

St. Petersburg University  
Graduate School of Management  
Master in Corporate Finance

**THE RELATIONSHIP BETWEEN CORPORATE  
SOCIAL RESPONSIBILITY DISCLOSURE PRACTICES  
AND MARKET PERFORMANCE: EVIDENCE FROM  
TOBACCO COMPANIES**

Master's Thesis by the 2<sup>nd</sup> year student:

Concentration – Corporate Finance

Anita Plotnikova

Research advisor:

Associate Professor, Tatiana A. Garanina

St. Petersburg

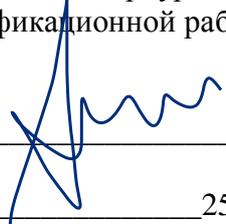
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## **ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ**

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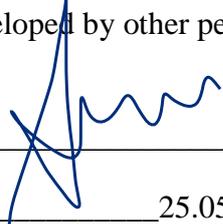
  
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I, Plotnikova Anita, second year master student, program «Management», state that my master thesis on the topic « THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE PRACTICES AND MARKET PERFORMANCE: EVIDENCE FROM TOBACCO COMPANIES», which is presented to the Master Office to be submitted to the Official Defense Committee for the public defense, does not contain any elements of plagiarism.

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## АННОТАЦИЯ

Автор	Плотникова Анита Сергеевна
Название магистерской диссертации	Взаимосвязь Между Раскрытием Информации О Корпоративной Социальной Ответственности И Рыночными Показателями: На Примере Табачных Компаний
Факультет	Высшая Школа Менеджмента
Направление подготовки	Корпоративные Финансы
Год	2018
Научный руководитель	Гаранина Татьяна Александровна
Описание цели, задач и основных результатов	<p><u>Цель:</u> исследовать взаимосвязь между методами раскрытия информации о корпоративной социальной ответственности табачных компаний и их рыночными показателями</p> <p><u>Задачи:</u></p> <ol style="list-style-type: none"> <li>1) Изучить концепцию КСО и ее развитие;</li> <li>2) Изучить основы методы измерения эффективности КСО;</li> <li>3) Выделить различия в практике КСО табачных компаний;</li> <li>4) Выдвинуть гипотезы о влиянии КСО на рыночные показатели компаний;</li> <li>5) Провести эмпирическое исследование для проверки гипотез;</li> <li>6) Сделать выводы, обозначить ограничения исследования и предложить рекомендации.</li> </ol> <p><u>Основные результаты:</u>          Более полное раскрытие информации о КСО общего характера (в отношении экологии, общества, условий работы и рынка) показало положительное влияние на рыночные показатели табачных компаний. В то же время, гипотеза о качестве и глубине раскрытия информации подтвердилась в своем негативное влияние на восприятие рынком компаний в секторе. Развитие товаров нового поколения, наряду с присутствием компании в индексе "Dow Jones Sustainability Index", не оказывает влияния на рыночные показатели табачных компаний.</p>
Ключевые слова	Корпоративная Социальная Ответственность, КСО, Раскрытие Информации, Табачная индустрия, Рыночные Показатели, Коэффициент Тобина

## ABSTRACT

Master student's name	Anita Plotnikova
Master thesis title	The Relationship Between Corporate Social Responsibility Disclosure Practices And Market Performance: Evidence From Tobacco Companies
Faculty	Graduate School of Management
Main field of study	Master in Corporate Finance
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Academic advisor's name	Tatiana A. Garanina
Description of the goal, objectives and main results	<p><u>Goal:</u> to investigate relationships between Corporate Social Responsibility disclosure practices of tobacco companies and their market performance</p> <p><u>Objectives:</u></p> <ol style="list-style-type: none"> <li>1) To explore the concept of CSR and its' development;</li> <li>2) To learn the frameworks to measure CSR performance;</li> <li>3) To distinguish the differences in the CSR practices of tobacco companies;</li> <li>4) To develop hypotheses about the impact of CSR on the market performance of companies;</li> <li>5) To conduct empirical research in order to test hypotheses;</li> <li>6) To make conclusions, state limitations and give recommendations.</li> </ol> <p><u>Main results:</u></p> <p>The results of the research show controversial nature of the relationships between CSR disclosure practices and market performance of the companies in the tobacco industry. From the one hand, the extent of the disclosed information for the general dimensions of CSR (environmental, community, workforce and marketplace) showed positive relationships with market performance of tobacco companies. However, the quality of disclosed information proved to have negative relationships with the market perception of the companies. Development of next-generation products together with the presence of the company in Dow Jones Sustainability Index did not affect the market performance of the tobacco companies.</p>
Key words	Corporate Social Responsibility, CSR, Disclosure, Tobacco Industry, Performance Indicators, Market Performance, Tobin's Q

## **TABLE OF CONTENT**

<b>STATEMENT ABOUT THE INDEPENDENT CHARACTER .....</b>	<b>2</b>
INTRODUCTION .....	6
CHAPTER 1. THEORETICAL BACKGROUND AND LITERATURE REVIEW .....	8
1.1. The concept of Corporate Social Responsibility .....	8
1.2. Approaches to measure Corporate Social Responsibility.....	13
1.3. Relationship between Corporate Social Responsibility and Financial Performance ....	18
1.4. Tobacco industry: global market description and analysis.....	20
1.5. Corporate Social Responsibility in tobacco industry .....	26
CHAPTER 2. CSR DISCLOSURE AND MARKET PERFORMANCE IN TOBACCO: AN EMPIRICAL STUDY .....	33
2.1. Development of hypothesis.....	33
2.2. Research Method, Sample and Variable Description .....	38
2.3. Model Specification .....	42
2.4. Results and managerial implication .....	48
CONCLUSION .....	50
REFERENCE LIST .....	51
APPENDICES .....	57

## INTRODUCTION

Nowadays more and more companies around the world are introducing different practices of Corporate Social Responsibility with the aim to improve the sustainability of their businesses. These firms are beginning to take care of the environment, local communities and seek to maintain ethical business conducts. Some of them undergo a voluntary transition, others are forced to adjust to relevant legislative changes in their countries. At the same time, the current empirical studies do not provide unanimous results on the positive influence of corporate social responsibility practices on companies' financial results. Most studies consider either individual countries, or a small sample of companies, or a short time interval, which may be one of the reasons for the variability in the results.

The topic of corporate social responsibility (CSR) and its impact on companies' performance becomes more and more relevant every year, and thus deserves a closer attention by researchers. At the same time, European and American companies have long used socially social-responsible approaches within their businesses. In addition, the relevance of this CSR topic is related to the process of market globalization, in which companies have to look for new ways of differentiating their products and increasing market shares, especially in such highly concentrated, competitive and controversial environment like the tobacco industry.

In the following paper, the tobacco industry will be chosen to see if there is a relationship between CSR practices and the performance of such companies. This study has a scientific relevance as there were no preliminary researches which tried to connect SCR activities and companies' financial performance in case of so called "negatively-perceived businesses" – e.g. cigarette producers. For these reasons, the issue of Corporate Social Responsibility specifically in this industry was taken into account to find whether there is a relationship between such initiatives and companies' performance.

From this introduction and knowledge gap within the existing literature, the main research question of this research is:

*“Does the disclosure of CSR initiatives influence the market performances of tobacco companies?”*

Thus, the main goal of this research paper is to investigate the relationships between Corporate Social Responsibility disclosure practices of tobacco companies and their market performances.

1. To achieve this main goal, the following sub-objectives were set:
2. To explore the concept of CSR factors and their developments;

3. To research accurate frameworks to measure CSR performances;
4. To distinguish differences within the CSR practices of tobacco companies;
5. To develop hypothesis about the impact of CSR on the market performances of these companies;
6. To conduct empirical research and test hypothesis;
7. To draw conclusions, limitations and possible recommendations.

The paper will provide the linkage between CSR initiatives and market performance of the companies in the tobacco industry, which may be useful from both perspectives, managerial in terms of perception of the companies and financial if investments in these initiatives bring real value to the organization from the point of its' financial health.

The paper will be based on real companies' cases: real implementations of the CSR initiatives within companies will be considered, as well as a closer look into their financial performances will be taken. Qualitative and quantitative methods of research will be used in this paper. The theoretical overview will be held in the first part, including further analysis of primary and historical data. The research design will be exploratory and explanatory. This means the approach will be a mixed type. It will be necessary to combine multiple content analysis to convert financial and non-financial reports into quantitative measures of particular CSR activities, and finding a link between market performance and these activities.

The research consists of two chapters. In the first part of this research, the main classifications of CSR elements are discussed. After that, the problem of implementing CSR in the tobacco industry is analyzed. Finally, how CSR initiatives can benefit the tobacco companies' development is discussed.

The second part is devoted to the empirical analysis. Firstly, hypotheses on the basis of studies discussed in the theoretical part will be suggested. Secondly, the main assumptions and frameworks used in the content analysis of the CSR reports will be described. Thirdly, descriptive statistics and some preliminary results will be elaborated. Finally, the multiple regression models on the panel data will be built, and the results will be discussed.

# **CHAPTER 1. THEORETICAL BACKGROUND AND LITERATURE REVIEW**

## **1.1. The concept of Corporate Social Responsibility**

The concept of corporate social responsibility has evolved dramatically over past century. The emergence of the foundation of such a term might be found in the beginning of 20<sup>th</sup> century with Henry Ford lawsuit with Dodge brothers (Ford Motors Company's shareholders at this time), which was conceptually described and analyzed by Min-Dong Paul Lee in 2008. In 1917, Henry Ford was defending his vision at Michigan court, trying to validate his decision to reinvest accumulated profit of Ford Motors Company into the expansion of the production facilities along with reducing price on the Model T vehicles. The idea behind this decision was pretty clear and could be defined as "business is a service to society". By that time most of the shareholders of the company supported the court decision to pay Dodge brothers maximum dividends and did not share vision of the company's founder. Similar situation appeared in 1999 with William Clay Ford Jr, who also tried to promote the idea of serving society. Culturally, perception of social responsibility shifted by that period, and majority of shareholders supported the idea of socially responsible business and new company's strategy (Lee, 2008).

Conceptually, before the middle of 20<sup>th</sup> century, there were no particular framework to value the social responsibilities of companies. All the ethical issues were derived from the moral terms and shareholders did not see the connection between their wealth and profitability of the corporations and social interests. First major shift in the concepts occurred, when the book "Social Responsibilities of the Businessman" written by Howard R. Bowen appeared in 1953. The book contains an explicit discussion of value that firm bring to the lives of population in different ways. It details the question of how the business can contribute to solving social and public policy problems, identifies key areas in the study of CSR, and also states that business should carry out its activities in accordance with generally accepted norms and values in the society. Almost from the first pages of the book author stated that socially responsible businessman has to make such decisions, which will not only maximize his profits and wealth, but also have a positive impact on the society and its' values. Carroll (1999) in his paper is insisting on calling H.R. Bowen "Father of Corporate Social Responsibility".

Thus, since 1950s many well-known scientists and researches published their works devoted to socially responsible business, among them were P. Drucker, A. Carroll, M. Friedman, C. Davis, etc. It might be stated that in these decades there were a conceptual shift of CSR attitude, which started to be more rationalized. This rationalization called for another two shifts into the conceptual model of CSR. First, most of the researched stopped discussing macro-social reaction

on Corporate Social Responsibility and moved to the organizational-level researches, studying the effect of CSR practices on financial performance of companies. Also, talking about orientation of underlying theory, most of the researches shifted from ethical-oriented studies to normative with orientation on performance (Lee, 2008). Thus, the concept of CSR moved from being perceived as a burden to shareholders, which is unfair and costs them money, to rationalization and alignment of CSR strategy with more strategic direction of organizational development together with reputational benefits and better stakeholders' management.

In 1960s Davis proposed his own definition of CSR saying that it is an actions and decisions of businessmen, which should go beyond the direct monetary or economic interests of firms at least partially. There was no particular assurance in his statement, however, he suggested this "nebulous idea" to be seen in the context of management and that it can bring long-run economic benefits for the organizational development (Davis, 1960). Later many researches (McGuire, 1963; Walton, 1967) were giving their own definitions to the concept of CSR, saying that these are obligations in many different areas (politics, community, employees' satisfaction, education and etc.), which go beyond the basic activities of the firms and which should be kept in top managers' heads, because it represents relationships between companies and societies. However, there were not only clear supporters of the CSR concept. Milton Friedman (1962) argued around the real purpose of following CSR concept and insisted on its' monetary benefits for the shareholders, which is not going along with the concept of free enterprise society.

