustainability for their financial strategies. Companies that have implemented CSR policies were able to keep their financial values almost two times above the values of their counterparts during the crisis. This was the reason why these policies gained relevance in any business strategy, especially when linking them to bottom line effects related to financial performance.
A study conducted by McKinsey&Company in 2009 examined the views of companies' chief financial officers, investors and CSR professionals regarding CSR impact on improving main aspects of financial performance and sustainability (http://www.mckinsey.com, 12.01.2014). Findings of this survey indicate that CSR is most interesting for (at the order of their importance):

1. maintaining good corporate reputation and brand equity,
2. attracting, motivating and retaining talented employees,
3. meeting society’s expectations for good corporate behavior,
4. improving operational efficiency and decreasing costs,

5. opening new growth opportunities,
6. improving risk management,
7. strengthening competitive position,
8. improving access to capital.

Almost every item in this range of importance relates to financial performance, whether it's about improving reputation, product quality or operational efficiency and therefore can significantly contribute to financial sustainability. These are very important reasons of linking CSR aspects to aspects of financial performance. Most of financial strategies don't include social or environmental business aspects which can be dangerous because financial values of those issues should also be evaluated and planned. That way risk of occurring events regarding the social or environmental bottom line can be significantly minimized. It is of great interest for all managers to understand that overall sustainability of their company depends on such triple bottom line effects.

Company sustainability as a holistic principle can not only reflect to partial success in social, environmental or financial aspects of doing business. Therefore only those concepts of corporate governance that rest on the principles of linking main aspects of TBL and exclusively insisting on its positive effects can be of strategic significance for sustainability of any business. According to the governing concept CSR objectives regarding ecological or social efficiency are not sole standing because they have to positively reflect on company financial efficiency and vice versa. If any of these effects are negative they are unacceptable because even one of them can provoke un-sustainability of a company, social community in which it operates and environment it affects.

7 CONCLUSION

Good financial performance is prerequisite for any company sustainability during a longer time period. Respecting this it should be perceived that business strategies that maybe were able to secure financial sustainability during the last two decades have to be modified due to significant and rapid changes of business environment. Numbers of issues relating to company success now are coming from outside the company, changing its internal nature and requiring proactive management approach to environmental and social effects. Due to the extension of recent global crisis questions of business sustainability interconnected with those of environmental and social sustainability. Due to that at the beginning of the 21st century classical company objectives changed and gained a long term perspective. Business success couldn't only be seen as a one year excellent turnover, but as a company long term success in fulfilling the commitment of making regular contributions for the society sustainable development.

It is clearly evident that companies who apply models of corporate responsibility can be able to gain positive financial results, successfully operate business in crisis or resist to high energy prices, which in the end enables them to preserve the financial basis of their *ability* to *sustain*, even in

highly critical conditions. That should be main principle of their responsibility to any type of stakeholders because it provides company with a long term ability to satisfy their needs. When a company is founded it acquires commitment to its shareholders and to the whole society. As a social subject company obligates to interact responsibly, developing its activities in accordance with a broader social benefit. Members of the society, who are connected to a company directly or indirectly, will expect from a company to develop because it will partially fulfil their needs. It means that company objectives of growth and development can't be separated from community development objectives. Increasing sales and market share is worthless if they don't affect social community directly and in a positive manner. Only equivalent companionship with society will enable a company to recognize factors of mutual sustainability and their implementation into business strategies.
When applied properly, importance of Corporate Social Responsibility as a governing concept may produce significant Triple Bottom Line effects. Reducing costs when using green technologies or preventing them when improving environmental standards is all part of financial planning because such actions can have mayoralty reflections on financial performance. Maintaining good financial performance enables the company to invest in sustainability measures, such as new green technologies or public infrastructure. That way the interaction between CSR and financial sustainability is unavoidable and presents a very important tool of managing success of modern and future company operations

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