Early Stage of Sustainability Reporting:
Case Study from the Czech Tobacco Industry
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Abstract:

The aim of this article is to examine the potentially controversial role of sustainability reporting in the tobacco industry and to see how the selected company reacted to the new EU Directive 2014/95/EU on non-financial reporting.

The key findings are: (1) The company was actively preparing for sustainability reporting even before the new regulation came into force. (2) The parent company was concerned about the impact of its activities on stakeholders including the local community. (3) Financial donations became less popular through the years. (4) The company states that it cares about the health of its customers, the working environment, and the labour conditions of its suppliers.

Even though the company operates as part of a controversial industry, it is trying to convince stakeholders, using its reporting style, that it is socially and environmentally responsible.

Keywords: Sustainability report, CSR, content analysis, tobacco industry, local community.

JEL classification: Q56, M14, L66.

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Summary

The EU Directive on disclosure of non-financial information and diversity information (2014/95/EU) was published at the end of 2014, giving the European Member States two years to transpose the EU Directive into national legislation. From reporting year 2017, the legal requirements for transparency on non-financial information in management reports of large public interest entities came into force.

This paper examines the potentially controversial role played by sustainability reporting in the tobacco industry, based on the analysis of Philip Morris International. Content analysis was conducted, using a specific coding system based on CSR approaches comprising seven main categories. The analysed data included descriptive narrative sections from annual reports in years 2011–2013, prior to the approval of the regulation, and in years 2014–2016, after the approval, as well as a standalone sustainability report from 2016.

Two effects can be noted: (1) companies in transitional economies copy the behaviour of their parents from Western countries; (2) the parent company has a strong influence on reporting and helps create a positive impression of itself with various CSR inspired approaches. One campaign titled itself as “The best employer of the region”. Despite concerted efforts, there is still a question over genuine credibility.

1. Introduction

The EU Directive on disclosure of non-financial information and diversity information (2014/95/EU) was published at the end of 2014. The European Member States were given two years to transpose the EU Directive into national legislation. From reporting year 2017, the legal requirements for transparency on non-financial information in management reports of large public interest entities came into force.

This paper examines the potentially controversial role played by sustainability reporting in the tobacco industry. In 1993, as part of the so-called “large privatization” in the Czech Republic, the state-owned tobacco company, Tabak Kutna Hora, was sold to the international company Philip Morris (PMI), an American multinational producer of tobacco and cigarettes, founded in 1900. Its products are currently sold in over 180 countries outside the United States. The most recognized and best-selling product of the company is the well-known Marlboro brand. The company is listed in the NYSE and Euronext and is also traded as a component of the S&P 100 and S&P 500. The Czech company, in its current form, was established in 1993 and, historically, was one of the important employers in the Central Bohemian region of Kutna Hora. About 6% of the population of the town of Kutna Hora work in the tobacco company, although there are also other middle-sized companies in vicinity – machinery, coin-minting, and chemical works.

As part of the international company, the Czech tobacco company has been listed on the Prague Stock Exchange since its inception in 1993. The company’s reporting is prepared according to the rules of its owner and it has a long history. Annual reports
have been audited by renowned auditors from the ‘Big Four’ and PMI, itself, is listed on international stock exchanges worldwide.

In this paper we deal with corporate legitimacy as demonstrated in the annual reports of the company comparing two periods prior to the adoption of EU Directive 2014/95/EU and the sustainability report issued by PMI by the end of 2016. We consequently compare them, in order to demonstrate how the EU Directive on non-financial reporting impacted the company’s CSR activities after its adoption. We strive to identify the specific features dealing with corporate legitimacy in the narratives of annual reports and sustainability report.

Organizational legitimacy was characterized by Suchman (1995), who identifies three primary forms of legitimacy: (1) pragmatic, based on audience self-interest; (2) moral, based on normative approval; (3) cognitive, based on comprehensibility and taken-for-grantedness. Legitimacy is closely linked with Social Responsibility. This was defined much earlier, by Bowman (1953) and, subsequently, by Carroll (1977; 1991; 1998), as having four elements: the economic, legal, ethical and philanthropic responsibilities (to be a good citizen).