The global oil crisis of the 1970s only intensified the excitement around "sustainability" and revealed a very urgent problem of exhaustible resources. Encouraged on the one hand by supra-state political structures and, on the other hand, by the social order of civil society, part of the provisions of the concept of sustainable development was transferred by corporate managers to the microeconomic level. Thus, in 1970s there were a number of works, which allied such terms as corporate social responsibility, corporate social responsiveness and corporate performance (Carroll et al., 2010). One of them was the book written by M. Heald called "The Social Responsibilities of Business: Company and Community" (1970). Still, the extent of CSR definition was not wide at that times, however, the ideas of long-run benefits for the company through the investing in the communities and societies were discussed with the respect of previous theories. Another bunch of works (Ackerman, 1973; Murray, 1976) stated the importance for companies not only to assume such responsibilities, but also to respond to social environment. In 1979 Carroll proposed the multi-dimensional extensive definition of CSR with three components that have to be embedded by the managers:

1. Basic definition of social responsibility, asking question about if the responsibility of the company is going beyond simply economic and legal concerns;

2. Elimination the main reasons for the existence of corporate social responsibility in the company (mapping the interested parties of such initiatives and defining the areas of all CSR that might be useful for the company);
3. Creating the requirements for the “philanthropy of response” by designing the particular action plan for each area of CSR (should company be reactive or proactive with this issue?).

Thus, A. Carroll devoted his paper to development of the unique framework that might be applicable to every business to pursue the intention of companies to be socially responsible. One more addition to the definition of CSR made by A. Carroll were a division of Social Responsibility into sub-categories: economic (profitability), legal (obey the law), ethical and discretionary responsibilities (philanthropy and corporate citizenship) (1979). These categories formed well-known Carroll’s pyramid of CSR (Figure 1).



*Figure 1. Pyramid of Corporate Social Responsibility (Carroll, 1979)*

Therefore, during 7<sup>th</sup> decade of 20<sup>th</sup> century and up to 1990s, CSR definition was widely rethought and structured with association with the long-run goals, reputational disputes and stakeholders’ wealth. Moreover, large body of the studies started to interlink CSR practices and financial performance of the companies, without going deep to study these relationships.

Afterwards, many researches have implemented Carroll’s tree-dimensional model in their findings, making the concept of CSR clearer. Wartick and Cochran in 1985 took the model as a basement and modified it with dimensions of principles, policies and processes. Further extension this model got and in further researches (Wood, 1991), where theoretical approaches were used to formulate more practical oriented model to make it more applicable to managerial usage.

In 1990s, after having 40 years of ongoing management revolution, many researches (Drucker, 1993) started to question the issue of persistent high performance of some companies

in contrast with average performance of others, paying more attention to the topic of strategic management. In this topic the issue of stakeholders' analysis was aroused, which brought topic CSR again to the stage by finding its' applicability to this subject. Stakeholders theory were explicitly introduced by Edward Freeman in 1984 with central idea that company has to create value for all kinds of stakeholders it operates with, starting from companies' employees and finishing communities and financiers. The theory states the idea that it would be wrong to look at the interest of only one interested party in isolation, but company should find a common direction towards bringing value to each group company, because without any of these stakeholders company will be in a decline, comparing with competitors.

In 1990s and until now all this concepts and theories were developing and changing. Jones (1995) contribute to this model by relating the stakeholders' theory with some theories in economics (agent theory, transaction cost economics and etc.). In 1997 Timothy Rowley modified the stakeholders' theory into network-based studies. Thus, many studies try to specify the stakeholders' theory and adapt it to some new constrains and perspective to give more precise definition of CSR in a particular case. To sum up, CSR as a concept has endured a lot of changes and was stretched into the all possible activities that company does to bring it to the level of high competitiveness and success on the market.

At the moment, there is still no universally accepted definition of corporate social responsibility in international practice. As has already been determined, there are many interpretations of CSR, the most authoritative ones are those that deal with CSR issues in different countries.

Nowadays, a lot of studies are devoted particularly to the examination the definitions of Corporate Social Responsibility. Thus, Dahlsrud (2008) in his paper "How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions" took five dimensions of CSR most used in previous studies and figure out the most invoked dimensions. The results showed that most actively discussed areas of SCR are relationships with stakeholders, social dimension and economic dimension with further going voluntaries and environmental.

Together with broad range of definition of CSR, the reasons to implement them vary from the company to company. Some of the companies are focusing on pure philanthropy without relying on a direct outcome, while others are acting on the borderline of legitimacy, investing either into the initiatives, which has high societal resonance or high institutional pressure. Some of the companies sees in CSR initiatives particular financial benefits (Lee and Shin, 2010).

In 2014 McKinsey and Company published the results of their Global Survey on sustainability, where executives of the companies were questioned about their attitude towards

sustainability and CSR practices' motives. Top 3 most popular reasons among 12 which were suggested in the survey were alignment (with goals, vision, strategy), reputation and cutting of costs. Year by year distribution might be seen from the Figure 2 below.

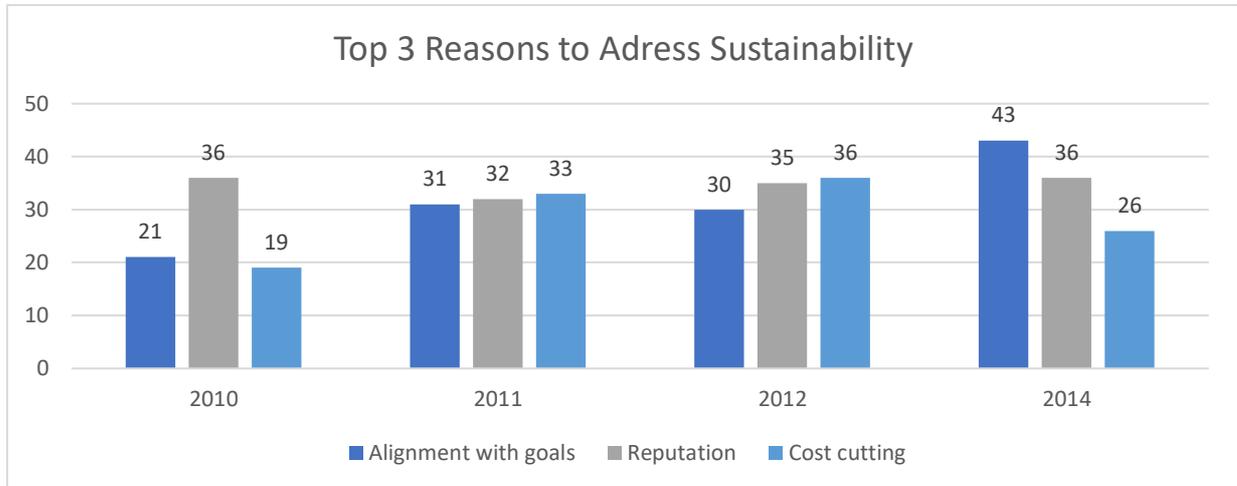


Figure 2. Top 3 reasons to address sustainability from 2010 till 2014

Source: McKinsey Global Survey, 2014

Therefore, both for inside and outside stakeholders of the organizations benefits from implementation of CSR initiatives might be seen from different perspectives. Giving a list of possible benefits of CSR it is possible to give an example of paper by Barnett and Salomon (2006), where such benefits were listed. They are:

1. Better resource management (easier to bring);
2. Higher employees' quality and motivation;
3. More advanced marketing of products or services;
4. Long-run benefits and opportunities;

Summing up what has already been said, there is no yet unified definition of corporate social responsibility among the scientific world and approaches towards this concept may vary from industry to industry and from company to company. However, the general perception of CSR as a significant determinant of company's legitimacy, stakeholders' perception, economic strength and competitive advantage has been formed during the years of researches around this issue. Talking about more recent non-scientific definitions of CSR, Financial Times magazine in their online dictionary determine CSR as "a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders" (2018).

## 1.2. Approaches to measure Corporate Social Responsibility

Taking into account complexity of theories which underlies in the concept of Corporate Social Responsibility and the variety of its' definitions it is clear that measurement of CSR is also a complicated process at least for this reason. Moreover, even without consensus in meaning of the conceptual part, the dimensions of CSR might be different not only across countries, but also across industries and companies within these industries. Thus, the process of measuring CSR is undoubtedly complex as well as the concept itself. There are huge body of researched with attempts to measure SCR to some extent with different approaches, however, it is possible to combine these approaches into four groups (Galant and Cadez, 2017):

- Sustainability indices;
- Content analyses;
- Questionnaires;
- One-dimensional research.

To understand the difference, it is necessary to see the examples of each approach and highlight benefits and drawbacks of each one.

### 1.2.1. Reputation (sustainability) Indices

Nowadays there are vast amount of sustainability and reputational indexes, which are devoted to juxtaposing companies to the extent they are using CSR in their business model and which are constructed by rating agencies. It is possible to distinguish the most famous one, which are Dow Jones Sustainability Index, MSCI indexes (KLD 400 social index), Fortune Magazine Reputation index, ESG scores provided by Thomson Reuters Eikon, CSR Hub Ratings, CSR RepTrak by Reputation Institute, and many others. Moreover, there indices, which are considered to be national due to adjustment for the legislation and requirements of every country.

These indices are used to capture different dimensions of CSR used in the companies and combine them into the comparable and consistent evaluation score. Key elements across all indices are mostly intersected (environmental, workforce, community and etc.), even though the number of dimensions and their extent might be different. As an example, MSCI KLD 400 social index has 5 CSR dimensions included for calculation of the score, whereas DJSI combines 12 sub-categories into 3 major dimensions (economic, environmental and social). However, MSCI KLD and index provided by Fortune magazine are considered to be really similar in some researches (Galant and Cadez, 2017).

Due to difference in the calculation of scores and companies, who are taken into account

for such evaluation, the top companies vary in different ratings. In the table 1 below top 10 companies according to MSCI KLD 400, CSR RepTrak and Fortune Magazine Index are presented as a comparison.

**Table 1.** Top-10 companies according different CSR ratings in 2017

Place	MSCI KLD 400	Fortune Magazine CSR	Global RepTrak
1	Microsoft	JP Morgan Chase	Lego
2	Facebook	DSM	Microsoft
3	Alphabet C	Apple	Google
4	Alphabet A	Novartis	Walt Disney Co
5	Intel	LeapFrog Investment	BMW Group
6	Cisco Systems	Ant Financial	Intel
7	Verizon Communications	Walmart	Robert Bosh
8	Procter & Gamble	Toyota Motor	Cisco Systems
9	Coca Cola	Jonson & Jonson	Rolls-Royce Aerospace
10	Merk & Co	Yara	Colgate-Palmolive

Sources: MSCI KLD 400, 2017; Fortune, 2017; Reputation Institute, 2017

It might be seen from the table that different criteria and measures are leading towards different ranking orders and even complete different lists of companies. Many researches (Erhemjamts et al, 2013; Skare and Golja, 2012) are using reputation indices in the papers devoting to measuring the relationship between CSR and any other company's characteristic as a variable for marking the responsibility of the firm.

As any approach to measure CSR, accounting for reputation indices has its advantages and drawbacks. Advantages of this method are following:

- *Availability of data.* Agencies, in general, provide free access to their ranking and methodologies, making process of data collection for researchers easier. It is possible both to minimize one's effort in the collection;
- *Comparability of data.* Scores are calculated, based on a particular framework, so it is easy to compare companies that are present in the same index.

However, as far as method is one of the easiest for the researcher, the number of its' disadvantages is comparably big:

- *Score is aggregated.* Many agencies provide only final aggregated score (without sub-category score), which minimize the possible usage of data and make the extent of possible research with information only about general score pretty limited;
- *Limited coverage of companies.* For each rating companies are selected for a particular criterion: it might be geographic coverage or company size or a particular industry.
- *Limited number of accesses companies.* Undoubtedly, it is complicated to score every possible company even within a particular industry. That is why usually ratings take into account large companies across industries. Many indices also exclude controversial industries from consideration.

### 1.2.2. *Content Analysis of companies' reports*

Another widespread method of measuring the extent of CSR information disclosure is a content analysis of company's financial and non-financial reports. This method of analysis requires converting qualitative information from the disclosure practices of the company into quantitative one, which is applicable to measuring it through statistical instruments. This method allows researchers to select the construct of their personal interests, independently look for this information in the various sources and code the derived needed data.

The extent and quality of coding might differ according to preferences of the research. Some of the scientists may measure the information presented in the reports by counting the key words or counting the sentences devoted to the particular problem (Aras et al., 2010). Further the scale virials with exact number of references might be used or this information might be converted into the binary data by giving score "0" for not mentioning the particular issue and score "1" for mentioning it in the reports or website. In case of binary score, it might be given to a particular dimension of CSR and further the combined score for CSR might be calculated (Maqbool and Zaamer, 2017).

Appraising each dimension, a binary value might be called relatively easy way to distinguish CSR score for the company. In case there is a need of more advances practices of scoring might be giving an interval score, which might look similar to Likert scale, depending on the quality of the information, which is presented in the company's sources. First attempts to measure quality of CSR disclosure in such away were conducted in 1979 by W. Abbot and R. Monsen, when they used 24 checkpoints to appraised CSR initiatives from six categories.

