

INVESTIGATION OF THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND PERFORMANCE INDICATORS OF COMPANIES

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Abstract:

On a corporate level, the concept of being responsible is becoming an inevitable part of establishing a successful business and a vital factor for cooperation with stakeholders. The aim of this research is to examine the existence of a possible relationship between performance indicators of companies and their CSR reporting by using logistic regression model (Logit). The initial sample comprises six performance indicators of 99 listed companies from different countries with a 3-year period for each company. The overall number of cases is 297. The findings of the research show that there is a relationship between companies' performance indicators and the preparation of a standalone CSR report. The study has several limitations as chosen variables are based on the information retrieved from annual reports only and financial performance indicators variables are in strong correlation among each other. As for future research, authors should deem it necessary to broaden the scope and to investigate and determine any concrete factors influencing the reasons of the strength of the stated relationship by conducting the survey among the selected companies.

Keywords:

Corporate social responsibility (CSR), standalone CSR report, Baltic countries, Czech Republic, Poland, listed companies

JEL Classification: M41, G30

1 Introduction

The topic of corporate social responsibility (hereinafter CSR) is nowadays gaining popularity, unlimited attention and becoming a matter of high importance and concern all over the world. More and more countries have understood the importance of CSR and started to promote it on a state level. Various CSR-related initiatives have also taken place in the selected countries during the last decades.

A strategic document entitled "National Action Plan for Corporate Social Responsibility in the Czech Republic" was approved by the Government of the Czech Republic in 2014 with the primary intentions „to support the application of social responsibility by organizations, strengthening the understanding and credibility of the concept of social responsibility in society, to support CSR in enterprises and other organizations in the Czech Republic by providing relevant information“ (Strategic Document for CR, 2014).

In Poland, Mid-term Development Strategy 2020 and the National Development Strategy 2020 were accepted by the Council of Ministers in 2012. The main objective of this document is "to strengthen the economic, social and institutional potential, providing rapid sustainable development of the country and improvement of life of the population"(Corporate Sustainability Reporting, 2012).

In Latvia, the National Long-term Strategy for Sustainable Development of Latvia was prepared in 2002. In 2005 the Estonian Parliament approved the Estonian National Strategy on Sustainable Development, "Sustainable Estonia 21". The main objective of this strategy is to promote corporate social responsibility in Estonia. (Estonian Action Plan, 2005).

In Lithuania, National programme for the Development of CSR and the Corporate Social Responsibility Action Plan were approved by the Government in 2010 in order to promote and develop CSR. (Lithuania Action Plan, 2010).

On a company level, the conception of a responsible business is becoming an inevitable part of a successful business and a vital factor for cooperation with stakeholders. Companies are not just undertaking various CSR related activities and initiatives, but also make the "second step" – implementing CSR reporting practices, which are further enhanced and supported on the international level. In April 2014, the European Parliament has adopted the Directive 2014/95/EU of the European Parliament and of the Council on the disclosure of non-financial information. The directive clearly stated that „large undertakings, which are public-interest entities employing, on average, more than 500 employees on their balance sheets during the financial year shall include, in the management report, a non-financial statement containing information necessary for gaining an understanding about the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters“ (Directive 2014/95/EU).

As stated above, the Directive covers only particular companies and requires certain disclosures to be made, therefore for most companies, CSR reporting still remains voluntary and there is no requirement to prepare standalone CSR reports. However, this form of reporting is also implemented by companies in many cases concurrently with the annual report disclosures. Consequently, one can ask the question whether the voluntary preparation of standalone CSR reports is just one more tool to achieve transparency and increase stakeholder's awareness or if there is a direct linkage to the financial performance of the companies? Therefore, the authors performed the regression analysis of the Baltic, Czech and Polish listed companies in order to find out the potential linkage between standalone CSR reporting and companies' performance indicators. Results are taken as a basis for concluding remarks and discussion.

2 Literature Review and Brief Insight onto Current Practice in CEE Countries

It should be noted that within the contemporary research about CSR, the following trends are widely discussed: whether CSR reporting matters for the company and adds value to its performance and if there is a relationship between CSR and corporate financial performance (CFP).