To further understand the issue of legitimacy in the tobacco industry, we will provide an overview of stakeholders in concern and how they are impacted. Generally, the main stakeholders are company employees, company customers and the environment. Controversial industries need to implement CSR in their reporting in the form of a sustainability report or in the form of a dedicated section incorporated into their annual report. According to EU Directive 2014/95/EU, companies must disclose relevant information on policies, risks, and results regarding environmental, social, and employee-related matters as well as human rights, anti-corruption, bribery, and the diversity of the boards of directors.

2. Previous literature and used methodology

2.1 Literature on CSR in the tobacco industry

This issue was discussed by many authors from different perspectives. Among others, e.g., Moerman and Van Der Laan (2005) examine the process of social reporting, in publicly available documents, in British American Tobacco through a legitimacy perspective. The authors imply that such reporting can be used as a proactive management strategy. A study by Palazzo and Richter (2005) concentrated on the notion whether tobacco companies can position themselves as good corporate citizens. The authors revealed that, in the tobacco industry, the approach to CSR must be much thinner and it has to be conceptualized with a focus on transactional integrity across the tobacco supply chain.

A further study by Cai and Pan (2012) revealed a positive relation between CSR engagement and firm value, stating that the top management of US firms in
controversial industries considers social responsibility as important even though their products are harmful to human beings. Hirschhorn (2004) examined the practices of the world’s two largest tobacco producers from the company’s own perspective examining its own behaviour and reflected on whether marketing tobacco is antithetical to social responsibility.

Authors Jo and Na (2012) claimed that CSR in tobacco companies brings many controversies which impact their credibility. Therefore, companies try to make up for this feature and improve their name in different ways like working for the local community or providing funding for various activities, which can sometimes, be considered as a window dressing activity.

2.2 Literature on non-financial reporting

Non-financial reporting represents the result of companies’ thoughts about what CSR is, its importance, and about how it can be shared with stakeholders (Perrini, 2006). The shift in thinking of professional investors to greater detail for nonfinancial and governance information has been confirmed by many researchers (Cohen et al., 2015, Khan et al., 2016, Chen et al., 2016 and others). Ex ante analysis of the envisaged reaction of Polish and Romanian companies to introduction of this EU Directive was performed by Dumitru, Dyduch, Gușe and Krasodomska (2017). This study has provided an analysis of special conditions in two transitional economies.

Issues of reporting, including those related to competition aspects are provided by MacGregor Pelikánová (2017). The link to legitimacy was previously analysed by Beelitz and Merkl-Davies (2012), looking at the nuclear energy sector. A study of reporting in several groups of controversial industries in companies listed on the DAX 30, in Germany, was performed by Kilian and Hennigs (2014), who used a combination of content analysis and econometric methods.

2.3 Literature on the used methodology

The basic idea of our methodology is to use content analysis, adopting the approach of Kilian and Hennigs (2014). With regards to coding, similar decision rules were applied. The analysis was divided into seven main categories, encompassing activities related to CSR, as well as the company’s philosophy and motives. However, the format of the analysis differs as we concentrate only on one company and use the case study methodology. Therefore, we go deeper into the features of the company and do not perform statistical analysis using econometric data. We have divided our sample of investigation into two periods – the years 2011, 2012 and 2013 – i.e., the period before the EU directive on non-financial reporting was published and, subsequently, the years 2014, 2015 and 2016 – after it was published. Furthermore, we also provide content analysis of the Sustainability Report from 2016.
The EU directive was supposed to come into force in 2017, but we assume that corporations envisaging the implementations of such a norm started their preparations for the new requirements earlier than in 2017 and this effort should be reflected in their reporting prior to 2017. An additional argument for more timely preparation, in our case, was that the parent company, Philip Morris, started its preparation in 2011. Furthermore, the parent company is a well-known American industrial company operating in a sensitive sector with over 120 years of history. Thus, it can be assumed, that the legitimacy aspects of CSR reporting would be stressed even more.

