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STRATEGIC CSR DRIVERS – ENVIRONMENTAL PREFERENCES OF SILESIA INHABITANTS

Summary: Strategic CSR is implemented when social and/or environmental expenses help achieve economic purpose of an enterprise. This depends on actual potential of environmental preferences of enterprise stakeholders to modify firm's value drivers. An analysis of environmental preferences of inhabitants of Silesia region demonstrates that polled individuals are not likely to reward CSR either as consumers or as investors, which is unfavorable for the implementation of strategic CSR. Defining a target group, which an enterprise could address strategic CSR to, is a very difficult task. Thereof it can be stated that strategic CSR is not likely to be successful in Silesia, unless targeted to very well recognized, specific stakeholders. For that reason enterprises which adopt CSR can do it as non-for-profit CSR or incur agency cost.

Keywords: corporate social responsibility, value drivers, stakeholders, environmental preferences.

1. Introduction

The concept of CSR is nowadays extensively discussed. Despite the fact that classical theory of finance dissuades from attributing social or environmental goals to business activity, CSR is presently strongly recommended. Enlightened Value Based Management shows that without meeting stakeholders expectations no firm can survive in long term. The aim of this paper is to examine environmental preferences of Silesia Voivodeship inhabitants to find out how strong those preferences are and where they manifest the most. Knowledge on such preferences helps create a background for designing CSR activity so that it could meet stakeholders needs and make a firm successful. Environmental preferences of Silesia Voivodeship inhabitants are examined by survey results analysis.

2. Corporate Social Responsibility as a part of business strategy

Corporate Social Responsibility can be defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” [European Commission 2001]. The theory of CSR is very complex and relates to diverse scientific areas: economy, finance, management, sociology, psychology etc. This makes presenting different aspects of CSR phenomenon in ordered way difficult. Therefore the aim of enterprise shareholders would be a starting point for the deliberation. Taking enterprise shareholders as a criterion, allows distinguishing two types of CSR: strategic CSR, not-for-profit CSR and a result of moral hazard [Kitzmueller, Shimshack 2012, p. 54]. Strategic CSR is implemented when social and/or environmental expenses help achieve economic purpose of an enterprise. This purpose – as modern theory of finance shows – is value maximization. The value of an enterprises increases when such an enterprise is able to generate positive cashflows exceeding costs of capital. The logic of this aim is captured by the number of enterprise value metrics, forms among which Economic Value Added (EVA), Market Value Added (MVA), Cashflow Return On Investment (CROI), Shareholder Value Added (SVA), Economic Margin (EM) or Cash Value Added (CVA) are most recommended [Venanzi 2012, p. 9-33]. Components of mentioned metrics allow distinguishing the main general value drivers: operational profit, capital cost and invested capital. An increase of operational profit after taxes and invested capital as well as a decrease of cost of capital result in value creation. Opposite results in value destruction. It is obvious that each of the mentioned value drivers is an outcome of interactions between an enterprise and its environment (namely stakeholders). Strategic CSR therefore aims at shaping interactions between a firm and its stakeholders, which would maximize firm value, through an increase of operational profit, an increase of invested capital or/and a decrease of cost of capital. There is a number of ways to perform such a strategy [Doś 2011, p. 29-41]. However, here some general interdependencies should be signaled. CSR helps to maximize firms value, when it leads to:

- increase of sales or increase of products price, when company clients reward CSR,
- decrease in income tax, if CSR allows earning tax deductibles,
- decrease of costs, when company suppliers or company workers reward CSR,
- decrease of cost of capital or increase of invested capital, when equity and debt providers reward CSR.

Thereof a company which creates a strategy aimed at value maximization potentially based at CSR must answer a few questions. Are target clients likely to buy more or pay more for products in order to reward CSR? Does the government reward social or environmental expenses by granting income tax deductibles? Are suppliers and workers likely to earn less in order to reward CSR? Are capital

providers likely to provide more capital and/or more cheaply in order to reward CSR? What social and/or environmental oriented actions are rewarded, by whom and under what conditions? The mentioned questions concern enterprise's stakeholders preferences and conditions under which such preferences shape value drivers. Thereof it can be stated, that **strategic CSR implementation and design depend on firm stakeholders preferences and their potential to modify firms value drivers**. It should be stressed that the firm value maximization, as a goal of business activity, represents a long-term perspective. For this reason the same perspective should be adopted for the analysis of interdependencies between company's actions, stakeholders response to those actions and changes in value driver caused by stakeholders response.