Most authors regard CSR as an important business and market tool, which is also supported by findings of Cheng et al. (2015), pointing out the increasing value of CSR reporting to various stakeholders and Lu & Abeysekera (2015) and Wang & Li (2015), whose findings confirm that the standalone CSR report is valued by the market.

However, it should be noted that the overall level of the CSR reporting is different in individual countries, which may be explained by the voluntary nature of reporting. Sethi et al. (2013) disclosed these differences in the quality of CSR reporting by national, legal and company factors, stating that the overall level of CSR reporting in respective countries has a significant impact on the quality of the CSR reporting produced by the companies. Habek & Wolniak (2015) investigated CSR reporting practices among selected EU member countries; their findings suggest that the general reporting quality is low and that it can be improved by enforcing the legal requirement of CSR related disclosures. Fortanier et al. (2011) stated that the implementation of global standards and guidelines on CSR reporting increased an overall quality.

Over the decades, various researchers investigated the relationship between CSR and CFP and achieved controversial results. Among the most important findings confirming the existence of CSR reporting and CFP relationship we should cite Akisik & Gal (2014), whose studies provide evidence for the relationship between financial performance and reviews of CSR reports; Mishra & Suar (2010) stating that responsible business practices may bring certain profits and benefits for companies and Wang & Chen (2015) suggesting that CSR policies lead to good financial performance. Studies of Fischer & Sawczyn (2013) deploying regression analysis and correlation confirmed the interaction between CSR and CFP for German listed companies. Yusoff & Adamu (2016) conducted research among Malaysian listed companies and concluded that CSR activities enhance financial performance and implementation of CSR related practices would improve the financial performance of companies.

Mixed results were demonstrated by the research of Cui et al. (2014), who investigated the relationship between commitment to CSR and average sales growth. Their findings suggest a negative relation for small firms (100 and less employees) and a positive one for large companies (1000 and more).

However, several researches demonstrated no linkage between CSR and corporate financial performance: the findings of Nelling & Webb (2009) suggest that CSR activities have no effect on CFP; Soana, (2011) stated that there is no „statistically significant link between CSR and CFP” and Makni et al. (2009) found no major relationship between a composite measure of Corporate social performance and CFP of the company.

The authors believe that the increased implementation of CSR has resulted in the relationship between CSR reporting and performance indicators of the selected companies. Authors are of the opinion that time and effort consuming preparation of standalone and voluntary based CSR reports should result in the impact on the performance of the company.

Review of literature shows that various indicators and methods have been applied to measure the stated relationship and therefore, the authors have selected the regression analysis as the most appropriate method to suit the objectives of the current research.

This paper is focused on the area of Central Europe (Czech and Poland) and Baltic countries. In these countries CSR reporting is currently voluntarily based. For this reason companies can choose various approaches regarding how to disclose CSR related information – either in the form of a standalone CSR report or as a part of an annual report. The latter is commonly used for its decreased time constraints and required efforts (Strouhal et al., 2015).

From 2018, however, all large accounting entities will be obliged to report CSR information based on the update of accounting Directive 2013/34/EU on Disclosure of Non-Financial and Diversity Information by Certain Large Companies.

According to the new article 19a, it is expected that large undertakings, which are public-interest entities exceeding on their balance-sheet dates the criterion of the average number of 500 employees during the financial year shall prepare the so called “non-financial statement”. This report shall present information necessary for gaining an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

- (a) a brief description of the undertaking's business model;
- (b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- (c) the outcome of those policies;

(d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;

(e) non-financial key performance indicators relevant to the particular business.

The non-financial statement shall also include references to, and additional explanations of, amounts reported in the annual financial statements.

According to the directive, it is possible to prepare the "non-financial statement" as a separate report or as a part of "management report".

Based on article 19, management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces, to the extent that allows for an understanding of the undertaking's development, performance or position. The analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. Along with providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements. It contains an indication of:

(a) the undertaking's likely future development;

(b) activities in the field of research and development;

(c) the information concerning acquisitions of own shares;

(d) the existence of branches of the undertaking; and

(e) in relation to the undertaking's use of financial instruments and where material for the assessment of its assets, liabilities, financial position and profit or loss:

(i) the undertaking's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; and

(ii) the undertaking's exposure to price risk, credit risk, liquidity risk and cash flow risk.

