Abstract

This paper explores the activities related to a corporate social responsibility (CSR) in Serbia. CSR is defined including the following activities: moral obligation of being good citizen and doing the right thing, sustainability, reputation, and commitment to reporting on CSR. CSR is then examined through the survey conducted in 117 companies. The findings indicate there is no awareness of CSR activities’ contribution to the organisational image of being good citizen and doing the right thing. This is supported by insufficient reputation and reporting on CSR. However, majority of organisations are aware of relevance of sustainability to the organisations competitive advantage.

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INTRODUCTION

Definition of CSR

Achieving competitive advantage in any business today is increasingly dependent on recognition of corporations’ care for environment and contribution to the well-being of community (Ghazali, 2007). This reflects a popular notion of CSR.

Although CSR is a matter of interest to both academics and practitioners for several decades, there is no overall accepted explanation as to what exactly does it mean (Porter and Kramer, 2006; Cradden, 2005). The opinions are diverse covering a wide range of business, social, ethical and environmental activities (Pederson, 2007; Petrovic-Lazarevic, 2005), to reflection of large company’s healthy environment responsibilities to a society in which the company operates (Ghazali, 2007; Yadong, 2007). For example, an interesting approach to CSR covers the accountability of corporations along four dimensions: economic, legal, ethical and discretionary (Carroll, 1991). The economic dimension describes the organizations responsibility to be profitable. The legal dimension illustrates organisational responsibility to abide by legal standards and regulations. The ethical dimension refers to developing codes of ethics and the right thing to do. The discretionary responsibility includes any voluntary or philanthropic deeds carried out by the organization to contribute to the good of society (Petrovic-Lazarevic and Lazarevic, 2009). In Porter and Kramer’s (2006) opinion CSR includes the following activities: company’s moral obligation to be good citizen and to do the right thing; sustainability or meeting the needs of the present without compromising the ability of future generations to meet their own needs; reputation to justify CSR initiatives to improving company’s image. Yadong (2007) further suggests that CSR should consist of external aspects that relate to relationship with suppliers and commitment to local community protection and engagement; internal aspects that cover relationship with employees and unions; accountability and transparency that include commitment to reporting on CSR.

Despite of not having an overall accepted definition of CSR, debate has revolved for many years around whether or not organizations have a duty to society to maximize positive impact, or whether their only duty is to add value to their shareholders (Capaldi, 2005). With a pressure to avoid not business like performance, this debate is less important in current times. That is, societal tolerance for companies who do everything possible for profit, no matter how detrimental it might be for the collective good of society, is disappearing, since the organisations that act in socially irresponsible ways are easily punished by the stock market (Kitchin, 2003).

Despite of criticism, organisations widely accept and apply CSR.

Nowadays common opinion is that national characteristics influence CSR. National characteristics result from cultural, social, and economic traditions. Europe is known as active region when it comes to CSR relevance to business development. European Commission defines CSR as a way of doing business to improve sustainability, competitiveness, and environmental protection. In treating CSR in this continent, ethical concerns prevail in Anglo-Saxon countries, environmental preoccupations in Northern Europe, while in Eastern Europe it is in its infancy, thus being less tangible (Be, 2005).

The paper now looks to economic characteristics of Serbia.

Serbia at present

Serbia is the latest of East European countries in transition to a market economy. At the end of 20th century Serbia was exposed to the Balkan wars, bombing by NATO alliance, economic
sanctions enforced by the United Nations (Petrovic-Lazarevic, 2005), and economic regime followed by financial chaos with hyperinflation (Losoncz, 2005).

Dramatic economic changes began after 2000. Prices were liberalized and year-on-year inflation was increased. With these changes came a liberalization of the foreign trade rate, accompanied by the abolition of bureaucratic obstacles, low customs duties and simplified customs tariffs and procedures. The National Bank has pursued a monetary policy based on covering the money supply with foreign policy. It reduced its loans to the Government and stopped directly lending to enterprises, as was its earlier practice. The banking system was restructured with four major banks shut down because they incurred major losses. A new fiscal system was introduced based on the integration of the budget and the pooling of all fiscal revenues and fiscal expenses. The number of people employed in the private sector has risen, while the employment in state-owned enterprises has dropped (Petrovic-Lazarevic, 2005).

Privatization as a top priority of a new democratic regime based on commercial sales to strategic investors, also known as neo liberal approach to privatization, did not substantially accelerate ownership changes. The reason may be that privatization was not followed by effective bankruptcy laws, breaking up of monopolistic practices and effective competition law, stricter implementation of the rule of law and protection of property rights (Uvalic, 2004: 235). However, some reforms are in a progress, what may contribute to restructuring of loss-making enterprises, introduction of anti-corruption measures and more efficient systems of corporate governance.

Statistical data from 2004-2008 indicate that the Serbian economy was improving before global economic crisis took place (See Table 1). Growth rate was highest in 2004 reaching 8.2 percent, while in 2007 it was 7.1 percent. The growth rate drop to 5.6 percent in 2008 is probably caused by the economic crisis. Population below poverty line was reduced from 10 percent in 2004 to 7.7 percent in 2007 with a slight increase noticed in 2008. The inflation rate was reduced for 48 percent from 2005 to 2006 and remained unchanged through 2006-2008.

Although being the latest of East European countries to enter into a market economy, Serbia is facing a visible economic progress (See Table 1). This paper aims to explore whether the organisations in Serbia accept and apply CSR. In this respect, we have studied the activities related to CSR in Serbian organisations that may improve organisational competitive advantage; thus add value to a future business development in Serbia.

Table 1: Serbian economic progress indicators 2004-2008

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP*</td>
<td>$23.8 billion</td>
<td>$25.3 billion</td>
<td>$29.7 billion</td>
<td>$39.9 billion</td>
<td>$50.0 billion</td>
</tr>
<tr>
<td>GDP Growth rate</td>
<td>8.2 %</td>
<td>6.0%</td>
<td>5.6%</td>
<td>7.1%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Population below poverty line**</td>
<td>10.0%</td>
<td>10.0%</td>
<td>8.8%</td>
<td>7.7%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Inflation rate (consumer prices)***</td>
<td>12.0%</td>
<td>13.0%</td>
<td>6.8%</td>
<td>6.8%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Source: Economy of Serbia, 2009
* GDP in US$
** Households with yearly consumption US$123 per consumer unit were considered poor.

The paper is organised as follows: after this introduction, the method applied is explained, then study limitations, discussion of results, and after conclusions some future research interests are indicated.
METHOD

To comprehend CSR relevance for business development in Serbia, we have used data collection based on survey from Mazurkiewicz et al., (2006). Interviews were conducted in 171 companies selected from 500 companies. Selection criteria were the highest turnover and/or number of employees. Four percent were very large companies (number of employees more than 5000); 18 percent were large companies (number of employees from 1001-5000); 40 percent of respondents were from medium companies (number of employees from 251-1000); 24 percent were small companies (number of employees from 51-250); and 14 percent of very small companies (number of employees from 1-50).

Companies were from production (82 percent), financial services (8 percent), and non-financial services (10 percent). Majority of companies were privately owned (50 percent); 35 percent were joint-stock companies; and 15 percent were owned by government. The interviews based on close-ended questions (38 in total) were face-to-face with chief executive officers and other senior managers.

We have examined the relevance of CSR to business development in Serbia based on the following definition of CSR (Petrovic-Lazarevic, 2008:94): CSR is a set of principles established by an organisation to meet societal expectations of appropriate business behaviour and achieve best practice through social benefits and sustainable competitive advantage.

Accordingly, we have estimated CSR in Serbia by applying both Porter and Kramer (2006) and Yadong (2007) aspects of CSR. That includes the following organisational activities:

- Company’s moral obligation to be good citizen and to do the right thing
- Sustainability or meeting the needs of the present without compromising the ability of future generations to meet their own needs
- Reputation to justify CSR initiatives to improving company’s image
- Accountability and transparency that include commitment to reporting on CSR.

We observed the activity of being a good citizen and doing the right thing through the company’s perception of its stakeholders and definition of CSR.

By analysing activities undertaken related to healthy working environment (HWE) preservation and application of the International Organisation for Standardization (ISO) 14001 environmental management system (EMS), we studied organisational sustainability.

Existence of code of conducts in the organisations leads us to the reputation that justifies CSR initiatives towards improving the company image.

Accountability and transparency that include commitment to reporting on CSR should be explored through communication of values and ethics (Petrovic-Lazarevic, 2008). Because of a lack of such data in Serbia, we took into consideration companies’ reasons to participate in social projects.

Definition of stakeholders and CSR

The literature review suggests it is important for firms to be socially accepted in order to achieve best practice (Ghazali 2007). That comprises companies’ obligations to the societies in which they operate. The obligations are a reflection of their CSR (Yadong 2007).

Since Serbia is the latest East European country in transition to a full market economy, it seems relevant to the organisations to be aware of their stakeholders and to know what CSR really means for their image of being good citizen and doing the right thing.
Sustainability

Healthy Working Environment is commonly understood as mental and physical occupational health and safety and, working environments that focus on developing an environment to encourage a positive and effective workforce (National Guidelines for the Promotion of Healthy Working Environments, 2006:14).

Factors influencing HWE concerns of an organisation can be divided into internal and external ones. Internal factors are meant to keep good working conditions for the employees including occupational health and safety measures inside of an organisation (King, 2006; Petrovic-Lazarevic, 2005; Yadong, 2007). The HWE external component highlights an image of good corporate citizen by protecting the external environment from pollution and ensuring no dangerous working conditions (Pederson, 2007; Benn and Dunphy, 2007; Yadong, 2007). Obviously, both aspects of HWE are in accordance with sustainability activity of CSR of Porter and Kramer (2006).

Large companies that have a direct environmental effect apply ISO 14000 (Zobel, 2007) that includes ISO 14001 EMS (Lundan, 2004). As a voluntary standard, ISO 14001 EMS enables organisations to control the impact of their activities on the environment. EMS increases credibility and communication with stakeholders such as government agencies, community groups, and investors.

Within less than a decade, large companies around the world using an EMS have demonstrated improved efficiency in occupational health (Wamuziri 2006). In many countries EMS were supported by government by either directly imposing rules to apply EMS in large organisations or suggesting to different industry associations to concentrate on applying EMS (Petrovic-Lazarevic and Lazarevic, 2009). Reviewing the literature, we did not find that this was the case of Serbia.

Reputation

Companies present their activities to be perceived as providers of beneficial effects on the community and its stakeholders. Indeed, Cradden (2005) comments that to be socially responsible companies give an account of only those activities that have an impact on society.

The way the companies demonstrate their social responsibility at present is to communicate to their stakeholders a commitment to pursue a healthy environment. How the commitment will be communicated depends on a company’s culture, which is created and influenced by top management (Yadong, 2007). The form of communication is usually an annual report. In annual reports companies tend to disclose only favourable aspects of their social and environmental activities (Ghazali 2007:255). Large companies, in particular, tend to report both their financial performance and, social and environmental performance (Yadong, 2007).

Reporting on CSR

There is an understanding that CSR does not only relate to financial returns but also includes serving the community and direct beneficiaries of the company (Yadong, 2007). Thus, CSR deals with employees, customers, suppliers, human rights and corporate sustainability, but it also satisfies ethical and environmental considerations (Ghazali, 2007). Furthermore, recent research has shown that today top global companies communicate with their stakeholders a commitment to socially responsible behaviour through espousing an ethical framework for their overall mission within society, which includes the development of comprehensive environmental policies (Snider, et al., 2003).

According to Cradden (2005), communication of values and ethics of a company to the community should highlight what is good for a particular community; thus respecting community’s ethical values compatible with a company’s strategic interests.
LIMITATIONS

This paper is based on the survey conducted by Mazurkiewicz et al., (2006). Data undertaken mainly relate to Serbia with inaccuracy of 12 percent relevant to Montenegro companies. Further, fourth activity of CSR, reporting on CSR, is interpreted through the companies’ reasons to participate in social projects due to the lack of data relevant to companies communication of values and ethics with their community.

The paper now looks at whether there is any evidence of companies actually embracing the concept of CSR as defined in this paper and degree of their involvement in CSR development and application.

RESULTS AND DISCUSSION

The results are grouped according to the established CSR characteristics: definition of stakeholders and CSR, sustainability, reputation, and reporting on CSR.

Definition of stakeholders and CSR

Majority of respondents understand that social responsible activities are ethical activities (67 percent), but also other activities that comply with the company’s regulations (61 percent) (See Table 2). Only 37 percent of respondents state that CSR relates to preserving the environment. Interdependence of CSR and stakeholders’ concerns is even less taken into account (28 percent). Further, 18 percent of respondents regard social responsible activities as a public relation matter.

Table 2: Definition of CSR

<table>
<thead>
<tr>
<th>Definition</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical conduct in activities</td>
<td>67</td>
</tr>
<tr>
<td>Complying with existing regulations</td>
<td>61</td>
</tr>
<tr>
<td>Transparency in operations</td>
<td>54</td>
</tr>
<tr>
<td>Environmentally friendly activities</td>
<td>37</td>
</tr>
<tr>
<td>Addressing stakeholders concerns</td>
<td>28</td>
</tr>
<tr>
<td>A public relations matter</td>
<td>18</td>
</tr>
<tr>
<td>Establishing stakeholders partnership</td>
<td>8</td>
</tr>
<tr>
<td>Correction of social inequalities</td>
<td>5</td>
</tr>
</tbody>
</table>

Understanding CSR as ethical activities is in favour of an image of the organization to be a good citizen. This is in accordance with Ghazali (2007) and Yadong (2007). However, doing the right thing does not seem to be clear to the leaders of businesses in Serbia, since they relate CSR activities to the company’s regulations. This finding is further supported by relatively low percentage (37 percent) of liaising CSR with environmentally friendly activities. Regarding CSR as a business matter rather than the public topic indicates that business top managers may be aware of CSR influence to business success in Serbia today.

Low percentage of respondents who define CSR as stakeholders concerns (28 percent) may be under the influence of an overall understanding of who the stakeholders are. In this respect, Table 3 indicates that the customers and employees are equally important stakeholders (56 percent), while local communities are less important (13 percent). The latter supports 37 percent of respondents defining CSR as environmentally friendly activities (See Table 2).
Table 3: Who are the stakeholders? (%)

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>56</td>
</tr>
<tr>
<td>Employees</td>
<td>56</td>
</tr>
<tr>
<td>Government</td>
<td>25</td>
</tr>
<tr>
<td>Local communities</td>
<td>13</td>
</tr>
<tr>
<td>Civil society organisations</td>
<td>2</td>
</tr>
</tbody>
</table>

Source Mazurkiewicz et al., 2006: 11.

According to the findings, it seems that the organisations in Serbia are still not entirely aware of who their stakeholders are. Further, top managers do not realise that CSR activities contribute to their image of being good citizen and doing the right thing.

Sustainability

When being asked to highlight what is the main role of their company, respondents replied in favour of protecting employees’ health and environment, but also complying with regulations, and making profit (See Table 4).

Table 4: What is the role of a company in a society? (%)

<table>
<thead>
<tr>
<th>Role</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Protecting employee’s health</td>
<td>99</td>
</tr>
<tr>
<td>Complying with regulations</td>
<td>98</td>
</tr>
<tr>
<td>Protecting the environment</td>
<td>96</td>
</tr>
<tr>
<td>Making profit</td>
<td>96</td>
</tr>
<tr>
<td>Listening to stakeholders</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: Mazurkiewicz et al., 2006: 14.

It is interesting to note that listening to stakeholders covers 80 percent of respondents, although there is no clear understanding of nearly half of approached organisations of who their stakeholders are.

Protecting employees’ health in 75 percent of organisations is provided through a health protection plan, while 5 percent of organisations do not have any health plan at all. This finding points to a need to establishing occupational health and safety measures inside of all organisations (Mazurkiewicz et al., 2006).

Fifty five percent of all companies apply Environmental impact assessments (Mazurkiewicz et al., 2006), as a part of ISO 14001 EMS (Environmental impact assessment, 2009). Having environmental certification indicates companies’ awareness of its importance to a success of their business.

Clearly, according to the findings, HWE internal factors exist in majority of interviewed organisations (75 percent), so do HWE external factors (55 percent). Thus, sustainability activities appear to be present in the Serbian business. This goes with European Commission of CSR definition to do the business and improve sustainable development (Be, 2005).
Reputation

The main form of communication of companies' activities is the annual report (See Table 5), most likely result of the organisational culture inherited from the self-management era of Serbian economy (Petrovic-Lazarevic, 2002). That is in accordance with Yadong's (2007) argument that the way of communication of organisational commitments depends on a company's culture.

Encouraging, however, is that some companies also provide annual environmental report (23 percent), which may come from the joint-stock companies influenced by business partners from market economy. Further, when being asked do they intend to provide annual environmental report in next five years, 43 percent of all companies responded positive (Mazurkiewicz et al., 2006). This may be an indicator of changing the organisational culture towards CSR activities.