Some authors claim that purely profit oriented investors do not motivate strategic CSR, but they only respond to profits determined by other (social) stakeholders [McWilliams, Siegel 2001, p. 117-127]. To some extent this observation is correct, but not always. A company can adopt the strategy of transformation, transposition or strategy of stakeholders preferences modification [Doś 2011, p. 29-41]. The mentioned kinds of strategies should be explained. A company can maximize value by transforming a total or a part of its activity in order to respond to social or environmental preferences of stakeholders. A company can also "move" to another business environment (change target clients, change a location) in order to face stakeholders whose preferences would lead to CSR rewarding (transposition strategy). A company can also influence stakeholder preferences (i.e. by education), in order to be rewarded for CSR. This notion allows further improvement in CSR taxonomy (see Table 1).

Table 1. Types of CSR regarding social and environmental preferences outcome

Relation between firm value obtained by transformation, transposition or modification and firm value obtained without any environmental and/or social expenses	Type of CSR
$X > Y$	Strategic CSR driven by profit
$X = Y$	Strategic CSR driven by social and/or environmental goals
$X < Y$	Not-for profit CSR or a result of moral hazard

X – firm value obtained by transformation, transposition or modification,

Y – firm value obtained without any environmental and/or social expenses.

Source: own preparation

When value obtained by transformation, transposition or modification of the stakeholders preferences is higher than value obtained without making social or environmental expenses, it is possible that a strategic CSR is driven by nothing but

a market (investors are purely profit-oriented). When value obtained by taking the described strategies is equal to value obtained without social or environmental expense, it can be stated that strategic CSR is driven by social and/or environmental goals (investors are not only profit oriented, they also want to achieve social and/or environmental goals). When the value obtained by transformation, transposition or modification of the stakeholders preferences is lower than value obtained without making social or environmental expenses, CSR is not strategic any more. It turns into not-for profit CSR or CSR as a result of moral hazard. The latter should be explained.

The second main type of CSR – not-for-profit CSR – differs from strategic CSR, because the scope of enterprise shareholders is different. The observation that shareholders follow diverse intrinsic motivations in decision making is true. Their motivation in doing business can be to achieve economic goals as well as to “do good”. It is possible that for some reasons firm shareholder prefers exploiting the firm in order to “do good” instead of making donations to governmental agencies or NGOs. The scope of this study does not allow to deepen the analysis of this motivation.

The third type of CSR is CSR as a moral hazard result. When CSR is not strategic (does not allow to maximize value) and at the same time shareholders do not to exploit their company as a tool to achieve their environmental and/or social goals, CSR is nothing more than an outcome of limited control over managers who want to achieve their own purposes (i.e. “warm glow”) at the cost of shareholders. Thereof social and/or environmental expenses can be simply attributed to the costs of agency. Business strategy should incorporate measures to avoid such a CSR.

3. Environmental preferences of Silesian region inhabitants – survey results analysis

In 2011 a survey concerning environmental preferences of Silesia region was conducted¹. This survey covered preferences which influence consumer behavior, investor behavior and voter behavior. Individuals affect companies:

- directly through market decisions (on both goods and services market and financial market),
- indirectly through political decisions.

The survey concerned environmental preferences inclusion in purchase decisions, investment decisions and environmental preferences inclusion in tax policy decisions. It should be stressed that voters have a limited impact on policy making due to a complicated process of individual decisions aggregating into collective one, other influential factors, like officials ideology or interest groups

¹ So far there has been two meaningful Polish studies devoted to environmental preferences of firms stakeholders: study by Borys [2002] and by Dziawgo [2010].

activity as well as limited control that voters have over elected officials. However, to some extent voters preferences shape policy and for that reason it is interesting to reveal them.