Recently Abdiraham Anas with his colleagues (Anas et al., 2015) conducted the research by measuring quality and extent of CSR disclosure in the Malaysian PLCs using the exact same method of research. To appraise 17 CSR indicators, which were grouped into four categories, both binary and interval scores methods (from score “1” to score “3”) were used to investigate the relationships between CSR disclosure practices and awards in their case. Distribution of categories and included indicators might be seen in the table 2 below.

**Table 2.** CSR disclosure categories and items by Anas et al., 2015

Environment	Community
Efficiently using the energy	Contribution to children
How to reduce the way its emission damage the climate	Contribution to youth development
The issue of biofuels	Contribution to underprivileged
The essential need to protect flora and fauna	Supporting employee involvement in community
	Supporting education
Workplace	Marketplace
Health and Safety	Supporting green products
Human rights issue	Ethical procurement practices
Gender issues-equal employment opportunity	Helping to develop suppliers and other vendors
Quality of work environment	Corporate Governance Standards

Source: Anas et al., 2015

As with the previous method, content analysis has its advantages and disadvantages. Advantages of this method are:

- *Research flexibility.* It is possible to specify everything about the research: data specification, data collection with accordance to the chosen dimensions and even the way and extent to code the data (for example choosing more complex scale for coding);
- *Universality.* Content analysis is suitable for every company as far as the subject of research here is the way company communicate with stakeholders about being socially responsible through company’s sources. In case no any information is presented on the websites or reports of the companies, it still might go into consideration within the sample but having “0” score across all CSR categories. There is no need to exclude such companies from the sample.

Talking about weaknesses of the approach, they are:

- *Biasness of research.* Undoubtedly, purely customized method of research makes the research itself pretty subjective. Mistake might occur on every stage of the research process: data collection, coding, and even interpretation;

- *Data collection limitations.* Talking about disclosure practices, some companies might not publish the information about their CSR activities even despite the fact that they are actually doing CSR to some extent. Thus, in this case research might be limited by the availability of the data itself (Galant and Cadez, 2017).

### 1.2.3. Questionnaires and surveys

The method of surveys might be applied to explore the CSR commitments for the company, which is not listed in any ratings or indices and do not publish any sufficient and reliable information about being socially responsible in any of the company's sources: neither reports, nor corporate websites. In this way it might be possible to send a survey or questionnaires' for these companies to know about their involvement into CSR.

Some of the researches uses the method of questionnaires to collect data about CSR of the companies. Aupperle et al. (1985) developed a questionnaire with 80 Likert-scale questions about 80 CSR items which were organized in 20 groups taking as a basement for the framework Carroll's CSR dimensions (Carroll, 1979).

The advantages of this method are similar to content analysis ones. The researches can use any framework and develop survey which will might be highly specific to a particular field or issue of CSR. As for the drawback of this research method, here we can say about biasness of the respondents. First of all, they are internal representatives of the companies and might be eager to give more favorable review on companies' activities or even be dishonest answering survey. Moreover, response bias might be caused by shifting the scope of answers towards more socially responsible firms, as far as they will be more willing to give the answers to the questionnaires (Cadez and Czerny, 2016). One more limitation of the research is time constrain due to unexpected results in terms of answering rate of the companies.

### 1.2.4. One-dimensional measures

This research method is developed to explore only a particular pillar of CSR, which might be any of the dimensions of CSR (environmental, social, philanthropy and etc.). Some researchers are focusing only on the pollutions issues of the company's operations (Peng and Yang, 2014) or alignment of the company with environmental standards, while others are making effort to explore implemented policies of public health as a main topic of the research (Naranjo-Gil et al., 2016).

Main advantage of such research is easiness in terms of data collection. Generally, by choosing a particular constrain it is very easy to find needed data in various sources. Also, such a research requires less time than all the previous ones. Main drawback of this method is

derived from the concept that CSR is obviously multidimensional concept, and making research devoting to a particular dimension pretty limited in terms of implications and further applicability of the results. In case one company's attention is shifted towards one practice of CSR, research might show that the company either over performing or underperforming competitors, not taking into account the bigger picture.

### **1.3. Relationship between Corporate Social Responsibility and Financial Performance**

From the review of the concepts of Corporate Social Responsibility it is clear that first attempt to estimate its' relationships with Financial Performance were conducted back in the 20<sup>th</sup> century. In the 1990<sup>s</sup> some researchers started to tighten these two concepts, however they still lacked logical similarity in terms of conceptual frameworks (Weick, 1997). Moreover, most of the research papers, who tried to engage both of these concepts did not have clear methodology and concluded in general mostly positive relationships of these terms (Lee, 2008). Therefore, by the beginning of 21<sup>st</sup> century, concept of CSR was perceived not only as a moral obligation of each company, but also as a strategic instrument towards improvement of corporate performance (McWilliams et al., 2006). Companies started to disclose information, which was not the issue several years ago, such as carbon emission or usage of energy, widen the range of possible CSR initiatives and focus more on managerial issues and corporate governance. It mostly forced the process of rationalization and conceptualization of CSR-FP relationships to make CSR concepts more appealing to interest of different companies' stakeholders (Lee, 2008).

When it comes to financial performance, it is worth mentioning that it could be measured by different type of indicators: accounting-based, market-based or mixed type of this two. Typical accounting-based indicators are Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Return on Sales (ROS), Net Income and others. The main advantage of such measures is their comparability and availability for every company. Market-based measures, from the other side, are highly contemporary and reflection of CSR implementation and changes might be made more frequently. Typical market-based measures are stock returns, market capitalization of the company or returns. Talking about combination of these measures, most frequently used in the studies, they are Tobin' Q and Market Value Added (Lee, 2008). Some of the researchers (Peng and Yang, 2014) also create their own measure for assessing the performance of the companies, by accumulating existing one into a specific variable or index.

Huge amount of studies was dedicated to investigating the direction of CSR-FP relationships. In the table 3. Below summary table for previous works about relationships between CSR practices and FP of the companies might be found.

**Table 3.** Differences of CSR-CF relationship in previous researches

<b>Direction of relationships</b>	<b>Previous Researches</b>
<b>Positive</b>	Burnett and Hansen, 2008 Choi et al., 2010 Rodgers et al., 2013 Kim and Kim, 2014 Waworuntu et al., 2014 Rodrigues-Fernandez, 2015 Maqbool and Zameer, 2018
<b>Negative</b>	Hemingway and Maclagan, 2004 Baird et al., 2012 Peng and Yang, 2014
<b>No relationships</b>	Aupperle et al., 1985 Soana, 2011

Source: created by author based on literature review

With regard to the impact of the introduction of CSR practices on the company's financial performance, previous studies lacked common results according this topic due to difficulty to quantify and evaluate CSR impact monetary terms. Nevertheless, many attempts have been made to analyze the relationship between performance indicators of companies and CSR. Various studies report different and even contradictory results. This might have happened due to different purposes and different methodologies.

Lee (2008) summarized all possible reason for the inconsistency of the results between CSR and CF of companies. The most probable among them are:

- Insufficiency of excising theoretical base to construct universal theoretical model for CSR evaluation;
- Failure to determine of all relevant for the research variable;
- Not enough evidence of causal directions in the researches;
- Data collection biases;
- Limitation of the samples.

In order to avoid these reasons, it is necessary to have a closer look on Tobacco Industry and CSR practices in it for the creation of more sophisticated framework for analysis.

## 1.4. Tobacco industry: global market description and analysis

### 1.4.1. Global Market Description

Tobacco industry is defined as one of the branches of the food industry, leading from retail sales of cigarettes, cigars and cigarillos and raw materials for their production, as well as smokeless tobacco and smoking tobacco.

The During last five years from 2012 till 2016 the global tobacco market has experienced relatively weak growth in terms of value. By 2016 market value reached \$604,820.9 million, which is just 0.1% higher than of the previous year. Overall market compound annual growth rate during this period was 1.6%. Talking about volume growth, tobacco market shrank by 4,3% from 2015 till 2016 and now is accounting for 4,183,456.1 million pieces sold. In terms of volume market experienced opposite compound annual growth rate of -1.6% during last 5 years starting from 2012. (Marketline, 2017). Figure 3 below shows the market value and volume of tobacco industry in the period from 2012 till 2016.

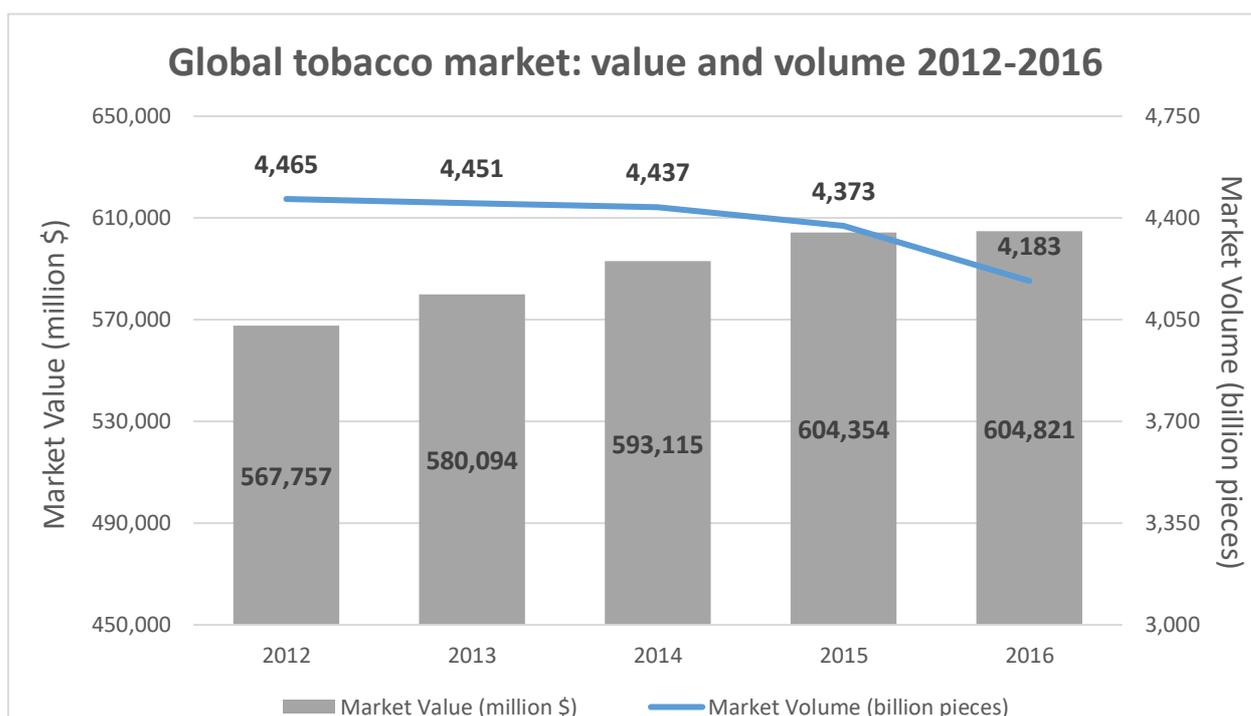


Figure 3. Global Tobacco market: value and volume (2012-2016)

Source: Marketline, 2017

Core product on the market, which makes 89,8% of total value of sales is conventional cigarettes (Euromonitor International, 2017). Thus, revenue for the major players on the market is generated mostly with the sales of cigarettes. It might be clearly seen from the bar chart above, that the value of tobacco market is still plateauing over last two years and experienced only

slight growth previously is most probable due to increase in prices of the cigarettes, because the actually number of pieces sold is decreasing from year to year.

According to Euromonitor International, in a short-term and medium-term perspective total population of smoking people will continue to grow (mostly due to emerging markets habits), the trend towards abandoning smoking and perception of tobacco and nicotine slows down the penetration on the key markets for the companies. Moreover, in a long-term horizon the decline of the cigarette retail volume is forecasted to decline 22% in the best scenario for the tobacco companies by 2031. Thus, tobacco companies should develop a new strategic vision to mitigate the negative effect of the shrinking industry they are operating in.

#### 1.4.2. Market rivalry and main players

Global tobacco market might be described as having tough competition. Excluding tobacco market in China, where China National Tobacco Company is a governmentally owned monopoly and which accounts 44,2% of global market volume of tobacco, top 4 global players accounts for 42% of market volume of tobacco and cigarettes in particular (Statista, 2016). Thus, the rivalry is pretty high in the industry. Figure 4 below shows tobacco market share by companies in 2016.

