

The Real CSR: Sources of Financing CSR Activities in Companies, Case Study of Sparkasse Bank B&H

Bc. Ena Fejzagic

Master thesis
2014



Tomas Bata University in Zlín
Faculty of Management and Economics

Tomas Bata University in Zlín
Faculty of Management and Economics
Department of Management and Marketing
Academic Year: 2013/2014

MASTER'S THESIS ASSIGNMENT

(PROJECT, ARTWORK, ARTISTIC PERFORMANCE)

Degree, First Name and Surname: Ena Fejzagic

Personal Code: M120513

Degree Programme: N6208 Economics and Management

Degree Course: Management and Marketing

Thesis Topic: The Real Corporate Social Responsibility: Sources of Financing CSR Activities In Companies, Case Study of Sparkasse Bank Bosnia and Herzegovina

Thesis Guidelines:

Introduction

I. Theoretical part

- **Compile the theoretical information about the variety of CSR activities in business world and their purpose.**

II. Practical part

- **Complete the analysis of current CSR activities and their sources of financing in the company Sparkasse Bank Bosnia and Herzegovina.**
- **Prepare the project of CSR strategy for the next period of 2014/2015.**
- **Submit the project to risk, cost and time analysis.**

Thesis Extent: cca 70 stran
Appendices:
Form of Thesis Elaboration: printed/electronic

Bibliography:

CRIFO, Patricia and PONSSARD, Jean-Pierre. Corporate social responsibility: from compliance to opportunity. 1st ed. Paris: Éditions de l'École Polytechnique, 2010, 94 s. ISBN 978-2-7302-1568-8.

ESTY, Daniel and WINSTON, Andrew. Green to gold. 2nd ed. New Jersey: John Wiley and Sons, 2009, 66 s. ISBN 978-0-470-39347-1.

RAUFFLET, Emmanuel and MILLS, Albert. The dark side: critical cases on the downside of business. 1st ed. UK: Sheffield: Greenleaf Publishing Limited, 2009, 231 s. ISBN 978-1-906093-20-4.

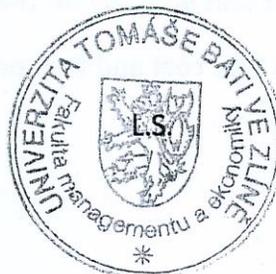
VAN TUDLER, Rob and VAN DER ZWART, Alez. International business-society management: linking corporate responsibility and globalization. 1st ed. London: Routledge, 2006, 135 s. ISBN 0-415-34241-4.

WOOD, Donna, LOGSDON, Jeanne, LEWELLYN, Patsy and DAVENPORT, Kim. Global business citizenship: a transformative framework for ethics and sustainable capitalism. 1st ed. New York: M. E. Sharpe, 2006, 164 s. ISBN 0-7656-1627-0.

Thesis Supervisor: **Ing. Jiří Vaněk**
Date Assigned: **22 February 2014**
Thesis Due: **2 May 2014**

Zlín, 22 February 2014

prof. Dr. Ing. Drahomíra Pavelková
Dean



doc. Ing. Pavla Staňková, Ph.D.
Head of Department

BACHELOR'S/MASTER'S THESIS AUTHOR STATEMENT

I hereby acknowledge that:

- Upon final submission of my Bachelor's/Master's Thesis, I agree with its publishing in accordance with Act No. 111/1998 Coll., on Higher Education Institutions and on Amendment and Supplements to Some Other Acts, (The Higher Education Act), without regard to the defence result¹;
- My Bachelor's/Master's Thesis will be released in electronic form in the university information system,
- To my Bachelor's/Master's Thesis fully applies Act No. 121/2000 Coll., on Copyright, Rights Related to Copyright and on the Amendment of Certain Laws (Copyright Act) as subsequently amended, esp. Section 35 Para 3²;
- In accordance with Section 60³ Para 1 of the Copyright Act, TBU in Zlín is entitled to enter into a licence agreement about the use of the Thesis to the extent defined in Section 12 Para 4 of the Copyright Act;

¹ Act No. 111/1998 Coll., on Higher Education Institutions and on Amendment and Supplement to Some Other Acts (Higher Education Act), as amended by subsequent legislation, Section 47b Providing Public Access to Theses:

⁽¹⁾ Higher education institutions are obliged to make public, at no profit to themselves, the doctoral, Master's, Bachelor's and advanced Master's ("rigorous") theses that have been defended at their institutions, including the readers' reports and results of the defence. The institution will do this by making available a database of these theses. The means of providing access to these theses is stipulated in the internal regulations of the higher education institution.

⁽²⁾ Doctoral, Master's, Bachelor's and advanced Master's ("rigorous") theses that have been submitted by candidates for defence must also be made available to the public at least five days before the defence at a place designated for this purpose in the internal regulations of the higher education institution, and where this is not the case, in the department or other place at the higher education institution where the defence of the thesis will be taking place. Any individual is entitled, at his/her own expense, to make extracts, copies or photocopies of theses thus made available.

⁽³⁾ By handing in a thesis, its author automatically gives assent to its being made public pursuant to the provisions of the Act, irrespective of the result of the defence.

² Act No. 121/2000 Coll., on Copyright, Rights Related to Copyright and on the Amendment of Certain Laws (Copyright Act) as subsequently amended, Article 35 Para 3:

⁽³⁾ Copyright shall also not be infringed by the school or school or educational establishment if they use for non commercial purposes for their own internal needs a work created by a pupil or student as a part of their school or educational assignments ensuing from their legal relationship with the school or school or educational establishment (school work).

- In accordance with Section 60⁴ Para 2 and 3, I can use my Bachelor/Master's Thesis, or render the licence to its use, only with the prior expressed written agreement of TBU in Zlín, which is in such case entitled to require from me appropriate financial compensation to cover the cost of creating the Bachelor/Master's Thesis (up to the total sum);
- If the software provided by TBU or other entities was used only for study and research purposes (i.e. for non-commercial use) in the development of the Bachelor/Master's Thesis, it is not possible to use the Bachelor/Master's Thesis commercially.

I herewith declare that:

- I have created this Bachelor/Master's Thesis on my own and cited all used sources;
- The contents of the Bachelor/Master's Thesis handed over are identical with the electronic version entered in the IS/STAG.

Zlín 2 May 2014

date

Cery Fejzovic

signature

ABSTRAKT

V dnešní době považují velké společnosti společenskou odpovědnost za nezbytnost. Ale je zde třeba ověřit pravou povahu společensky odpovědných podnikatelských praktik a zdroje jejich financování. Některé společnosti stále zaměřují své CSR strategie na podnikovou filantropii, která je podpořena zvláštním daňovým režimem, který ve skutečnosti snižuje jejich přínos pro komunitu.

Tato práce popisuje hlavní charakteristiky CSR, jeho konkrétní aktivity a různorodost zdrojů jeho financování, včetně zdrojů daňově uznatelných v souvislosti s dary. Práce shrnuje literaturu věnovanou této problematice a analyzuje současnou CSR strategii Sparkasse Bank BH, jedné z nejvíce společensky odpovědných firem v Bosně a Hercegovině. Konečným výsledkem práce je upravená strategie CSR, která redukuje daňově uznatelné zdroje financování CSR aktivit a přivádí ji blíže „skutečnému CSR“.

Klíčová slova: CSR, společenská filantropie, financování CSR aktivit, daňový režim, komunita

ABSTRACT

Nowadays, corporate social responsibility is an imperative for big companies. But, there is a need to verify the true nature of socially responsible practices of companies and the source of financing these practices. Some companies are still focusing their CSR strategies on corporate philanthropy, which is encouraged by specific tax treatment, which actually diminishes their contribution to the community.

This work describes the main characteristics of CSR, its particular activities and the different sources of financing them, including the tax-deductible sources connected with donations. It summarizes the literature dedicated to this issue and analyzes the current CSR strategy of Sparkasse Bank BH, one of the most socially responsible companies in Bosnia and Herzegovina. The final outcome of the work is a modified CSR strategy, which reduces the tax-deductible sources of financing CSR activities and brings it closer to 'real CSR'.

Keywords: CSR, corporate philanthropy, financing CSR activities, tax treatment, community

ACKNOWLEDGEMENTS

I would like to use this opportunity to thank my supervisor, Ing. Jiří Vaněk for his guidelines, support and all the help in writing this master thesis.

I would also like to thank my second supervisor on this master thesis, prof. Catherine Glee from IAE Lyon III, Jean Moulin University in Lyon, for her remarks and willingness to help.

And, finally, I would like to mention a very important person to me, my mother, who has been my inspiration in everything I do.

I hereby declare that the print version of my Bachelor's/Master's thesis and the electronic version of my thesis deposited in the IS/STAG system are identical.

Zlin, Czech Republic, May 2nd, 2014

Ena Fejzagic

CONTENTS

INTRODUCTION	7
I THEORY	8
1 EXPLANATION OF CSR CONCEPT	9
1.1 DEFINITION OF CSR	9
1.2 ORIGIN OF CSR	10
1.3 CSR AS A PART OF BUSINESS ETHICS	11
1.4 PURPOSE OF CSR	12
2 SCOPE OF CSR ACTIVITIES.....	13
2.1 TRIPLE BOTTOM LINE	13
2.2 TYPES OF CSR ACTIVITIES IN COMPANIES	14
2.2.1 Corporate philanthropy (charity).....	14
2.2.2 Cause-related marketing.....	15
2.2.3 Sponsorships	15
2.2.4 Codes of conduct.....	15
2.2.5 Social and environmental reporting	16
2.2.6 Stakeholder engagement	16
2.2.7 Community investment	17
2.2.8 Eco-efficiency	17
2.2.9 Socially responsible investments (SRI)	18
3 INVESTING IN CSR.....	19
3.1 COST OF CSR	19
3.2 BENEFITS OF CSR	20
4 FINANCING CSR ACTIVITIES	22
4.1 FIRST SOURCE OF FINANCING: TAX-DEDUCTIBLE RESOURCES.....	22
4.2 SECOND SOURCE OF FINANCING: NET PROFIT.....	23
4.2.1 Tax avoidance/evasion strategies	23
4.2.2 The role of consulting companies	25
4.2.3 Irresponsible business practice.....	25
4.2.4 Gap between corporate talk and action	26
5 CONSEQUENCES OF SOCIALLY IRRESPONSIBLE BEHAVIOR.....	28
5.1 DAMAGE TO CORPORATE REPUTATION	28
5.2 FREE RIDER PROBLEM.....	29
6 LEGISLATION RELATED TO CSR ACTIVITIES	30
6.1 SOCIAL CONTRACT	30
6.2 TAX TREATMENT OF CSR ACTIVITIES.....	31
6.3 GOVERNMENT LEGISLATION.....	32
6.4 PERFORMANCE EVALUATION AND SOCIAL REPORTING	34
II ANALYSIS	38
7 THE COMPANY: SPARKASSE BANK BH	39

7.1	THE COMPANY PROFILE AND STRUCTURE	39
7.2	MISSION, VISION AND OBJECTIVES.....	39
7.3	COMPANY VALUES	40
7.4	SWOT ANALYSIS OF THE COMPANY	41
8	THE IMPLEMENTED CSR STRATEGY OF SPARKASSE BANK BH	44
8.1	STRATEGIC GOALS FOR STAKEHOLDERS	44
8.2	THE PRINCIPLE OF ‘HUMAN BANKING’	45
8.3	THE STRUCTURE OF THE IMPLEMENTED CSR STRATEGY OF SPARKASSE BANK	45
8.3.1	Donations and sponsorships	47
8.3.2	Scholarship program “Friend for Life”	49
8.3.3	Internship program “Best of South East”	50
8.3.4	Other CSR activities.....	52
9	PROPOSED CSR STRATEGY FOR 2014/2015.....	53
9.1	THE EXTERNAL ENVIRONMENT OF THE COMPANY	53
9.1.1	Political environment	54
9.1.2	Economic environment	55
9.1.3	Social environment.....	56
9.1.4	Technological environment.....	56
9.1.5	Environmental environment.....	56
9.1.6	Legal environment	57
9.1.7	CSR in Bosnia and Herzegovina.....	57
9.2	MODIFICATION OF DONATIONS AND SPONSORSHIPS	58
9.3	YOUTH EMPLOYMENT PROGRAM	60
9.4	ADDITION OF ECO-EFFICIENCY ACTIVITIES	63
10	RISK, COST AND TIME ANALYSIS OF THE PROJECT	65
10.1	RISK ANALYSIS OF THE PROJECT: RISK ASSESSMENT.....	65
10.1.1	Financial risk.....	65
10.1.2	Organizational and operational risk	65
10.1.3	Strategic risk.....	66
10.1.4	Employee risk.....	66
10.1.5	Technical risk	66
10.1.6	Political and economic risk	67
10.1.7	Probability and severity of risks.....	67
10.1.8	Prevention and management of risks	71
10.2	COST ANALYSIS OF THE PROJECT	72
10.3	TIME ANALYSIS OF THE PROJECT: CPM ANALYSIS	75
	CONCLUSION	79
	BIBLIOGRAPHY	81
	LIST OF ABBREVIATIONS	87
	LIST OF FIGURES	89
	LIST OF TABLES.....	90
	APPENDICES.....	91

INTRODUCTION

It seems that ‘corporate social responsibility’ (CSR) is one of the most favorite words in business nowadays. The term appears in a growing number of media publications and academic journals, and is used by thousands of business leaders. Why are the biggest, toughest, most profit-seeking companies suddenly talking about the environmental and social issues? One could easily argue: because they have to. There are two sources of pressure which influence companies to think this way: limits of the natural world’s resources and the growing concern of stakeholders. Government regulators worldwide no longer stay blind and silent about the business practices which are considered socially irresponsible. Citizens and the public are determined to fight against these practices. The NGO sector is working closely with companies to prevent it. B2B customers demand full disclosure on the information about suppliers and customers of the whole network. Employees are demanding more ethical business practices. And finally, even banks and insurance companies who are part of the stakeholder network of a company are getting involved in the social responsibility revolution. Stock market analysts study environmental and social performance of companies as a signal of excellent management quality.

Without any doubt, there is a worldwide trend among business organizations to include CSR activities in their operations. But, there is also a general concern about whether or not managers really know what CSR means. Corporate failures related to irresponsible business practice show that managers can misuse the term and therefore make us wonder is there a way to distinguish what the companies are actually doing from what they claim to be doing. With all the greenwashing statements and the broken promises of corporate talk, there is a need to recognize ‘real CSR’. Furthermore, the justified skepticism of the public and stakeholders poses questions related to the cost of being socially responsible.

Studying the literature that explains CSR, the most usual perception of CSR would be that it is a win-win situation. The companies improve their business and make profits, while the society gets many benefits and an increase of the social welfare. But, is it really like that in practice? Even when the society benefits from CSR efforts, are these benefits sometimes outweighed by losses it suffers from other business activities of the companies? The main objective of this master’s thesis is to examine the sources from which the companies finance their CSR activities, and to analyze the real value and benefit that societies enjoy from these activities.

I. THEORY

1 EXPLANATION OF CSR CONCEPT

As the CSR trend has gone through some rapid changes in the past decade, it is clear that its definition is also changing and being modified to international standards and to the experience from practice. There is no doubt that the multifaced notion of CSR makes it unclear for business leaders to follow the principle, as well as for scholars to theoretically cover the field of CSR. Many business leaders or even scholars might be surprised to know that CSR is not charity. This is a very often seen confusion which disables CSR to meet its full potential. CSR is, in essence, a process based on the collective activities of communities of people, so there is no 'one size fits all'. Different cultures and different countries have different values, therefore, a different understanding of the concept.

1.1 Definition of CSR

The European Commission defines CSR as the responsibility of the enterprises for their impacts on society. In order to fully meet their social responsibility, enterprises should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders. It is important to emphasize that companies are 'responsible' for their impacts, meaning they have a certain obligation to the society, as well as certain consequences in case they fail to meet these standards. The general agreement is that a socially responsible entity adopts an approach to business that embodies transparency and ethical behavior, respect for stakeholder groups and a commitment to add economic, social and environmental value, defined by The Global Compact and Sustainability (2004).

There is a difference between European and US concept of CSR. In the United States, traditionally, CSR has been connected with philanthropy. As explained by Mallen Baker, an expert on CSR and a former politician, most of the US companies used to follow the same pattern of, so called, CSR. They would make profits, unhindered except by fulfilling their duty to pay taxes. Then they would donate a certain share of the profits to charitable causes, promote it in the media as CSR and continue with their own business activities.

On the other hand, the European model is more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. This model is in essence more sustainable, because this way social responsi-

bility becomes an integral part of business and individual company's strategy. This basically means that the whole process of making profit is managed properly, which is a win-win situation for both society and business world. So, if CSR concept is a part of corporate strategy of the company, it will remain there even in times of crisis, or decline of sales. In the US concept, CSR is just a philanthropic exercise which is peripheral to the main business. When times get hard, it will, certainly, be among the first things that would be pushed aside and neglected (Baker, 2004).

1.2 Origin of CSR

In the global sense, CSR is nothing brand new. In the 1950s and 1960s, critical consumer organizations were established, which set a basis to CSR. The first protests against environmental degradation in the 1970s focused the spotlight on the responsibilities of companies in relation to other societal actors. The more active stance of business towards social and societal affairs since 1960s ran parallel to the development of various academic disciplines and the creation of specialized/functional departments in companies (Tudler et al., 2006). The following international journals, for instance, appeared in the course of the 1960s: *Ethical Corporation*, the *Greenmoney Journal*, *Sustainability Journal*, *CSR Magazine*, *Journal of Corporate Citizenship*, and the *Accounting, Auditing and Accountability Journal*. Nevertheless, Harrison (2004) predicts that the likelihood that any organization will gain a comprehensive understanding of the field is constantly decreasing. The strategic management expert Michael Porter refers to the field of CSR as a 'religion with too many priests' (European Business Forum, 2003).

If we consider CSR as a movement, which emerged as a result of growing conscience of the responsibility that companies have, and more recently, as a result of the 2008 World Economic Crisis, we could argue that the origin of CSR is related to the idea of encouraging companies to make profits while subjecting the process to responsible behavior. In other words, it is not about making profits at any cost, but about how the profits are made.

There are already some new terms that are emerging as heirs of CSR. One of them is corporate citizenship. This concept sees companies as citizens who have rights, but also duties. The communitarian view is that rights have been overemphasized in some nations, such as the United States, to the detriment of collective well-being, but the citizens' duties

to the community are just as important as rights, if not more (Wood et al., 2006). So, in this view, a business organization is not a completely separate entity, or just a ‘nexus of contracts’, but is a member of a community with its functions. Business organizations can be seen as entities that are created to help the community in which they operate, so they need to act in the community’s interest. The concept of accepting a business organization as a citizen is in some ways in accordance with the early definitions of CSR; businesses should be responsible for how the benefits and harms of their actions are distributed.

1.3 CSR as a part of business ethics

There is a story of a never ending conflict between shareholder value and other-stakeholder value; business and ethics; profit and social responsibility. In this view, these two sides are opposite and exclusive. It is true that economic and social objectives have long been seen as distinct and often competing. But this is a false dichotomy; it represents an increasingly obsolete perspective in a world of open, knowledge-based competition. Companies do not function in isolation from the society around them (Porter, 2002). Today’s global economic environment has less room for the externalization of costs onto innocent third parties and increasingly supports the activism and influence of a multitude of stakeholders. Stakeholder expectations regarding business’s responsibilities for the ‘triple bottom line’ - financial, social, and environmental - are increasingly focused on every firm’s contributions to sustainable development and long-term value creation (Wood et al., 2006). Business ethics means honesty, confidence, respect and fair acting in all circumstances. However, such values as honesty, respect and confidence are rather general concepts without definite boundaries (Crowther et al., 2008).

Coming back to CSR, effective CSR is characterized not only by proactive business practices, but also by interactive business practices. In moral philosophy, this approach is also referred to as discourse ethics. In discourse ethics, as developed by Habermas (1990), actors regularly meet in order to negotiate/talk over a number of norms to which everyone could agree (as cited by Van Tudler et al., 2006). The field of tension between ethics and efficiency is only resolved when entrepreneurs are willing to focus on the ‘profitability of values’ and think of efficiency as ‘doing the right things right’ (effectiveness). This implies medium-term profitability and longer-term sustainability, not only for themselves, but for the whole sector and sometimes even for the whole economy (Van Tudler et al., 2006).

1.4 Purpose of CSR

In 1973 Davis formulated his ‘iron law of responsibility’ stating that in the long run those who do not use power in a manner that society considers responsible will tend to lose it (as cited by Van Tudler et al., 2006). Business and society, as external or internal factors, were two spheres sharply separated. Being responsible to external issues was a bridge between the two worlds and that could be the main reason why CSR emerged. Business leaders are capable of guiding the world toward a better future by doing what they do best - conducting normal business operations. But there's a catch: The aim of business organizations is not make as much money as possible, but to make as much money as they can within the limitations of ethical conduct, guaranteed human rights, environmental protection, and other legitimate expressions of individual and collective interest (Wood et al., 2006).

Those who don't believe in CSR often quote the Nobel Prize-winning economist Milton Friedman who said that “the main social responsibility of business is to increase its profits”. Still, they cannot deny, nor ignore the growing number of those who believe that companies have an obligation to do more. The logic which they is quite simple: if the critical stakeholders believe that environmental and social issues matter, than the right thing to do for your business is to listen to them. Solving the problems of its customers, partners and other stakeholders adds real value to the goods and services of the company.