The sample is large: 900 properly fulfilled responds were obtained. Probationary collectivity generally corresponds to the general collectivity of Silesian region inhabitants, when sectioned according to age and sex. This makes the results of the survey credible. It is important to notice that Silesian region is the most polluted one in Poland, thereof environmental issue is quite visible there. In addition inhabitants of Silesia interestingly represent also other regions of Poland, because a large part of them migrated to Silesia in the sixties or seventies. Because of mentioned reasons choosing Silesia as a location of this kind of research is justifiable.

First environmental preferences shaping purchase decisions will be analyzed. Table 2 presents the structure of answers to the question: “Do you buy ecological products?” sectioned according to age and sex.

Table 2. Do you buy ecological products?

Specification		Age		Sex		Total
		Up to 40	More than 40	Female	Male	
Yes	Number	663	329	398	265	663
	%	73.7%	76.7%	76.8%	69.4%	73.7%
No	Number	237	100	120	117	237
	%	26.3%	23.3%	23.2%	30.6%	26.3%
Total	Number	471	900	518	382	900
	%	100%	100%	100%	100%	100,0%

Source: own preparation based on survey results.

A significant percentage of polled inhabitants of Silesia (almost three quarters) declares buying ecological products. Additionally it can be noticed that women are more likely to buy such products than men and people above 40 are a bit more likely to buy such products than younger respondents. However, a correlation between sex and environmental preferences expressed in purchase as well as a correlation between age and such preferences is weak (slightly stronger for sex).

Further question concerned a kind of ecological products acquired by polled inhabitants. The results are presented in Table 3.

Data presented in Table 3 reveal that ecological food and energy-saving appliances definitely predominate among “ecological shopping”. Polled individuals do not take into consideration the impact of product on the natural environment during the phase of production (less than 1% of them buy products of firms which are granted ISO 14000 or EMAS certificates). Thereof the motives of ecological purchase should be examined. Needed data are presented in Table 4.

Table 3. What kind of ecological food do you buy?

Specification		Age		Sex		Total
		Less than 40	More than 40	Female	Male	
Ecological food	Number	167	176	217	117	334
	%	50.0%	50.8%	54.5%	44.2%	50.4%
Energy-saving appliances	Number	159	161	176	144	320
	%	47.6%	48.9%	44.2%	54.3%	48.3%
Products made in an environmental-friendly way (Enterprises granted ISO 14000 or EMAS certificate)	Number	5	1	3	3	6
	%	1.5%	0.3%	0.8%	1.1%	0.9%
Other	Number	3	0	2	1	3
	%	0.9%	0%	0.5%	0.4%	0.5%
Total	Number	334	339	398	265	663
	%	100%	100%	100%	100%	100%

Source: own preparation based on survey results.

Table 4. What reasons do you buy ecological products for?

Specification		Age		Sex		Total
		Less than 40	More than 40	Female	Male	
Are healthy	Number	200	179	239	140	379
	%	59.9%	54.4%	60.1%	52.8%	57.2%
Are safer	Number	31	34	42	23	65
	%	9.3%	10.3%	10.6%	8.7%	9.8%
Do not impair the environment	Number	55	65	66	54	120
	%	16.5%	19.8%	16.6%	20.4%	18.1%
Are prestigious	Number	2	3	1	4	5
	%	0.6%	0.9%	0.3%	1.5%	0.8%
Are cheaper in exploitation	Number	46	48	50	44	94
	%	13.8%	14.6%	12.6%	16.6%	14.2%
Total	Number	334	329	398	265	663
	%	100%	100%	100%	100%	100%

Source: own preparation based on survey results.

The main reason for buying ecological products is health protection (57.2% of respondents). This reason is the most important for women and more important for younger respondents than for the older ones. The natural environment protection accounts only for 18.1% of motives for buying ecological products (slightly more important for men and for older generation). People who subordinate their purchase decisions to the need of the environment protection, account only for 13.3% of polled population.

The analysis of environmental preferences incorporation in a purchase decision demonstrates that the protection of natural environment is not an important determinant of consumer decisions. Respondents take into consideration a consumption

phase rather than a production phase impact on the natural environment and value personal interest much more than environment interest.