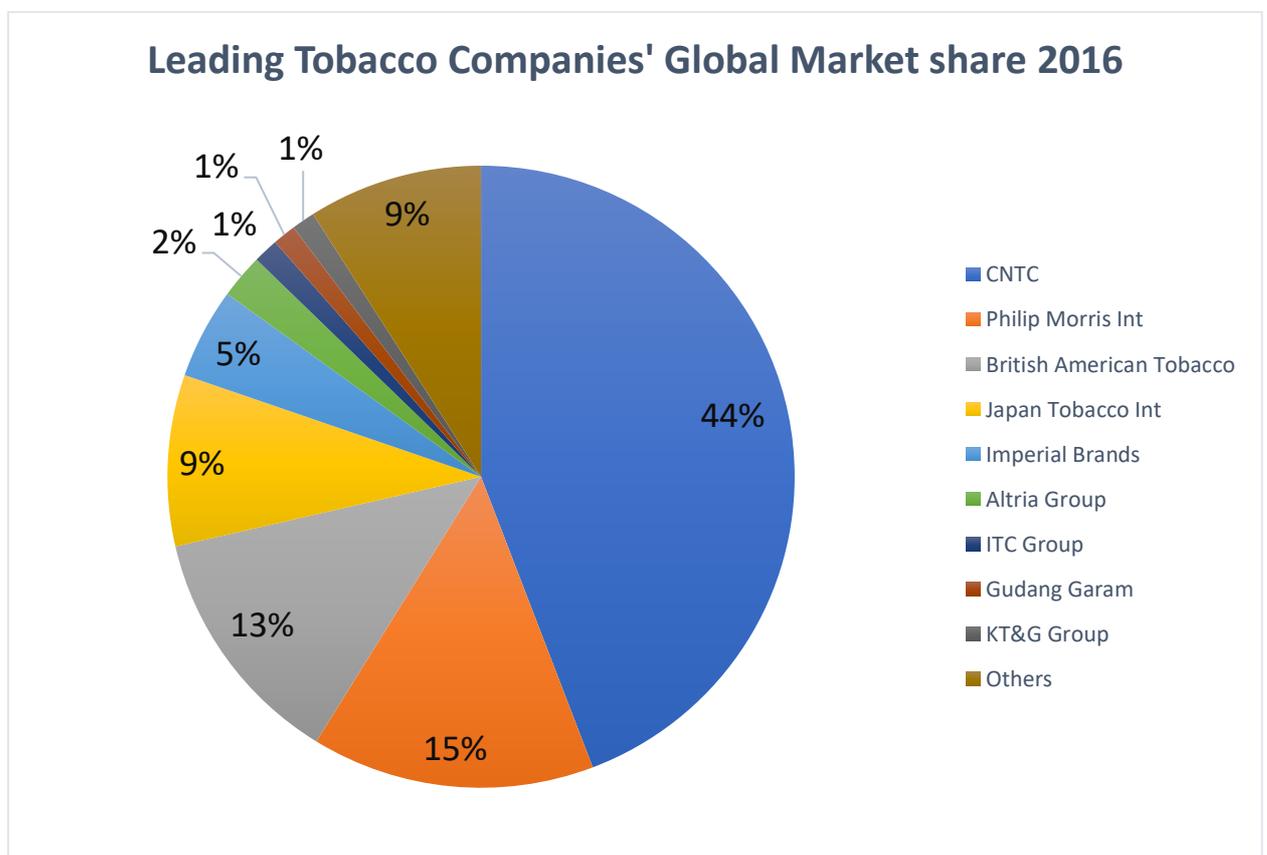


Figure 4. Global tobacco market companies' shares

Source: Statista, 2016

Talking about main players in global tobacco market, there might be distinguished 5 major multinational companies.

### ***British American Tobacco Plc***

BAT is a British tobacco company that holds about 17% of the world tobacco market. Is engaged in the production of tobacco products, nicotine-containing products, electronic cigarettes. The main brands of BAT are Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans. It buys a US company owned brands Newport, Camel, Pall Mall, etc. Company also produces smokeless tobacco products and electronic cigarettes. The company owns 44 cigarette manufacturing factories in 41 countries worldwide.

The total number of the company's personnel is more than 50 thousand people. The company's sales in 2016 amounted to 663 billion cigarettes.

### ***Philip Morris International***

PMI is one of the largest cigarette manufacturers in the world. It was part of Altria Group, in 2008 it was allocated to an independent company. The most well-known brands are Marlboro, Parliament, Bond, Chesterfield, L&M, Philip Morris PRESEDENT. As of 2017, 72.7% of the company's shares belong to institutional investors, the largest of which are Capital Group Companies, The Vanguard Group, BlackRock, State Street Corporation, T. Rowe Price.

### ***Japan Tobacco International***

JTI is an international tobacco company with the headquarters in Geneva (Switzerland); a division of the Japanese group of companies Japan Tobacco. JTI – is the third largest tobacco product manufacturer in the world, its products are provided in 120 countries, about 27 thousand employees work at factories of the company in 74 countries.

Japan Tobacco Inc. was created on April 1, 1985 based on the Japanese state tobacco monopoly existing since 1898. A third of its events belongs to the government of Japan (Japan Tobacco International, 2018).

The Company operates through four business segments. The Domestic Tobacco segment is engaged in the production and sale of tobacco products. The International Tobacco segment is engaged in the production and sale of tobacco products through JT International S.A. The Medical segment is engaged in the research, development, production and sale of medical drugs. The Food Processing segment is engaged in the manufacture and sale of frozen and ambient temperature processed foods, bakery, seasoning, among others. The Company is also involved

in the leasing of real estate (Financial Times, 2018).

### ***Imperial Tobacco Group***

Imperial Tobacco is the international tobacco company, the fourth largest in the world. The headquarters is located in Bristol, England. The company's shares are quoted on the London Stock Exchange, a component of the FTSE 100 index.

The Company offers a range of cigarettes, fine cut and smokeless tobaccos, papers and cigars. The Company's segments include Growth Markets, USA, Returns Markets North, Returns Markets South and Logistics. The Growth Markets segment includes Iraq, Norway, Russia, Saudi Arabia and Taiwan, and also includes Premium Cigar and Fontem Ventures. The Tobacco business comprises the manufacture, marketing and sale of tobacco and tobacco-related products. The Logistics business comprises the distribution of tobacco products for tobacco product manufacturers (Financial Times, 2018).

### ***Altria group***

Altria is a holding company founded in 1847 in London, currently having headquarters in New York, the USA (Altria, 2018). It operates through the following segments: Smokeable Products, Smokeless Products and Wine. The Smokeable Products segment comprised of cigarettes manufactured and sold by PM USA and machine-made large cigars and pipe tobacco manufactured and sold by Middleton. The Smokeless products segment manufactured and sold by or on behalf of USSTC and PM USA. The Wine segment producer of Washington State wines, primarily Chateau Ste. Michelle and Columbia Crest, and owns wineries in or distributes wines from several other wine regions.

Altria is a parent company of tobacco manufacturers such as Philip Morris USA, John Middleton, Inc., U.S. Smokeless Tobacco Company, as well as "Philip Morris Capital Corporation" and the wine house "Chateau Ste. Michelle". The company "Philip Morris International" ("Philip Morris International") was withdrawn from the holding in March 2008. Thus, Altria Group controls only the American part of Philip Morris (called Philip Morris USA). "Philip Morris Intention" in turn, entered the listing on the NYSE with the ticker PM after the division. Revenue in 2017 - \$ 25,58 billion. The total number of employees of Altria Group (for 2017) - about 8300 people (Forbes, 2018).

### *1.4.3. Regulation and reputation of the tobacco companies*

Tobacco industry is extremely sensitive towards regulations and public opinion due to harmful nature of the products it manufactures. In 2003, World Health Organization published the treaty, which was called “Framework Convention on Tobacco Control” (FCTC) and opened it for signing. As a result, by 2017, 181 countries became parties of FCTC (FCTC, 2016). The main aim of this convention is to reduce the lethal cases caused by consumption of tobacco products and reducing of tobacco consumption all around the World. It is a first document of its kind that established regulations and rules and principles for tobacco industry in the fields of: taxation of tobacco products, youth smoking prevention, marketing and advertising of tobacco products, packaging, and illicit trade control.

To be more specific, there is a list of recommended action towards fulfilment of the terms of the convention (FCTC, 2016):

- Explicit action for youth smoking prevention;
- Restriction for the tobacco products’ marketing, advertising and any kind of promotion;
- Keep public aware about consequence and harm of smoking through public and educational campaign;
- Quality standard and transparency of information about products;
- Packaging with health warning signs;
- Elimination of cigarette smuggling;
- Restriction on smoking in public places;
- Taxation measures and price policy revision;
- Clear packaging warnings without false impression on the safety of the tobacco brands;
- Restriction on duty-free tobacco sales;
- Legal processes against manufacturers of tobacco products.

Regulation of tobacco industry aimed to different categories of measures combined in three blocks: core, standard and next generation (Euromonitor International, 2017). In the figure 5 below it is shown how Euromonitor International explains the block of regulation on tobacco industry.

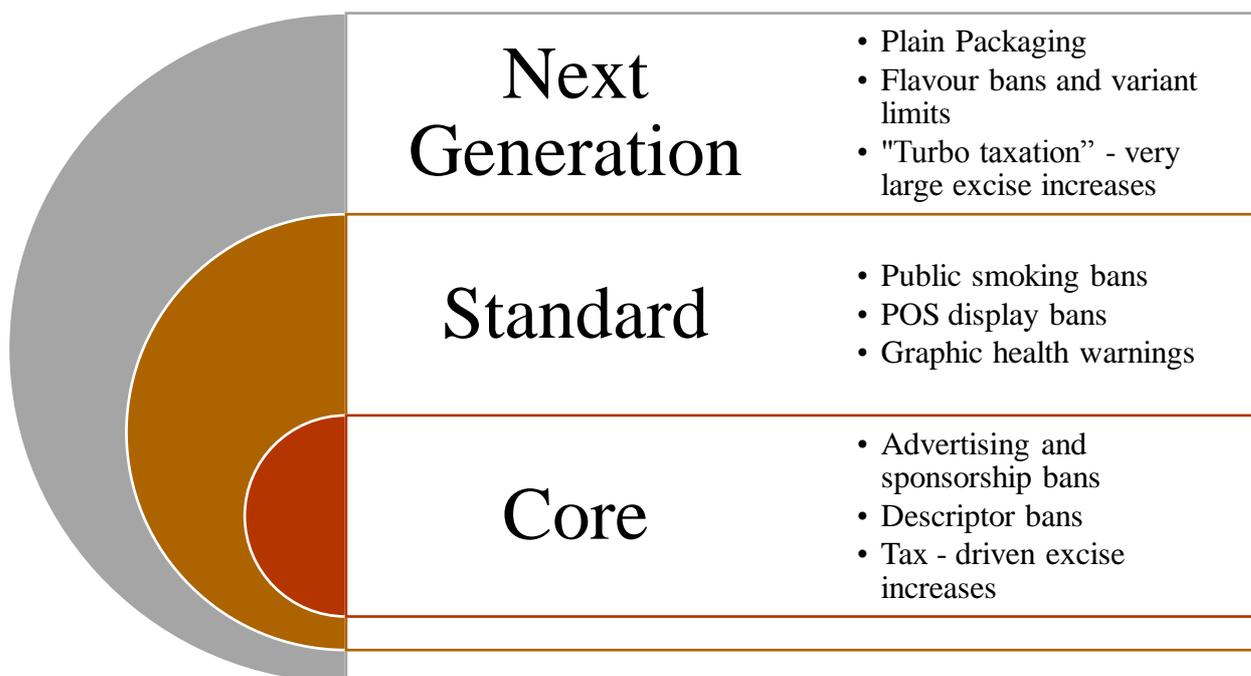


Figure 5. Restriction on the global tobacco industry

Source: Euromonitor International, 2017

Public attention to the activities of tobacco companies is also pretty intense in the global scope. In 2012 Tobacco Research Control Group launched the educational portal called TobaccoTactics, where it reveals all tactics used by tobacco companies to avoid or minimize the harmful effect on tobacco business by control organs. Portal highlights all the relevant to the industry news, experts' opinions and discussion, new trends coverage in of tobacco industry, and new legislation initiatives, such as completely plain packaging or legislation of new generation products. Noteworthy, website explains all the tactics and their goals in the popular manner giving its description and goal for tobacco companies. Corporate Social Responsibility according to this portal is one of the tactics for the tobacco companies to create a viable illusion for the public of "admitting sins of the industry" and embark on the path of correction to support health concerns of the public (TobaccoTactics, 2018). Thus, it is necessary to look closer to the CSR practices of the tobacco companies to understand, if it is really just a way to create an illusion of being good corporate citizen or tobacco companies are really improving their social behavior and started to go along with the health institutes to diminish the harmful effect of their activities.

## **1.5. Corporate Social Responsibility in tobacco industry**

As in any controversial industry, tobacco companies are interacting with society and governments more frequently than any other industry, due to constant lobbying of their right to maintain activities and create value for their stakeholders. In this case, CSR activities might be a useful instrument towards development at least trustworthy relationships and maintain value-creation process (Cai et al., 2011).

### *1.5.1. Image of tobacco companies in 20<sup>th</sup> century*

By the beginning of 21 century tobacco companies actively started to state their position and vision towards corporate social responsibility. In the year 2002 and 2003 most of global players on the market established either CSR reports or related webpages on their corporate websites, highlighting information about their commitments towards becoming socially responsible companies. Not surprisingly, these actions led to criticism and disaffection on the part of the Non-Governmental Organizations (NGOs), which opposed the tobacco industry itself.