Similar approaches to content analysis have been taken by several other researchers. One such study aims to examine the reporting practices of Romanian companies for corporate governance disclosures (Gîrbină and Albu and Albu, 2012). The subjects of the research were 26 entities listed on the Bucharest Stock Exchange (BSE), and the analysed information was taken from their annual reports, official websites, and BSE’s website. First, the findings reveal that the requirements for Corporate Governance disclosure are inconsistent, resulting in companies avoiding disclosing certain information. Due to this inconsistency, there are also variations in the levels of disclosure of the analysed companies. Another finding, consistent with the results of other studies, is that managers are not as willing to disclose voluntary information as compared to mandatory information. Moreover, the disclosed information comes rather at low levels and is scarcely compliant with the requirements. Managers are also less inclined to share information about CSR auditing than about other CG aspects. While most of the companies stated they had a policy and performed specific actions regarding CSR, the descriptions provided given were not so enough.

Another study in the field with the use of content analysis sets out to evaluate the perspectives of environmental accounting, in Romania, by performing a content analysis of various reports (annual, financial, environmental, etc.) of 50 BSE-listed companies. The results of the research reveal an environmental management system as the most frequent category of information disclosed. Most of the analysed companies (80%) also provided information on environmental and sustainable development policies. Monitoring environmental elements and information on pollution were each discussed by 50% of the companies. Overall, environmental reporting, in Romania, is at a rather low level, which could be explained by it being a voluntary initiative. However, since joining the EU, environmental issues are being increasingly considered by managers, and even taken as an essential part of the company’s strategy (Aurelia-Aurora and Sorina-Geanina, 2012).

To observe how the post-privatization behaviour of companies, and the increasing need for legitimacy, are translated into corporate annual reports, a study was conducted on Petrom, a privatized Romanian oil company. The company was operating in an environment of global insecurity, a changing political system, and an increasing fight against corruption. These, and the issue of privatization, have led to a severe need for the company to legitimate itself. Three consecutive annual reports
in the post-privatization period were analysed, and a bigger focus on moral legitimacy was found. Issues related to the environment, the community, and employees’ health and safety were discussed more, although, pragmatic and cognitive legitimacy still prevailed. The findings also reveal that, to enhance its image, the company enhanced its community involvement. Thus, this study provides an interesting insight by analysing the legitimacy theory in the context of an unstable environment (Ioan and Sandu, 2009).

3. Empirical analysis and findings

The results of our content analysis examining the sustainability reporting and its legitimacy are summarized in Table 1, for the first period of examination, and in Table 2, for the second period. Additionally, Table 3 illustrates the findings from the company’s stand-alone Sustainability Report, published in 2016.