There is an instrumental view of CSR which claims that firms will engage in CSR only if they have an economic interest to do so. For people who think this way, CSR is a way to weaken the welfare state, and to put the maximization of the profit at the top of the collective priorities (Crifo et al., 2010). The skeptics argue that business leaders are not doing the ‘right thing’ because of their own moral standards and values. But, the moral argument is not a separate imperative from the economic argument. It is deeply intertwined with business needs. The company itself simply needs to have recognized values and this gives it a competitive advantage. Doing the ‘right thing’ attracts the best people, enhances brand value, and builds trust with customers and other stakeholders (Esty et al., 2009). Business entities now understand that they are a part of a bigger picture. Björn Stigson, the president of World Business Council for Sustainable Development, said: “Business cannot succeed in societies that fail”. So, the purpose of CSR is also to ensure the long term survival of business organizations.

2 SCOPE OF CSR ACTIVITIES

Today, companies are increasingly adopting socially responsible actions, activities, policies and processes. A CSR policy is beneficial not only for a corporation's bottom line but also for its employees, stakeholders, consumers, and for communities, the environment and society at large (Kanji, et al., 2010).

2.1 Triple bottom line

John Elkington, the founder of a British consultancy called SustainAbility, strove to measure sustainability during the mid-1990s by encompassing a new framework to measure performance in corporate America. This accounting framework, called the triple bottom line (TBL), went beyond the traditional measures of profits, return on investment, and shareholder value to include environmental and social dimensions (Slaper et al., 2011). TBL has three aspects of performance: social, environmental and economic aspect. The leading organization in the sustainability field, Global Reporting Initiative (GRI) developed guidelines to enable business organizations to comparably report on the social impact of the business. These are some of the examples of the specific indicators recommended in the GRI's guidelines (as cited by Goldsworthy, 2000):

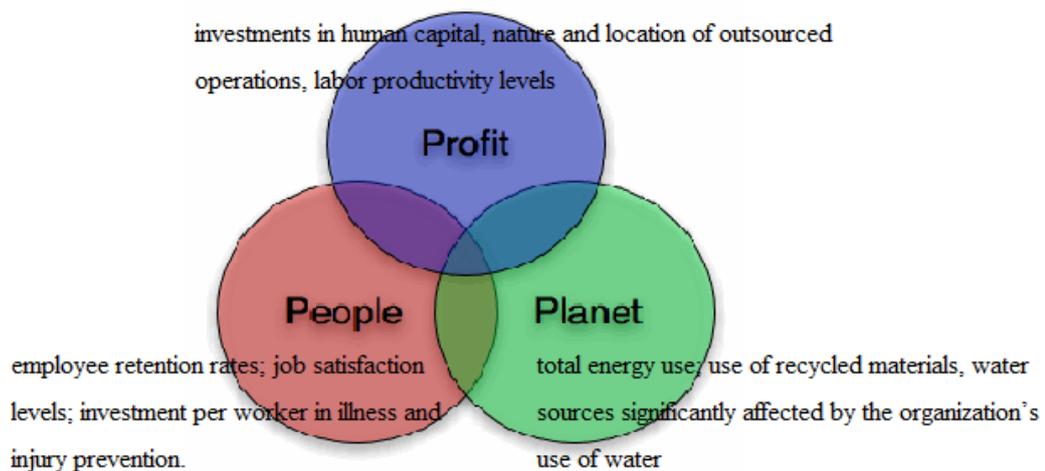


Figure 1: Specific indicators recommended in GRI guidelines (Goldsworthy, 2000)

CSR policy results in a triple focus for a corporation: people, planet and profit (Kanji, et al., 2010). ‘Profit’ refers to the traditional measure of performance; corporate profit. ‘People’ refers to measuring how socially responsible an organization is in its operations. And, ‘planet’ refers to measuring how environmentally responsible the organization is.

2.2 Types of CSR activities in companies

As it was mentioned earlier, there is no ‘one size fits all’ solution when it comes to CSR. Thus, each company must develop its own strategy for CSR and choose the activities which will be implemented as a part of the strategy. Regardless of the differences, we can highlight the following CSR activities which are mostly implemented by companies nowadays: corporate philanthropy, cause-related marketing, sponsorships, codes of conduct, social and environmental reporting, stakeholder engagement, strategic community investment, eco-efficiency and socially responsible investments (SRI).

2.2.1 Corporate philanthropy (charity)

Corporate philanthropy (charity) and CSR are closely related concepts, but they are not the same thing. Corporate philanthropy is just one part of the much bigger CSR concept. Nevertheless, when integrated in the company’s activities, corporate philanthropy can, besides benefitting the community, also benefit the company itself and its employees. As explained by Michael Porter, one of the most influential authors in modern management science, philanthropic investments of a company can have a powerful effect on its competitiveness and the performance. Philanthropy can often be the most cost-effective way – and sometimes the only way – to improve competitive context. It enables companies to leverage not only their own resources but also the existing efforts and infrastructure of nonprofits and other institutions (Porter et al., 2002). Also, by increased employee engagement, the organizational culture of the company also benefits from a more ethical and responsible business approach. But, since donations are tax-deductible for companies, these activities often generate a negative reaction from the public, or the stakeholders. There is always a question which deals with the motive for charity; are the companies doing it because they care, or they are trying to find new ways to avoid taxes?

2.2.2 Cause-related marketing

Cause-related marketing (or sometimes just cause marketing) is a partnership between a company and a charity organization. It is often implemented by linking the company's sales to a charity, or some public cause. The charity logo is used in a marketing campaign or brand promotion, and customers are aware of the percentage of sales which is donated to the specific cause. Cause related marketing is about using marketing money, techniques and strategies to support worthwhile causes whilst at the same time building the business. A company promotes its image, product and services in conjunction with a good cause, raising money for the cause whilst at the same time enhancing its reputation, demonstrating its values, enlisting consumer loyalty and purchase of its own products and services (Adkins, 1999). It is different than corporate philanthropy in the way that, as mentioned before, donations are tax deductible, while cause-related marketing is considered as an expense, and is therefore not tax deductible.

2.2.3 Sponsorships

This type of CSR activity is different from the sponsorship with purely commercial purpose (like sponsoring a sport club). It is often called cause sponsorship and it involves sponsoring a social or environmental cause deemed worthy by consumers, independent of sales (Coote et al., 2005). This activity helps position the company as an expert on a particular issue, by connecting it to a specific social problematic. Also, a company can engage in sponsoring awards on its own for a particular issue of its concern. Some of the examples include: The Reebok Human Rights Awards, Nestlé's Social Commitment Prize and Alcan Prize for Sustainability. This activity is a tool for communicating a particular message from the company, building a unique image of the business in the field.

2.2.4 Codes of conduct

We can consider under code of conduct the principles, values, standards, or rules of behavior that guide the decisions, procedures and systems of an organization in a way that contributes to the welfare of its key stakeholders and respects the rights of all constituents affected by its operations (IFC, 2007). So, codes of conduct are explicit statements which define the main corporate values and standards. Codes of conduct differ in content and

quality, but most of them are related to some common issues in business, such as: treatment of employees, consumer reliability, supply chain management, community impact, environmental impact, human rights, health and safety at work, transparency with dealing with partners, and other.

2.2.5 Social and environmental reporting

This activity is usually in link with the company code of conduct. Social and environmental reporting or ethical reporting encompasses reporting on all those factors which are used by ethical investment funds to form an opinion on the appropriateness of an organization's business practices (Adams, 2002). A good 'ethical' report should be transparent and represent a genuine attempt to provide an account which covers negative as well as positive aspects of all material impacts. To be accountable, reports need to demonstrate corporate acceptance of its ethical, social and environmental responsibility. Reports should give a balanced view of key ethical issues facing the company (Adams, 2004). The reason why transparency and accountability are of such importance to this reporting is the fact that this reporting is the main proof of the CSR activities which the company is implementing. It is the communication tool used for informing the stakeholders and the general public about the impact of the company on the society and the environment.

But, as much as the companies try to prove their true commitment to the social and environmental issues, many questions arise related to these reports. The still undeveloped social and environmental audit practices cannot verify the accuracy, accountability, or transparency of these reports. Also, due to the lack of common benchmarks in this segment, the reports are not valued. Social and environmental audit practices should come under the same degree of scrutiny as financial audit practices. Social and environmental audits guidelines must be developed and audit practices standardized to improve the completeness of reporting and reduce the audit expectations gap (Adams, 2004).

2.2.6 Stakeholder engagement

Companies nowadays work closely with their stakeholders, since the system as a whole functions only when all voices are heard and taken into consideration. By including all relevant stakeholders in the process of creating a socially responsible business, the compa-

ny builds the trust with them, and generates an increased value for all of them. This CSR activity is in link with the stakeholder theory, which begins with the assumption that values are necessarily and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together (Freeman et al., 2004). Companies engage their stakeholders in dialogue to find out what social and environmental issues matter most to them about their performance in order to improve decision-making and accountability. Following the dialogues, partnerships are built in order to maintain the commitment to these issues.

2.2.7 Community investment

Strategic community investment is defined as voluntary contributions or actions by companies to help communities in their areas of operation address their development priorities, and take advantage of opportunities created by private investment - in ways that are sustainable and support business objectives (IFC, 2010). The community in which the company operates is a very important factor when it comes to corporate image. That is why so many companies invest in community projects, since this type of CSR activity can offset the negative impacts of the company's business. By giving back to the community and the local workforce, companies strengthen the relationship with them. Some examples of community investments include: running health programs, sponsoring playgrounds or community centers, providing scholarships for the students of local schools, employee volunteering schemes, and other.

2.2.8 Eco-efficiency

Eco-efficiency was the phrase coined by the Business Council for Sustainable Development in advance of the Rio Earth Summit to describe the need for companies to improve their ecological as well as economic performance. More and more companies around the world and in a variety of industries are discovering opportunities to achieve environmental improvement and gain business benefit. Their efforts are driving the new competitive reality, whether through sustained pollution prevention programs that create cost advantage or new products that create enhanced customer value and reduced environmental impact (DeSimone et al., 2000). But, CSR as a concept must be integrated in the company as a

whole, and for a company which has a core business activity with negative impacts on the environment, like an oil company, it is a paradox to use eco-efficiency as a CSR activity. So, even if an oil company installs solar panels on the roofs of its petrol stations and reduces the carbon emissions of its operations, it still remains committed to an increase in oil and gas production, which is harmful for the environment and is not socially responsible.

2.2.9 Socially responsible investments (SRI)

SRI, or sometimes called ‘ethical investment’, refers to the practice of integrating social, environmental, or ethical criteria into financial investment decisions. Whereas conventional investment focuses upon financial risk and return from stocks and bonds (Cowton et al., 2012). The key distinguishing feature of SRI lies in the construction of equity portfolios whose investment objectives combine social, environmental and financial goals. When practiced by institutional investors this means attempting to obtain a return on invested capital approaching that of the overall stock market. SRI has entered the vocabulary and consciousness of mainstream finance, while it has moved from on its origins in the UK and US to become a global movement (Sparkes, 2002).

3 INVESTING IN CSR

Considering the pressure from the business environment, companies might be forced to be socially responsible, or at least pretend to be. If a company sees CSR as a goal which must be accomplished at any cost, then “the end justifies the means”. A company might be prepared to use unethical practices, in order to be perceived as ethical. This paradox can be perceived as hypocrisy. If business leaders look at CSR as an investment, it is more likely that they will realize the true potential of it. The companies which choose to incur the costs of it, are more likely to have long term benefits, since other companies fail to adapt and do not survive, or are not prepared to enjoy the benefits of first-mover advantages as societal expectations change. But, as any investment, it requires certain cost to be suffered.

3.1 Cost of CSR

It is difficult to verify the real commitment of companies in CSR. Following a simple logic, we can understand why companies promote CSR even when they are not implementing it. Consumers want more CSR and may be willing to pay for that. Companies are aware of this demand, and they may find it profitable to invest in CSR if the demand is high enough. However, CSR is costly, so firms may be tempted to communicate over a non-existent or overestimated effort in CSR (Crifo et al., 2010).

“The image of multinational companies working hard to make the world a better place is often just that - an image”, said a report of the British NGO ChristianAid (2004) that called for new laws to make businesses responsible for protecting human rights and the environment wherever they work. This skepticism may be reinforced by the ‘greenwashing’ behavior. The term ‘greenwashing’ was born in the 1980s, and is defined by Greenpeace as the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service. Today, the term is used to describe the practice of firms pretending to be concerned about any aspect of CSR, when this is not followed by facts. The skeptical will consider that CSR is nothing more than greenwashing in most cases (Crifo et al., 2010). The mentioned skepticism does not mean that a company does not have to communicate about its social and environmental concerns. In most cases, CSR and communication are strategic complements. But, the fact is that the communication about CSR efforts should be honest, transparent and accurate.

The issue of including CSR in the company external communication is complex and costly. Firstly, we can observe the including the CSR orientation in the product. Since this is costly, the company intends to sell the product at a higher price than a product without CSR. Second step is to include this information in the product promotion. Including such credible information is also costly. Also, if the company decides to send information on every single detail, the cost of including the information about CSR is increasing. And, of course, the more precise the information is and the more detailed it is, the harder it is to prove it. As a consequence, there will always be an asymmetry of information, since sending complete hard information is too expensive. Still, even though it is costly, investing in CSR may be beneficial because firms have the possibility to send credible information.

3.2 Benefits of CSR

A company which decides to invest in CSR expects certain returns, or benefits. Here, the focus is not on the benefits for the community and the environment, but on the benefits for the company itself. Proponents of CSR have used four arguments to make their case: moral obligation, sustainability, license to operate, and reputation (Porter et al., 2006).

The moral appeal argues that companies have a duty to be good citizens is in accordance with business ethics standards. As explained before, there has been evidence for a link between ethics and better business performance. By doing good things and engaging in CSR, companies are sending a positive message to all its stakeholders, including current and potential employees, and the right people are often one of the most important assets of a company.

Sustainability is connected with the long-term survival of the business. If a company intends to ensure its existence and good performance in the future, it must embrace sustainable practices. This means paying the costs of CSR today, in order to have future of the business. Managers without a strategic understanding of CSR are prone to postpone these costs, which lead to far greater costs when the company is later judged to have violated its social obligation (Porter et al., 2006).

License as an argument in this sense is related to the fact that each company must have permission from government, community and other stakeholders to operate. The 'license-to-operate' approach offers a concrete way for a business to identify social issues that

matter to its stakeholders and make decisions about them (Porter et al., 2006). The benefit of a company in this sense is the satisfaction of its stakeholders. By satisfying its stakeholders, the performance of the business can be improved. And, with improved performance, even financial goals can be met in a better way.

And finally, a strong argument for CSR is corporate reputation. Reputation is the sum of different images in the minds of stakeholders that forms the overall perception that is held of a corporation. A strong reputation has financial value as a corporate asset, and can stave off disaster in the face of a crisis (Van Tudler et al., 2006). This is why in stigmatized industries, such as chemicals and energy, a company may instead pursue social responsibility initiatives as a form of insurance (Porter et al., 2006).

4 FINANCING CSR ACTIVITIES

As explained before, CSR is an investment and comes with a certain cost, but it can be challenging to find sources for financing CSR activities. Companies can finance CSR activities from tax-deductible resources, or from net profit. The first source of financing refers to donations and charity as a form of CSR activities. The second source of financing is taken as a broad term, but the explanation will focus on some of the hypocrisy and paradox of financing ethical causes from unethical practices.

4.1 First source of financing: tax-deductible resources

Even though companies are constantly striving to avoid it, or at least decrease it, paying taxes is perhaps the most fundamental way in which private and corporate citizens engage with broader society (Christensen et al., 2004). This is the way a company can contribute to the society and the public sector. Surely, most of the business entities benefit from stable political and social environment. So, in this sense, the business entity must do its best to contribute to the stability, and the best way to do it is by supporting the government and the society with payment of taxes.

Externalities are variously known as external effects, external economies and diseconomies, spillovers and neighborhood effects. They involve an interdependence of utility and/or production functions. A beneficial externality, known as an external economy, is where an externality-generating activity raises the production or utility of the externally-affected party. An external diseconomy is where the externality-generating activity lowers the production or utility of the externally-affected party, such as environmental pollution (Macmillan, 1986). Taxation includes compulsory levies on private individuals and organizations made by government to raise revenue to finance expenditure on public goods and services, to control the volume of private expenditure in the economy and the amount of negative external diseconomy (Macmillan, 1986). The purpose of laws and regulations correcting for externalities is to reduce harms to involuntary stakeholders or to society as a whole. Government legislations give many tax and regulation advantages to charity. This practice was intended to increase the positive impacts of companies on the societies, but instead became a source of savings for companies.

As explained by Mamun Rashid, a business professor and financial sector entrepreneur, CSR is a lot more than just corporate philanthropy. It is not just about making a contribution towards good causes, but is instead a constant responsibility that acknowledges companies should serve its business, community, environment, workers, customers and other stakeholders. CSR must integrate with corporate values, culture and the company's strategy to achieve future sustainability. Sustainability is perhaps the key difference which distinguishes CSR from charity. It is not about doing one good deed occasionally, but instead about contributing to the sustainable future and positive impact. Donations free of taxes are not contributing to the welfare of the society in the long term. By decreasing their contribution to the government in the form of taxes, companies are contributing to the decrease in the capacity of national governments to provide the public services such as education, healthcare, security, pensions, clean environment, safe society, and other.

In the end, charity can and should be a part of CSR, which signifies a corporation's contribution to the community where it does business. But, CSR of a company involves a lot of factors that business leaders usually tend to overlook. CSR is a much bigger picture when a company voluntarily integrates a complete range of economic, social, and environmental concerns in its business and communication with its stakeholders.

4.2 Second source of financing: net profit

Even when companies are not using CSR activities as a way to avoid payment of taxes through donations, there are other problems related to financing CSR activities. If they are financed from the net profit, one must look at the way this profit is made. If a company's core business practice and business operations are unethical, it seems like a paradox to finance ethical behavior (CSR activities) from the profit.

4.2.1 Tax avoidance/evasion strategies

The Greek philosopher Aristotle developed three essential duties of the citizen: participating in the political process, paying taxes, and defending against enemies of the state and its people. If companies are striving to become corporate citizens through CSR activities, payment of taxes is obligatory. It is therefore curious that tax avoidance/evasion strategies are regarded as one of the prime duties that directors are required to perform.

Tax avoidance is sometimes used to refer to a legal reduction in taxes, whereas evasion refers to tax reductions that are illegal, but the dividing line is not entirely clear (Gravelle, 2010). There have been strategies which were described as tax avoidance by companies, but later on, when challenged in courts, they were found to be tax evasion. Sometimes companies have structured transactions which have little or no economic substance, but enable them to reduce their tax liabilities. This type of business activity is unacceptable on the grounds of moral and ethical standards, because the loss of tax revenues has a negative effect on the public welfare.

The paradox is that big companies are actively engaged in tax avoidance, while at the same time they insist on social responsibility talk and occasional activities which show their concern for environmental and social issues. For example, Starbucks, which promoted its CSR approach to its products with using fairly traded coffee, was at the heart of a tax avoidance scandal in UK in 2012. However, comparatively little scholarly attention is paid to the payment of democratically agreed taxes (Christensen et al., 2004) even though payment of taxes is central to any notion of responsible citizenship. If a company finances its CSR activities from a surplus in profit created by tax avoidance, it raises ethical dilemmas.

Companies see taxes as a cost. By reducing this cost, they can give higher returns to shareholders. In the capitalistic market, reducing tax payments can be considered as a cost-minimization strategy, even though it has a negative impact on the society, by reducing the accumulation of economic surpluses. A common practice of big international companies is that they establish residences in tax havens, in order to take advantage of their taxation system which enables them to earn more, and pay less to the society. A survey which examined this issue estimated that 99% of the European quotes companies have operations in tax havens, which levy low taxes and offer secrecy to enable corporations to avoid taxes in other jurisdictions (Tax Justice Network, 2009). A five-year study in the U.S. of 288 profitable Fortune 500 companies found that 26 paid no federal corporate income tax over the five-year period; 111 paid no federal corporate income tax in at least one of the last five years, and one-third paid a U.S. tax rate less than 10 percent over the same period (Citizens for Tax Justice, 2014). The companies on this list include some of the most enthusiastic 'corporate citizens' in the country such as General Electric, Boeing, Duke Energy, and others. It becomes clear that the companies are taking away from the societies more than they give. Their CSR efforts are simply a poor substitute for the savings they make from not paying what they are legally and ethically obliged to pay.

Real CSR focuses on doing good to those parties who are actually affected by the corporation's business activities, moving beyond the efforts of PR and marketing departments, and becoming a part of the corporate activity. A socially responsible company contributes to the society in all ways, and not just in those which have the least cost for it. The CSR agenda is driven by demand for an ethical approach to business. It is not possible to be ethical in one area of business conduct and act otherwise in another area, and companies that function in this way reveal a major disconnect in their core organizational values (Missbach, 2005).

4.2.2 The role of consulting companies

The increase in usage of tax avoidance and evasion strategies by companies is largely due to the growth of the whole industry which advises businesses to do so. Accountants, lawyers, financial services experts and consulting firms provide interpretations of law and technical skills needed to avoid tax payment. They legitimize vocabularies and discourses that intend to normalize avoidance of taxes. For example, in the traditional accounting literature, dividends are described as rewards, which are something to be maximized, and taxes are assigned to negative spaces and described as costs, or burdens, which need to be minimized. One of the biggest consulting companies, Ernst & Young, confirmed this by saying: "Companies are constantly looking to save costs, and tax is a major cost" (New York Times, April 2009). This leads to the perception that taking away from the government and from the society is a normal and justified business practice.

The paradox is that these companies which provide professional services, such as accountancy, consulting and auditing, provide advices for avoiding taxes and at the same time perform auditing in the companies, analyzing their social commitment, among other things. Companies such as KPMG are partly to blame for the inconsistency of the CSR commitment of the companies, since they provide their services, products and know-how for implementing unethical behavior – avoiding taxes, which is not in accordance with real CSR.