World Health Organization in 2003 published the report, where it critically reflected the common initiatives of tobacco companies, calling them “inherent contradiction” and questioning the possibility to be socially responsible in tobacco business. Undoubtedly, tobacco industry differs from the others and perceived strongly-negative by several reasons. First of all, the product itself cause harm for humans’ health, which is proven by many scientific medical researches. In the middle of 20<sup>th</sup> century, there were already studies underlining the negative impact of smoking habits on human’s health. The relationship between smoking and lung cancer were proven to be positive (Doll and Hill, 1950). Talking about present times, it is a common knowledge that smoking cigarettes leads to both: addiction and death. According to G. Palazzo and U. Richter (2005), in the beginning of 21<sup>st</sup> century there were more than 70,000 scientific studies, which form a strong awareness of the facts that nicotine contained in cigarettes is psychologically active and cause addiction; consumption of tobacco products leads to various health problems; and tobacco smoke provokes more than 40 lethal diseases. Thus, not only consumption, but also production of such a dangerous goods is definitely not associated with such term as “social responsibility”. Second reason for different perception of the industry is corporate behavior of the main players (Palazzo and Richter, 2005). Tobacco companies tended to smooth angles by manipulating or hiding the information along with denying any risks. To mitigate the effect of medical studies, during 20<sup>th</sup> century, tobacco companies were trying to foster sponsored researches to refute the information of nicotine addictiveness and also shift the

causal effect of cigarettes to any other reason. In Washington D.C. even, Tobacco Institute were founded to lobby interests of tobacco producers. Thus, for many decades tobacco companies were trying to lobby their interests and misinform publicity in order to calm affected by health concerns customers and prevent implementing of government regulation, seeing World Health Organization as their main enemy in terms of maximizing tobacco revenues.

Not surprisingly, by the end of 20<sup>th</sup> century, all the manipulations and misinformation of the tobacco giants were revealed to public and it reinforced mistrust towards industry's activities. Thus, 1990s were ten years of "dark times" for tobacco industry: restrictions on smoking publicly, lawsuits, legislation issues, political pressure, revealing of internal companies' documentation to manipulate medical papers. It led to mistrust among investors and drastic decrease in tobacco companies share prices (Hirschhorn, 2004).

#### *1.5.2. Tobacco industry's CRS genesis*

In contrast with classical interpretation of Corporate Social Responsibility, which usually aims in getting reputational enhancement, social respect and sometimes even emotional affection to the company, in case of tobacco industry it was a struggle to balance between industry regulation, company performance and social trust. Palazzo and Richter (2005) conducted that social initiatives, which are mainstream for other industries, does not have desirable effect in contribution to tobacco legitimacy and image. Moreover, tobacco companies have to be careful with core aspects of CSR, such as corporate philanthropy, collaboration with stakeholders, reporting initiatives and self-regulation.

Talking about philanthropy, by donating money into different charities, they are usually casing debate around "dirty money" topicality and biasness of this decision with public pressure. Either it is contribution into studentship development (BAT and London School of Hygiene and Tropical Medicine in 2002) or Campaign for Tobacco-Free Kids (Philip Morris USA), beneficiaries of such initiatives are considered to be very limited. Another dilemma of corporate philanthropy is connected with the fact that basing across core competences of the company, it should constantly improve image and reputation of the business (Porter and Kramer, 2002). For tobacco companies, core competences are pretty impossible to focus on due to business specifics.

In stakeholders' collaboration, on the contrary of the desired effect, such as making CSR activities more credible and enhancement of better collaboration, tobacco industry limits this collaboration for the fact of reputational risks in case of conflict situations. Many stakeholders also try to avoid and refuse the possibility to cooperate for the sake of its' own credibility. Moreover, a lot of non-government organizations, which are strictly against tobacco, were

seeing their only goal to destruct the activities of this industry. On the contrary, none of these NGO organizations wants legitimate tobacco companies to resign from their activities, because in this case illicit trade around the world will grow dramatically. In general, smoking is legal and vast amount of world's population smokes. Prohibition of smoking on the government level will never lead to desirable results but will only bring the drug consumption problem to the surface. Thus, limitations for CSR in the context of stakeholders' collaboration are also connected with deliberate isolation from big portion of the public that might be relevant for such activities.

In CSR report most of the companies across many industries usually highlighting the facts, which shows them in the favorable light, with inclusion of some critical review on the unfulfilled commitments, presented as "future commitments". However, by doing so, tobacco companies will present themselves as trying to do window-dressing, but not gain any credibility from the society. British American Tobacco was the first company to publish CSR report in the industry in 2002 and was criticized for the fact of disguising information about the actual death rate of people from smoking as the main aspect of the business activity. It might be said, that the business model itself limits the transparency of the information that should be shared with public. Tapscott and Ticoll in their book "The Naked Corporation: How the Age of Transparency Will Revolutionize Business" (2003) perfectly described the main challenge of tobacco companies. They claimed that main product in the industry is directly associated with the term "harm" and it makes business unable to be fully transparent. Attracting different funds is also a struggle for tobacco companies, it happens really rarely. All in all, CSR reporting was and still is a sensitive area, which needs delicate consideration. The public response on the classical initiatives for the other industries, presented in mainstream manner might cause unfavorable discussions and scandals. Thus, the level transparency at which tobacco company interact with the society should be lifted to another advanced level.

The last but not the least, self-regulation is undoubtedly one of the core activity under the reality of public pressure, which most of the industries are facing difficulties with. By self-regulation companies states commitment towards future impacts they are ready to transpose to the society. Public, on the contrary, perceive these voluntary initiatives and codes of conducts mostly as formality to create good impression, even if the industry itself appeals to public. In tobacco industry thing are getting even worse: any philanthropy or initiative are critically reflected in order to reveal the real motives. Transparency and control of third parties are highly required to make publicity believe in the true ethical compliance and legitimacy. As an example of the doubts that may occur, World Health Organization was questioning the real motives of tobacco companies to prohibit marketing activities aiming kids (Rondinelli, 2002). Thus,

companies in tobacco industry should be very careful with the choice of CSR ideas to be trustful, transparent and persuasive.

Beginning of 21<sup>st</sup> century was the time of growing interest around CSR topic and formed almost a novel industry around it: most of the independent stakeholders were involved in this topic, such as NGOs, academic journals, business associations, financial advisors, and international parties. They all were involved into the development of universal code aiming definition and standardization of the CSR around Globe. Kenneth Warner in his paper “What’s a cigarette company to do?” (2002) raised the discussion about the future possible direction of development of CSR inside tobacco companies and proposed the concrete list of strategies and practical recommendations to implement. Among them:

- To terminate all forms of advertising and destine saved marketing costs to programs dedicated to maintaining social wealth after harmful tobacco interference. Estimated decrease in amount of smoking people due to an end of its’ advertising is 7% (Saffer and Chalupka, 2000);
- Reassume pricing and tax policies;
- Consider “Youth smoking prevention programs” as a core CSR direction;
- Stop manipulating and falsify researches’ results and concentrate on the development of the technologies that may minimize harmful tobacco impact on humans’ health.

To sum up, at the turn of the century tobacco companies have to become truly socially responsible and dedicate their strategy not to the increasing of shareholders wealth and earning more profits, but to keep high level of earnings while benefiting society and helping to resolve sharp smoking issues. Talking differently, tobacco companies have to stop behaving as any other industries’ free enterprise corporations (Hirschhorn, 2002).

### *1.5.3. New era of CSR in tobacco industry*

In the first two decades of 21<sup>st</sup> century tobacco companies have started the implementation of CSR concepts in their organizational strategies. By 2018 most of the major players on the market are detailing their initiatives in different types of sustainability, environmental and more specifically target reports. Many researches have proven that industry specific CSR initiatives are considered to be powerful tools for the improvement of public, governance, and credibility image (Tesler and Malone, 2008).

Most of the companies are publishing their SCR report on their websites and also creating particular web pages to make the process of exploration simpler for any interested party. In 2014 Patricia McDaniel, Brie Cadman and Ruth Malone conducted an extensive research examining web site CSR content of 4 US and 4 multinational tobacco players and philanthropic

programs that these companies are implementing. It appeared that most of the players have a share vision on the development of such a program, as far as there were no absolutely unique content intrinsic for a particular company. Summary table of this research is presented below (Table 4).

**Table 4.** Summary table of commonly mentioned tobacco CSR fields

CSR focus	Altria	PMI	BAT	Imperial Tobacco	JTI
Youth smoking prevention	X	X	X	X	X
Marketing	X	X	X	X	X
Supply chain	X	X	X	X	X
Acknowledgement of health harm	X	X	X	X	X
Illicit trade	X	X	X	X	X
Environment	X	X	X	X	X
Harm reduction	X	X	X		X
Local community philanthropy	X	X		X	X
Education	X	X		X	X
Disaster Relief	X	X		X	X
Hunger/poverty	X	X		X	X
Arts	X	X			X
Disease prevention/health promotion	X	X		X	X
Research funding		X	X		
Smoking cessation		X			
Domestic violence	X	X			
<b>Total No of CSR related webpages</b>	<b>24</b>	<b>78</b>	<b>73</b>	<b>91</b>	<b>35</b>

Source: McDaniel et al., 2016

It is clear from the table that multinational corporations have more CSR-related web pages, covering most sensitive areas both in core activities and as a philanthropy. Thus, most mentioned universal CSR focus areas for tobacco companies are:

- ***Youth smoking prevention.*** Most of the initiatives in this category might be divided in two directions. First one is mentioned by all the companies presented above (except Altria) and it is investing into proof-of-age measures at the point of sale. As an example, in US there is a program called “We Card”, which is non-profit organization which target retailer of different sized and provide them material for training and educational program aiming preventing sales on age-restricted products to minors (We Card official website, 2018). Another scope of CSR initiatives is implemented mostly by US based companies and Philip Morris International and it includes establishing, sponsoring or support of educational programs for prevention of youth tobacco consumption. As an example, here is “Success 360” by Altria;
- ***Responsible marketing.*** It was mentioned by all tobacco companies that they voluntarily confined their marketing activities toward adults. Most of them include details in the statements towards complete ban of targeting young generation, restrict outdoor advertising and merchandise, which contains cigarette brands. Some companies (BAT and PMI) also states their basic marketing principles about being honest about risk of smoking;
- ***Sustainable agriculture (supply chain).*** According to companies’ websites, “supply chain” is used to describe initiatives towards organizations and individuals, who are connected with the materials for manufacturing cigarettes. Two directions of the desirable impact were mentioned among most of the companies: eliminating of child labor and developing regions, where tobacco grows. Recently, British American Tobacco started to publish separate report dedicated to this issue called “Supporting Farmers’ Livelihoods”. In this report BAT manages farm income, usage of natural resources, access to energy and natural resources, develop labor skills and maintain community network (2014). Mostly all of the companies are discussing their effort towards minimization of the negative effect on the environment by growing of tobacco (Otaney and Glantz, 2011). Everybody except Lorillard are promoting sustainable agriculture among villages and farmers, who supply tobacco to them. One more commitment made by some companies were minimizing the purchase of genetically modified tobacco (McDaniel, 2016);
- ***Harm caused by smoking.*** To different extent all of the companies are publishing on their websites information about harm caused by smoking. Some of them (for example Altria) are not defining the exact harm, but simply acknowledge that it is working on the reducing the harm caused by smoking. Lorillard’s, on the contrary, contains such a notion as “fatal and serious diseases” with explicit list of these diseases. Thus, these

companies illustrate two distinctive point of view on the intensity of provided information. Other players are asserting public with warning information about the most well-known diseases that might be caused from smoking: lung cancer, bronchitis, heart disease, and emphysema. Imperial Tobacco and British American Tobacco also highlighted that the linkage between diseases and smoking is ascertained by epidemiological studies, which failed to determine the exact component of smoke that may lead to diseases. Another extend of smoking harm admission is an acknowledgement towards passive smoke. Not all the companies are mentioning it on the website, however they are stating at least one health authorities' conclusion about effect of secondhand smoke on lung cancer, respiratory infections, heart disease for people who do not smoke, as well as Sudden Infant Death Syndrome in children (McDaniel, 2016).

- ***New Generation Products.*** In the last four years most of the companies are starting crucial transformation in terms of vision of companies' future. Most of the tobacco enterprises started to develop products with potentially reduced risk, which may dramatically change the direction of their activities. TobaccoTactics.org defines next generation products as the tactics towards security of the industry in the midterm and long-term horizon to avoid the tobacco regulation and mitigate the effect of cigarette market shrinking. This term includes e-cigarettes, vaporizers and heated tobacco products and they are considered to be products, which reduce risk of smoking for the addicted people (TobaccoTactics, 2018). Euromonitor international forecasts strong potential growth of the category, as far as from 2011 till 2016 market is following stage of growth experienced raise of 828% and expected to grow 275% more from 2016 till 2021 (Euromonitor International, 2017). The concept of development next generation products became the main theme of tobacco companies strategic focus in recent times. Philip Morris International on their official website states new strategic vision of the company: "Designing a Smoke-Free Future" (Philip Morris International, 2018). Thus, a most of the companies are seeing their future growth in developing new niche for the smokers, which will attribute the need of reducing harm effect of burning tobacco on health.