| Table 1. Codings from the first period: Philip Morris, Annual Reports 2011–2013 |
|-------------------------------------------------|-----------------|-----------------|-----------------|
| **Main category**                              | **First subcategory** | **Coding example** | **Codings** |
| Stated philosophy towards CSR                  | Environmental responsibility (2011-2; 2012-0; 2013-2) | “At PMI, we focus our environmental sustainability efforts in three key areas, as shown below, and have set measurable goals for each that will help us reduce our impact on the world around us.” (2013, p. 7) | 4 |
| Social responsibility (2011-2; 2012-1; 2013-2)  | “We support programs that help make a difference in communities where our employees live and work, as well as in farming communities where we source tobacco.” (2012, p. 17) - (“Contributions”: 2011 – p. 13; 2012 – p. 17; 2013 – p. 7) | 5 |
| CSR motives                                    | Performance-driven (2011-1) | “Reducing our impact on the environment in a sustainable manner and protecting our workforce are not only the right things to do but may also contribute positively to our future business performance.” (2011, p. 5) | 1 |
| Stakeholder-driven                            | N/A               |                 |  |
| Value-driven                                   | “Contributing to the community is part of our culture.” (2011, p. 13) | 1 |
|CSR-related internal activities                | Organizational activities (2011-1; 2012-1; 2013-1) | “To this end, in 2011, we initiated the rollout of our Agricultural Labour Practices code to improve conditions for workers on farms where tobacco is purchased for PMI products.” (2011, p. 4) | 3 |
| Products & production                          | “One of the top priorities of our research efforts is the development of a portfolio of innovative Next Generation Products (NGPs) that have the potential to reduce the risk of smoking-related diseases in comparison to conventional cigarettes.” (2011, p. 6) | 9 |
According to our findings, in the first period the greatest attention was devoted to CSR-related co-operations in terms of work with non-profit organizations (22 codings). Subsequently, the attention was devoted to corporate donations, sponsoring and “charitable activities” in terms of Social issues (21 codings). And, thirdly, the CSR-related activities towards society, neighbourhood projects (15 codings). The company is concerned with projecting a positive picture to its stakeholders regarding
external and internal working environments. CSR-related internal activities, products & production and HR management are on the fourth place.

### Table 2. Codings from the second period: Annual Reports 2014–2016

<table>
<thead>
<tr>
<th>Main category</th>
<th>First subcategory</th>
<th>Coding example</th>
<th>Codings</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stated philosophy towards CSR</td>
<td>Environmental responsibility (2014-1; 2015-1; 2016-1)</td>
<td>“We will continue to manage our environmental performance responsibly and reduce the impact that we have on the environment.” (2014, p. 7)</td>
<td>3 codings</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Social responsibility (2014-2; 2015-0; 2016-0)</td>
<td>“PMI is committed to addressing critical societal issues around the world.” (2014, p. 7)</td>
<td>2 codings</td>
<td>2</td>
</tr>
<tr>
<td>CSR motives</td>
<td>Performance-driven</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Stakeholder-driven</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Value-driven</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>CSR-related internal activities</td>
<td>Organizational activities (2014-2; 2015-1; 2016-1)</td>
<td>“We also continued the implementation of our Agricultural Labour Practices Program to eliminate child labour and other labour and human rights abuses in our tobacco-growing supply chain.” (2015, p. 5)</td>
<td>4 codings</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Products production (2014-2; 2015-1; 2016-1)</td>
<td>“Reduced-Risk Products (RRPs) is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes.” (2015, p. 5)</td>
<td>4 codings</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Activities in HR management (2014-1; 2015-1; 2016-1)</td>
<td>“While we still have more to do, our ambition to improve gender diversity is yielding positive results, with the percentage of women hired and promoted by PMI increasing in 2016.” (2016, p. 3)</td>
<td>3 codings</td>
<td>3</td>
</tr>
<tr>
<td>CSR-related activities towards suppliers</td>
<td>Guidelines</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>CSR-related activities towards society</td>
<td>CSR-related reports (2016-2)</td>
<td>“Last year, we published our first communication on progress to the United Nations Global Compact, reporting comprehensively on our sustainability practices across human rights, labour rights, environment and anti-corruption.” (2016, p. 3)</td>
<td>2 codings</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Neighbourhood projects (2014-3)</td>
<td>“PMI is committed to addressing critical societal issues around the world. Our programs primarily focus on access to education, providing economic opportunity, empowering women and disaster relief.” (2014, p. 7)</td>
<td>3 codings</td>
<td>3</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Corporate donations, sponsoring and charitable activities</th>
<th>Education research (2014-3)</th>
<th>“PMI partnered with Nocetum Social Cooperative in Milan to provide the training and skills that help empower immigrant women in vulnerable situations to become self-sufficient.” (2014, p. 7)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sports &amp; culture</strong></td>
<td><strong>N/A</strong></td>
<td></td>
</tr>
<tr>
<td>Social issues (2014-3)</td>
<td></td>
<td>“We have an almost 60-year history of supporting communities where we do business, and our commitment has never been stronger than it is today. In 2014, we gave a total of approximately $31 million to more than 210 non-profit organizations around the world.” (2014, p. 7)</td>
</tr>
<tr>
<td><strong>Environmental issues</strong> (2014-2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disaster relief, clean water (2014, p. 7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CSR-related co-operations with other companies</strong></td>
<td><strong>N/A</strong></td>
<td></td>
</tr>
<tr>
<td>With non-profit organizations (2014-6; 2015-3;2016-2)</td>
<td>“In 2009, our Colombian subsidiaries entered into an Investment and Cooperation Agreement with the national and regional governments of Colombia to promote investment in, and cooperation on, anti-contraband and anti-counterfeit efforts.” (2016, p. 40)</td>
<td></td>
</tr>
<tr>
<td><strong>Total no of codings</strong></td>
<td><strong>40</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Own findings organized according to Kilian and Hennigs (2014)