The next section is dedicated to investigate the incorporation of environmental preferences in investment decisions. 62.3% of respondents have savings (almost the same in younger and in older generation, however, the share of people who save is almost 14 percentage points higher among men than women). Savings of 29.8% of respondents exceed more than 5 times their monthly salary (but are lower than 10 month salaries), and of 12.5% exceed more than 10 times their monthly salary. Bank deposit is a form of investment for 77.2% of respondents, about 8% of them invest in shares and corporate bonds, 5% locate saving in investment funds, 3% in real estate and the rest in other types of investment. Polled inhabitants of the Silesia region choose investment directions basing on security of saving (43% of inhabitants use this criterion), income level (35%) and security of income (16.1%). Their savings are located by intermediaries in different types of projects. However, only 3.4% of respondents take into consideration what projects are financed with their savings (it more applies to younger people than older, and more to men than women). At the same time the next question asked has been if a respondent has ever considered what the effect of projects financed with his/her savings would be. More than 30% answered it positively.

The analysis of data presented in Table 5 lets us state that security and profitability of projects financed with polled persons savings are of major importance for them. Respondents do not usually pay attention to the impact that a project has on the natural environment.

Respondents were asked about their knowledge and engagement in investments which are environmentally responsible. Answers are presented in Table 6.

The majority of respondents (68.6%) has never heard about ERIs. More than 30% know that such an investment is possible, however, less than 1% of respondents have located their saving in such funds. There of it can be stated that environmental preferences do not influence investment decisions within polled collectivity.

In this paper also indirect impact of individuals on CSR implementation will be analyzed. Individuals, as voters, can shape environmental policy. As it has been stressed CSR is a voluntary incorporation of stakeholders interests. However, enterprises sometimes attempt to be ahead of regulation in order to mitigate the reaction of citizens and state their harmful impact on the natural environment [Escobar, Vrendenburg 2011, p. 42]. Environmental and social expenses aiming at delaying or smoothening regulation binding firms activity should be acknowledged as strategic CSR (driven by purely profit-oriented shareholders). It is interesting to discover if individuals are likely to opt for more restrictive regulation of business regarding the natural environment protection. The problem is complex, because instruments of environment protection are numerous and diverse. The increase of taxes is analyzed here only. Respondents were asked what tax they would prefer to

be increased if the government decided to increase tax collection in order to reduce natural environment exploitation. The question was asked in a simplified way, because it should not be assumed that individual respondent has knowledge on variety of ecological taxes and their possible redistributive effect. Thus possible answers were: personal income tax (PIT), value added tax (VAT), corporate income tax (CIT) and other. Some respondents added that under any conditions they would not agree on tax increase. The answers are presented in Table 7.

Table 5. Which features of financed project were most important for you in evaluation of your savings location?

Specification		Age		Sex		Total
		Less than 40	More than 40	Female	Male	
Risk of financed project	Number	72	54	62	64	126
	%	62.6%	64.3%	66.0%	61.0%	63.3%
Profitability of a project	Number	31	18	21	28	49
	%	27.0%	21.4%	22.3%	26.7%	24.6%
Importance for Polish economy	Number	9	6	8	7	15
	%	7.8%	7.1%	8.5%	6.7%	7.5%
Jobs creation	Number	1	2	2	1	3
	%	0.9%	2.4%	2.1%	1.0%	1.5%
Influence at the natural environment	Number	1	4	0	5	5
	%	0.9%	4.8%	0%	4.8%	2.5%
Human right sabiding	Number	1	0	1	0	1
	%	0.9%	0%	1.1%	0%	0.5%
Total	Number	115	84	94	105	199
	%	100%	100%	100%	100%	100%

Source: own preparation based on survey results.

Table 6. Have you ever heard about Environmentally Responsible Investment (ERI) funds or deposits?