4.2.3 Irresponsible business practice

If company's CSR activities are financed from its net profit, there is a need to examine the source of this net profit. Extractive industries are often a subject of CSR discussions, be-

cause of their very specific position in the field of social responsibility. Extractive industries are non-renewable natural sectors, including oil and gas, metals, industrial minerals, coal and gemstones. There are specific features of the non-renewable sector which make it a particular challenge for CSR and for environmental management, and which also render it a particularly interesting arena for the analysis of CSR (Ali et al., 2007). These industries have companies which are some of the most active players in the CSR arena. But, if a company's core business practice is unethical (for example, overexploitation of natural resources), how does ethical behavior such as CSR activities fit into the picture?

Companies from these industries sometimes engage in the CSR activities related to one of the other two pillars of CSR, other than environmental aspect. The Extractive Industries Transparency Initiative includes 19 major oil, gas and mining companies that have agreed to discourage corruption through full public disclosure and verification of all corporate payments to governments in the countries in which they operate. Collective action by all major corporations in these industries prevents corrupt governments from undermining social benefit by simply choosing not to deal with the firms that disclose their payments (Porter et al., 2006). Still, it is not possible to be ethical in one area of business conduct and act otherwise in another. Thus, the core of the CSR challenge for the extractive industries lies in the inherent non-renewability of minerals, on the one hand, and the expensive definition of sustainability, which includes social and economic variables (Ali et al., 2007).

4.2.4 Gap between corporate talk and action

Lacking the proper measures, it is difficult to prove if a company is really CSR-oriented, or simply pretending to be. One of the ways to do so is by analyzing the gap between the corporate talk and action. A few big corporate scandals helped reveal the hypocrisy of certain companies. One of them was the case of Enron, a former American energy, commodities and services company, based in Houston, Texas. This case drew attention to the gap between corporate talk, decisions and action. Enron was ranked seventh on the Fortune 500 list of the country's largest companies for 2001. Its Code of Ethics stated:

"We are dedicated to conducting business according to all applicable local and international laws and regulations, including, but not limited to, the US Foreign Corrupt Practices Act, and with the highest professional and ethical standards. ...officers and employees of the company are responsible for conducting the business affairs of the Company in ac-

cordance with all applicable laws and in a moral and honest manner. ... Employees of Enron Corp, its subsidiaries and its affiliated companies (collectively the Company) are charged with conducting their business affairs in accordance with the highest ethical standards ...” (Enron, 2000)

In 2001, Enron collapsed and the gaps between its talk and action came to public attention. After the investigation by the US Senate Joint Committee on Taxation, the truth was revealed: the data for the period 1996-2000 showed that Enron paid no Federal income tax for taxable years 1996 through 1999, and reported a new operating loss carryover of \$3.1 billion from 1999 to 2000. Despite its code of ethics, Enron’s financial statements made no mention of any of its tax avoidance schemes. 692 of Enron’s offshore subsidiaries were incorporated in the Cayman Islands, a tax haven. They were, in fact, used as a part of an elaborate strategy to avoid taxes (Report of Investigation of Enron Corporation and Related Entities Regarding Federal Tax and Compensation Issues, 2003). The US Senate report found that with advice from Arthur Andersen, Citigroup, Deloitte & Touche, Chase Manhattan, Deutsche Bank, JP Morgan Chase, Merrill Lynch, Bankers Trust and several major law firms, Enron operated through a labyrinth of domestic and foreign subsidiaries and affiliates to structure transactions and avoid taxes at home and abroad. There was an independent unit, the ‘structured transactions group’, within the tax department. Its focus was to synthesize tax, finance, legal, and accounting principles to enhance Enron profits. (Report of Investigation of Enron Corporation and Related Entities Regarding Federal Tax and Compensation Issues, 2003). Enron’s fall was especially bitter to the community of Houston, where Enron had substantial reputation for community involvement, philanthropy, innovative practices, and exciting job opportunities. Stakeholders were betrayed, the company fell apart and the public was given enough material to start investigating other irresponsible business practices.

As it can be seen, a company can claim to be socially responsible and at the same time act in an irresponsible way. The sources of financing its CSR activities can be coming from business practice which is far from socially responsible, or ethical. CSR can be achieved only by synchronizing the corporate talk with actions. Otherwise, the company is not socially responsible and risks putting in danger its whole corporate reputation when the gap is revealed.

5 CONSEQUENCES OF SOCIALLY IRRESPONSIBLE BEHAVIOR

The socially responsible behavior of a company is in direct link with the concept of socially responsible business in the minds of its managers. There are no universal rules about social responsibility of companies, and so it is up to the managers to act in accordance with their own perception. Sometimes, there is a very thin line that distinguishes socially responsible and irresponsible behavior. Whether the company is using corporate philanthropy just as a way to be perceived socially responsible in a cheap way, or engaging in unethical business practices and then financing CSR activities, serious consequences may arise. The most serious internal consequence is damage to corporate reputation, and external consequence of greatest importance includes the free-rider problem.

5.1 Damage to corporate reputation

The mentioned Enron scandal proves the importance of corporate reputation. Due to the irresponsible business practice, the company was destroyed once the stakeholder trust was lost. The potential of the corporate branding has introduced changes in the business environment and rules. Today more than ever, a well-known and respectable name is a way to secure a good position in the marketplace. Also, the stakeholders have never been so sophisticated and informed, the regulations and standards are becoming very strict and watchdogs guarding public interest have never been more active.

The bond between the company and its stakeholders is built on trust; companies ask stakeholders to trust them not to cheat or steal, not to sell products that are not useful, not to harm the local community with their business activities, etc. In case the stakeholders find out that the companies broke some of their promises, the trust is lost and the demand for accountability and more information is increased. Trust, then, is a surrogate for monitoring. A trusted company does not wait for the overwhelming pressure before it releases information that stakeholders need to make good decisions (Wood et al., 2006). Being socially irresponsible means not giving respect to the stakeholders which dictate the successfulness of the business organization. There are many benefits claimed for being perceived as having a good corporate reputation. Even for those who are strictly profit-oriented, the argument for corporate reputation is quite strong; it improves shareholder value. A strong cor-

porate reputation inspires confidence in investors, which in turn leads to a higher stock price for a company (Crowther et al., 2008).

Using CSR in the wrong way, financing it from unethical business practices, or simply creating a gap between corporate talk and action, the company might risk losing the precious trust of stakeholders. CSR activities are in the interest of the stakeholders of the company. If they are satisfied, the corporate reputation is very likely to become better. Ultimately, the value of a good reputation is stakeholder trust, confidence, and support (Wood et al., 2006). Corporate scandals such as Enron prove that consequences of socially irresponsible behavior can even be fatal for the company.

5.2 Free rider problem

Firstly we consider the primary reason why taxes exist at all; it is to diminish the amount of negative externalities on the external environment and to insure the providing of public goods by the government. Goods that have no rivalry in consumption and no excludability create a free-rider problem: People can enjoy the good or service without reducing others' enjoyment even if they do not pay (Taylor, 2004). Tax avoidance and aggressive tax planning enable companies to become economic free-riders, enjoying the benefits of corporate citizenship without accepting the costs, whilst also causing harmful market distortions and transferring a larger share of the tax burden onto individual taxpayers and consumers (Missbach, 2005). They avoid the cost (the taxes) of using the resources provided by the government (the state), such as clean environment, education, and political stability and other.

By contributing to the decrease in taxes, companies contribute to the variety of economic problems which arise as a consequence. By insisting on tax-free donations as the core CSR activity and by engaging in a variety of tax avoidance schemes, companies are not contributing to the way that government deals with negative externalities, thus creating a sort of negative externality themselves. Also, with the decrease of taxes, governments have difficulties with supporting social programs, thus there is an increase in the inequality of welfare distribution; the poor are poorer. A CSR-oriented company should strive to satisfy ethical standards and not contribute to these negative economic consequences for the society in which it operates.

6 LEGISLATION RELATED TO CSR ACTIVITIES

Up to this date, there has been an ongoing debate about whether or not CSR should be regulated by government legislation. With the growing concern by NGOs about the impact which business organizations have on the world today, there was a pressure to the governments around the world. They were asked to start regulating the behavior of companies more strictly, by introducing new laws and standards and by imposing strict sanctions on the guilty ones. Since capitalism dictated less involvement of the government in the business world, most of the national governments left it to the ‘reputation mechanism’ to solve the problems. ‘Reputation mechanism’ is a response to the bad behavior of companies, which corrects them without the involvement of legal help. As it was proven many times, building a reputation takes ages, but it can disappear in an instant. So, irresponsible and unaccountable behavior by companies would be sanctioned by its customers and NGOs. As in the examples of Enron and others, the reputation mechanism does work, but not always on time and not always in the adequate way.

6.1 Social contract

Instead of regulating CSR by law, the governments and the public relied on the, so called, social contract between the society and business corporations. The origin of the concept of ‘social contract’ can be found in the work of Jean-Jacques Rousseau from 1762, where he explains the relationship between an individual and the society and its government. The idea is that individuals voluntarily give up certain rights in order for the government of the state to be able to manage for the greater good of all citizens. Recently, this theory of a social contract has been used to explain the relationship between a business organization and the society. So, a business organization has duties towards other parts of the society in return for its place in the society.

The social contract theory dictates that the business organization is linked with government, society, other organizations, groups and individuals in a compact unit and the link is the social contract by which the business organization is promising to do things in the best interest of the mentioned stakeholders. To actually be socially responsible, a company must be more than a legal and ethical person. CSR is not always a legal necessity, increas-

ingly it is an obligation. However, a company has to be socially responsible even though it is not a legal obligation (Crowther et al., 2008).

6.2 Tax treatment of CSR activities

The tax treatment of CSR activities is mostly related to the tax treatment of corporate giving and it differs from one government to another. For example, in Australia, tax deductions are given purely for public policy reasons to encourage philanthropy through the making of donations to specific industries. For example, the Australian Income Tax Act 1997 provides deductions for certain gifts of money and property valued at AUD\$2 or more that are made to specified charities, public institutions and other eligible entities. The Canadian Revenue Agency (CRA) has identified “responsible citizenship” as one element of a sustainable tax system. A sustainable tax system is one where taxpayers appreciate that paying tax is a civic responsibility that enables them to enjoy all the rights that accompany being a Canadian resident or business (Government of Canada, Industry Canada). In New Zealand, making contributions in the form of donations are encouraged by the availability of a tax rebate for individuals and by a tax deduction for companies and Maori authorities. In Singapore, since the formation of “Singapore Impact for CSR” in 2005, a national society committed to promote social responsible activities by corporations, there is a greater awareness of its activities in this country. Gifts of shares listed on the Singapore Exchange or of units in unit trusts that are ready to trade in Singapore are tax-deductible. In France, before the 2003 tax reform, incentives for corporate giving were coming from the 1987 Fiscal Law. Corporations could benefit a tax deduction on their income with a ceiling deduction equal to 0.2% of taxable income. If donations exceeded the ceiling, the firm had the opportunity to report its tax deduction over the next 5 years. The 2003 tax reform established a tax credit equal to 60% of the donation with a ceiling deduction equal to 0.5% of firm's revenue (Lordemus, 2013). In Czech Republic, value of each donation alone is at least 2 000 Czech crowns, and it can deduct a total of not more than 5% of the non-deductible tax base, under Article 34 of the Income Tax Act.

Table 1: International comparisons of tax incentives for charitable giving (own processing)

Country	Level of incentives	Deduction limit
Germany	Deduction from taxable income	20% of profits or 0.4% of revenue
Belgium	Deduction from taxable income	5% of net income
Spain	Tax credit ranging from 35% to 40%	10% of the tax base
United States	Deduction from taxable income	10% of taxable income
France	Tax credit equal to 60% of total gift	0.5% of revenue
Italy	Deduction from taxable income	Limit fixed at national level
Luxembourg	Deduction from taxable income	10% of net income
United Kingdom	Deduction from taxable income	No ceiling
Switzerland	Deduction from taxable income	10% of taxable income
Czech Republic	Deduction from taxable income	5% of taxable income
Sweden	No deduction	-

6.3 Government legislation

In a perfect scenario, profits of private companies and the public interests of the community are aligned. Therefore, there is no need for CSR, since companies increase social welfare simply by maximizing their profits. But, as we know, in most cases, there is a gap between the two which needs to be tangled in some way. This is where national governments act, or should act. They influence corporate decision making by imposing costs to the business entities, such as regulatory mandates, taxes, punitive fines, etc. Even with all their faults, national governments are still the main protectors of public good. It is not likely that CSR can replace the government role in this sense. But, if exercised in the proper manner, CSR can be an additional help to the society, rather than a replacement of government functions. CSR can be implemented not as a way of privatizing a public function, but a response to where the national governments have failed or have been weak.

One part of the business community fighting against the government regulation of CSR argues that it would threaten the positive work they are doing. CSR consultancy Business in the Community supports corporate lobbying against regulation, arguing that regulation can only defend against bad practice – it can never promote best practice. What might be behind these arguments is the desire of companies to still be selective in deciding which areas of bad practice they want to eliminate. They still want to use their best practice to divert attention away from the bad practices. They still want their involvement in CSR to be seen as a distinction from others, and in that sense, a source of competitive advantage.

In 2008, the Danish parliament adopted a bill making it mandatory for the 1100 largest Danish companies, investors and state-owned companies to include information on CSR in their annual financial reports. The required information includes: information on the companies' policies for CSR orSRI, information on how such policies are implemented in practice, and information on what results have been obtained so far and management's expectations for the future with regard to CSR/SRI. CSR and SRI are still voluntary in Denmark, but if a company has no policy on this it must state its positioning on CSR in their annual financial report. Another example of government CSR regulations is legal requirements for CSR information provision in the UK. This covers the business review, which is part of the directors' report, and it requires the standard type of business performance data (for example, a description of the principal risks and uncertainties facing the company) but, for quoted companies, there are additional CSR-related requirements. The rules require that details about environmental matters (including the impact of the company's business on the environment), the company's employees, and social and community issues should be disclosed.

Even with the existing government regulations regarding reporting on CSR activities, there are some problems. For the moment, there are no governmental laws that sanction the practice of so called greenwashing. There exist some national initiatives under the form of private regulations or soft laws. However, they are neither constraining nor harmonized. For example in France, the ARPP (Autorité de Régulation Professionnelle de la Publicité, probably the most accomplished initiative on greenwashing in Europe) systematically evaluates and publishes some recommendations on TV advertising but the radio and newspapers advertising are evaluated on a voluntary basis (Crifo et al., 2010).

Another argument for government legislation is related to the possible future of companies – global business citizenship. If we consider individuals who are already citizens, they are

obliged by law to act in a responsible manner; they are punished if they murder, or hurt someone with their actions. They do not regulate themselves, as companies do today. If we follow the concept of business organizations being citizens of the society in which they operate, there is a need for their duties to be clarified in some way. In most countries, citizens have a duty to pay taxes, for example. If a business organization is seen as a citizen, is it its duty to pay taxes? And not just that, but should the business organizations be allowed to shelter their income in tax-free zones abroad in order to avoid paying taxes at home? These and similar questions can be resolved only by legal statutes, judicial decisions, and cultural norms. In our globalized economy, though, national laws are insufficient, and international laws are in their infancy (Wood et al., 2006). This only means that there is yet another fight to come: how to regulate the rights and duties of business organizations in the best way.

6.4 Performance evaluation and social reporting

What does it mean to be a good corporate citizen nowadays for a company? As the general public sometimes makes mistakes in examining the CSR efforts of a company, so does the business world misinterpret the term of ‘good corporate citizenship’. In the Industry Week's annual ‘100 Best-Managed Companies’, there is a category ‘corporate citizenship’. This category does not measure the responsibility of the companies and does not examine are they law-abiding. Instead, the category focuses on charitable work and the ‘good deeds’ of the companies, by measuring the percent of pretax earnings given to nonprofits. Philanthropy and community volunteer activities are just a part of a much bigger picture. It is like the idea of ‘random acts of kindness’. Why should kindness be random instead of routine? Similarly, why should a company's community responsibility be voluntary? If we as individuals have a duty to be kind, is it a stretch to say that business organizations have a duty to be responsible? (Wood et al., 2006)

The need for standardizing the CSR reporting is growing. The Directory of Social Change, led by Debra Allcock Tyler, called for a core set of principles for CSR reporting that it says will take the ‘spin’ out of the practice.

“A core set of principles should apply across all industries to allow open, transparent and comparable assessment of CSR in the UK and internationally. This would allow customers,

shareholders, the general public and charities to more easily compare the interests and activities of companies.” (Third Sector, 2013)

One of the main tools for external communication on CSR activities is the corporate website, usually saturated with terms such as sustainability, sustainable development and CSR. As there is still no legal requirement for a CSR report or website section to be audited, there is no completely unbiased way to examine the CSR performance of a company. Many firms think that the costs of independent verification of these reports outweigh the potential benefits. An investigation of the FTSE100 companies showed these results while analyzing corporate websites of these companies (as cited by Crowther et al., 2008):

Table 2: FTSE100 companies investigation (Crowther et al., 2008)

Mention on the corporate website	% of companies
Sustainability	100
Sustainable development	35
Expressly link sustainability to CSR policy	70

Performance evaluation of companies in segments such as CSR is particularly difficult. However, it should be clear that the determination of good performance is dependent upon the perspective from which that performance is being considered and that what one stakeholder grouping might consider to be good performance may very well be considered by another grouping to be poor performance (Crowther et al., 2008). So, performance evaluation of a company in the segment of CSR needs not only clear and adequate measures, but also guidelines for what good performance really is. The ambiguity of the concept itself reflects on the performance evaluation, also. Depending on the external perspective, very different evaluations of the same performance may arise, as well very different measurements. Author Solomons (1974) considered the reasons for measuring objectively the social performance of a business. He suggests that while one reason is to aid rational decision making, another reason is of a defensive nature (as cited by Crowther et al., 2008).

Analysis of Social Performance	
Statement of Social Income:	€
Value generated by the productive process	Xxx
+ unappropriable benefits	Xxx
- external costs imposed on the community	Xxx
Net social profit / loss	Xxx

Figure 2: Analysis of social performance (Crowther et al., 2008)

Accountability is the core principle of organizational reporting that provides key stakeholders with feedback on what the company learned during stakeholder dialogue and engagement and that shares the change management activities it has taken as a result (Wood et al., 2006). Usually, organizational reporting was focused only on the company's financial performance. This traditional way of reporting is a one-way communication to a limited set of stakeholders; those who understand and are interested in the financial indicators. But, only in 1970s there was a significant change towards a more non-financial way of reporting. A new tool of stakeholder engagement came up, called 'goal reporting and accounting'. This method involved a company setting its own goals in the social and environmental arenas, and then reporting, in whatever way it saw fit, on how it was doing on accomplishing those goals. Over the long term, however, this method offers no consistency or comparability and can too easily degenerate into a public relations, image-creating device (Wood et al., 2006).

One tool that has been widely adopted in large companies, which helps accounting systems to contribute more effectively to the strategic planning process is Balanced Scorecard (BSC). It was introduced in the mid-1990s and still remains to be a driver model for companies. BSC consists of four perspectives: financial, customer, internal, and learning and growth perceptive. Each of them is characterized by questions that flow from the corporate vision and strategy. This tool can be used as a way to report on the company's commitment to social and environment issues, as long as it remains in the principles of accountability, transparency and truth.

II. ANALYSIS

7 THE COMPANY: SPARKASSE BANK BH

CSR is still a challenge for companies in Bosnia and Herzegovina, due to the still struggling economy and complex political situation. The biggest challenge for the development of socially responsible business practices in Bosnia and Herzegovina is lack of policies, legislation and standards relevant to the concept of CSR. Companies in Bosnia and Herzegovina mostly consider CSR as philanthropy, donations, well defined strategies of employment and doing business according to the legal terms. Sparkasse Bank is one of the few companies in Bosnia and Herzegovina which has a strategic CSR approach, and a company which is perceived as socially responsible by its employees, clients and the public.

7.1 The company profile and structure

Sparkasse Bank has operated in Bosnia and Herzegovina since 1999. It has its head office in the capital of Bosnia and Herzegovina, Sarajevo. The company is a member of the Austrian Steiermärkische group. It employs around 470 employees, and services 170 000 clients. The company offers all kinds of conventional and modern banking services, including financial services of S-Leasing. The business network includes 44 branches all over Bosnia and Herzegovina.

Steiermärkische group, the majority owner, is a leasing bank group in the south of Austria. It has majority ownership in banks and leasing companies in several countries of the region. Presence and competence within the regional market (Croatia, Slovenia, Serbia, Montenegro, Bosnia and Herzegovina and Macedonia) together with the dimension and strength of an international financial institution turn Steiermärkische Sparkasse to the preferred partner for export-oriented medium-size enterprises and industrial enterprises with focus on Southeast Europe.

7.2 Mission, vision and objectives

The company's mission is caring about the success of its clients with constant improvements of its offers, competently, with tailor-made solutions and with a long-term perspec-

tive. The company's vision is to become one of the strongest banks in the country using business tools based on the best banking practices.

The company's long-term goal is to continue developing according to the savings banks group standards into a modern retail-bank with a country-wide coverage, and be among the leading banks in Bosnia and Herzegovina.

The company is guided by the model which the parent Austrian company uses; the most stable savings banks model for the past 190 years. Savings Bank model is in place of investment banking. The focus is on transactions with population, such as small and medium businesses, where credits are refinanced from savings deposits that the bank collects, with risk dispersed on a great number of clients therefore kept at a minimum. There is a conservative approach to investments. Investments in securities are conducted with caution and with focus on safety, even at the cost of profit. Also, there is a joint responsibility of Austrian saving banks group for 100% of all deposits. Erste Bank and almost 50 Austrian savings banks are jointly responsible for savings deposits and form a unique risk community.