Surprisingly, there are fewer codings in the second period than in the first one (40 in total in contrast to 98 in the previous period), even though one might expect a higher level of codings because of the approaching legal enforcement of the EU directive 2014/95/EU on non-financial reporting. The emphasis in reporting also changed: the more concentrated issues are now about corporate donations, sponsoring and charitable activities – in terms of cooperation with non-profit related organizations (11 codings). CSR-related internal activities, in terms of organizational activities and products & production activities are in second place (4 codings each). Third place is jointly occupied by social issues and education & research in terms of corporate donations, sponsoring and charitable and CSR-related activities towards society in terms of support of neighbourhood projects (3 codings each). As we can see the importance of issues is changing.

Furthermore, as of 2016, Philip Morris prepares and publishes a standalone Sustainability Report covering many more aspects, which would be worth deeper investigation. On a general level, it covers issues such as approach to sustainability, ambition for a smoke-free future and acting with integrity. Regarding structure, the report deals with (1) own approach to sustainability in the introduction (10 pages); (2) need for business transformation (20 pages), and (3) strengthening sustainability
fundamentals (67 pages). Additional information is provided on Cautionary Statements, Business Transformation Metrics – Independent Assurance Report (69 pages). Content analysis is provided in Table 3.

Table 3. Codings from the Sustainability Report, 2016

<table>
<thead>
<tr>
<th>Main category</th>
<th>First subcategory</th>
<th>Coding example</th>
<th>Codings</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stated philosophy towards CSR</td>
<td>Environmental responsibility</td>
<td>“We seek to embed the UNGC Principles into our day-to-day work and to continuously improve our understanding, management and performance regarding our environmental and social impacts.” (p. 5)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social responsibility</td>
<td>“We take our role seriously and are working with our business partners to proactively identify, manage and reduce risks, create mutual value and have a positive impact on the wider communities from which we source.” (p. 47)</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>CSR motives</td>
<td>Performance-driven</td>
<td>“We believe that doing business with integrity and preventing unlawful and unethical behaviour is essential to our long-term success” (p. 30)</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stakeholder-driven</td>
<td>“We continuously strive to ensure that our policies highlight and foster respect of human rights of all rights-holders, including consumers, employees, workers in our supply chain and our downstream value chain, and the communities in which we operate.” (p. 38)</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Value-driven</td>
<td>“Our Compliance Program and our culture of ethical business conduct provide a strong foundation for our commitments as we transform our business” (p. 30)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Organizational activities</td>
<td>14 codings</td>
<td>“Our Chief Compliance Officer oversees the application of our Compliance Program, and adherence to our Principles and Practices is monitored by our Internal Controls function along with our independent Corporate Audit department, which reports directly to the Audit Committee of the Board of Directors.” (p. 31)</td>
<td>14 2</td>
<td></td>
</tr>
<tr>
<td>CSR-related internal activities</td>
<td>Products production</td>
<td>“Our continued recognition of the health impacts of our products and the prioritization and investment in reducing or eliminating those impacts through innovation and development of products that can substantially reduce individual risk and population harm when compared to cigarettes.” (p. 5)</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>
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### Activities in HR Management (17 codings)