Management report of large companies shall also include corporate governance statement. It shall contain at least the following information:

(a) a reference to the following, where applicable:

(i) the corporate governance code to which the undertaking is subject,

(ii) the corporate governance code which the undertaking may have voluntarily decided to apply,

(iii) all relevant information about the corporate governance practices applied over and above the requirements of national law,

(b) where an undertaking departs from a corporate governance code, an explanation by the undertaking as to which parts of the corporate governance code it departs from and the reasons for doing so; where the undertaking has decided not to refer to any provisions of a corporate governance code, it shall explain its reasons for not doing so;

(c) a description of the main features of the undertaking's internal control and risk management systems in relation to the financial reporting process;

(d) the information required by Directive 2004/25/EC on takeover bids;

(e) unless the information is already fully provided for in national law, a description of the operation of the shareholder meeting and its key powers and a description of shareholders' rights and how they can be exercised;

(f) the composition and operation of the administrative, management and supervisory bodies and their committees; and

(g) a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case (Strouhal et al., 2015 based on 2013/34/EU Directive).

3 Research Design

The aim of this research is to empirically examine the existence of a possible relationship between companies' performance indicators and CSR reporting using logistic regression model (Logit). The initial sample comprises six performance indicators (assets, revenue, profit before taxes, invested capital, market value, number of employees) of 99 listed companies from different countries with a 3-year (2012, 2013, and 2014) analysis period for each company. For the purpose of this analysis, representative countries from the CEE were chosen in which CSR reporting doesn't have a very long tradition –Czech Republic and Poland were selected as they represent states of the CEE with very high GDP, and Baltic countries were opted for their e-innovations. The analysed companies are listed either within the Warsaw Stock Exchange (Poland), the Prague Stock Exchange (Czech Republic) or the Baltic OMX Nasdaq Exchange (Baltic countries). The total number of cases is 297. Table 1 presents the sample distribution.

Table 1: Number of analyzed entities

Stock market	Number of analyzed companies
Czech Republic (Prague)	17
Estonia (Tallinn)	15
Latvia (Riga)	26
Lithuania (Vilnius)	26
Poland (Warsaw)	15
TOTAL	99

Source: authors

The authors collected company's performance indicators from the annual reports of the companies published on their websites. To identify companies that prepare a standalone CSR report, authors used the information located on the websites of the selected companies. The percentage of standalone CSR reporting is 21.89% among companies in the sample of 297 cases.

Table 2: Number of standalone CSR reports published by the selected companies per year

Stock market	2012	2013	2014
Czech Republic (Prague)	4	4	2
Estonia (Tallinn)	4	5	4
Latvia (Riga)	3	2	3
Lithuania (Vilnius)	5	5	5
Poland (Warsaw)	5	7	7

Source: authors

The option for analysing the listed companies was done due to the fact that CSR reporting is still not obligatory in the CEE region and that's why we do believe that large listed companies would be more willing to report data about CSR rather than non-listed companies.

4 Results

To examine the relationship between company performance and the likelihood of CSR reporting the authors ran Logit regression using the following model:

$$F(x'\beta) = \frac{\exp(x'\beta)}{1 + \exp(x'\beta)}$$

The performance indicators included in this study are independent variables (x's): assets, revenue, profit before taxes, invested capital, market value, number of employees. The authors have conducted a test for autocorrelation and 3 variables (assets, profit before taxes, market value) were excluded from the model.

Multicollinearity test showed that the model is clean to collinearity. The values of the independent variables are continuous. The dependent variable (CSR) is whether or not a company has a standalone CSR report (CSR report exists = 1 and 0 otherwise). The model can also be interpreted as what independent variables increase the likelihood of existence of standalone CSR report. Table 2 presents the regression results of above mentioned function.

Table 2: Regression results based on Logit model (297 observations)

Dependent variable:		CSR		
Standard errors based on Hessian				
	Coefficient	Std. Error	z	P-Value
const	-1.65479	0.175512	-9.4284	<0.0001***
REVENUE	2.57594e-07	1.16963e-07	2.2024	0.0276**
EMPL	5.52509e-05	2.96479e-05	1.8619	0.0626*
INVCAPITAL	-2.42277e-07	1.16141e-07	-2.0861	0.0370**
Mean dependent variable		0.218855	S.D. dependent var.	0.414168
McFadden R-squared		0.094309	Adjusted R-squared	0.068678
Log-likelihood		-141.3423	Akaike criterion	290.6846
Schwarz criterion		305.4596	Hannan-Quinn	296.5996
Number of cases "correctly predicted"			237 (79.8 %)	
f(beta'x) at mean of independent variables			0.414	
Likelihood ratio test: Chi-square(3)			29.4358 [0.0000]	

Source: authors

The findings of the present research show that the coefficient for variable Revenue is positive and significant at the 5% level, indicating that companies with higher revenue are more likely to disclose CSR information by publishing standalone CSR report. The coefficient for variable Number of Employees is positive and significant at the level 10%, indicating that companies with higher number of employees are more likely to disclose CSR information. For variable Invested Capital the coefficient is negative and significant at the level 5%. Those who have higher number of invested capital would be less likely to have produced a standalone CSR report. We are aware that R-squared of the performed model is very low one, however we have to state that we consider results of this model representative ones as almost 80 % of all cases were correctly predicted using this model.

5 Discussions and Conclusions

Despite CSR reporting becoming extremely popular, especially among larger and reputed companies, this form of reporting remains voluntary in the CEE sector. From this perspective we believe that companies are willing to report these issues mainly for strategical and marketing reasons.

The results of the performed research, based on the logit regression model indicate that the chosen sample is representative. In addition, the relationship between companies' performance indicators and the preparation of standalone CSR report at a certain level was discovered. However, it should be mentioned that CSR reporting disclosures to annual financial statements are more widely used by companies as this option is less time and effort-consuming than the preparation of the standalone CSR report.

Since 2018, there would be more visible linkage between CSR reporting and financial performance considering the effective date of updated EU directive and its requirements for selected companies. This update of the EU directive requires from large companies to precisely describe CSR and corporate governance issues

within their non-financial report. We do believe that this update of the EU directive is vital, despite the majority of large companies already doing so, at least within their annual reports.

Finally, one should also consider the limitations of this study. The first limitation is linked to the chosen variables – as they were based on the information retrieved only from the annual reports, there is a visible strong correlation among the variables. Regarding future research, we do not only consider to broaden the selected sample of variables, but also to investigate and determine the factors influencing the reasons behind such strong relationship between the ratios. There would be also studied major reasons why analyzed companies do present voluntarily CSR information.

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APPENDIX – Analyzed Companies

No.	Czech Republic	Sector
1	Central European Media Enterprises	owning and operating of commercial TV stations in Central and Eastern Europe
2	ČEZ	sale of electricity
3	Energoaqua	production and distribution of technical gas, heat, water, wastewater treatment, electricity
4	ENERGOCHEMICA	chemical production
5	Erste Group Bank	banking facilities
6	Fortuna Entertainment Group	fixed-odds betting operator
7	Komerční banka	banking facilities
8	New World Resources	searching, mining and sale of pit-coal
9	O2 Czech Republic	sale of telecommunication services
10	PEGAS NONWOVENS	production of nonwoven textiles
11	Philip Morris ČR	production of tobacco products
12	Pražské služby	sanitary department, road maintenance, waste disposal, scrap separation
13	RMS Mezzanine	non-banking financial market in CEE region
14	Tatry mountain resorts	sport facilities operating
15	TOMA	financial enterprise, energy services, real estate property rental
16	UNIPETROL	crude oil processing, production of petrochemical products
17	VIENNA INSURANCE GROUP	financial services – insurance

Source: <https://www.pse.cz/>

No.	Estonia	Sector
1	Arco Vara	property development, services, constructions
2	Baltica	clothing retail
3	Ekspress Grupp	media and publishing
4	Harju Elekter	electrical engineering and telecommunication
5	Merko Ehitus	construction
6	Nordecon	construction and engineering
7	Olympic Entertainment Group	casino operations and hotel management
8	PRFoods	food and beverages
9	Silvano Fashion Group	production and sale of women's lingerie
10	Skano Group	production of fibreboards
11	Tallink Grupp	maritime transportation
12	Tallinna Kaubamaja Grupp	wholesale and resale of goods
13	Tallinna Vesi	water supply, wastewater collection and treatment
14	Pro Kapital Grupp	property development
15	Trigon Property Development	real estate development, services, construction