7.3 Company values

The company has a very strong client-orientation, which can be seen from its values. The values of the company are:

1. Responsibility

Sparkasse Bank takes responsibility for the success of its clients, employees and contribution to the society.

2. Reliability

Reliability creates friendships. Sparkasse Bank respects business ethics and the key for the loyalty of its clients is a partnership with them.

3. Collaboration

Collaboration is only possible with complete trust. Sparkasse Bank communicates openly and honestly, and tries to always keep its promises.

4. Security with assurance

The tenet of the company is to protect its clients and employees. For that, Sparkasse bank uses all available tools.

5. Tailor-made solutions

There are no universal solutions. Each of the company's clients has the right to and offer made just for them. Therefore, Sparkasse Bank gives them its attention, time and commitment.

6. Courage

Sparkasse Bank sees courage as a chance. Its team is governed by the principles of self-initiative, accepting new ideas and taking on challenges, as well as ambition to achieve its goals.

7.4 SWOT analysis of the company

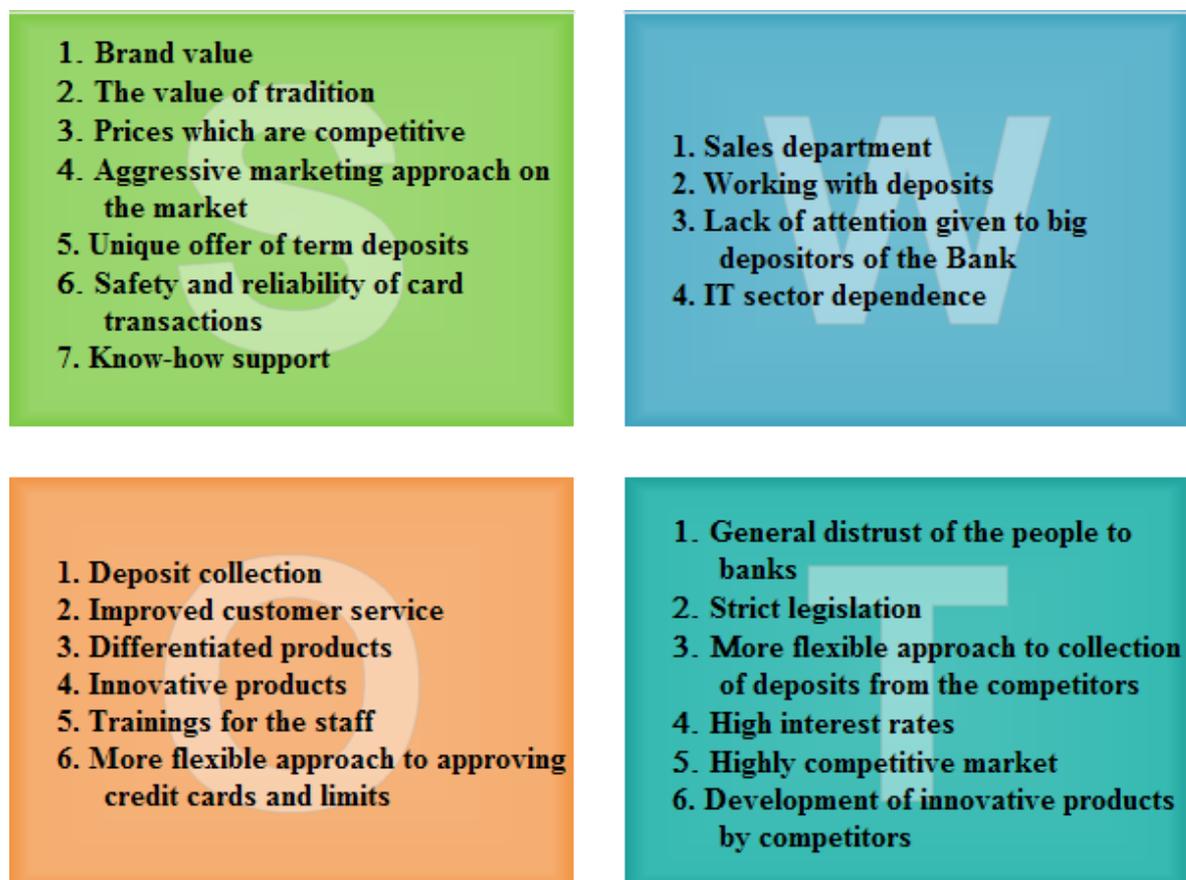


Figure 3: SWOT analysis of Sparkasse Bank BH (own processing)

Strengths of the bank include strong brand value, since it is perceived as a good savings bank, an innovative and safe bank. There is also the value of tradition, as the parent Austrian group Steiermärkische Sparkasse has a very good reputation. The prices of the products and services that the company offers are competitive. From the beginning of its business in Bosnia and Herzegovina, Sparkasse Bank has had a very aggressive marketing approach on the market and is still investing heavily in its marketing department. The company has a unique offer of term deposits, which differentiates it from other banks. Regarding the card transactions, the company insists on safety and reliability, which is realized through the MBU and 3D secure system for safe online payment. And finally, strength of the company is the know-how support from other members of the group when developing new products and services.

As for the weaknesses of the company, one of the most serious ones is the lack of good sales skills of the sales department staff. Apart from the sales skills, the sales department also lacks education on the technical aspect of working with deposits. Also, the big depositors of the company are given an insufficient level of attention. Regarding the IT sector, the main obstacle is its huge dependence on external providers, which slows down the operations and processes.

There are many potential opportunities for the company in the future. One of them is a proactive approach to deposit collection and further development of this business operation. Then, there is an opportunity with improved customer service for the big depositors of the company. Sparkasse Bank needs to stay competitive, so there is an opportunity of introducing differentiated products with prices adjusted to the market. It can also introduce innovative products that can be a generator of deposits. Furthermore, as a response to a big weakness related to the sales department, there is an opportunity with trainings for developing sales and technical skills of the employees. And last, there can be a more flexible approach to approving credit cards and limits, which could generate more clients.

The threats from the external environment include a general distrust of people in Bosnia and Herzegovina towards banks and keeping their assets in banks. Also, there is a strict legislation related to proving the origin of assets. There is a threat of competitor banks which already have a more flexible approach to collection of deposits. The high interest rates in the country remain a threat for the whole banking sector. And finally, the banking

industry in Bosnia and Herzegovina is a highly competitive industry with very strong competitors, including banks with foreign capital, such as Sparkasse Bank. There is a threat from these competitors which can develop innovative products before the company.

8 THE IMPLEMENTED CSR STRATEGY OF SPARKASSE BANK BH

Following the tradition of the parent group, Austrian Steiermärkische group, which was founded 200 years ago as a socially conscious and economically successful bank, Sparkasse bank Bosnia and Herzegovina has had a CSR approach since the beginning of its business in the country. As it is said on the corporate website, the corporate philosophy of the company is that the bank as an institution can be successful only if the community in which it operates is successful. So, the company directs its engagement and support in the social spheres where it is needed.

8.1 Strategic goals for stakeholders

With the respect for the shareholders, clients, employees and partners, Sparkasse bank sets up strategic priorities for the most important stakeholders and then works on accomplishing the social goals in the community. These strategic goals help to develop a CSR strategy which serves the accomplishment of these goals, in a way that the whole business of the company is oriented to satisfying the set goals.

Strategic goals for employees: Maintain a high quality and motivating working environment in which employee's rights and needs are respected and in which the idea of social responsibility is incorporated in every member of the team.

Strategic goals for the market: To become an example of ethical, and economically successful business practice and implement all principles of good corporate governance in practice.

Strategic goals for clients: Improve the quality, diversity and accessibility of the services, by respecting the rights and needs of clients and by developing a relationship with them based on honesty, support and trust.

Strategic goals for the community: To become a useful member of the community in which the company operates, by investing in increase of quality of life in the fields of education, culture, sport, social care and environmental protection.

8.2 The principle of ‘human banking’

From the very beginning of its business in Bosnia and Herzegovina, Sparkasse Bank has had a CSR orientation, guided by the CSR philosophy of its parent bank in Austria. One of the reasons for this kind of orientation is the motivational guidance of the president of the supervisory board, Mr. Sava Dalbokov. Born in Bulgaria, Dalbokov enjoyed an international education before starting his career at Erste Bank as a manager responsible for strategic business development of this bank for Middle and East Europe. His inspirational speeches about the principle of ‘human banking’ have had a major influence on the employees of Sparkasse Bank. According to him, there is a need for an enlightened capitalism, with caring individuals, caring companies and caring communities. The principle of ‘human banking’ is deeply incorporated in the company’s mission, vision and values. It is a part of its competitive advantage and corporate philosophy.

Thanks to this kind of leadership, Sparkasse Bank has developed its business in Bosnia and Herzegovina with a strong focus on socially responsible practices and projects. As a result, in 2011, the company received the award ‘DOBRO’11’ (in translation: ‘GOOD’11’) for being the best company among financial institutions in the country in the field of corporate philanthropy. In 2011 and in 2012, the main employment web portal in Bosnia and Herzegovina, ‘Posao.ba’, gave Sparkasse Bank awards for being ‘the best company to work in’, in the financial sector.

8.3 The structure of the implemented CSR strategy of Sparkasse Bank

Following the strategic goals for each of the mentioned stakeholders, Sparkasse Bank has developed a CSR strategy that serves these goals. The strategy consists of four main parts: donations, sponsorships, scholarships and internship program. Apart from these four parts, Sparkasse Bank implements many other practices which are in accordance with socially responsible business.

Table 3: Main parts of current CSR strategy of Sparkasse Bank BH (own processing)

Type of activity	Main target groups	Goals	Source of financing
Donations	Ethnic minorities, youth associations, socially handicapped	<ol style="list-style-type: none"> 1. Improvement in education and quality of life of young people 2. Increase in voluntarism and youth employment 3. Social inclusion 4. Development of sport in BH 5. Protection of environment 	Net profit, tax-deductible
Sponsorships	sport clubs with limited financing, NGOs with projects that support the goals of the activity	<ol style="list-style-type: none"> 1. Improvement in education and quality of life of young people 2. Increase in voluntarism and youth employment 3. Social inclusion 4. Development of sport in BH 5. Protection of environment 	Net profit, tax-deductible
Scholarship program "Friend for Life"	Children from marginalized groups, children without parents, children with disabilities or special needs, children from minority groups	Help the children in need with financial support and social inclusion	Revenues from certain products
Internship program "Best of South East"	High potential students	Enable professional development for talented students	Cooperation with University of Graz (Austria) and Erste group

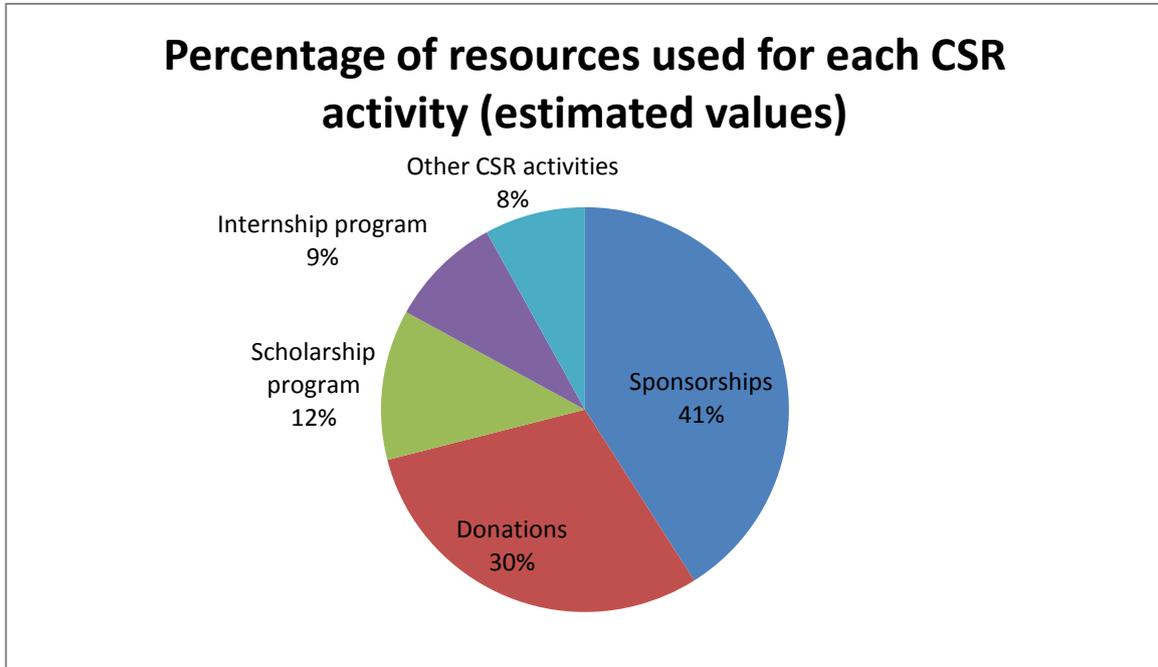


Figure 4:Percentage of resources used for each CSR activity of Sparkasse Bank BH (own processing)

8.3.1 Donations and sponsorships

Donations and sponsorships include a major part of the CSR strategy. The corporate philanthropy is very strongly encouraged and these efforts of the company are recognized by the public, as it received mentioned award for being the most socially responsible company in the financial sector of Bosnia and Herzegovina.

Donations and sponsorships are given to chosen projects each year through a public tender. Organizations, associations or individuals who are interested can apply to the tender with their proposed projects. The applicants are reviewed by a special committee which decides on the projects that are going to be supported and the type of support they will get. The committee consists of company's representatives, mainly employees from the Marketing and Communications department and Human Resources department, and the stakeholders of the company, such as representatives of NGOs who work closely with the company. This

way, the company wants to make sure that the right projects are supported and that they are of true value to the community.

The criteria which the committee takes into account for decision making process are:

1. The aspect of community contribution, sustainability and correlation of the project with the goals of the company's CSR Strategy: 60%
2. Public presence and project visibility: 20%
3. Fulfillment of application conditions (general, special and eliminatory criteria): 10%
4. Budget: 10%

In the year 2014 associations and events which were, or will be, supported by sponsorships are:

- 20 sport clubs or associations
- youth festival 'Festival of Friendship Gorazde'
- music festival 'Bihacko Ljeto'
- trade fair 'Eko Biz'
- vocal/instrumental group 'Behar'
- NGO 'Open network of human rights and democracy Tuzla'

In the year 2014 the projects which were, or will be, supported by donations are:

- donations of computer equipment to one youth association
- project of more efficient inclusion of youth on the labour market, implemented by the 'Center for Youth Education Zenica'
- project of employing people with disabilities, implemented by 'Association of people living with cerebral palsy and disabilities Zupanija Zapadnohercegovačka'
- project of increasing awareness on ecology among primary school pupils in local community, implemented by Primary School 'IV Mostar'
- project of creating workshops for women with disabilities for helping them with employment, implemented by 'Association of citizens with damaged hearing and speaking Kljuc'
- project 'Processing bio-waste into humus' for participation on World Olympics in science projects in Kenya

So far, the projects which were supported by donations or sponsorships have had a positive impact on the community and the organizations and individuals implementing them have become true friends of the company. This way, Sparkasse Bank created a very positive image in the community as a company which helps in any way it can. Each year, the number of applicants for the public tender increases, which is a sign that the donations and sponsorships are of value to the community, but also poses additional problems for the company, since it is much more difficult to decide which projects should be supported.

The type of support is mostly financial. Applicants must open an account in Sparkasse Bank, in case they already do not have one, and the money is transferred to them once the project starts. Sometimes, the support is not financial, as there are projects for primary schools in the rural areas which have the need for computer equipment. The company donates its own computer equipment to these schools as a support.

Applicants are obliged to report on the success of the project to the company. This way, the company is sure that the support it gave to the project is being used in the correct and planned way. Evaluation of the project is also sent to the company, which enables it to see the impact that it had on the community. As it is confirmed by the PR of the company, Mrs. Elmira Lalic, there have not been any negative experiences concerning these projects. All of the applicants completed their tasks and used the resources given to them in the promised way. Sparkasse Bank is proud that it was a part of these projects and still continues to improve its contribution to the society.

8.3.2 Scholarship program “Friend for Life”

Scholarship program “Friend for Life” has been implemented since September 2011. At that time, Sparkasse Bank formed a humanitarian fund which is intended to support pupils from marginalized groups through the period of one to three years, in order to help them graduate primary school or high school. Due to the very difficult situation in which some of the families are in Bosnia and Herzegovina, this scholarship helps talented pupils by encouraging them to dedicate themselves to education and school.

The source of funding of these scholarships is a percentage of revenues from service fee in selling certain products. 4% of monthly revenues from service fees from selling newly made Sparkasse packages and 2% of monthly revenues from service fees from giving new

nondedicated loans with guarantee are used to fund this CSR activity. The pupils receive either 500 BAM (approximately 250 euros) at once, or a monthly scholarship of 100 BAM (approximately 50 euros) through one to three years of his/her education. The criteria which are examined in the decision making process of choosing pupils for this scholarship are:

- high potential pupils age 12 to 15
- pupils coming from rural areas
- socially handicapped pupils
- pupils with physical or mental disabilities
- excellent grades in school
- special talent, creative or social engagement

Since the bank funds these scholarships from the revenue of its products, each year the funds are different and their allocation cannot be planned in detail in advance. This CSR activity can be classified as cause-related marketing, since it is financed from the net profit, and the sales of a certain product are in direct link with the financing of the social cause.

The applicants are reviewed by the same committee which reviews the applications for donations and sponsorships. Sparkasse Bank has a strict policy that the children of its employees cannot participate in this scholarship program, since that might create conflict of interests. The number of applicants for this program is also increasing each year, and according to the PR of the company, it is getting even more difficult to decide which children would benefit most from the scholarship, and it is becoming even more difficult to deny the scholarship for so many applicants. Still, the families of the pupils who received the scholarships so far have been very satisfied with the bank's efforts to help the pupils, as it is often the only financial aid they receive for their children in need.

8.3.3 Internship program “Best of South East”

Internship program “Best of South East” is implemented in cooperation with University of Graz in Austria and the parent group Erste. This is a project which is implemented by other members of the group, as well, so the applicants for the program are students who are citizens of South East European countries, including: Bosnia and Herzegovina, Slovenia, Croatia, Serbia, Montenegro and Macedonia.

“Best of South East” is a program intended for students studying law, economics or technical faculties from South East Europe. The program's aim is to provide the mentioned target groups with international work experience as well as training and further education opportunities. Furthermore, a trainee program or internship makes it easier for students to enter professional life.

The criteria for participating in this program are:

- excellent scores
- knowledge of English and German
- good recommendations from professors or employers
- dedication, strong communication skills, flexibility, analytical and practical thinking

The total amount of financial aid per year and participant is a maximum of 10 000 euros. The chosen students get the chance to study a one-year master program at University of Graz with paid internship or training in parent bank of Sparkasse Bank. Students who show great qualities, but do not get this opportunity can get a paid internship in Sparkasse Bank in Bosnia and Herzegovina in a department which they choose.

This program has already helped many students from Bosnia and Herzegovina to have a chance to study abroad and get a valuable working experience. In the country which struggles with very high unemployment, this program is tackling the issue from the source. By investing in young people's education and skills, the program intends to create capable young leaders who can contribute to the society with their knowledge and work. Sparkasse Bank has had a very good cooperation with universities in Bosnia and Herzegovina, which promote this program among their students and encourage them to apply for an opportunity which is not given to them often in the country.

Another advantage of this program, according to the PR of the company, is that it gives the company a chance to recruit the students with highest potential and ensure that the company employs the brightest young minds of the country. Investing in the professional development of the talented students, Sparkasse Bank ensures that the quality of its human resources remains at a high level.

8.3.4 Other CSR activities

Apart from the four main parts of the CSR strategy, Sparkasse Bank promotes CSR approach through many other business practices. One of them is employee engagement. This is done through ad hoc campaigns for helping certain social causes, such as collecting money for medical help for socially handicapped people, or any other campaign for individuals in need for financial aid. The company encourages its employees to donate money which is then transferred to the financial account of those individuals. In these cases, the company does not promote these contributions of its employees as a CSR activity of the company, and it does not communicate these activities in the media. Its goal is to incorporate an altruistic spirit in the working environment of the company, which helps in the creation of an integrated CSR approach in the company.

In addition, apart from the mentioned public tender for sponsorships and donations, the company supports certain projects which it finds to be important for the community. For example, in April 2013, Sparkasse Bank donated 20 000 BAM (approximately 10 000 euros) to women victims of violence for starting their own business. Besides the financial aid, these women received a free education from the company's employees in the field of entrepreneurship, in order to ease their struggle for starting their own business. The engagement of the company in these and other social causes is a proof of real CSR approach which contributes not only to the community, but to the company itself, through enhanced corporate reputation and image, which attracts the right people and partners.

CSR approach of a company is also reflected through its treatment of the employees. As mentioned before, Sparkasse Bank received an award for being 'the best company to work in', in the financial sector, which is a proof that it also cares about the fair treatment of its employees. By investing in their training and development, but also by creating a sense of loyalty to the company, Sparkasse Bank sets an example of a people-oriented approach, which is very much valued by its employees.

9 PROPOSED CSR STRATEGY FOR 2014/2015

There is no fast CSR solution. A company which is truly dedicated to CSR strategy must build up its business in accordance to it. It is not enough to simply make a donation to a certain community and be considered socially responsible. In fact, every part of the company's business must be oriented to the social responsible practice. It needs to start from the employees and HRM practices of the firm, all the way to the end-consumers. CSR should be incorporated in the final products, in the business processes, in the internal environment of the firm and the approach to the employees, in the supply chain and all other parts of the business. So, an integrated CSR approach is the only way for a company to have the privilege of being perceived as socially responsible. This integrated approach requires not only the financial cost, but also the necessary human resources, time and know-how.