## **CHAPTER 2. CSR DISCLOSURE AND MARKET PERFORMANCE IN TOBACCO: AN EMPIRICAL STUDY**

### **2.1. Development of hypothesis**

Talking about the measures of evaluation CSR initiatives in tobacco companies, it is worth mentioning that this paper is devoted to measurement of the issue of the CSR disclosure, meaning that as an information for analysis only information provided by companies' sources will be used. In simpler words, the main assumption of the paper is that the way company delivers information about their CSR practices may affect their financial results and perception of the market. After in-depth literature review it is clear that amount of metrics to measure CSR might be chosen according any consideration and being as precise as the research might require, for example, according to GRI requirements it might be more than 40 indicators' score points (Galant & Cades, 2017).

Thus, for further analysis disclosure of CSR were decided to divide into two sub variables: classical SCR disclosure practice and controversial information disclosure practices to include industry-specific initiatives and commitments, which tobacco companies claim to fulfil on their websites and which may have different effect that classical CSR framework. Both these variables were analyzed through such dimensions as extend and quality of information disclosure.

#### *2.1.1. Extent and quality of basic CSR information disclosure*

In far 1984 Edward Freeman has formulated his theory, saying that any business should account for the interests of various parties (stakeholders) as far as any organization do not exist independently from the environment it operates in. Most of the CSR framework has embraced this vision on organizational existence and include different categories of CSR activities aimed at the interest of different parties. Another society-based theory is legitimacy theory (Deegan, 2002), which states that society approves the existence of firm that follows commonly approved societal norms. Thus, by disclosing the scope of activities under CSR pillars, company to some extent is legitimizing its' operations for the public. Both of these theories are leading to understanding the importance of the scope and extent of information that company is transmitting to public about being socially responsible.

Most of the researches, which aimed to find the relationships among Corporate Social Responsibility and Financial Performance (both accounting-based and market-based), talking about CSR actually meaning the extent of SCR disclosure. Implementation of scoring system is most widely used method to collect information about CSR activities of the organizations

(Maqbool and Zaamer, 2017; Rodriguez-Fernandez, 2015; Blasi et al. 2018).

To evaluate extend of Corporate Social Responsibilities disclosure researchers using unweighted disclosure index by creating specific checklists inside the chosen framework of the CSR. Maqbool and Zaamer (2017) aggregated 32 basic CSR initiatives into 4 categories, which are standard for this type of researches: environment, community, workplace and diverse. By conducting content analysis of the financial and non-financial reports of the companies they measured the extend of CSR disclosure by simply pointing out the number of initiatives among total 32 items, which company mentions within their reporting system. Collected percentage was considered as a score of the CSR for the company. Furthermore, they investigated the relationship with financial results of the companies from the sample in the subsequent analysis. Research showed positive relationships of CSR disclosure level and stock market returns of Indian banks.

Similar method of collection information about CSR disclosure was used in the research paper by Abdirahman Anas et al. (2015). However, instead of measuring just extent of CSR practices disclosure, authors decided to add there the term quality of CSR disclosure. It can be done by giving a score from 1 to 3 depending on the quality of the information presented by company. This approach is called weighted disclosure index and it would be used in this research as a some of scores for both dimensions for each firm-year observation.

As it was discussed previously, using content analysis approach, weighted disclosure index and previous studies framework towards measuring extent and quality of CSR disclosure practices among tobacco companies, following framework was created for Tobacco industry CSR (table 5.).

**Table 5.** Tobacco CSR disclosure checklist (adjusted by author)

<b>Direction</b>	<b>CSR initiative specification</b>
<b>Environment</b>	Efficient energy usage (energy conservation/power saving)
	Emission Reduction (carbon foot print, CO <sub>2</sub> )
	Product Waste programs (utilization of cigarettes)
	Environmental protection
	Sustainable wood approach
<b>Community</b>	Educational programs
	First aid to victims of environmental disaster

	Art, sports, and cultural programs
	Establishment of public places (playgrounds, parks)
	Developing rural areas
	Hunger and Poverty
	Engagement with NGOs
<b>Workplace</b>	Diversity and equality in the working place
	Safety and health in the working place
	Human rights protection
	Work environment
<b>Marketplace</b>	Product innovation
	Eliminating child labor
	Impact in farmer livelihood maintenance (suppliers development)
	Illicit tobacco trade control
	Anti-bribery and corruption meres

Created by author based on Maqbool and Zaamer (2017) and Anas et al. (2015)

Thus, this framework will be used to evaluate extend and quality of CSR information available in tobacco companies' reports as two separately calculated variables. Following hypothesis were suggested:

**H1a:** Extend of basic CSR disclosure has a positive relationship with market performance of tobacco companies.

**H1b:** Quality of basic CSR disclosure has a positive relationship with market performance of tobacco companies.

### 2.1.2. *Extent and quality of controversies in CSR information disclosure*

In case of companies with bad reputation, concept of CSR is extremely complicated to evaluate. Yoon et al. (2005) in their research distinguished the difference of perception by

stakeholders CSR activities with high and low salience for the business core activity in case of having bad reputation. Thus, they proved that stakeholder tend to evaluate CSR activity negatively in case of high salience together with knowing this information from companies' sources. Many researches separate "positive" and "negative" CSR even for not controversial industries. Karim et al. (2017) is talking about CSR strengths and CSR concerns for each particular CSR variable. Thus, for tobacco companies both: high salience and concerns might be considered as being sensitive for forming public opinion around it.

Table 6. below provides list of such areas of either high salience for companies' activities, or controversies in terms of companies' intention to disclose it.

**Table 6.** Tobacco CSR disclosure controversies

Direction	CSR initiative specification
<b>Product Responsibility</b>	Harm caused by smoking
	Harm caused by secondhand (passive smoking)
	Youth smoking prevention
	Researches of tobacco effect on health
<b>Responsible Marketing</b>	Marketing principles
	Restriction of advertising
	Restriction of point of sales
	Working with retailers

Source: Created by author

Thus, this framework will be used to evaluate extend and quality of controversies in CSR information available in tobacco companies' reports as two separately calculated variables. Taking the consideration complex nature of abovementioned initiatives and ambiguous possible reaction of the market on the disclosed information in these fields, the hypothesis for these variables are following:

**H2a:** Extend of controversies in CSR disclosure has a negative relationship with market performance of tobacco companies.

**H2b:** Quality of controversies in CSR disclosure has a negative relationship with market performance of tobacco companies.

### *2.1.3. Development of New Generation products Portfolio*

Nowadays, companies are seeking for the solution towards reduction of the harm, which is caused by smoking conventional cigarettes. Most of the major players on the market has started their investing process into development of alternative products that contains nicotine. Moreover, they underline strategic importance of this research and development activities in their financial and non-financial reports. It is seen as a biggest possible contribution by transnational tobacco companies to facilitate switching of smokers to the product with potentially less harmful effect on their health. On the opening page on the main website of the company Philip Morris International calls their new vision “Designing a Smoke-Free Future” (Philip Morris International official website, 2018), British American Tobacco calls their strategy as “Transforming Tobacco” (British American Tobacco official website, 2018), Imperial Brands states “From Tobacco to Something Better” (Imperial Brands official website, 2018). Thus, many companies not only started to develop and market next generation products of products with reduce harm, but also state this switch in main focus as their new strategic vision. Tobacco Tactics portal by Tobacco Research Control Group, on the other hand, see in this move from the side of tobacco companies as an attempt to avoid regulation restrictions and to mitigate the effect of shrinking world market of cigarettes. Therefore, beginning of development of such category of products is considered to be a great even from the point of view of market perception of the companies as far as it can directly influence its’ future performance.

In this research, the effect of the implementing new strategic vision, which is becoming core topic of CSR disclosure for many tobacco companies, on market performance want to be tested. Thus, following hypothesis is stated:

**H3:** Focus on new generation products has positive relationship with market performance of tobacco companies.

### *2.1.4. Presence in Dow Jones Sustainability Index*

For any company getting into sustainability indices or ratings is a complicated task, as far as a lot of particular requirements should be met to be considered on the top positions of the industry, geographical market or especially in absolute terms. For companies with bad reputation, including tobacco companies, this task is even harder, because a lot of ratings do not consider controversial industries at all (for example MSCI KLD 400 social index).

One of the rating systems, which takes into consideration tobacco companies is a Dow Jones Sustainability Index (DJSI) launched in 1999 by RobecoSAM and S&P Dow Jones Indices. DJSI is one of the most famous and oldest sustainability indices in the history, which

is used by investors all over the world to evaluate CSR practices of companies across all industries and markets (DJSI official website, 2018). It consists of family of indices specifically design for such geographical areas as Europe, North America, Australia, Asia Pacific, Korea and Chile, which are counterpartyed into the DJSI World. Moreover, the index includes one of the widest in terms of scoring scale of indicators, which is applied to evaluate the Corporate Social Responsibility extend of the assessed companies. Atriach et al. (2010) stated that DJSI might be considered as best index to use for CSR evaluation.

Rodriguez-Fernandez (2015) used DJSI as a variable to measure performance of the company, because of its' strong reputation and applicability to measuring attitude of investors towards the companies. Thus, the hypothesis for this variable is following:

**H4:** Inclusion of company in DJSI has positive relationship with market performance of tobacco companies.

## **2.2. Research Method, Sample and Variable Description**

For the specification of the sample of companies, Thomson Reuters Eikon database were used to determine companies in tobacco industry all over the world. After filtering active stocks and eliminating stocks of the same companies in different markets, 56 stocks were identified as players on the global tobacco market. After eliminating companies, who do not produce cigarettes, but another tobacco products, or do not publish their financial and non-financial reports frequently, 10 companies were selected for the further analysis.

Regarding market analysis, 10 biggest companies on the global market were taken into consideration (exluding China National Tobacco Company), which is accountant for 47% of global market (Statista, 2017). They are: Philip Morris International, British American Tobacco, Japan Tobacco International, Altria Group, Imperial Tobacco, ITC Limited, Korean Tobacco and Ginseng Corporation, Gudang Garam, Karella Tobacco, and VST Industries. Time period of the research 2008-2017 years. Thus, total firm-year observations for the analysis is 100.

After scoping the research, it was necessary to collect data about CSR initiatives disclosure, using content analysis method and evaluate each variable.

### *2.1.5. Basic CSR calculation*

For the scoring of the level of disclosure of basic initiatives Anas et al. (2015) methodology were applied. To measure extent of the CSR disclosure is dummy variable, which simply represents presence (score "1") or absence (score "0") of a particular item in the companies' reports.

Talking about quality of the disclosure, following primary research by Wiseman (1982) and then Anas et al. (2015), in case of presence of item from the framework score “1” was given for general information, score “2” was given for specification of the meres or initiatives and score “3” were given for presenting numerical or monetary or qualitative results together with specific information. In “Marketplace” direction by “Product Innovation” it means the innovation of existing portfolio of cigarette brands, either it is new flavors of cigarettes, new filters and innovative packaging.

Thus, extent of disclosure of CSR initiatives (ECSR) were calculated as sum of scores either “1” or “0” according to Anas et al. (2015), and quality of CSR (QCSR), were calculated as sum of scores from “0” to “3”. Hence, maximum possible score for the extent of CSR disclosure is 21 and 63 for the quality of disclosed information. These scores will be included into final models as dependent variables.

For the computation of the variables formula by Anas et al. (2015) was used:

ECSR – sum of scores “0” or “1” across all items for each firm-year observation

QCSR – sum of scores from “0” to “3” across all items for each firm-year observation

#### *2.1.6. Controversies in CSR calculation*

Scoring methodology for controversies in CSR is slightly different from basic CSR and it is necessary to clarify the logic of these scores.

By “Harm caused by smoking” it is meant that company disclosed information about tobacco smoke harm in their report. Here, score “1” was given for the mentioning World Health Organization “Framework Convention on Tobacco Control” statement about this issue or just simply stating it, score “2” was given if company discusses her attitude or opinion about the problem of harm caused by smoke. Score “3” was given in case of a particular commitment from the company’s point of view to the harm issue.

Same scoring method were applied to “Harm caused by secondhand smoking”, “Youth smoking prevention” and “Research of tobacco effect on health”. Here, basically, the score represents the extend of transparency of the company towards several issues, which is unlikely to be positive for the brand image.

In the “Responsible Marketing” block, scores were also given according to level of transparency and commitment towards social benefits. Thus, “Marketing principles” stands for the extend that company describe the intention of voluntarily establishing the governance for marketing activities within the company, “Restriction of advertising” stands for the extend that

company describe the intention of voluntarily limit marketing activities not only towards minorities, “Restriction of point of sales” stands for the extend that company describe the intention to limit location of their selling activities (for example, near schools and etc.), and “Working with retailers” stands for highlighting programs aimed to increase consciousness of the retailers of tobacco products.

Measurement approach for the variable is considered to be the same as for the basic CSR:

ECSRC – sum of scores “0” or “1” across all items for each firm-year observation

QCSRC – sum of scores from “0” to “3” across all items for each firm-year observation

### 2.1.7. *Dependent variable: Tobin’s Q*

To evaluate market performance of the companies, such coefficient as Tobin’s Q were taken as representation of market expectations towards companies’ performance.

Tobin’s Q is defined as the ratio of the market value of the firm and its debt book value to the total assets of the firm (Chung and Pruitt, 1995). According to Luo and Bhattacharia (2006), the ratio resembles potential of growth as well as profit sustainability of the company. As far as Tobin’s Q captures the investors’ expectations on the company’s future, according to Rao, et al. (2004) it is defined to have forward-looking meaning. However, some researches note that it can translate just investors’ investment behavior perception instead of the company’s real prospect (Shleifer, 2000).

Tobin’s Q was chosen as a dependent variable to describe the performance of the companies since this measure as well as CSR reflect more than short-term situation as well as it has already proof itself as a working variable in CSR-CFP research (Luo and Bhattacharya, 2006; Kim et al., 2015). Thus, the Tobin’s Q is used to test research hypothesis stated in the paper.

To obtain more precise evaluation of the extent to which quality and extent of basic CSR practices as well as controversies in CSR, several control variables were added to the model to control the factors that potentially predict Tobin’s Q. Dependent variable were controlled for firm size, firm age, return on assets and liquidity, based on the extensive review of studies that used Tobin’s Q as a measure for firm performance (Surroca et al. 2010; Kim et al. 2015).

Thus, following formula were used to calculate Tobin’s Q:

$$Tobin's\ Q = \frac{Market\ Value\ of\ Equity + Debt}{Total\ Assets} \quad (1)$$

Source: Kim et al., 2015

### 2.1.8. Description of the variables

The table 7. with all variables used in the research is presented in the table below.

**Table 7.** Description of variables in analysis

<i>Dependent variables</i>		
<b>Tobin's Q</b>	Ratio of the company's market value and debt divided by its assets	tobq
<i>Independent variables</i>		
<b>Extent of basic CSR</b>	Sum of scores of "0" or "1" for the firm-year observation	ecsr
<b>Quality of basic CSR</b>	Sum of scores from "0" to "3" for the firm-year observation	qcsr
<b>Extent of controversies in CSR</b>	Sum of scores of "0" or "1" for the firm-year observation	ecsrc
<b>Quality of controversies in CSR</b>	Sum of scores from "0" to "3" for the firm-year observation	qsrc
<b>DJSI</b>	Dummy variable, with value 1 if company was present in DJSI during the particular year and 0 if not	index
<b>Next Generation Products</b>	Dummy variable, with value 1 if company is developing analog to conventional cigarettes in the particular year and 0 if not	ngp
<i>Control Variables</i>		
<b>Size</b>	Natural logarithm of total assets	size
<b>Year</b>	Year t minus year of incorporation of the company	y
<b>Return on Assets</b>	Ratio of net income/total assets	roa
<b>Liquidity (Current Ratio)</b>	Current assets/current liabilities	liquidity

Source: authors analysis

Thus, it is necessary to specify the exact model for further analysis.

### 2.3. Model Specification

After we have specified characteristics of SCR and measures of market performance, it is possible to specify the regression model. For the further analysis STATA software were chosen. The main regression for the analysis will be the following:

$$\begin{aligned} \text{Tobin's } Q_{it+1} = & \beta_0 + \beta_1 * eCSR_{it} + \beta_2 * qCSR_{it} + \beta_3 * eCSRC_{it} + \beta_4 * qCSRC_{it} + \beta_5 * index_{it} + \\ & + \beta_6 * ngp_{it} + \beta_7 * size_{it} + \beta_8 * age_{it} + \beta_9 * roa_{it} + \beta_{10} * liquidity_{it} + \varepsilon_{it} \quad (2) \end{aligned}$$

where:

$i = 1, 2, \dots, 100$  (Number of observations);

Tobin's Q – dependent variable, which measure “attractiveness” of the company for the market, lagged for 1 year for better explanatory power (Kim et al., 2015);

ECSR – extent of basic CSR disclosure (from 0 to 21);

QCSR – quality of basic CSR disclosure (from 0 to 63);

ECSRC – extent of controversies in CSR disclosure (from 0 to 8);

QCSRC – quality of controversies in CSR disclosure (from 0 to 24);

Index – presence or absence of the company in the DJSI in the current year;

NGP – development of next generation products in a current year;

Control variables for Tobin's Q, which were described in the table 7 above;

$\varepsilon_{it}$  – stochastic error.

To proceed with the research it is necessary to summarize the information about variables and do test for their applicability in the research.

### 2.3.1. Descriptive Statistics

The behavior of tobacco companies towards extent and quality of CSR has changed over the year. In the figure. 6 below, evolution of these factors might be seen.

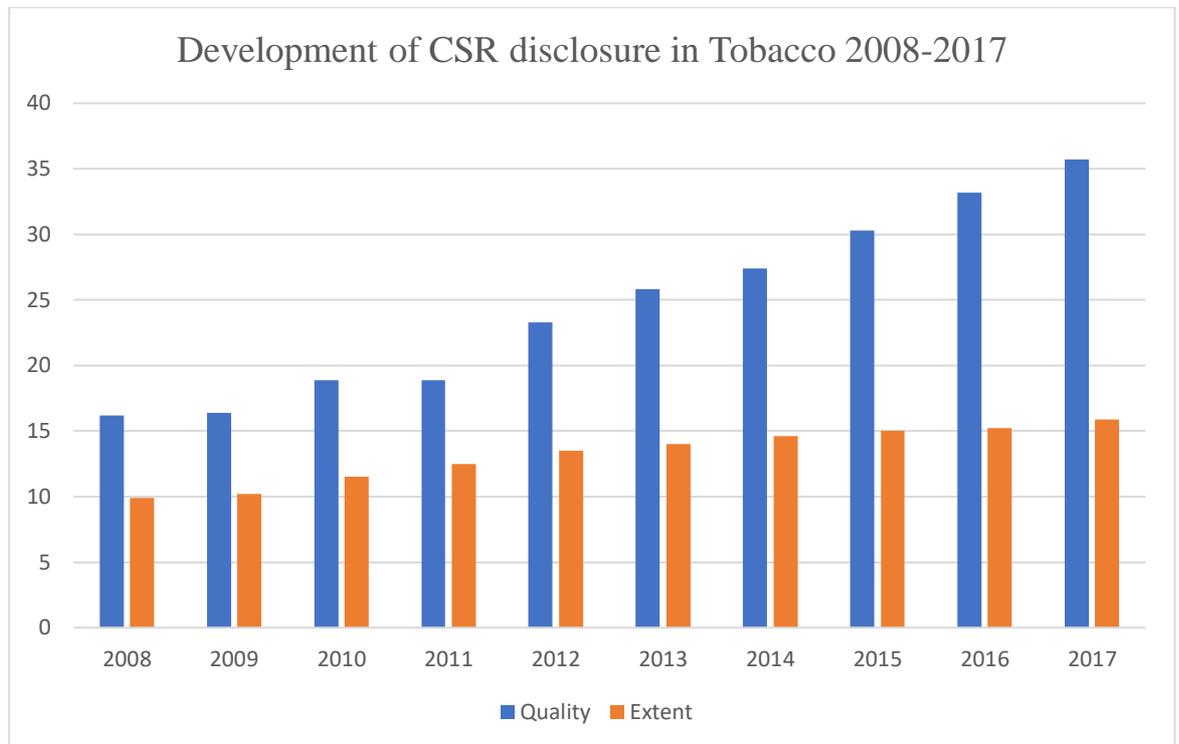


Figure 7. CSR disclosure development in Tobacco Industry

It is clear from the graph, that both extent and quality of basic CSR initiatives disclosure evolved during the time and became more explicit. However, tobacco companies are putting more effort into enhancement of quality of provided information than to its' extent. Thus, it would be interesting to look in the regression results and see if this effort is having effect in the market. As for the first look at the obtained results, it is possible to say that tobacco companies are looking forward towards more transparency in terms of disclosure of their CSR initiatives, both towards the ones that might be perceived as a positive in terms of altruistic motives and towards those, which will derogate the biggest revenue stream for the companies for a long period of time.

Be forehead, it might be useful to look into the categories of SCR more precisely, finding the trends in the disclosure practices of the companies. It might be seen from the figures 8 and 9 below. It is evident that issues of the environment and community development were and still are main focuses of the CSR disclosure themes. However, in latest years more topic started to be relevant for the companies' disclosure.

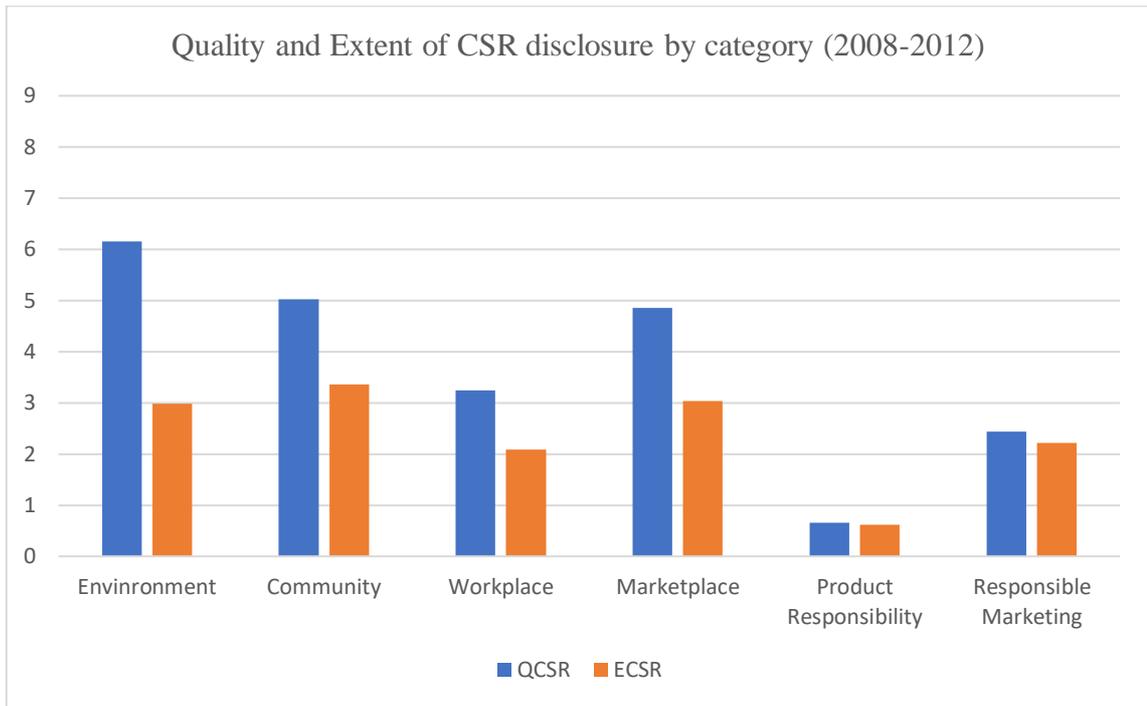


Figure 8. CSR disclosure practices by category (2008-2012)

Source: Author's research

Undoubtedly, topic of environmental issues is prevailing over the CSR practices in earlier stage of researched period.