Source: <http://www.nasdaqomxbaltic.com/market/?lang=et>

No.	Latvia	Sector
1	Grindeks	pharmaceuticals manufacturing
2	Latvijas kugnieciba	cargo shipping
3	Olainfarm	pharmaceuticals

4	SAF Tehnika	R+D, manufacturing and sale of telecommunications equipment
5	Ventspils nafta	investment management
6	Brivais Vilnis	processing and preserving of fish and fish products
7	Daugavpils Lokomotivju remonta rupnica	manufacture of engines and rolling stock
8	Ditton pievadkežu rupnica	manufacturing of vehicle components
9	Grobina	fur-farming
10	Kurzemes atsleta 1	manufacture of furnishings
11	Kurzemes CMAS	sustainable agriculture
12	Latvijas balzams	production of alcoholic beverages
13	Latvijas Gaze	transmission, storage, distribution and sales of natural gas
14	Latvijas Juras medicinas centrs	healthcare services
15	Latvijas tilti	construction
16	PATA Saldus	forestry
17	Rigas autoelektroaparatu rupnica	manufacture of electronic appliances
18	Rigas elektromašīnbuves rupnica	manufacturing
19	Rigas juvelierizstrādājumu rupnica	manufacturing
20	Rigas kugu buvetava	engineering, constructing and shipbuilding
21	Siguldaas CMAS	agriculture
22	Talsu mežrupniecība	woodworking
23	Tosmares kugubuvetava	engineering, constructing and shipbuilding
24	Valmieras stikla šķiedra	production of glass fibre
25	VEF	manufacture of electronic appliances
26	VEF Radiotehnika RRR	manufacture of radio equipment

Source: <http://www.nasdaqomxbaltic.com/market/?lang=et>

No.	Lithuania	Sector
1	Apgranga	retail trade of apparel
2	Grigiškes	production of sanitary and household paper products and corrugated cardboard and packaging from it
3	LESTO	distribution and public supply of electricity
4	Lietuvos dujos	natural gas distribution
5	Lietuvos energijos gamyba	generation of electric and heat power, trade in electricity
6	Linus Agro Group	agriculture supplies, farming and processing of agricultural products, food production and agricultural commodities trading
7	Panevežio statybos trestas	construction and design
8	Pieno žvaigždės	manufacture of milk and dairy products
9	Rikiškio suris	dairy products
10	Šiaulių bankas	rendering of financial services
11	TEO LT	telecommunications
12	Utenos trikotažas	production of knitwear and textile
13	Vilkyškių pieninė	milk procurement, processing and realization of dairy products
14	Agrowill Group	investing
15	Dvarčionių keramika	manufacture of ceramic products
16	Gubernija	production of beer and soft drinks
17	Invalda INVL	investments
18	Kauno energija	supply of thermal energy to customers, manufacture of electricity and thermal energy

19	Klaipėdos nafta	operation of oil products and liquefied natural gas terminals
20	Lietuvos jūrų laivininkystė	maritime transport
21	Linas	production and sales of textile items
22	LITGRID	high voltage power transmission, management of power transmission system and development of infrastructure, electricity market
23	Snaige	manufacturing of household refrigerators, freezers and their spare parts
24	Vilniaus baldai	worldwide flat pack honeycomb furniture production
25	Vilniaus degtinė	production of alcoholic and soft drinks
26	Žemaitijos pienas	production and sales of dairy products

Source: <http://www.nasdaqomxbaltic.com/market/?lang=et>

No.	Poland	Sector
1	Asseco Poland	software
2	Bank Zachodni WBK	banking facilities
3	Cyfrowy Polsat	multimedia
4	EUROCASH	distribution of food products
5	KGHM Polska Miedz	copper and silver production
6	LPP	clothing retailer
7	Lubelski Węgiel Bogdanka	hard coal manufacturing
8	Mbank	banking facilities
9	Orange Polska	telecommunication services
10	Pekao	logistics, domestic and international shipping
11	PGE Polska Grupa Energetyczna	energy supplies
12	Polskie Górnictwo Naftowe i Gazownictwo	oil and gas production
13	Polski Koncern Naftowy Orlen	oil and gas manufacture and distribution
14	Powszechny Zakład Ubezpieczeń	financial industry
15	Tauron Polska Energia	energy distribution

Source: <http://www.gpw.pl/>