In the analysis of the CSR strategy of Sparkasse Bank, I have come to a conclusion that it is a well-implemented strategy and an unusually positive example of social responsibility of a company in the country. But, in the light of previous analysis of sources of financing CSR activities, the strategy could be modified. The purpose of these modifications is to adjust the strategy to world trends, to make it more socially responsible, and to have the first-mover advantage in the market in which the company operates. The purpose of the modifications is also to ensure that the sources of financing the CSR activities are not in contradiction with the obligation of the company as a legal entity to pay taxes to the government. If the company improves its CSR approach and communicates it in a good way to the stakeholders, the competitive advantage of being socially responsible can become a source of even better corporate reputation and, as a result, higher profits.

9.1 The external environment of the company

In order for the CSR strategy to have a true positive impact on the community, it needs to deal with the most serious problems and issues of the community. Only in this way, the CSR efforts of the company can truly contribute to the community in which it operates. So, if Sparkasse Bank wants to direct its CSR efforts to the issues of the community which are of most importance, there is a need for analyzing the environment in which the company operates, the burning issues and problems which need to be addressed by both public and

private sector companies. For this purpose, we can use a PESTEL analysis to describe the main factors influencing the company and its CSR strategy. As a result of the analysis, the company can direct its CSR efforts to those issues which are of most importance to the community.

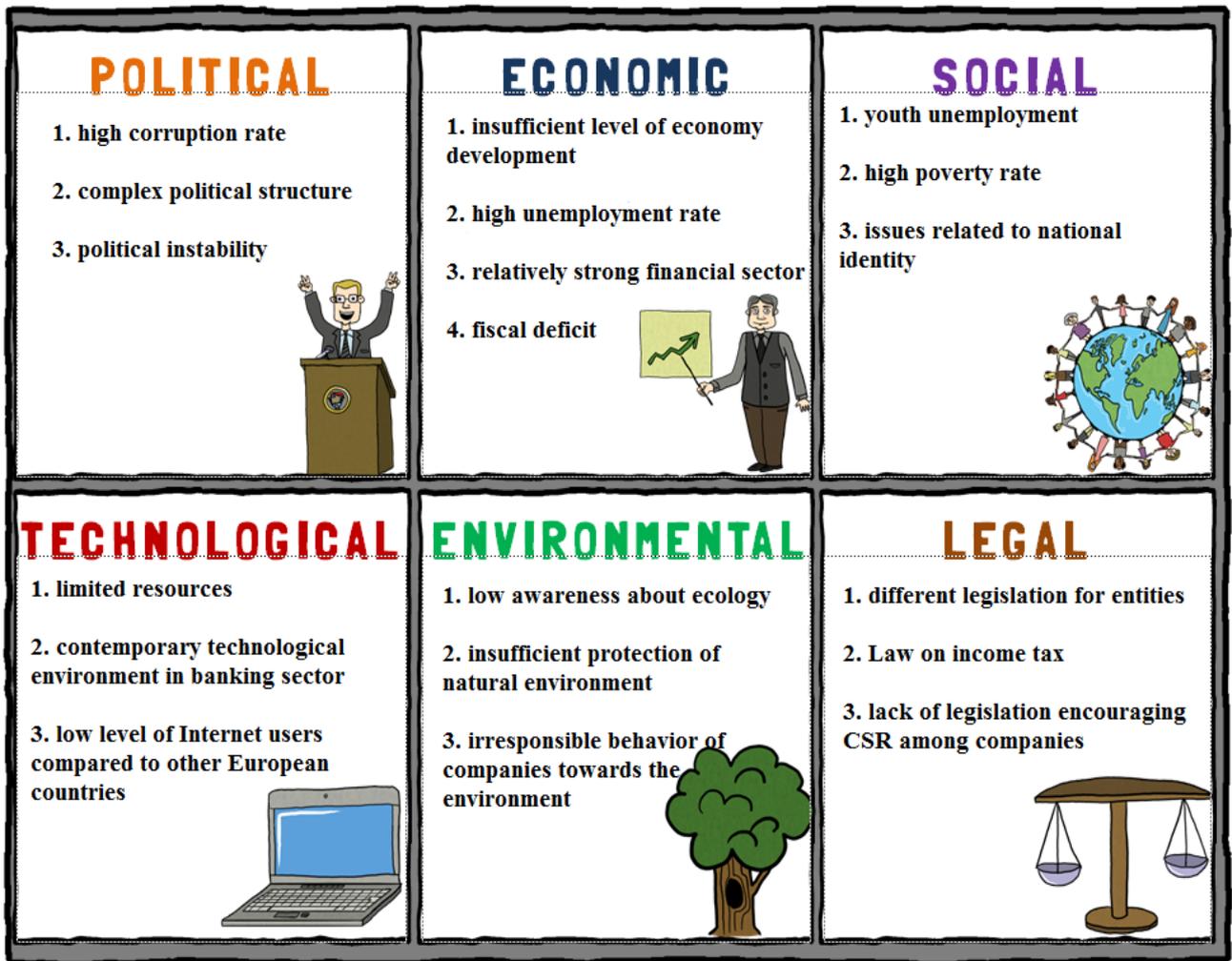


Figure 5:PESTEL analysis of Sparkasse Bank BH (own processing)

9.1.1 Political environment

The political environment is characterized by high corruption rate. In 2013, the Corruption Perception Index (CPI) was measured 42, putting the country in a middle position compared to other countries of the world (Transparency International, 2013). The country’s

political division to two entities and one district creates serious problems for the companies. Sparkasse Bank operates mostly in the entity Federation of Bosnia and Herzegovina. According to the Global Competitiveness Index in 2012, one of the most problematic factors for doing business is political instability. The big number of political parties, as well as the complex political structure slow down the government regulations, and create an undesirable environment for companies.

9.1.2 Economic environment

Bosnia and Herzegovina is classified as an upper middle income developing country by the estimates of World Bank. But, the country still struggles with poverty and undeveloped economy, due to the consequences of the war in 1990s. Just like most of the countries in Europe, the country was affected by the economic crises of 2008/2009 which posed additional obstacles to the economic development. Despite some improvements in 2012 and the first half of 2013, external imbalances of the country still remain elevated. The financing of the government budget deficit increasingly relies on foreign loans. Rising fiscal deficit, substantial external imbalances as well as very high unemployment continue challenging the overall macroeconomic stability (European Commission, 2013). Also, the economy struggles with low demand from Europe for products and services from the country.

Unemployment remains very high and reached 28.6% in 2012 from 28% a year earlier. The very high unemployment rate and the sizeable difference between the registered and survey based labor figures suggest the existence of a fairly large informal labor market and significant structural rigidities, such as poorly treated right based benefits. Adjusted for inflation, the average gross wage fell by 0.5% in 2012 and dropped further by 1.7% in the first half of 2013 (European Commission, 2013).

As for the financial system of Bosnia and Herzegovina, it remains dominated by the banking sector holding about 84% of total assets in 2012 (European Commission, 2013). Twenty eight banks are operating in the country, one majority state-owned bank, while the rest are privately owned. Nineteen banks are under foreign ownership, accounting for slightly below 90% of the total banking system assets in 2012. Banking sector assets rose by 2.8% compared with 2012, accounting for approximately 88% of GDP (European Commission, 2013). With the strength of the overall banking sector of Bosnia and Herzegovina, banks

have the duty to help the society and the country. Their capacity allows them to implement CSR activities and develop strategies which can help the country develop.

9.1.3 Social environment

The social issues in the country are very serious. Even though the country is classified as upper middle income developing country, the poverty headcount ratio at national poverty line (% of population) in 2007 was 14% (World Bank, 2007). One of the biggest problems of Bosnia and Herzegovina is unemployment, and especially youth unemployment. Unemployment among the young population reaches 63.1% for people aged between 15 and 24 (European Commission, 2013).

Still suffering from the consequences of the war in 1990s, the society still shows tensions between different nationalities. Physical conflicts among ethnic groups are not so common, but there is still a low level of tolerance towards one another. Sparkasse Bank operates mostly in the entity Federation of Bosnia and Herzegovina, with its headquarters there, and there are four branches in the other entity, Republic of Srpska. The issues related to national identity still affect the business operations on many levels.

9.1.4 Technological environment

Technological readiness of the country was ranked in Global Competitiveness Index as 73, out of 142 countries. The limited resources of the country disable the technological development. GCI reports a ranking of 105, out of 142 countries, for availability of latest technologies. As for the banking sector, it operates with relatively contemporary technology, using almost all technological tools for payment transactions, internet banking and online payments. 50.4% of the population was listed in 2012 as Internet users (Internet World Stats, 2012), which is a low level compared to other European countries.

9.1.5 Environmental environment

Due to the fact that it is a developing country, the priorities of the government do not include environment preservation. The fact is that Bosnia and Herzegovina has only about 0.6% of protected natural environment, which puts it at the bottom of the European coun-

tries. The level of awareness about ecology is still very low, and there are not many examples of eco-friendly practices of companies operating in the country. On the contrary, there are many examples of irresponsible behavior towards the environment, especially by companies which contribute to the air pollution. The responsibility of the private sector is to help in preservation of the environment, by increasing the number of eco-efficient practices in their business operations.

9.1.6 Legal environment

Due to the political division of the country, much of legislation is made on the entity level, which makes it more difficult for companies. There are often differences in the legislation concerning the private sector, which creates obstacles for companies to operate on the national level. The Law on income tax is mostly the same for companies operating in the two entities. According to the legislation in Federation of Bosnia and Herzegovina, donations which are considered as expenditures subtracted from basis of tax assessment are donations for humanitarian, cultural, educational, scientific and sport purposes (except for professional sport) up to 3% of total revenue in that fiscal year (Law on income tax of Federation of Bosnia and Herzegovina, Article 11). This law also states that expenditures on the grounds of sponsorships are acknowledged up to 2% of total revenue in that fiscal year. The legislation of Republic of Srpska states the same.

9.1.7 CSR in Bosnia and Herzegovina

There is no legislation which deals with social and environmental reporting, or any other legislation which concerns CSR, apart from the mentioned Law on income tax. In fact, Bosnia and Herzegovina was ranked 134 from 142 countries by GCI in the ethical behavior of firms. The extremely low ranking is a proof of very limited CSR behavior and policies of companies.

Representatives of the companies in Bosnia and Herzegovina were involved in a research on CSR approach in the country done by agency called PRIME Communications in 2009. 58% of them said that they think the companies in Bosnia and Herzegovina are mostly socially irresponsible, while 29% of them think that the companies are mostly socially responsible. 13% of the representatives involved in this research think that companies in

Bosnia and Herzegovina are not at all socially responsible (Center of help and promotion of European integrations in Bosnia and Herzegovina, 2009). 92% of the representatives also said that CSR is included in the annual plans of their companies and that they already have budgets for implementing certain CSR activities. But, still, 87.5% of the representatives believe that companies in Bosnia and Herzegovina are occupied with other priorities and that CSR needs more time to have a significant place in the country.

Overall, the community in which the company operates has complex issues, which cannot be easily solved. The most serious problems which can be addressed by private sector companies include: poverty, youth unemployment, as well as low level of ecological awareness.

9.2 Modification of donations and sponsorships

Sparkasse Bank has its headquarters and most of its branches in the entity called Federation of Bosnia and Herzegovina. As it was mentioned in the PESTEL analysis, the legislation in Federation of Bosnia and Herzegovina is that donations, which are considered as expenditures subtracted from basis of tax assessment, are donations for humanitarian, cultural, educational, scientific and sport purposes (except for professional sport) up to 3% of total revenue in that fiscal year (Law on income tax of Federation of Bosnia and Herzegovina, Article 11). Expenditures on the grounds of sponsorships are acknowledged up to 2% of total revenue in that fiscal year. The same law states that the company which employs more than 50% of people with disabilities longer than a year does not have the obligation to pay income taxes in the year in which there were more than 50% employees with disabilities (Law on income tax of Federation of Bosnia and Herzegovina, Article 31).

This means that a major part of CSR activities of Sparkasse Bank is financed from tax-deductible sources. As it was explained before, corporate charity and CSR activities which are financed from tax-deductible income can be a part of the CSR strategy, but should not dominate the strategy. Due to the lack of understanding the depth of CSR and its potential, most of the companies in Bosnia and Herzegovina use corporate charity as their only way of contributing to the society, but in fact, it cannot be called real CSR. Corporate philanthropy should constitute just one part of the overall CSR strategy, since it has its own benefits for the company in the tax deduction sense.

Sparkasse Bank should modify the amount of donations and sponsorships it gives each year, regardless of the help it provides to the receivers of this aid. The proposed modification of the strategy has an aim to still be a socially responsible company, but pay taxes, in order to help the country as a whole. As it was mentioned before, the country struggles with fiscal deficit and by decreasing the tax payment of companies, the deficit will remain a serious problem. Sparkasse Bank can be a contributor not only to the community with its donations, but also to the state, by paying more taxes. Even though the government of Bosnia and Herzegovina has not been successful in solving the problems of the country, it still remains the primary provider of public services and other social dimensions for the citizens, such as education, clean environment and other. By modifying the amount of donations and sponsorships and directing its CSR efforts to other activities, Sparkasse Bank can be a positive example of a corporate citizen who not only helps solve community problems, but also pays taxes and gives back to the community in this way.

Sparkasse Bank should keep the public tender as a tool for deciding on the receivers of donations and sponsorships, since it has proven to be a fair and efficient way for the decision making process on donations and sponsorships. It is also a good indicator of the stakeholder engagement, since NGO representatives are included in the decision making process. It shows that the company has a respect for its stakeholders, by including them in the activities. But, the amount of projects which are supported by donations and sponsorships should be decreased. Sparkasse Bank should keep the sponsorships and donations up to a certain amount, because they are helping the society and community, but they should not dominate the CSR strategy as they do now.

Sparkasse Bank should increase the employee engagement which it has already been implementing. Instead of donations made in the name of the company, and thus deducted from the tax base, Sparkasse Bank can increase the involvement of its employees in campaigns and raising money activities for certain causes in a much less formal way. Even though the amount of donations made this way, by each employee contributing to the donations up to the amount which he/she wants, could not be as high as the amount which is given by the company, it is still a very powerful tool for contributing to the CSR strategy. It will increase the altruistic spirit of the working environment in the company, as well as still contribute to the society, since these contributions are made for the socially handicapped and people in need. Since it is done in an informal way, there is no trace of it in the accounting, because the employees donate money from their own pockets. By introducing

more charity activities of this kind, the company can promote it in the public, by raising awareness of the value of ‘real CSR’, which includes fair practices concerning tax payments. The company will still donate, but from each employee personally.

Regarding the sponsorships, as it has already been said, Sparkasse Bank should keep sponsoring the projects to a certain amount. But, since sponsorships are tax-deductible up to 2% of the total profit, it is still creating a significant decrease in the tax payment of the company. Sparkasse Bank should move its focus from promoting its brand through sponsorships to promoting its brand through communication on ‘real CSR’ activities which are not financed from tax-deductible sources.

In the analysis of the company, it can be noticed that Sparkasse Bank already has an aggressive marketing approach, strong brand value and brand awareness, and good corporate reputation, so there is no need for aggressive promotion through sponsorships. Instead, the company can contribute to the projects which apply for the public tender in other non-financial ways, such as offering its know-how from the employees. As in the mentioned example of helping women victims of violence for starting their own business, the company can offer free education, advises and services from its employees for the projects. This will also encourage the employees to be more altruistic and willing to volunteer, and, in that way, help the society. For example, if the projects which apply on the public tender have the need for promoting their project, the company can offer free services from its Marketing and Communications department and also promote its own brand in this way. Also, the company can offer help in finding other sponsors, because it has many business clients and partners and can more easily communicate with them, rather than leaving it to the project applicants. The IT sector of the company can offer free services of web-design, or any technical IT aspect of the project, and so on. In conclusion, there are many ways in which the company can contribute to the projects, without providing them direct financial aid and thus decrease the level of sponsorships from the overall CSR strategy.

9.3 Youth employment program

The scholarship program “Friend for Life” is a good example of well-developed cause-related marketing activity. The source of financing this activity is not tax-deductible, since it is financed directly from the revenues of one product. This makes the CSR activity so-

cially responsible much more than CSR activities of corporate philanthropy, donations and sponsorships, which give to the community, but at the same time, take from it, by not paying taxes. In accordance to the analysis of 'real CSR', this activity of scholarship program would most definitely be the best example of the company's true CSR effort.

Apart from the source of its financing, this activity is an example of true CSR effort because of its link with the most serious problems of the country. The poverty of the country is reflected on the children and young people. The scholarship program not only helps the families in the financial way, but also encourages the children to have better grades at school, develop special skills and commit themselves to education. The criteria which are used for decision making process on the pupils which receive the scholarships are well developed. The children are chosen not only based on their excellent grades, but also on the basis of their social status and other factors. The children living in rural environments do not have the same opportunities as the children from urban areas and this scholarship program has an aim to help them.

The internship program "Best of South East" is also a very positive example of CSR orientation, since it directly deals with the problem of youth unemployment. Youth unemployment is a major issue in the country, and it influences the slow development of the economy. As a consequence of this problem, a huge amount of young people leave the country, creating a so called 'brain drain'. The labor supply in the market loses good quality human resources and this affects the overall progress of the country. Giving an opportunity to young people to have an international experience through the internship and studies in Austria and then come back to Bosnia and Herzegovina, this internship program is an investment in the labor force which will lead the country to progress. It enables professional development to students which they do not have a chance to get in many other companies in the country.

This CSR activity has good potential for cooperation between the company and institutions of education. In order to fight the unemployment among young people, the institutions for higher education must create a link with the private sector and enable students to start their careers upon graduation. Since it is perceived as risky for companies to hire students without professional working experience, internship programs are a good entry ticket into the business world for graduate students.

Sparkasse Bank should increase the efforts in fighting the unemployment in the country. The two mentioned activities are in accordance with sustainable practices, since they help the people not just in short-run, but also in the long-run. They are the ones that should dominate the CSR strategy instead of donations and sponsorships, and create a more positive impact on the community that way.

The internship program should be more developed, by cooperating with the University of Sarajevo and the School of Economics and Business Sarajevo. This cooperation should enable students who do not want to leave the country and do their internship in Austria to start their career in Sparkasse Bank in Bosnia and Herzegovina. There should be a partnership between the company and the University, developed through a continuous internship program. Each year, the University of Sarajevo can suggest its best students to the company which can offer them an internship in one of its departments. This internship does not have to be limited to students of Management and Economics from School of Economics and Business Sarajevo. It should also include students for technical faculties who can do their internship in IT department of the company, as well as students studying PR and business communication from Faculty of political Sciences Sarajevo, who can do their internship in Marketing and Communications department of the company. Students from Faculty of Law Sarajevo can do their internships in the Legal department of the company.

There is a lack of companies in the country willing to take the risk and employ young people. Interns in the companies usually do not get a real working experience and they stay in the companies only for one month. Sparkasse Bank already accepts interns in some of their departments, but, as in other companies, the interns are there only for one month and do not get a chance to learn much. Sparkasse Bank can be the pioneer who gives graduates the opportunity to have their real professional experience as an internship which would most definitely help them in the future search for full-time employment. The internship should last at least 6 months, and it should be organized through a mentor program, in which the employee of the company is in charge of the intern's progress and learning.

Developing a continuous program of internships in different departments, Sparkasse Bank can become a positive example of a company which deals with youth unemployment, and create a strong reputation based on this. It can become a synonym for good policy towards graduates and interns, and have a first-mover advantage in the market, over other banks and other companies from different industries. Given that the banking sector in Bosnia and

Herzegovina has many strong competitors, mainly foreign owner banks, this program would contribute to the competitive advantage of the company and create a unique strength for the company as a whole.

Another part of the youth employment program is creating internship opportunities in other companies. Sparkasse Bank operates with many companies as its clients. Socially responsible behavior directed to the decrease of youth employment can be implemented through an activity which links the labor market with the jobs. In order to encourage companies to employ young people, the business clients of Sparkasse Bank can get a decreased monthly interest on their loan in the amount of 3% for the whole year, if they hire at least three graduates in that year. This activity is directly in link with the major problem of the community and it is financed by directly decreasing the profit of the company, making it truly socially responsible.

9.4 Addition of eco-efficiency activities

Sparkasse Bank's CSR strategy has mostly been focused on the 'people' and 'profit' pillar of the TBL approach. In accordance with global trends, the company should also focus on the third pillar of TBL, 'planet'. Sparkasse Bank has been supporting eco-friendly projects through its donations and sponsorships each year. The projects of local schools and organizations related to preserving the environment were funded each year. But, this can be seen as an indirect way of contributing to the environment protection, and also, it is financed from tax-deductible sources. There is a need for a more direct and more concrete activity which deals with eco-efficiency.

The first step of implementing eco-efficient practices can be using recycled paper for some of the promotional materials. Nowadays, a vast number of brochures and leaflets are used by every company to advertise the new offers, products, services, or upcoming events. There is a need to start thinking green and implement some sustainable practices in the business world in the country. In cooperation with NGOs in Bosnia and Herzegovina which deal with eco-friendly practices, Sparkasse Bank can be the first bank in the country to use recycled paper in the production of promotional materials.

The practice of using recycled paper in Bosnia and Herzegovina is not developed yet. Very few companies deal with eco-efficient and sustainable practices. This is a consequence of,

among other things, a low level of ecological culture and awareness. Sparkasse Bank can again have a first mover advantage of using recycled paper for the promotional brochures, if it emphasizes that on the materials and through other communication channels. This activity will not only raise awareness on the importance of eco-efficient products, but also contribute to the society, since there are numerous benefits from using recycled paper, such as conservation of natural resources, energy savings, reduction of greenhouse gas emissions, and other. And, in the light of previous analysis of the sources of financing CSR activities, this activity is not financed from tax-deductible sources, which makes it even more socially responsible.

In conclusion, the modification of the current CSR strategy has the purpose of reducing tax-deductible sources of financing CSR activities, improve current practices aimed at fighting against unemployment and introduce new practices which focus on the 'planet' pillar of TBL. This modified strategy will be more socially responsible and closer to the meaning of 'real CSR'.

10 RISK, COST AND TIME ANALYSIS OF THE PROJECT

The described modifications for the CSR strategy of Sparkasse Bank represent a form of project. So, this project must be analyzed more in depth, in order to evaluate the risks associated to it, its costs and the time needed for completion.

10.1 Risk analysis of the project: risk assessment

For the purpose of this project, we can take into account several types of risks, including: financial risk, organizational and operational risk, strategic risk, employee risk, technical risk, and finally political and economic risk. Each of these risks can have a significant influence on the implementation and success of the project, so each one will be analyzed separately. Then, the risks will be assigned with probability and severity, in order to determine the most significant risks which need to be taken into account. After that, these risks will be addressed with risk prevention and risk management strategies.

10.1.1 Financial risk

The financial sector of the country is dominated by foreign-bank owned subsidiaries. This means that there is a high dependence on foreign capital and foreign banks. The financial risk is associated in this case not only with financial market of the country, but also of the markets of foreign countries which have their capital in Bosnia and Herzegovina. Also, the already high interest rates are a burden for the individuals and the private sector, and there is a risk that they could increase even more. Since the project is financed from the revenues of the company, whether directly, or indirectly, there is a risk of decreased revenues, due to the high interest rates, which would directly influence the project itself.

10.1.2 Organizational and operational risk

This type of risk of the proposed project includes risks associated with the suppliers of recycled paper for promotional materials. If the suppliers are unable to implement the eco-efficient practice, the success of the project is compromised. Also, this risk includes the willingness of companies who are business clients of the company to get involved in the

project of youth employment, since they must be interested in admitting interns in order to get the decrease of their payment for loans.

10.1.3 Strategic risk

This type of risk mainly includes the negative reaction on the changed strategy from the stakeholders. The decreased amount of donations and sponsorships might create dissatisfaction among the potential applicants for the public tender, since their projects will have less chance to get the financial support.

10.1.4 Employee risk

Employee risk is quite high in this project, since the employees are almost crucial for the success of the modifications to the strategy. The mentioned employee engagement which would substitute for the decreased amount of supported projects for sponsorships and donations depends directly on the willingness of the employees to contribute to the causes and donate their own money. So far, the employees were motivated to donate money to social causes, but the frequency of these social causes which needed contributions was not so high. In the modifications of the strategy, there would have to be many more of these causes which would require donations and there is a risk of decreased motivation of employees for contributing to the causes.

Another risk associated to the project is the risk of employees not being motivated to be mentors for future interns in the company. The proposed modified internship program requires a strong commitment of employees from all departments in which the interns would work. If the employees do not feel motivated to teach the interns and guide them through daily operations, the internship program would not be any more successful than other internship programs from other companies in which the students do not get a real working experience, but instead just spend a month in the particular department of the company.

10.1.5 Technical risk

The technical aspect of risk for this project is mainly associated with the eco-efficiency practices in the strategy. Due to the fact that the usage of recycled paper is not very well

developed in the country, there might be a risk of not being able to find suppliers which are technically equipped for implementing this activity. This might lead to the decision to out-source the suppliers, which requires additional effort and costs.

10.1.6 Political and economic risk

As mentioned before in PESTEL analysis, political instability is one of the most problematic factors for doing business in Bosnia and Herzegovina. This makes the whole market unattractive for investors, and influences the overall potential of the economy. Regarding the project, this risk is similar to the risk related to any other business activity in the country. The country houses two largely autonomous entities: Federation of Bosnia and Herzegovina and Republic of Srpska. Bosnian Serbs living in the second mentioned entity occasionally seek secession from Bosnia and Herzegovina, and this decentralized structure results in social tensions, as well as redundancies of many domestic policy functions. According to the AMB Country Risk Report, Bosnia and Herzegovina has a ranking of high political and high economic risk. We can define two main risks from this category which would influence the project: political division of the country and economic set-back.

10.1.7 Probability and severity of risks

The analysis of the mentioned risks will be done first by ranking the listed risks on their probability, from 1 to 5. Ranking 1 is associated with lowest probability and ranking 5 with highest probability.

Table 4: Assessment of risk probability (own processing)

<i>type of risk and risk factor</i>	<i>probability of risk, ranking 1-5</i>				
financial risk: foreign markets failure	1				
financial risk: increased interest rates		2			
organizational and operational risk: lack of suppliers of recycled paper			3		
organizational and operational risk: companies not willing to employ young people			3		
strategic risk: negative reaction from stakeholders					5
employee risk: decreased motivation for donating				4	
employee risk: lack of interest for mentoring interns				4	
technical risk: lack of technology for using recycled paper			3		
political and economic risk: political division of the country			3		
political and economic risk: economic set-back				4	

As it can be seen from the table, the financial risks have the lowest probability, 1 and 2. The organizational and operational risks have a medium probability, 3, as well as the political risk of the political division of the country. Employee risk and economic risk of economic set-back have a high probability, 4. Finally, the highest probability is associated with strategic risk, 5.

Second step in the risk analysis of the project is assigning the ranking of severity of the risks. 1 is associated with lowest severity for the project, and 5 is associated with highest severity for the project.

Table 5: Assessment of risk severity (own processing)

<i>type of risk and risk factor</i>	<i>severity of risk, ranking 1-5</i>				
financial risk: foreign markets failure			3		
financial risk: increased interest rates			3		
organizational and operational risk: lack of suppliers of recycled paper			3		
organizational and operational risk: companies not willing to employ young people				4	
strategic risk: negative reaction from stakeholders	1				
employee risk: decreased motivation for donating					5
employee risk: lack of interest for mentoring interns					5
technical risk: lack of technology for using recycled paper			3		
political and economic risk: political division of the country	1				
political and economic risk: economic set-back		2			

Strategic risk, which had the highest probability, has, in fact, the lowest severity for the project, ranking 1, as well as the risk of political division of the country. A slightly higher severity, 2, is associated with the risk of economic set-back. Medium ranking of risk severity for this project is associated with both types of financial risks, risk of lack of suppliers of recycled paper and the risk of lack of technology for using recycled paper. And, the highest severity is associated with risk of lack of willingness of companies to employ young people, ranking 4, and both types of employee risk, which have the ranking of 5.

Finally, the probability and severity ranking of each risk are multiplied, in order to get the score of the risk. Risks with the highest score are addressed through prevention of those risks, if possible, and management of those risks.

Table 6: Scoring of risks (own processing)

<i>type of risk and risk factor</i>	<i>score of the risk (probability X severity)</i>				
financial risk: foreign markets failure	3				
financial risk: increased interest rates		6			
organizational and operational risk: lack of suppliers of recycled paper			9		
organizational and operational risk: companies not willing to employ young people				12	
strategic risk: negative reaction from stakeholders		5			
employee risk: decreased motivation for donating					20
employee risk: lack of interest for mentoring interns					20
technical risk: lack of technology for using recycled paper			9		
political and economic risk: political division of the country	3				
political and economic risk: economic set-back			8		

Based on the calculation of the score, the risks which we should pay most attention to are employee risks, with the highest score of 20. The risk of companies not willing to employ young people also had a high score, 12, even though it was significantly lower than the highest one. The medium score was associated with risk of lack of suppliers of recycled

paper, technical risk and economic risk of economic set-back. There is a low score of financial risks, strategic risk and political risk of political division of the country. The employee risks and the risk of companies not willing to employ young people will be analyzed further, since they had the highest score compared to other risks.

10.1.8 Prevention and management of risks

Prevention of employee risk can be done through intensive work from the HR department. Before introducing the new strategy, a new policy on employee engagement should be introduced. This new policy should encourage the employees to engage in the donations, as well as in the mentor program for interns and motivate them to contribute to the CSR strategy. The employees must have some motivation for doing so, but it should not be a financial motivation for them. The new policy should explain to the employees the importance of their cooperation in the CSR strategy, as well as the importance of the strategy itself. They should be rewarded in a non-financial way for their efforts and engagement. HR department can organize different types of internal meetings with employees, especially with directors of the departments, in order to motivate them to participate in the project. Even though so far the employees have shown commitment to social issues, this project requires a much stronger commitment, and they should be aware of the positive impact they would make with their engagement. By this method of prevention of the employee risks associated with the project, the CSR approach will be even more integrated in the company and include each employee in it. It will also help in the change process once the new strategy is introduced.

In case the employee risk cannot be prevented, risk management of this risk includes again intensive work of the HR department. By organizing regular internal meetings to evaluate the benefits and the success of the project, the HR department can communicate the positive impact to those employees which are not motivated to participate. Also, in the case of those employees who participate, they should be rewarded with non-financial means, such as mention in the newsletters and corporate website, more empowerment in the job, flexible working hours if needed and other. The enhancement in the reward for those employees would motivate the others to participate in the project, as well. If the employees still remain unwilling to participate, Sparkasse Bank can include other partners in the project, such as its stakeholders. It can still work with the human capital it has and boost it with

outside partners willing to participate in the project and contribute to the success. The HR department can organize short trainings and seminars for motivating everyone to participate and enabling them to explain their unwillingness to participate, in order to solve the problem and manage the risk.

The risk of companies not willing to employ young people can be prevented through meetings with company representatives prior to implementation of the new strategy. This way, Sparkasse Bank can explain all the benefits and positive aspects of this project for the companies and the community. Also, by communicating the idea of youth employment program prior to its implementation to the public, Sparkasse Bank can attract new business clients who would be willing to take a loan from the bank and participate in the project. That way, the risk can be diversified, by having more companies which are potential partners in the project.

Risk management of this type of risk can be done through enhanced communication of this program and its benefits for both sides, in order to motivate companies to participate. Also, Sparkasse Bank can modify the program, by cooperating with other companies which are not clients, but have a good practice of employing young people. In cooperation with University of Sarajevo, it can act as a mediator for linking the graduates with work places in the companies.

10.2 Cost analysis of the project

As explained before, the main purpose of the modifications to the current CSR strategy of the company is to decrease the amount of CSR activities which are financed from tax-deductible sources. The proposed new structure of the CSR strategy is shown in the figure below.

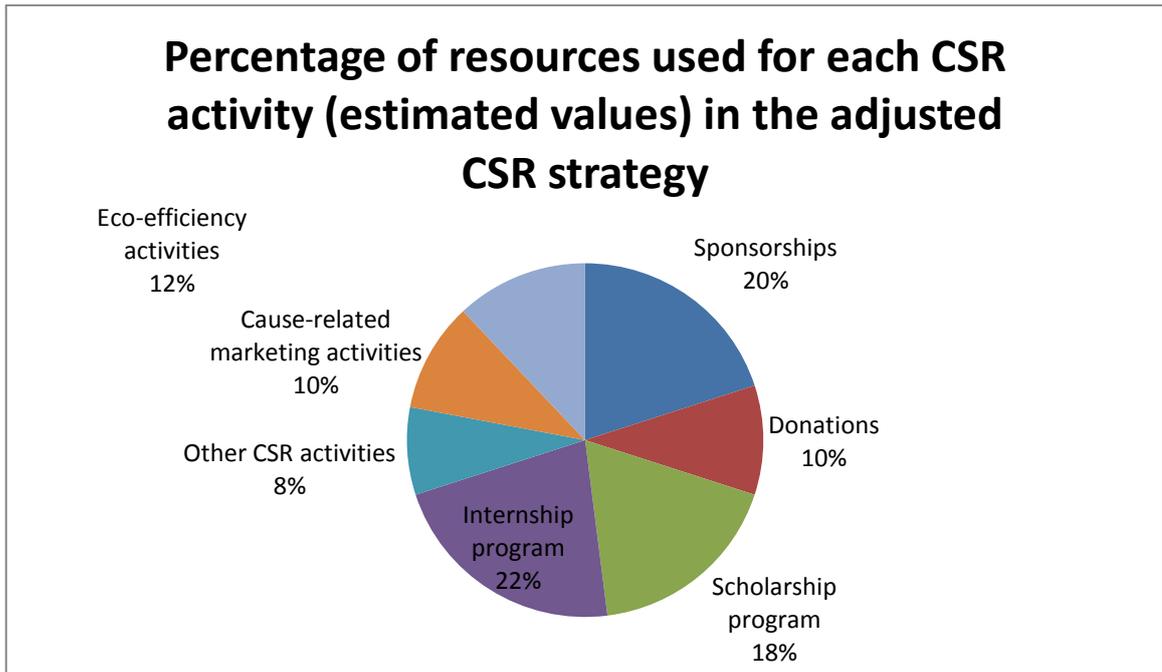


Figure 6: Percentage of resources used for each CSR activity in the adjusted CSR strategy for Sparkasse Bank BH (own processing)

It can be seen that the new strategy is more diversified and has activities related to the environmental pillar of CSR. What is important to emphasize is that Sparkasse Bank cannot change the legislation of the country regarding the tax treatment of donations and sponsorships, but it can modify its strategy in a way that it is not dominated by these activities. In the new strategy, only 30% of the CSR activities are financed from tax-deductible sources, compared to 71% in the current strategy. These include 20% of resources used for sponsorships and 10% of resources used for donations to the projects chosen by the public tender.

The scholarship program is financed from the revenues of the certain products, as it was done in the current strategy. The approximate percentage of resources used for financing this activity is 18%, which is an increase by 6% from the current strategy. The increase is estimated due to the increased marketing efforts in promoting this activity which would lead to more revenues from the products which generate the funds needed for giving the scholarships to pupils. Since the revenues cannot be planned in advance in detail, this estimation is a subject to significant changes, but the estimation is that they will increase, which will also lead to an increase in the funding of the scholarships.

As the source of funding the scholarship program “Friend for Life” is a percentage of revenues from certain products, more projects can be funded this way. There should definitely be an increase in cause-related marketing activities. New products and services need aggressive marketing promotion, since they are in the first phase of their product/service life cycle. By linking the revenues of these new products with a certain social cause which is important to the community, the company can get a positive feedback from the clients and the public, as well as an enhanced brand image. Instead of supporting the projects with donations and sponsorships as it did up to now, the company can switch to this way of financing the projects, which is more socially responsible. So, this is why the new strategy has 10% of resources used for cause-related marketing activities. These activities can be chosen ad hoc, once a certain social cause occurs, or as a continuous program, like the current scholarship program.

As for the internship program, Sparkasse Bank should increase the resources used for this activity to 22%. It should keep using the resources for the “Best of South East” internship program in cooperation with its partners, but it should also invest its own resources for financing the mentioned internship programs in its own departments. The interns can be paid partially by the company and partially by the University of Sarajevo, getting the minimum monthly net wage of around 193 euros.

Also, the financing of youth employment program is included in the internship program and other CSR activities, since it is financed from the decreased interest on the company loans from the bank. This way of financing is very much socially responsible, since the company is decreasing its own profit from its core business activity in order to make a positive impact on the society. Other CSR activities also include organizing occasional donations by employees to specific social causes. This requires lower financial cost, but higher cost of time and effort by the HR department for motivating the employees and communicating the benefits of their engagement.

Finally, 12% of the resources should be spent on the new strategy for eco-efficient products, primarily the usage of recycled paper in promotional materials. The change in the suppliers and the difference of material used will require significant financial cost, especially due to the fact that this is not a common practice of companies in Bosnia and Herzegovina. In case the suppliers are unable to make the promotional materials of recycled paper, the company would have to outsource the suppliers, which requires again significant cost, included in the mentioned 12%.

Overall, the new strategy will require significant increase in the company's financing of CSR activities. It will require higher financial cost, but also time cost and human capital cost. But, the financing of the new strategy is much more socially responsible and has a significantly decreased amount of tax-deductible sources of financing. If the company manages to communicate these changes to the public and its stakeholders, and explain the reason for introducing these changes, it will be a value-adding change, which will lead to many benefits, like better corporate reputation, stronger brand value, higher stakeholder satisfaction, first-mover advantage on the market compared to competitors and many other financial and non-financial benefits.

10.3 Time analysis of the project: CPM analysis

The project is made up of three big parts, and each of these parts requires certain steps in order to get it completed. For the purpose of the time analysis of the project, the method called Critical Path Method (CPM) was used.

The steps for implementing the project:

- A: Evaluation of results of the current CSR strategy
- B: Restructuring the public tender, deciding on the decreased amount of donations and sponsorships in cooperation with NGOs stakeholders
- C: Introduction of new policy on employee engagement
- D: Communication of the new policy to employees of the company
- E: Consultation with Sales Department on new products from which part of the revenue is to be source of funding scholarship program
- F: Consultation with Marketing Department on promotion of the new products and their link to the scholarship program
- G: Consultation with Department of Loans for Legal Entities on linking the decrease of certain loans with youth employment project
- H: Meetings with representatives of University of Sarajevo for discussing future cooperation on youth employment project

I: Meetings with biggest business clients for discussing their involvement in youth employment project

J: Development of the youth employment project and implementation

K: Consultation with Marketing Department on eco-efficient promotional materials

L: Meetings with current suppliers for discussing eco-efficient promotional materials

M: Meetings with potential new suppliers for discussing eco-efficient promotional materials

N: Decision making process on suppliers of eco-efficient promotional materials

O: Development of first eco-efficient promotional materials

P: Evaluation of the modifications made to the CSR strategy and communication of the modifications to the employees, stakeholders and general public

Each step was assigned with the amount of working days needed for its completion, as well as the dependence of the step from any other one from the project. Then, by using WinQSB software, the time analysis of the project was made and the CPM was calculated. It can be seen from the analysis that the time needed to complete the project is 54 working days.

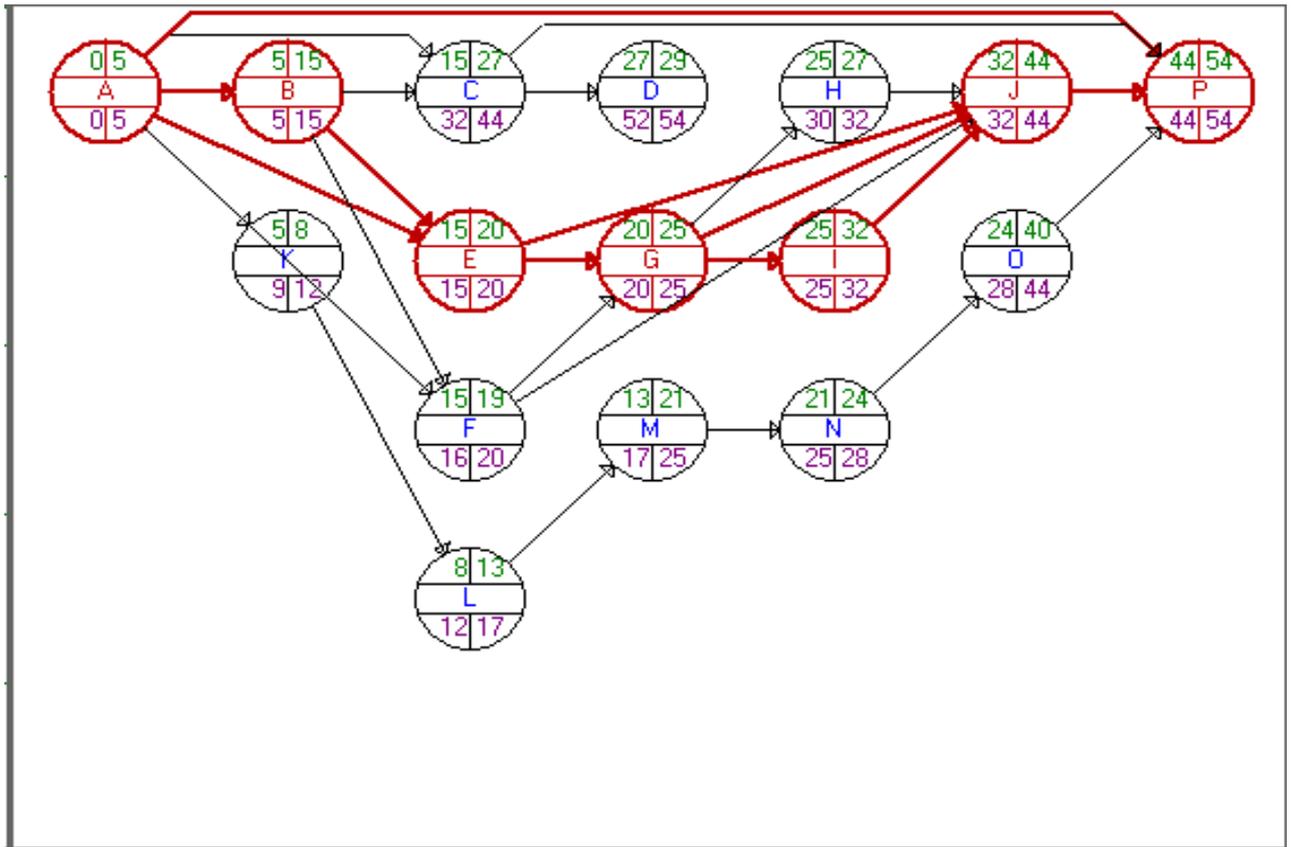


Figure 7: PERT and CPM analysis of the project in WinQSB, diagram (own processing)

04-14-2014 01:28:44	Activity Name	On Critical Path	Activity Time	Earliest Start	Earliest Finish	Latest Start	Latest Finish	Slack (LS-ES)
1	A	Yes	5	0	5	0	5	0
2	B	Yes	10	5	15	5	15	0
3	C	no	12	15	27	32	44	17
4	D	no	2	27	29	52	54	25
5	E	Yes	5	15	20	15	20	0
6	F	no	4	15	19	16	20	1
7	G	Yes	5	20	25	20	25	0
8	H	no	2	25	27	30	32	5
9	I	Yes	7	25	32	25	32	0
10	J	Yes	12	32	44	32	44	0
11	K	no	3	5	8	9	12	4
12	L	no	5	8	13	12	17	4
13	M	no	8	13	21	17	25	4
14	N	no	3	21	24	25	28	4
15	O	no	16	24	40	28	44	4
16	P	Yes	10	44	54	44	54	0
	Project	Completion	Time	=	54	days		
	Number of	Critical	Path(s)	=	7			

Figure 8: PERT and CPM analysis of the project in WinQSB (own processing)

What is important to emphasize is that the time analysis implies a full commitment of the main participants of the project from the company, such as employees from HR department and Marketing and Communications department. Only with their willingness to participate and work on modifying the strategy it is realistic to expect the project completion and strategy modification in 54 working days.

CONCLUSION

Scholars argue that, like mass trends, the interest in CSR will decrease if it results to just fashionable and ad hoc concepts. The challenge CSR faces is whether it can actually be operationalized in the organizational context and integrated in a more holistic view of CSR management. CSR needs to be integrated through the company as a whole: through business development, marketing, human resources finance, etc. There is definitely a need for evolution of the 'raison d'être' of firms: the main purpose of the firm is not just meeting financial goals and maximizing profit. Companies should continue saying 'YES' to profits, but not at any cost. This is the only way in which CSR can reach its full potential, bringing benefits and true value-increase to the society and the company, and become 'real CSR'.

Companies, especially multinational ones with operations in more than one country, should adopt clear CSR standards in the area of taxation, including requirements to publish all necessary accounting information. If corporations are serious about their stated commitment to improving the social welfare of the country a genuine CSR strategy would be to pay their legally mandated taxes instead of donating the charity which their own policies are helping create the need for. Also, one of the dangers of building a corporate reputation today is the rising transparency and increased access to low-cost information, incorporated in the Internet. A company must be extremely careful when promoting its CSR activities, because one wrong move, or one piece of incorrect information, can create huge damage to the corporate reputation.

The financing of CSR activities is a major factor in assessing the true commitment to social issues. If a company's CSR strategy is dominated by donations and sponsorships which are tax-deductible, it is fair to say that the strategy is not entirely socially responsible. The companies should not use corporate philanthropy in order to avoid taxation, since the government as an institution still remains the main provider of the public goods and social help. Being ethical is not connected just with donating to charity; being ethical also includes fair payment of taxes.

In the case of Sparkasse Bank, it can be seen that its current CSR strategy is mostly oriented to donations and sponsorships which are financed from tax-deductible sources. Regardless of the still underdeveloped CSR practices of companies in Bosnia and Herzegovina, Sparkasse Bank can modify its CSR strategy, making it more socially responsible and serve as an example for all other companies in the country. By using more cause-related

marketing activities, enhancing employee engagement, improving the cooperation with educational institutions and business partners for fighting youth unemployment and by becoming a pioneer in using eco-efficient practices in the business operations, Sparkasse Bank can have a sophisticated, highly valuable CSR strategy, like no other company in the country. The new CSR strategy could become the source of its competitive advantage in the very competitive banking industry in the country, and at the same time, help the society and environment in the best possible way, by fighting against the most serious issues and problems they face.

BIBLIOGRAPHY

ADAMS, Carol. The ethical, social and environmental reporting-performance portrayal gap. *Accounting, Auditing and Accountability Journal*. 2004. Vol 17, No. 5. ISSN 0951-3574

ADAMS, Carol. Factors influencing corporate social and ethical reporting: moving on from extant theories. *Accounting, Auditing & Accountability Journal*. 2002, Vol. 15, No. 2

ADKINS, Sue, 1999. *Cause related marketing: who cares wins*. Oxford: Reed Educational and Professional Publishing. ISBN 0-7506-4481-8

ALI, Saleem, and O'FAIRCHEALLAIGH, Ciaran. Extractive industries, environmental performance and corporate social responsibility. *Greener Management International*. 2007, Iss. 52. ISSN 0966-9671

AMB Country Risk Report: Bosnia and Herzegovina. *A.M. Best Company* [online]. 2013. Available at: <http://www3.ambest.com/ratings/cr/reports/bosniaandherzegovina.pdf>

BAKER, Mallen, 2004. *Corporate social responsibility - what does it mean?* [online]. Weblog post, 8 June [cit. 2014-03-03]. Available at: <http://www.mallenbaker.net/csr/definition.php>

BRUNSSON, Nils, 2002. *The organization of hypocrisy: talk, decisions and actions in organizations*. Copenhagen Business School Press. 2nd edition. ISBN 8763001063

CHRISTENSEN, John, and MURPHY, Richard. The social responsibility of corporate tax avoidance: taking CSR to the bottom line. *Development* [online]. 2004, Vol. 47 No. 3. ISSN 0020-6555. Available at: <http://www.palgrave-journals.com/development/journal/v47/n3/pdf/1100066a.pdf>

Citizens for Tax Justice, and the Institute on Taxation and Economic Policy. *The sorry state of corporate taxes: what Fortune 500 firms pay (or don't pay) in the USA and what they pay abroad – 2008 to 2012* [online]. 2014. Available at: <http://www.ctj.org/corporatetaxdodgers/sorrystateofcorptaxes.pdf>

Commission staff working document: Bosnia and Herzegovina 2013 progress report. *European Commission Brussels* [online]. 2013. Available at: http://ec.europa.eu/enlargement/pdf/key_documents/2013/package/ba_rapport_2013.pdf

COOTE, Leonard, and CORNWELL, Bettina, 2004. *Employee identification with sponsorship programs: a conceptual framework of antecedents and outcomes*. Chicago: American Marketing Association. ISBN 0-87757-309-3

Country/Economy Profiles: Bosnia and Herzegovina. *The Global Competitiveness Report 2011-2012, 2011 World Economic Forum* [online]. 2012. Available at: <http://www3.weforum.org/docs/GCR2011-12/CountryProfiles/BosniaandHerzegovina.pdf>

CRIFO, Patricia, and PONSSARD, Jean-Pierre, 2010. *Corporate social responsibility: from compliance to opportunity?* Paris: Editions de l'Ecole Polytechnique. ISBN 978-2-7302-1568-8

CROWTHER, David, and ARAS, Guler, 2008. *Corporate social responsibility*. Ventus Publishing ApS. ISBN 978-87-7681-415-1

DESIMONE, Livio, and POPOFF, Frank, 1997. *Eco-efficiency: the business link to sustainable development*. Massachusetts Institute of Technology, Omegatype Typography. ISBN 0-262-04162-6

Enron Code of Ethics [online]. 2000. Available at: <http://www.thesmokinggun.com/documents/crime/enrons-code-ethics>

ESTY, Daniel, and WINSTON, Andrew, 2009. *Green to gold*. New Jersey: John Wiley and Sons. ISBN 978-0-470-39347-1

FREEMAN, Edward, WICKS, Andrew, and PARMAR, Bidhan. Stakeholder theory and the corporate objective revisited. *Organization science*. 2004. Vol. 15, No. 3. ISSN 1047-7039

Global Edge: Bosnia and Herzegovina indices. *Michigan State University* [online]. 2012. Available at: <http://globaledge.msu.edu/countries/bosnia-and-herzegovina/indices>

GRAVELLE, Jane, 2013. *Tax havens: international tax avoidance and evasion*. CreateSpace Independent Publishing Platform. ISBN 1482527685

International Federation of Accountants. *Defining and Developing an Effective Code of Conduct for Organizations*. 2007.

International Finance Corporation. *Strategic community investment: a good practice handbook for companies doing business in emerging markets* [online]. 2010. Available at: <http://www.eisourcebook.org/cms/files/attachments/worldbank/9point5-Good-Practice-Handbook-Engaging-with-Emerging-Markets.pdf>

Joint Committee on Taxation. *Report of investigation of Enron corporation and related entities regarding federal tax and compensation issues and policy recommendations*. 2003.

KANJI, Gopal, and CHOPRA, Parvesh. Corporate social responsibility in a global economy. *London: Routledge* [online]. 2010. ISSN 1478-3371 Available at: <http://www.tandfonline.com/doi/pdf/10.1080/14783360903549808>

Macmillan Dictionary of Modern Economics. General editor PEARCE, David W., 1986. Macmillan reference books. ISBN 0-333-41748-8 (Third Edition)

MISSBACH, Andreas. Tackling the tax avoidance culture. *Tax Justice Network* [online]. 2005. Available at: http://www.evb.ch/cm_data/public/AMissbach_0.pdf

MOIR, Lance. What do we mean by corporate social responsibility? *Corporate governance*. 2001, Issue 2, Vol. 1, No.2, ISSN 1472-0701

PORTER, Michael, and KRAMER, Mark. Strategy and society: the link between competitive advantage and corporate social responsibility. *Emerald Group Publishing Limited*. 2006, Vol. 23, No. 5. ISSN 0258-0543

PORTER, Michael, and KRAMER, Mark. The competitive advantage of corporate philanthropy. *Harvard Business Review* [online]. 2002. Vol. 80, No. 7. Available at: <http://www.expert2business.com/itson/Porter%20HBR%20Corporate%20philanthropy.pdf>

Results of survey on corporate social responsibility in Bosnia and Herzegovina. *Center for helping and promoting European integrations, Bosnia and Herzegovina* [online]. 2009. Available at: http://ceppei.ba/bos/index.php?option=com_content&view=article&id=1655:rezultati-istraivanja-o-drutveno-odgovornom-poslovanju-u-bih&catid=38:aktuelnosti&Itemid=72

SIKKA, Prem, 2010. Smoke and mirrors: corporate social responsibility and tax avoidance. *Accounting forum 34* [online]. (03 April 2014), Oxford: Elsevier. Available at: <http://www.sciencedirect.com/science/article/pii/S0155998210000244>

SLAPER, Timothy, and HALL, Tanya. The triple bottom line: what is it and how does it work? *Indiana University Kelley School of Business, Indiana Business Review* [online]. 2011. Available at: <http://www.ibrc.indiana.edu/ibr/2011/spring/pdfs/article2.pdf>

Sparkasse Bank BH About us. Sparkasse.ba [online]. 2013, [cit. 2014-04-01] Available at: <http://www.sparkasse.ba/en/about-us>

Sparkasse Bank BH Financial reports. Sparkasse.ba [online]. 2013, [cit. 2014-04-01] Available at: <http://www.sparkasse.ba/en/reports/about-us>

Sparkasse Bank BH Corporate social responsibility. Sparkasse.ba [online]. 2013, [cit. 2014-04-10] Available at: <http://www.sparkasse.ba/bs/csr>

Sparkasse Bank BH Press information. Sparkasse.ba [online]. 2013, [cit. 2014-04-10] Available at: <http://www.sparkasse.ba/bs/press>

SPARKES, Russell, 2002. *Socially responsible investment: a global revolution*. Chichester, West Sussex: John Wiley & Sons. ISBN 0-471-49953-6

Sustainability, Taxing issues Responsible business and tax. *London: Sustainability Limited* [online]. 2006. Available at: http://www.taxjustice.net/cms/upload/pdf/Sustainability_taxing_issues.pdf

TAYLOR, John B., 2004. *Economics*. Boston, New York: Houghton Mifflin Company. ISBN 0-618-23001-7 (Fourth Edition)

The Global Compact. *The Global Context symposium on reputation: building and rebuilding corporate reputation* [online]. 2004. Available at: http://www.corporatecomm.org/wp-content/uploads/2013/08/The-Global-Context_Stausberg.pdf

The Role of Professional Firms in the U.S. Tax Shelter Industry. *Report prepared by the Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate, Committee on Governmental Affairs* [online]. 2005. Available at: <http://www.gpo.gov/fdsys/pkg/CRPT-109srpt54/html/CRPT-109srpt54.htm>

VAN TUDLER, Rob, and VAN DER ZWART, Alex, 2006. *International Business-Society Management: Linking corporate social responsibility and globalization*. London and New York: Routledge. ISBN 0-415-34241-4

WOOD, Donna, LOGSDON, Jeanne, LEWELLYN, Patsy, and DAVENPORT Kim, 2006. *Global Business Citizenship: A transformative framework for ethics and sustainable capitalism*. New York: M. E. Sharpe. ISBN 0-7656-1627-0

LIST OF ABBREVIATIONS

CSR	Corporate Social Responsibility
NGO	Non-governmental organization
B2B	Business-to-business
US	United States
TBL	Triple Bottom Line
GRI	Global Reporting Initiative
SRI	Socially Responsible Investment
IFC	International Finance Corporation
UK	United Kingdom
PR	Public Relations
AUD	Australian Dollar
CRA	Canadian Revenue Agency
ARPP	Autorité de Régulation Professionnelle de la Publicité
FTSE	Financial Times and the London Stock Exchange
BSC	Balanced Scorecard
BH	Bosnia and Herzegovina
MBU	Micro-banking Unit
IT	Information Technology
BAM	Bosnia-Herzegovina Convertible Mark
HRM	Human Resource Management
CPI	Corruption Perception Index
GDP	Gross Domestic Product
GCI	Global Competitiveness Index
HR	Human Resources
CPM	Critical Path Method

PERT Program Evaluation and Review Technique

LIST OF FIGURES

Figure 1: Specific indicators recommended in GRI guidelines.....	13
Figure 2: Analysis of social performance.....	36
Figure 3: SWOT analysis of Sparkasse Bank BH.....	41
Figure 4: Percentage of resources used for each CSR activity of Sparkasse Bank BH.....	47
Figure 5: PESTEL analysis of Sparkasse Bank BH.....	54
Figure 6: Percentage of resources used for each CSR activity in the adjusted CSR strategy for Sparkasse Bank BH.....	73
Figure 7: PERT and CPM analysis of the project in WinQSB, diagram.....	77
Figure 8: PERT and CPM analysis of the project in WinQSB.....	78

LIST OF TABLES

Table 1: International comparisons of tax incentives for charitable giving.....	32
Table 2: FTSE100 companies investigation	35
Table 3: Main parts of current CSR strategy of Sparkasse Bank BH	46
Table 4: Assessment of risk probability.....	68
Table 5: Assessment of risk severity	69
Table 6: Scoring of risks	70

APPENDICES

APPENDIX I: CSR REPORT IN THE ANNUAL REPORT OF SPARKASSE BANK BH
2012

APPENDIX II: RESULTS OF THE PUBLIC TENDER FOR DONATIONS AND
SPONSORSHIPS OF SPARKASSE BANK BH FOR 2014

APPENDIX III: LAW ON CORPORATE TAX OF FEDERATION BOSNIA AND
HERZEGOVINA, PART III: TAX BASE, SECTION 2: EXPENDITURES
ADJUSTMENT

APPENDIX I: CSR REPORT IN THE ANNUAL REPORT OF SPARKASSE BANK BH 2012

■ Profile



Sparkasse Bank dd

Tran. account: 1990000000000023
IB: 4200128200006
SWIFT: ABSBBA 22

Headoffice

Zmaja od Bosne 7 71000 Sarajevo
E-mail: info@sparkasse.ba
Tel: 00 387 33 280 300
Fax: 00 387 33 280 230
f SparkasseBankBIH
Sparkassebih
www.sparkasse.ba

Facts (2012)

Founded in:	1999
Assets:	897 ml. BAM
Owner:	Steiermärkische Sparkasse (97%)
Number of affiliates:	45
Number of clients:	app. 200,000
Number of employees:	452

Group members in BiH



Company for leasing of vehicles, machinery and vessels.



Company for mediation in real estate trade.



Company for mediation in insurance operations.

Management

CEO
Sanel Kusturica, MBA

Executive director
Zahida Karić, MBA

Executive director
Mag. Nedim Alihodžić

Executive director
Mag. Amir Sofić

Supervisory Board

Chair
Sava Dalbokov, MBA

Members
Mag. Gerhard Maier
Hamdija Alagić
Mag. Renate Ferlitz
Dr. Georg Bucher

Profile

Our owner.

Our bank is almost one hundred percent owned by Steiermärkische Sparkasse, which, with its business network and members in Steiermark and South East Europe, is the largest regional bank the south of Austria. The Group has a long-term and sustainable investment strategy in the region which makes it a reliable partner and investor backing up Sparkasse Bank and BiH.

As a member of Erste Bank and Sparkassen Austria, it is a part of the strongest group of banks focused on operations with the population, small and medium enterprises in Europe.

Sparkasse and sign.

Over almost 200 years of its operation, our mother bank, Steiermärkische Sparkasse, has developed into a recognizable trademark Sparkasse with the red  that stands for:

- safety, trust and tradition, which make it a reliable partner for employees and clients;
- solid, crisis-proof business model of a strong and successful group;
- successful economic concept that maintains social responsibility principles.

Our vision.

To become one of the strongest banks in the country using business tools based on the best banking practices.

Our mission.

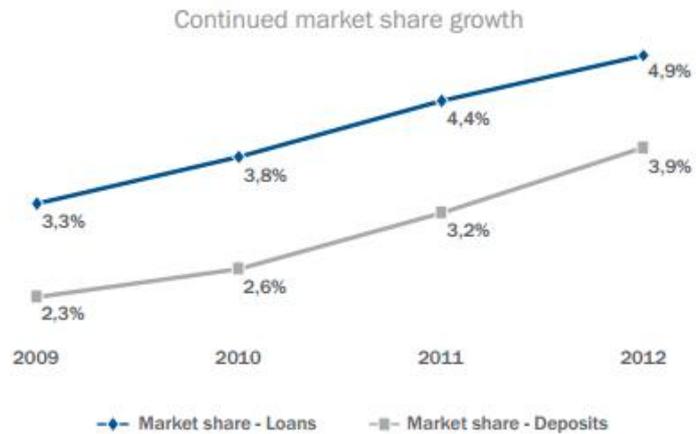
Sparkasse Bank dd cares about the success of its clients:

- Competently,
- With tailor-made solutions,
- With continuous improvement of offer,
- In the long term.

Our objective.

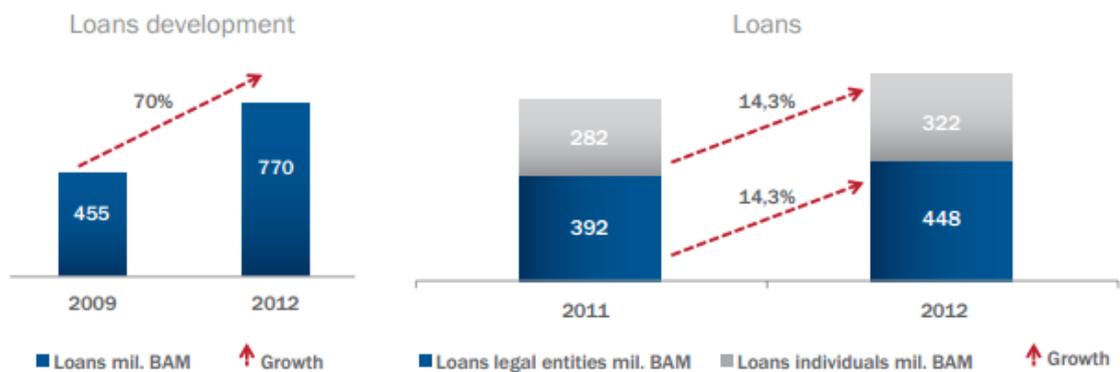
Our objective is to develop towards the international standards of the group into a modern bank that maintains traditional values of Sparkasse, and is oriented towards operations with population, small and medium enterprises. Final goal is the long-term growth and development made possible by satisfied employees and clients.

Business retrospective 2009-2012

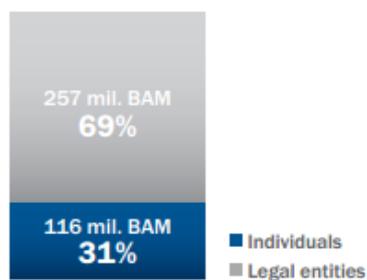


Source: CBBiH

Incentive to creating added value through active credit policy

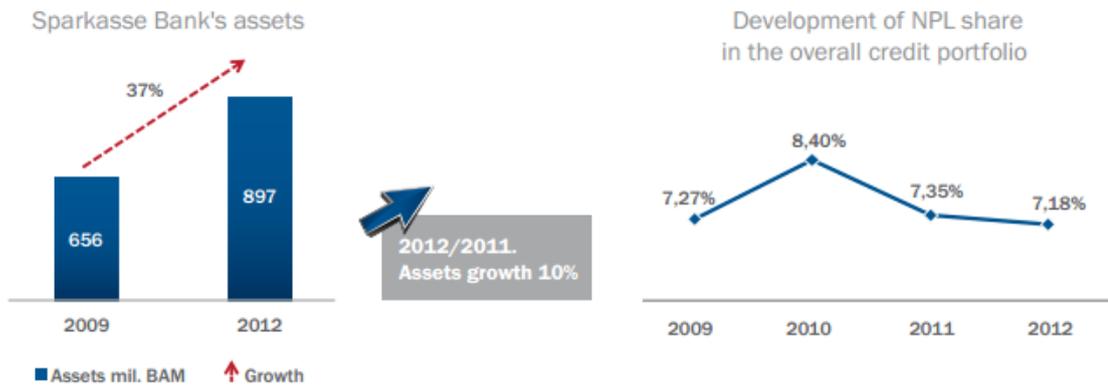


Placements 2012



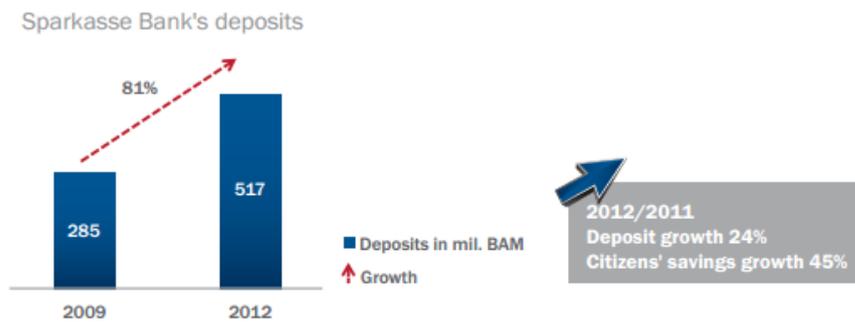
2012/2011
Loan portfolio growth 14,3%

Healthy growth of assets

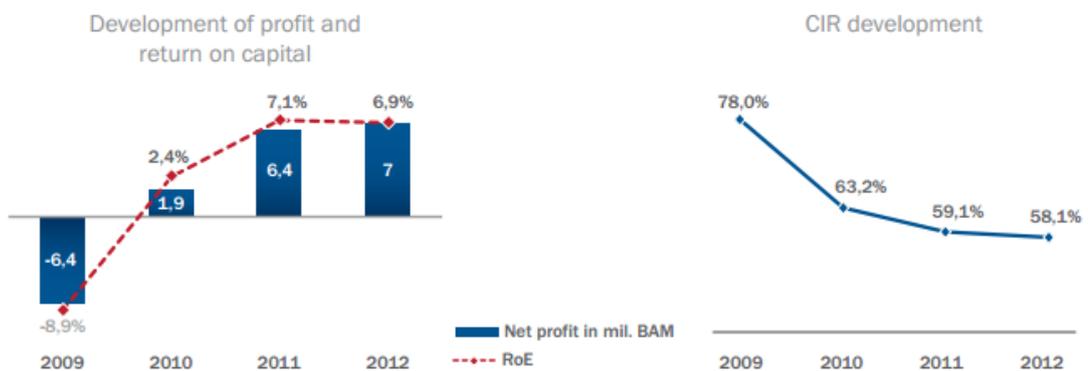


Deposit growth as a sign of building trust in the name of Sparkasse

Deposit growth as a sign of building trust in the name of Sparkasse



Enhancing profitability and efficacy



Benefit for the community

Our partners

Beauty is in giving gifts

Aimed at helping schools and students from rural places of return in Bosnia and Herzegovina, the Association Kameleon – Open Network For Human Rights and Democracy, started the action "Pencil Writes With Its Heart".

This project is important as it develops empathy and sympathy among children for their peers who need help. Children from 27 primary schools in the Tuzla Canton collected stationary material needed for school and donated it to their returnee friends in rural areas of Bosnia and Herzegovina, thus showing that they, together with their teachers, are the strongest support and strength of these marginalized groups.

Each of the parcels contained a letter to the unknown recipient, which shows the importance and beauty of giving gifts.

"Pencil Writes With Its Heart" has been sponsored by the Sparkasse Bank, as we considered it extremely important to support the idea to develop and build consciousness on the importance of giving among children.



This project of the Association Radio Kameleon – Open Network For Human Rights and Democracy is certainly commendable, and the Association is always ready for cooperation with all who wish to start new assistance projects.

Association Radio Kameleon – Open Network For Human Rights and Democracy

Milana Jovanovića, 6
Tuzla 75 000
TEL/FAX: + 387 35 302 504
e-mail: foundation@kameleon.ba
www.kameleon.ba

Benefit for the community

Our partners

Association For Support to People With Intellectual Difficulties in the Sarajevo Canton, Oaza

Oasis of good people

Association Oaza that gives support to people with intellectual difficulties is active in the Sarajevo Canton as a non-party, non-governmental, non-profit organization, founded in 1960, caring for 520 children and adults who need their support.

Life is my right

Numerous projects show that the objective of this association is to assist people with special needs on their way to social inclusion, through sports, to provide them adequate transportation to schools, physical therapies to people with multiple difficulties, and fulfill their free time in a good quality way through occupational and artistic workshops.

Ease their path through inclusion

Through support to education, the Association cares for children who attend special education facilities, but also many others included in regular schools with adjusted programs. The program of support to sport activities is aimed at promoting sports and the desire to compete as one of the way to be included in the society and develop motor skills through football, basketball, athletics, swimming, bowling and MATP program. Social inclusion and rehabilitation program is based on the desire to train persons with intellectual difficulties for independent life and work



When arts become reality

It is well known that arts are a way to escape reality. However, professional staff of Oaza that cares of the quality of life of children and persons with special needs has developed daily programs aimed at developing skills such as weaving, candle making, frame making and soap making, as well as music therapies to help these people live a nicer reality.

Sparkasse Bank has supported this program through internal voluntarism, where employees of all Sparkasse offices in Bosnia and Herzegovina collected and donated money to these little fighters for life. This was an opportunity to organize a party at the Importanne Center for all these children, which also helped them be included and integrated in the community.

Association Oaza

Teheranski trg do broja 6
Sarajevo 71 000
Tel: +387 33 766 526
Fax: +387 33 766 525
GSM: +387 62 466 438
www.oaza.ba

Benefit for the community

Our partners

Association of parents and friends of persons with special needs SUNCE, Mostar

SUNCE as a guide through social integration

Association of parents and friends of persons with special needs Sunce is a regional non-governmental organization that works on solving the problems of persons with special needs and their families, both through legislation and other spheres of life. This association has been established in August 1998 and it currently has 140 members with different physical and mental difficulties, often combined.

Mission and objective of this association is to improve quality of life for persons with special needs, through care, education and employment in workshops, as well as improving legislative environment.

Children with special needs have the need to develop their potentials and be independent

Sunce not only supports but also cares about the future of children with special needs. Large number of its members with mild and moderate retardation are included in the education programs in schools and workshops. A lot of its members completed secondary education, but the care of the Association does not stop there – by helping them on their way to economic independence, the Association supports their social engagement through creative sewing workshops, glass painting, production of decorative objects, working in laundry or kiosks, organization of humanitarian concerts and fashion shows, as well as summer holidays, camps, parties, etc. Only one third of participants is not included in educational activities, and a special emphasis is put on this very group. Taking care of the users with severe disabilities in the daily accommodation and field visits to bed-ridden users, the Association shows sympathies and cares of those who need that care the most.



Improved quality of life

It is important to say that the Association is not financed by either the Canton or the Township and that it is exclusively financed through projects and donations.

Employees of the Sparkasse Bank in Sarajevo and Graz have organized a humanitarian concert and all proceedings went to Sunce as support to the users in Mostar during winter. The idea of this project was to recognize, support and commend work of the users of this Association in laundry and kiosk as a way of integration and recognition in the society. Let us be the Sun that will shine on them!

Association Sunce

Južni logor bb
88 000 Mostar
Tel/Fax: +387 36 577 707
e-mail: sunce.mostar@yahoo.com
www.sunce-mostar.com.ba

Benefit for the community

Our partners

NGO Altruists for assistance to people with disabilities, SVJETLO

All people deserve equal chance

Non-governmental organization ALTRUISTA SVJETLO was established in 2005 by those who believed that ALL PEOPLE DESERVE EQUAL CHANCE. Mission and objective of this organization are expressed through their activism towards social acceptance of persons with difficulties and raising awareness among young people with difficulties of their own worth and social responsibility, thus making them useful to themselves and to their communities.

Building an equal chance society

One of their achievements they treasure most is that young people with difficulties are not passive and waiting for the assistance of others, but work as volunteers, active and responsible citizens. Some of NGO Svjetlo's actions actively participated by the young people with difficulties are environmental projects in Grbavica, "Let's clean the Earth in one day", participation in humanitarian concert "Children for the poor", donating proceedings from handicraft products to the soup kitchen "Meals on Wheels", donating proceedings from five exhibitions of handicraft products to the families of children whose parents are persons with difficulties, etc.



Besides contributing to the society in this way, members of this Association have achieved numerous sport results, competing in 29 disciplines of swimming, athletics, bowling, table tennis and basketball. Twenty four athletes of this association have won 26 medals only in 2012 - 14 gold medals, 3 silver medals and 9 bronze medals.

The vision of this association is to remove all barriers that lead to discrimination and social exclusion, and members of the Association Svjetlo have proven it possible.

Sparkasse Bank regularly buys greeting cards made by members of this association - people with disabilities - produce, supporting the idea that people with special needs want to be productive and useful to themselves and to the community.

NVO Altruista Svjetlo

Grbavička br. 22

Sarajevo 71000

Tel/Fax: +387 33 711 535

GSM: +387 61 555 295

e-mail: svjetlo@svjetlo.ba

Benefit for the community

Our partners

Humanitarian fond Sparkasse Bank Friend For Life



Children are the strongest army

Sparkasse Bank recognizes the strength of the society in education, knowledge and science, at the same time taking care of the most vulnerable, therefore in September 2011, it established a humanitarian fond for the scholarships which is primarily intended to support students from marginalized groups complete their education, either primary or secondary.

This fond is financed by percentage of the fees the Bank charges when issuing new Sparkasse packages and all purpose credits with guarantees.

As every child deserves good education, this project is directed towards the support to people who are on the social margins of our society and who need our help the most: people with special needs, socially vulnerable, children without parents, people with disabilities and minorities, but it is also at the disposal to organizations who are aimed at financing/co-financing humanitarian/socially responsible projects.

Within this project of support to primary and secondary school children in their education, Sparkasse Bank regularly awards scholarships from the Friends For Life Fund, that currently supports four students who are on their way towards their diplomas.

Applications for these scholarships may be filled by parents, guardians or representatives of the organization/project that takes care of the student, and the application form is available at the Sparkasse Bank's internet site - www.sparkasse.ba



Kristina Tomić, our scholarship recipient from Derventa

Benefit for the community

Our partners

Emergency fond for entrepreneurship of women of Association INFOHOUSE and Foundation CURE

We don't want carnations, we want jobs!

In 2011 Association INFOHOUSE and Foundation CURE started the initiative to establish emergency fond for entrepreneurship of women as a pilot project, with the goal to finance the best project designed by women and aimed at their self-employment, with the motto: "We don't want carnations, we want jobs!" That year nine entrepreneurship ideas from different towns and different industries were supported within this project.

The idea behind this project was to give donations thus supporting commitment of women to start their own business thus helping themselves and being socially engaged and useful.

In 2012, the Sparkasse Bank, as the main sponsor of this project, 15 unemployed women able to start their own business and become empowered, showing that we do not have to buy ideas and originality, but only promote our own.

Sparkasse Bank promoted these and some other creative ladies and their work in its annual calendar.

Anica Petrović weaves traditional handmade products. If you want to introduce elements of tradition into your interior, golden hands of this lady can produce them.
Prozor-Rama, S. Radića, +38763951925



Anica Petrović

Jadranka Trifković produces traditional costumes, weaves and embroiders. Her products are the best combination of tradition and wearable fashion, preserving cultural traditions of Bosnia and Herzegovina.

Brčko, Lučka br. 1, +38765764338



Jadranka Trifković

Persa Lazić does not wait for employment, but desires to employ herself by producing and selling jewelry. Her resources are her bravery, creativity and sense for esthetics, and her final products would be wished by any women.

Zvornik, Sime Perića br. 4, +38765848175



Persa Lazić

Edina Laković produces individually decorated objects and clothes. She skillfully turns ordinary things into beautiful and unique.

Goražde, Hajra Lakovića br. 1, +38761360595

Jelena Petronjev produces fashion accessories. Her hand-made accessories and home decoration objects will be liked by the bold and original, as she herself is.

Banja Luka, Vladimira Rolovića br. 47, +38765672928



Edina Laković

Nedžida Mehanović turns her fantasy into jewelry that can meet the needs of even the most demanding. She just needs some assistance to become her own employer.
Sarajevo, Trg sarajevske olimpijade br. 19, +38762122655

There is certainly many more women who have the idea and skills to implement them and provide economic safety for their families, make themselves useful and happy, but lack funds to start their own business. They do not want flowers, they want to work, and that should be made possible.

Contacts for future projects, Sarajevo:

Foundation CURE: +387 33 264 420

Association INFOHOUSE: +387 33 200 538



Nedžida Mehanović

Benefit for the community

Our partners

Association "Athlete" Recreation Center Doboj

Through sports to healthy life

Association ATHLETE Recreation Center Doboj is an association that promotes healthy life through sports. A segment of the activities of this association is therapeutic work with children with special needs that has two objectives:

- development of their motor and sport skills
- integration of children with special needs into communities of their peers who do not have developmental difficulties.

One of the projects that Athlete physical therapists and experts used to put the children with special needs with their peers from Primary School "Vuk Stefanović Karadžić" from Doboj is "Together We Are Stronger". About 30 children, both "special" ones and their friends from primary school, spent their time together in games and exercises designed especially to cure and prevent deformities. In 2012 this socially useful initiative was supported by the Sparkasse Bank believing that it makes sense to fight for social inclusion of often neglected people with special needs into life events that are often not so accessible to them. An important factor that contributed to the selection of this project partner is the fact that the projects are carried out among the youngest who are in time taught that their peers who are "special" deserve a place among them and that they do not need to be isolated.

This is only one of the projects that this association carries out following its mission, and there will be many more in the future for sure, as well as place to include other companies ready to support us.

Association "Athlete" Recreation Centre, Doboj

Kralja Petra I, 19/19

Doboj

Tel.: +387 66 000 863

 [Rekreacioni centar Athlete](#)



APPENDIX II: RESULTS OF THE PUBLIC TENDER FOR DONATIONS AND SPONSORSHIPS OF SPARKASSE BANK BH FOR 2014

REZULTATI JAVNOG TENDERA SPARKASSE BANK ZA DODJELU DONACIJA I SPONZORSTVA ZA 2014.GODINU

Poštovani,

zahvaljujemo Vam se na pokazanom interesovanju za saradnju sa Sparkasse Bank i prijavi na naš Javni tender za dodjelu donacija i sponzorstava u 2014. godini.

Kriteriji po kojima se Komisija za odabir projekata vodili prilikom procjene aplikacija su:

- Aspekt doprinosa društvenoj zajednici, održivost i korelacija projekta sa ciljevima Strategije za društveno odgovorno poslovanje Sparkasse Bank: 60%
- Javno prisustvo i vidljivost projekta: 20%
- Ispunjenje uslova za apliciranje: općih, posebnih i eliminatornih kriterija: 10%
- Budžet: 10%.

Aplikanti čije projekte ćemo podržati u vidu **sponzorstva** su:

- 1. Festival prijateljstva Goražde**
- 2. Rukometni klub Goražde**
- 3. Fudbalski klub Goražde**
- 4. FK Bosna Visoko**
- 5. ŽRK Bosna Visoko**
- 6. Sportski savez Općine Visoko**
- 7. Šahovski klub Fojnica**
- 8. Planinarsko društvo „Visočica“ Visoko**
- 9. Udruženje „Teakwando club Bosna“ Visoko**

- 10. Savez za sport i rekreaciju invalida Općine Visoko**
- 11. NK Vitez**
- 12. NK Travnik**
- 13. Stonoteniski klub STENS**
- 14. Sportina Sarajevo**
- 15. RK Vogošća**
- 16. FK BUK Bijeljina**
- 17. FK Pobjeda Bijeljina**
- 18. FK Gorica Bijeljina**
- 19. Škola fudbala „Eleven“ Bijeljina**
- 20. Stonoteniski klub Radnik Bijeljina**
- 21. Bihaćko ljetno Bihać**
- 22. Sajam privrede Eko Biz**
- 23. Muški vokalni instrumentalni sastav Behar iz Goražda**
- 24. Škola rukometa „TRIKO“ Sarajevo**
- 25. Otvorena mreža ljudskih prava i demokratije Tuzla**

Aplikanti čije projekte ćemo podržati u vidu **donacije finansijskih sredstava** su:

- 1. Udruženje „Omladinski savez“ Ustikolina** – donacija računarske opreme
- 2. Centar za edukaciju mladih (CEM), ured u Zenici** – projekat efikasnijeg uključivanja mladih na tržište rada
- 3. Udruga oboljelih od cerebralne paralize i osoba sa invaliditetom Županije Zapadnohercegovačke** – projekat upošljavanja osoba sa invaliditetom
- 4. JU IV Osnovna škola iz Mostara** – projekat povećanja ekološke svijesti kod osnovaca u lokalnoj zajednici
- 5. Udruženje građana oštećenog sluha i govora općine Ključ** – kreiranje radionca za žene sa invaliditetom s ciljem ekonomskog osamostaljavanja
- 6. Podrška projektu „Processing biowaste into humus“** za odlazak na Svjetsku olimpijadu naučnih projekata u Keniju

Odabrani aplikanti će biti direktno kontaktirani radi realizacije, a sve ostale aplikante obavještavamo da će se njihove aplikacije razmatrati u drugom i trećem ciklusu (juni i septembar 2014.godine) dodjele sredstava tokom 2014. godine.

Rezultate odabira novih aplikanata iz Javnog tendera moći ćete pronaći na našoj web stranici pa Vas pozivamo da pratite objave u junu i septembru.

Naredni tender za dodjelu donacija i sponzorstva za 2015. godinu će se objaviti na ovom mjestu u decembru 2014.

Za dodatne informacije molimo kontaktirajte nas na donacije@sparkasse.ba odnosno sponzorstva@sparkasse.ba

Vaša
Sparkasse Bank

Sarajevo, 11.03.2014.godine

**APPENDIX II: LAW ON CORPORATE TAX OF FEDERATION
BOSNIA AND HERZEGOVINA, PART III: TAX BASE, SECTION 2:
EXPENDITURES ADJUSTMENT**

2. Expenditures adjustment

Article 8

Determining taxable profit shall recognize only expenditures in the amounts defined by the profit and loss sheet in accordance with the accounting regulations and International Accounting Standards (hereinafter: IAS), except the expenditures this Law prescribes different manner of determining for.

Article 9

(1) Material expenses shall be recognized in the amounts shown in profit and loss sheet, in accordance with accounting regulations and IAS, by applying the method of average price.

(2) Calculation of purchasing value of merchandize sold shall be performed in the manner described in the Paragraph 1 of this article.

(3) When the material supplies and merchandize are recorded per calculation prices deviating from the purchase prices, the calculation of the deviation (difference) shall be done in the manner bringing costs of materials, i.e. purchase values of goods sold on the amounts resulting from the application of average price method.

Article 10

(1) Costs of earnings, i.e. personal income of employees (compensations and other material receiving) not holding characteristics of salary, shall be recognized in the amount

calculated as business expenditures up the amount prescribed by special regulations (per diem, use of private vehicle for business purposes, meals during working hours and transport to work....).

(2) Income of employees or other persons, arising from distributions on the basis of the right to participate in taxpayers' profit shall not be expenditures in the sense of tax balance.

Article 11

(1) Representation costs, pertaining to business activity, shall be recognized as expenditures in amount of 30% of representation costs.

(2) Donations for humanitarian, cultural, educational, scientific and sports purposes (except professional sports) shall be recognized as expenditure in amount of up to 3 % of total income in tax period.

(3) Expenses of the membership fees to the chambers shall be recognized as expenditure in the amount not exceeding 0.1% of total income in tax period if these membership fees are prescribed by the Law.

0

(4) Expenses based on sponsorship shall be recognized in amount of 2% of total income in tax period.

Article 12

(1) Only reservations prescribed in this article shall be recognized as expenditures in tax balance.

(2) In accordance with the Paragraph 1 of this Article, as tax allowable expenditure shall be recognized expenditures of reservation for risks and expenditures in accordance with the laws and other regulations and reservations based on the contract for the following:

- Reservations for severance pay paid up to the prescribed amount,
- Reservations for expenditures of natural resources renewal,
- Reservations for expenditures in guarantee timeframes,
- Reservations for initiated court procedures.

(3) In the case when reservations from the Paragraph 2 of this Article are not used within due dates, the reservations shall be treated as income.

Article 13

1. All costs pertaining to research and development shall be recognized as expenditures in tax balance.
2. The expenses pertaining to providing scholarships to full time students shall be recognized as expenditures in tax balance.

Article 14

(1) The expenses occurring based on the write-off of disputable and suspectable bills receivable shall be recognized in tax balance as expenditures.

(2) Receivables are considered as disputable if they are not collected within 12 months from the due date, if taxpayer initiated law suit or filed request to relevant court, enforced collection was initiated, if these receivables are part of bankruptcy procedure of debt and if agreement was reached with debtor in procedure of bankruptcy or liquidation.

Article 15

The contributions paid by the employer, fees and other public duties that do not depend on business results shall be recognized as expenditures in tax balance.

Article 16

(1) Reserves for general credit losses in banks that are formed in accordance with special regulations shall be recognized as expenditures in tax balance.

(2) Reserves that insurance and reinsurance companies must form in accordance with special regulations shall be recognized as expenditures in tax balance.

(3) The reserves from the Paragraph 1 of this Article shall not exceed 20% of profit declared in profit and loss account.

Article 17

(1) Total calculated interest shall be recognized as expenditure in tax balance except:

1) Interest calculated at loans marked with transfer price that shall be reduced in the manner prescribed in the Article 48 of this Law,
2) Interest calculated due to untimely payment of taxes, contributions and other public duties.

(2) Financial fines and penalties paid by the taxpayer for the violations shall not be recognized in tax balance as expenditures.

(3) Profit tax on profit of companys paid as well as donations to political parties shall not be recognized as expenditure in tax balance.