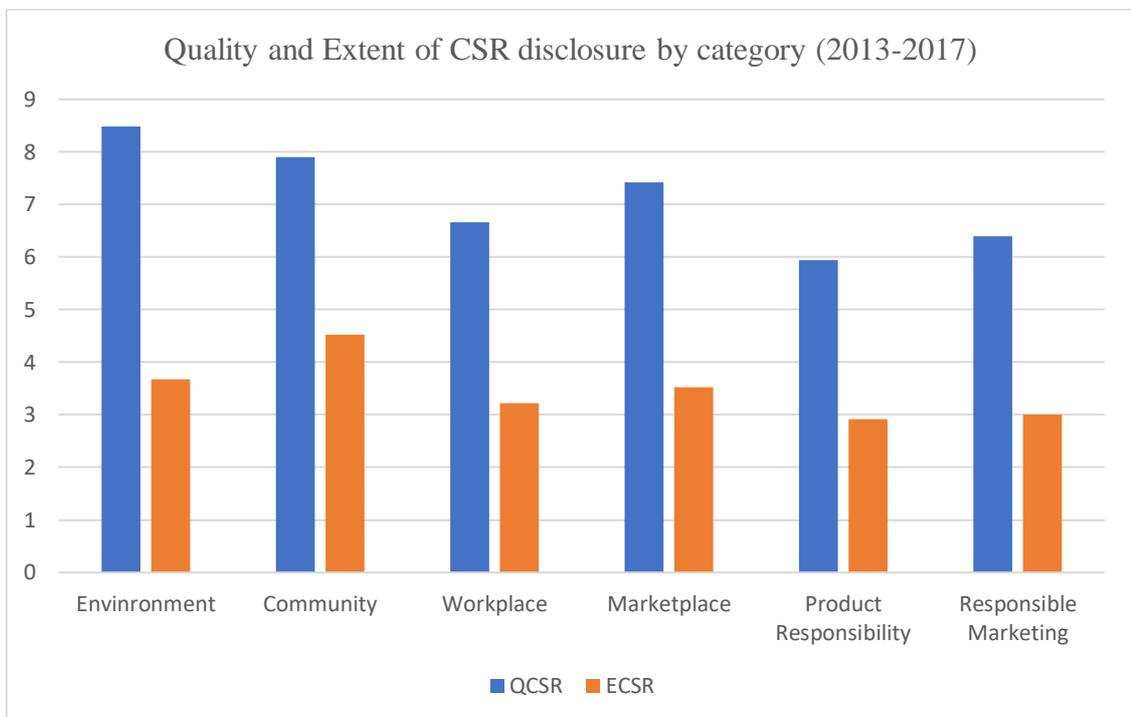


Figure 9. CSR disclosure practices by category (2013-2017)

Source: Author's research

It is clear that both extent and quality of CSR disclosure across tobacco companies has experienced growth in terms of volume of presented information. It might be due to desire of social appreciation under the though legislation conditions and bad reputation of the industry itself.

**Table 8.** Description of variables in analysis

<b>Variable</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
<b>Tobin's Q</b>	2.889005	1.559145	0.886267	7.260656
<b>Extent of basic CSR</b>	13.33	5.622924	1	21
<b>Quality of basic CSR</b>	24.87	15.508	1	55
<b>Extent of controversies in CSR</b>	4.38	2.963686	0	8
<b>Quality of controversies in CSR</b>	7.9	7.939799	0	24
<b>DJSI</b>	0.34	0.4760952	0	1
<b>Next Generation Products</b>	0.24	0.4292347	0	1
<b>Size</b>	115.88349	2.018826	11.43422	19.06443
<b>Year</b>	32.2	24.46725	11	107
<b>Return on Assets</b>	14.4555	6.815658	3.32	42.88
<b>Liquidity (Current Ratio)</b>	1.672959	1.009639	0.4626619	4.491628

Source: STATA tool

It might be seen that quality of average quality disclosure of CSR information is pretty low both in case of basic CSR and concerns towards CSR in tobacco. It might be connected with the fact that in early years of research CSR disclosure at some companies were at really poor level, because looking at the minimum and maximum of all the variables that are connected with CSR disclosure practices it is evident that there are companies, which covers almost full scope of possible initiatives and acknowledge stakeholders about it in the most transparent and respectful manner.

### 2.3.2. Regression Results

The data in the research is panel, because it contains observations of multiple characteristics of CSR, obtained over multiple periods for the same companies. So, in this research, three standard panel data estimators are used: pooled ordinary least squares model (pooled OLS), fixed effects model, and random effects model. The type of the model for each of the hypotheses will be chosen by conduction of F-test (choice between pooled ordinary least squares and fixed effect model), Breusch – Pagan LM test (evidence of random effect in the model) and Hausman test (comparison between fixed and random effect models).

Before building main model, it was necessary to check correlation among variables. The output table from STATA will be provided in the Appendix A of this paper. It is obvious, that extent and quality of disclosure CSR information both in case of basic CSR and controversies will correlate a lot. Thus, they won't be used in a same model in order not to vanish the results.

Moreover, it is necessary to check if the basic model, with includes just control variable would be significant or not. Imputing age, liquidity, ROA and size of the company. After conducting tests for model specification, fixed effect model was chosen. Basic model with control variables appeared to be significant with Prob. > F= .000 and variables explain  $R^2=24,9\%$  of the model. However, liquidity was not considered as a control variable for further analysis as far as it showed its' insignificance for the model and even decreased the explanatory power of it. Afterwards, all the independent variables were added steadily to see the important changes in the variables behavior.

However, despite the overall significance of the model, the higher explanatory power was in one, which contained all the variables, that were chosen for the research.  $R^2$  in case of inclusion of all the variables is 24,54%. In this case Fixed Effect model were chosen. Results of the regression analysis are presented in the table 9. below.

**Table 9.** Regression results

<b>Tobin's Q</b>	<b>Coefficient</b>	<b>Significance</b>
<b>Extent of basic CSR</b>	<b>0.1144</b>	<b>0.014**</b>
<b>Quality of basic CSR</b>	<b>-0.05765</b>	<b>0,005*</b>
Extent of controversies in CSR	-0.0862	0.249
Quality of controversies in CSR	0.0169	0.578

DJSI	-0.1123	0.599
New Generation Products	0.1056	0.647
<b>Size</b>	<b>-1.26844</b>	<b>0.001*</b>
<b>Year</b>	<b>0.203</b>	<b>0.000*</b>
<b>ROA</b>	<b>0.02934</b>	<b>0.059***</b>
<b>Constant</b>	<b>16.2146</b>	<b>0.002*</b>
<b>R<sup>2</sup></b>	<b>24,54%</b>	

Prob. > F= .000      \*\*\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*  $p < 0.01$

Source: STATA tool output

From the results of the regression it is clear, that extent of basic CSR disclosure is significant ( $p < 0.05$ ) and gave positive relationship with dependent variable. However, the quality of this information showed negative relationships with market expectation towards companies' future performance and showed its significance to explain the dependent variable ( $p < 0.01$ ). Both quality and extent of disclosure of controversial information about CSR activities of the companies did not show statistical significance in the conducted research. Neither did presence of company in the Dow Jones Sustainability Index, nor switching strategic focus towards development of products with potentially less harm for the health. Thus, only hypothesis H1a was not rejected after conducted research. Hypothesis H1b, H2a, H2b, H3 and H4 did not find confirmation during the study. Talking about quality of disclosed information about basic CSR initiatives, despite the significance of the factor, the sign of the relationship occurred to be opposite from the one, which were hypothesized. It means that too detailed description of the companies' activities in the spheres of environment, community, workforce and marketplace is actually negatively perceived by the market and decreases expectation towards companies' future development. Due to absence of significance for NGP and Index variables it is impossible to make a conclusion about their effect on the market performance of the companies in tobacco industry.

After conducting the research, it was decided to explore the nature of negative sign of the quality of basic CSR disclosure variable. For this purpose, separate scores for quality of disclosure of information about environment, community, workforce and marketplace were calculated and put into basic regression model. After specification of regression model to be fixed-effect model, panel regression was conducted and proved to be statistically significant

(Prob. > F= .000). Surprisingly, the only variable which occurred to be statistically significant (p=0.002) was the quality of information about CSR practiced devoted to community development with the negative sign. Thus, this variable might be the main driver towards overall negative score for the quality of basic CSR disclosure in this research.

Not surprisingly, all control variables showed significance in explanation power of the Tobin's Q, which approves the reliability of the precious researched, devoted to this topic. However, for the size of the company the sign of relationships occurred to be negative. Which means that market expectation towards companies' future performance actually has a negative relationship with the size of the firm.

After conducting the research, it is necessary to move towards discussion of the gathered results.

## **2.4. Results and managerial implication**

The results of the study showed to be as controversial as the investigated industry. The main results of this paper show that extent of the disclosure practices of basic CSR has a positive effect on companies' market performance. Going into details: basic CSR framework, which might feet any other industry with wide extent of the disclosure can affect the investors' expectations towards company's future. It means that looking both from internal and external perspective, for companies it is important to disclose the information about them being socially responsible in all the spheres it fulfills commitments to be socially responsible. Results show that the controversial businesses need to be transparent of their activities and it can maintain trust of the market towards their operations.

However, the quality of the information that is disclosed by the companies occurred to have negative relationships with the market expectation towards companies' potential growth. It might happen due to the phenomenon described by Yoon et al. (2005), while talking about companies' hypocrisy towards real motives that underlines disclosure of CSR practices. It might mean, that basic CSR practices have higher salience for the investors that it was assumed during the hypothesis statement. Thus, reading too extensively described information about positive impact towards variety of spheres of CSR from companies' sources, may have negative effect on the market perception of the tobacco companies.

Talking about controversies in CSR, which did not prove to be significant in this research. Tobacco industry is strictly controlled by the external parties (Cai et al., 2012), which are developing frameworks to control the transparency of the information about harmful impact of

tobacco smoke, and it doesn't make any difference if company admit it and states in their reports or just omit to disclose this information. It is a common knowledge that tobacco smoke is extremely harmful for the environment and people's life. Recommendation for the tobacco companies might be to maintain extensive level of immersion into CSR disclosure practices and be more restrained in terms of transparency still showing respect to the main pillars of CSR: environment, community, workforce and marketplace it operates in. Inclusion of the company to the sustainability indices also did not show to have an impact on the market perception of the companies. It might happen due to the fact that these indices are mostly devoted to appraisal the whole companies' business model, which is hard in term of tobacco industry. New strategic vision also did not show much interest in investors' perception, which might be explained with the fact that next generation products are not as profitable for the tobacco companies as conventional cigarettes. Thus, they are not the subject of their particular attention.

Summing up, there is a trend towards transparency of the business in every terms and companies are trying to embrace this vision by sharing their values and results with public by financial and non-financial results. And Tobacco companies are not exceptions. Tobacco companies rely on corporate social responsibility initiatives to improve their public image and advance their strategic objectives, which include overcoming of consequences of the tobacco industry image (McDaniel et al., 2016). Many previous researches have concluded, that CSR practices at least effect companies' performance both in terms of accounting-based measure and market-based.

In this particular paper the main research of the question of this paper was: "Is the any relationship with CSR disclosure practices and market performance of Tobacco companies?", meaning if specifics of business affect the "mood of the market" towards the company. However, going back to the question the answer is "Yes, CSR disclosure practices has a positive effect with the tobacco companies' activities if to be restrained in the amount of disclosed information" Thus, CSR initiatives are showing the dedication of the company to make a better impact no matter what industry it operates in.

The main limitations of these study are undoubtedly the human factor during the period of data collection, which may lead to biasness of the results. Moreover, implication might be transferred only across tobacco industry, as far as the framework for data collection were adjusted to this industry.

## CONCLUSION

The topic of Corporate Social Responsibility is still on the edge of modification and narrowing the concept for specific industries and businesses (Carroll, 2010). However, it is a vital part of the organizational activities for almost every company. Tobacco companies in this list as well. Undoubtedly, for businesses with bad reputation it is a complicated task to maintain social trust and prove their beneficial behavior towards society. Despite that this paper did not give unambiguous result on the relationships between practices of CSR disclosure and market performance of tobacco companies. It gave an interested result in terms of main face's that tobacco companies have to made in order to more attractive for investors who are looking at the performance of the companies in the market, which is to focus mostly on the coverage of CSR initiatives weather then on its' detailed description. It means that evidence of general scope of CSR initiative, which companies provide in their report are enough to build the picture about companies' future in the market.

Summing up, bidirectional relationships with CSR disclosure and market performance of the tobacco companies showed the complexity of the CSR concept for the industry. Main players should pay a lot of attention to the conceptual part of their disclosure practices if they want the market to trust them and their motives towards increasing the wealth of the social and businesses environment they are existing in.

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# APPENDICES

## Appendix A. Correlation Matrix for the explored variable

```
. cor tobq ecsr qcsr ecsrc qcsrc index ngp size y liquidity roa
(obs=100)
```

	tobq	ecsr	qcsr	ecsrc	qcsrc	index	ngp	size	y	liquidity	roa
tobq	1.0000										
ecsr	0.2718	1.0000									
qcsr	0.1640	0.9274	1.0000								
ecsrc	-0.1346	0.6513	0.6756	1.0000							
qcsrc	-0.0989	0.6352	0.7531	0.8889	1.0000						
index	-0.0178	0.5689	0.6094	0.6735	0.6771	1.0000					
ngp	-0.1824	0.4356	0.5267	0.4675	0.4576	0.2887	1.0000				
size	-0.0028	0.6615	0.6330	0.6440	0.6193	0.5639	0.3455	1.0000			
y	0.5855	0.1447	0.1212	-0.3801	-0.2882	-0.2565	-0.2124	-0.2034	1.0000		
liquidity	-0.1896	-0.2733	-0.2347	-0.3529	-0.3985	-0.3753	0.0005	-0.4179	0.1746	1.0000	
roa	0.6518	0.1619	0.0986	0.0316	0.0382	0.0425	-0.0491	-0.0141	0.2915	-0.0305	1.0000