- "Our priority is to be a top employer and to attract, support, and retain people from every part of the globe – regardless of race, ethnicity, age, gender, …" (p. 40)

### Guidelines (12 codings)

- "They complement our existing programs in our agricultural supply chain (our Good Agricultural Practices (GAP) and Agricultural Labour Practices (ALP) programs and set process and performance requirements for all suppliers doing business with PML.” (p. 47)

### CSR-related activities towards suppliers (12 codings)

- CSR-related reports (1 coding)
  - "The results of these CU assessments are disclosed publicly in a detailed report, which also includes the action plans of our affiliates and suppliers to address identified issues.” (p. 51)

### CSR-related activities towards society (7 codings)

- Neighbourhood projects (7 codings)
  - "…the existing community program offering after-school activities was expanded to reach three cities and six villages in the Aegean region.” (p. 52)

### Corporate donations, sponsoring and charitable activities (6 codings)

- Social issues (2 codings)
  - "The PMI IMPACT Expert Council selected 32 projects for funding in the initiative's first round, which focused on tackling illegal trade and related crimes in the European Union.” (p. 34)

### Environmental issues (1 coding)

- "…we will also increase the use of sustainable curing fuel sources by developing reforestation programs.” (p. 60)

### CSR-related co-operations (1 coding)

- With other companies (1 coding)
  - "In 2016, PMI signed a joint Declaration of Intent to Prevent the Maritime Transportation of Counterfeit Goods together with eight other global brand owners and five of the world’s largest shipping companies – the first of its kind.” (p. 35)

- With non-profit organizations (9 codings)
  - "In 2016, PMI engaged the Danish Institute for Human Rights (DIHR) to conduct a high-level, company-wide human rights risk mapping and gap analysis.” (p. 39)

**Total no. of codings:** 92

**Source:** Own findings organized according to Kilian and Hennigs (2014).

There are 92 codings in total in the sustainability report. The most frequent were the codings on HR activities (17 codings), the second pace is devoted to organizational activities (14 codings), and the third most important was guidelines – activities related to suppliers (12 coding). Since PMI cares the most about its employees the company has also earned the title of the best employer in the region. This shift on
CSR activities is most visible from the extent of the relevant chapter in the Sustainability report. The Sustainability report from 2016 demonstrates a CSR approach which is not very consistent with the codings from the 2014-2016 annual reports. There is a clear change of strategy in corporate donations and charitable activities, which has decreased from 2014 to 2016.

Moreover, there is visible a steep increase in internal organization activities following the introduction of the EU directive, jumping from 4 codings in the 2014-2016 annual reports, to 14 codings in the 2016 sustainability report. This indicates that there is a stronger emphasis on moral legitimacy, by establishing control bodies to oversee the process outcomes. Education and research have also doubled in the number of codings. This is likely relating to a product-development focus of pragmatic legitimacy, also reflecting innovations in the market and the increasing size of the segment concerned with health-related effects of smoking.

4. **Discussion**

The two periods are distinct because of the different stress on reported corporate responsibility. One of the more significant changes in the annual reports started in 2015, when the section called “Contributions” was removed. This was the section most dedicated to the company’s CSR-related activities. It is, subsequently, the primary reason the second half of the annual reports have fewer codings.

The shortage of codings in the 2015 and 2016 annual reports is compensated by codings in the 2016 Sustainability Report. Since the report is solely focused on sustainability, issues of environmental responsibility and the health of PMI customers, it comes as no surprise that it contains many codings in all categories. Out of the seven categories, CSR-related internal activities were mentioned the most, specifically, activities in HR management, and organizational activities. The next section receiving the most codings is guidelines, in the category of CSR-related activities towards suppliers.