Table 5: Annual Reports

<table>
<thead>
<tr>
<th></th>
<th>(%)</th>
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</thead>
<tbody>
<tr>
<td>Annual financial report</td>
<td>95</td>
</tr>
<tr>
<td>Annual environmental report</td>
<td>23</td>
</tr>
<tr>
<td>Annual social report</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Mazurkiewicz et al., 2006: 18-19.

Further, having code of conduct can indicate whether the organisations have an interest to demonstrate their social responsibility. That is because the code of conduct defined as

a statement and description of required behaviours, responsibilities, and actions expected of employees of an organization or of members of a professional body (BNET Business Dictionary, 2009)

consists of ethical and socially responsible matters (Curtis et al., 2009).

Table 6: Code of Conducts

<table>
<thead>
<tr>
<th></th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written code</td>
<td>53</td>
</tr>
<tr>
<td>Verbal code</td>
<td>45</td>
</tr>
<tr>
<td>No code</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Mazurkiewicz et al., 2006: 15.

For a relatively short period of Serbian economy being in transition to market economy, 98 percent of all approached companies have a code of conduct, which undoubtedly helps the organisations to improve their reputation. This confirms statement of Cradden (2005) that to be socially responsible the interviewed Serbian companies give an account of activities that have an impact on society.

When being asked what the reason for having code of conducts was, they responded as shown in Table 7.
Table 7: Reasons for having code of conducts

<table>
<thead>
<tr>
<th>Reason</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved reputation</td>
<td>97</td>
</tr>
<tr>
<td>Compliance with regulations</td>
<td>95</td>
</tr>
<tr>
<td>Better employee relations</td>
<td>92</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>87</td>
</tr>
<tr>
<td>Business sustainability</td>
<td>84</td>
</tr>
<tr>
<td>Better relations with local community</td>
<td>76</td>
</tr>
</tbody>
</table>

Source: Mazurkiewicz et al., 2006: 16

Evidently, improved reputation is of crucial importance, followed by compliance with regulations and better employee relations. It is interesting to note that business sustainability is highly regarded (84 percent) as a reason for having code of conduct, so are better relations with local community (76 percent).

High percentage of better employee relations as a reason for having code of conducts can result from self-management economy in which cradle to grave treatment of employees had been applied (Petrovic-Lazarevic, 2002).

Reporting on CSR

In order to study organisational relationship with a community, we have observed data relevant to the companies’ reasons to participate in social projects from 2003-2006. Data provided relates to 83 percent of companies which were engaged in social projects (15 percent were not engaged at all, 2 percent did not know).

Table 8: Reasons for engaging in social projects

<table>
<thead>
<tr>
<th>Reason</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradition of community service</td>
<td>72</td>
</tr>
<tr>
<td>Better reputation</td>
<td>62</td>
</tr>
<tr>
<td>Cultural obligations to charity</td>
<td>54</td>
</tr>
<tr>
<td>Local brand recognition</td>
<td>39</td>
</tr>
</tbody>
</table>

Source: Mazurkiewicz et al., 2006: 22-23.

Although relevant to engagement in social projects, high percentage of tradition of community service (72 percent) appears to be an indicator of organisational culture form the self-management era (Petrovic-Lazarevic, 2002). Better reputation percentage (62 percent) may indicate an infancy of awareness of CSR activities’ significance to organisational business success.

Having no entirely clear picture of who their stakeholders are, Serbian companies fail to communicate their commitment to socially responsible behaviour, hence not establishing an ethical framework for their overall mission within society including the development of comprehensive environmental policies.
CONCLUSIONS

So whether the organisations in Serbia accept and apply CSR in Serbia? According to the research of the 171 companies, we found there is no full awareness of who the companies' stakeholders are, thus most likely top managers do not realise that CSR activities contribute to their image of being good citizen and doing the right thing. This statement is further supported by insufficient reputation and reporting on CSR. When it comes to sustainability, it seems the majority of business organisations in Serbia are aware of its relevance to the future organisations competitive advantage. This is in accordance with the understanding of European commission of primary purpose of applying of CSR (Be, 2005).

While it is acknowledged that there is a gap in the literature relevant to the role of government in supporting organisational sustainability activities in Serbia, future research should relate to this topic.
REFERENCES


Serbia inflation rates (consumer prices),


Serbia inflation rates (consumer prices),