Specification		Age		Sex		Total
		Less than 40	More than 40	Female	Male	
Yes	Number	139	135	151	123	274
	%	29.7%	31.6%	29.4%	32.2%	30.6%
Yes, my savings are located in such funds	Number	5	2	3	4	7
	%	1.1%	0.5%	0.6%	1.0%	0.8%
No	Number	324	290	359	255	614
	%	69.2%	67.9%	70.0%	66.8%	68.6%
Total	Number	468	427	513	382	895
	%	100%	100%	100%	100%	100%

Source: own preparation based on survey results.

Table 7. If the government decided to increase taxes for the natural environment protection, what tax would you prefer to be increased?

Specification		Age		Sex		Total
		Less than 40	More than 40	Female	Male	
VAT	Number	123	125	143	105	248
	%	26.2%	29.5%	27.8%	27.7%	27.8%
PIT	Number	74	38	61	51	112
	%	15.8%	9.0%	11.9%	13.5%	12.5%
CIT	Number	203	187	227	163	390
	%	43.3%	44.1%	44.2%	43.0%	43.7%
Other	Number	16	17	13	20	33
	%	3.4%	4.0%	2.5%	5.3%	3.7%
None	Number	53	57	70	40	110
	%	11.3%	13.4%	13.6%	10.6%	12.3%
Total	Number	469	424	514	379	893
	%	100%	100%	100%	100%	100%

Source: own preparation based on survey results.

Presented results demonstrate that the majority of respondents would attempt to shift the burden of increased taxes to enterprises: respondents revealed, that they would prefer to increase CIT or VAT (although VAT is usually shifted to final consumers and results in the increase of price), but not PIT. This is consistent with the rent-seeking theory [Tullock 1998, p. 51 and next]. However, for enterprises it is important that individuals clearly prefer to tax enterprises rather to bear the burden themselves and thus CSR can be used to delay or smoothen a possible restrictive regulation. However, it should be stressed that neither the problem nor regulation changes are urgent as nowadays none of elected parties declares to make the environmental policy more restrictive.

4. Conclusions

This short study reveals above all that the problem of environmental preferences of society and their impact on CSR strategy adoption by business firms is very complex. The analysis demonstrates that for a given moment polled individuals are not likely to reward CSR neither as consumers nor as investors, which is unfavorable for the implementation of strategic CSR. The examination of collectivity sectioned according to age and sex has revealed that preferences do not differ significantly between distinguished groups. This makes defining a target group, which an enterprise could address to with strategic CSR in order to earn value gains, a formidable task. Preliminary and necessarily simplified examination of individuals behavior as respondents suggest that individuals, when it is necessary, opt for taxing enterprises. However, that should be acknowledged rather

as a “stick” not as a “carrot” for CSR. Nevertheless in the nearest future political game probably will not bring any changes. Thereof it can be stated that strategic CSR is not likely to be successful in Silesia, unless targeted to very well recognized, specific stakeholders (i.e. financial institutions, workers).

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PREFERENCJE ŚRODOWISKOWE MIESZKAŃCÓW WOJEWÓDZTWA ŚLĄSKIEGO JAKO DETERMINANTY STRATEGICZNEJ CSR

Streszczenie: Strategiczna CSR jest wdrażana wtedy, gdy działania środowiskowe i/lub społeczne firmy pozwalają zrealizować jej cel ekonomiczny. Jest to uzależnione od wpływu preferencji środowiskowych interesariuszy przedsiębiorstwa na jego wartość. Analiza preferencji środowiskowych mieszkańców Śląska wykazała, że badane osoby raczej nie są skłonne do wynagradzania CSR ani jako klienci, ani jako inwestorzy. Definiowanie grupy interesariuszy, do której przedsiębiorstwo mogłoby kierować działania z zakresu CSR, jest bardzo trudne. Strategiczna CSR, o ile nie jest skierowana do bardzo dobrze zdefiniowanej, specyficznej grupy interesariuszy, ma zatem niewielkie szanse na sukces w województwie śląskim. Można też domniemywać, że przedsiębiorstwa działające na Śląsku, które zaadaptowały CSR, reprezentują CSR typu non-for profit lub ponoszą koszty agencji.

Słowa kluczowe: społeczna odpowiedzialność biznesu, stymulatory wartości, interesariusze, preferencje środowiskowe.