During the performance of the content analysis, we sensed a need for an additional category. The company’s reports mentioned specific actions undertaken with the aim of reducing environmental impact, reducing water use, etc. Such codings go beyond the “stated philosophy towards CSR”, yet do not fit into the “corporate donations, sponsoring, and charitables” category.

Based on its Sustainability report from 2016, Philip Morris International utilizes a combination of all forms of legitimacy as identified by Suchman: pragmatic, moral, and cognitive. Cognitive legitimacy stands for measures that are dictated to be necessary and inevitable by the society (Suchman, 1995). The fields of CSR in which tobacco industries worldwide have been the most involved in, in the past years, include human rights, labour practices, and the environment (Hirschhorn,
2004), which will be demonstrated to be strongly in line with the CSR practices adopted by PMI.

The line between cognitive and moral legitimacy, which can be defined as doing the proper thing, in general, gets easily blurred (Suchman, 1995). Often what is dictated as inevitable by the society is, at the same time, perceived to be moral. Therefore, the moral aspects of legitimacy, in the case of PMI, include human rights, labour practices (e.g. slave labour is both immoral and condemned by the society), and environmental protection. Moreover, moral legitimacy also includes the output measure that ensures the proper carrying out of required actions, e.g., the presence of a compliance department, or a quota on the minimum of women in management roles (Sustainability report, 2016).

Pragmatic legitimacy takes on a very interesting form in the controversial industry of tobacco production. Suchman defines this legitimacy as a means of helping the stakeholders to see the organization as legitimate, because they benefit from what the company offers (Suchman, 1995). In this case, PMI is building its pragmatic legitimacy by investing in new product development into sophisticated electronic cigarettes (e.g. IQOS), which provide the smoker, who wants to quit, with a healthier alternative to regular cigarettes. The investment into these heating devices is especially significant in countries with a large population of regular smokers, like Italy or Romania, where the investment is twice the size compared to the United States (Sustainability report, 2016).

5. Conclusion and implications

This study is the first to investigate issues of legitimacy and CSR in a controversial segment in the economy of the Czech Republic. The analysis of the published annual reports of Philip Morris and the PMI Sustainability report shows features that, by striving for pragmatic legitimacy, attempt to convince stakeholders that the behaviour of the company is in line with current levels of common social norms and usual behavioural patterns.

This is evident when examining both the 2014-2016 annual report and the 2016 Sustainability report, which indicate that PMI fulfils the three types of CSR legitimacy: cognitive, pragmatic, and moral. When comparing the period prior to the EU Directive’s establishment in 2016, there have been some changes in the CSR approach, with a deeper focus on internal organization activities after the introduction of the EU Directive, accompanied by an increase in internal organizational activities, as well as a product-development focus on pragmatic legitimacy, which reflects innovations in the market and the increasing size of the segment concerned with the health-related effects of smoking.

Our study contributes to the research stream of analysis of non-financial reporting in Central and Eastern Europe, namely, in a controversial industry. The analysis of the
published annual reports of Philip Morris and the PMI Sustainability report show features of a company striving for pragmatic legitimacy. It also attempts to convince stakeholders that the behaviour of the company is in line with the current levels of common social norms and usual behavioural patterns.

The biggest limitation of our study comes, principally, from the used method. It is obvious that narrative statements possess a wealth of informational content, but their analysis is very much affected by the subjective opinion of the researcher, in terms of data codings and identification of examined features. Thus, the results could, potentially, be skewed, and their interpretation can be very biased. Moreover, the case study methodology concentrates, principally, on one company. It is, therefore, difficult to make any generalization, even though this firm is one of the industry leaders.

There are many avenues for future studies in this area – it would be worthwhile to concentrate on a deeper exploration of nonfinancial reporting – not necessarily only in a controversial industry. As to further studies in controversial industries, a different methodology could be applied in a similar context.

References:


