

SERBIA AND THE EUROPEAN UNION: ECONOMIC LESSONS FROM THE NEW MEMBER STATES

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CHAPTER 25.

CORPORATE SOCIAL RESPONSIBILITY AS A TOOL FOR SMART, SUSTAINABLE AND INCLUSIVE GROWTH

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Abstract

The recently adopted Strategy for the economic and social development of the EU - Europe Strategy 2020, recognizes the concept of the Corporate Social Responsibility (CSR) as one of the tools for the achievement of a smart, sustainable and inclusive growth. Although the integration of CSR concept into business strategies is made on voluntary bases, governments, civil sector, media and academia have an important role in its promotion. The aim of this paper is to analyse the role that CSR plays in the socio-economic development focusing on Serbia. While the Government perceives the importance of CSR for Serbian socio-economic development, it is noticeable that pressure on companies to undertake socially responsible activities made by media, NGOs, consumers and business partners is not remarkable. In addition, the business community still does not have enough CSR initiatives that would be both beneficial to the community and profitable for companies. The paper argues that education on CSR of the managers and the broader public is essential in raising the awareness of the benefits that CSR offer. Consequently, it would lead towards the wider implementation of CSR in Serbia.

Key words: *Europe 2020, Corporate Social Responsibility (CSR), stakeholder theory, Serbia*

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INTRODUCTION

The recent economic crisis has shown some of the basic weaknesses of the European economy. The European GDP fell by 4% in 2009, the industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of the active population - are now unemployed [2]. Furthermore, the public finances have been severely affected, with deficits at 7% of GDP on average and debt levels at over 80% of GDP [2]. In addition, the growth potential has been halved during the crisis [2]. In order to overcome the devastating effect of the economic crisis, as well as to make strong foundations for the economic and social development in the future, the *European Commission* has delivered the strategy: *Europe 2020*. The European Council has adopted this strategy in Jun 2010.

Europe 2020 introduces three key priorities of growth. It has to be *smart, sustainable and inclusive*. *Smart growth* means strengthening knowledge and innovation as driving forces of the future growth, which requires improving the quality of the education, strengthening the research performance, promoting innovation and knowledge transfer, making full use of information and communication technologies and ensuring that innovative ideas can be turned into new products and services that create growth. In addition, *sustainable growth* means building a resource efficient, sustainable and competitive economy, development of the new processes and technologies, and reinforcing the competitive advantages of businesses. Finally, *inclusive growth* means empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, introducing training and social protection systems to help people anticipate and manage change.

The concept of Corporate Social Responsibility (CSR) has been seen by the *Europe 2020* as one of the tools for ensuring all three priorities. In particular, CSR is seen as a necessary counterpart to the drive for a more competitive Europe since it can make a significant contribution towards sustainability and competitiveness, and also it is a key element in ensuring long term employee and consumer trust. [2] Therefore, raising corporate social responsibility among the business community will be among the measures for ensuring *smart, sustainable and inclusive growth* of the European Union.

The countries like Serbia, which strive to become EU members, should base their socio-economic development on the good EU practices. The corporate social responsibility is one of them. The aim of this paper is to analyse the role of the CSR in the socio-economic development focusing on Serbia. In order to show how it could serve as a tool for *smart, sustainable and inclusive growth* in the

European Union, as well as for Serbian socio-economic development, the definition of this concept, its theoretical background and the economic implication of its implementation are going to be discussed in the first section. In the second section, the state of corporate social responsibility in Serbia will be analysed. Finally, within the concluding remarks, the paper will give suggestions how to develop CSR activities in Serbia.

THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY AND ITS IMPLICATIONS

Although *corporate social responsibility* has become the mainstream of daily business discourse since 1990s, there is no universal definition of this concept. The reason for this lays in its voluntary nature, where companies are supposed to interpret *responsible behaviour* in their own way. However, the CSR has been lately in the focus of attention of both scientific and broader audience and therefore, different organizations and institutions have offered various definitions. *The World Business Council for Sustainable Development* defines CSR as the “continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as well as of the local community and society at large” [21]. The *European Commission’s* definition of CSR is “A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” [18]. *International Financial Corporation* defines corporate social responsibility as the following: “Corporate social responsibility is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development” [19].

The international community has recognised the importance of the responsible activities performed by companies for the social and economic development. The United Nations has formed the *Global Compact* – “the strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption” [20]. The Global Compact is a strategic platform for participants to advance their commitments to sustainability and corporate citizenship. It is a policy framework for the development, implementation, and disclosure of sustainability principles and practices.

To sum up, corporate social responsibility is the way that companies manage their economical, social and ecological influence and their relations with the interest

groups (stakeholders)⁴ on a voluntary basis. This term implies both what companies do with their profit and how they generate it. It also implies corporate contribution to sustainable development – the development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” [16]. In addition, socially responsible activities benefit interest groups, but also they have positive effects on the companies themselves. Finally, although the integration of the CSR concept into business strategies is made on voluntary bases, governments and international community, as well as civil sector, have a crucial role in the promotion of this concept.

Although the definitions of the CSR gave an insight into the concept, there is still a need for a deeper understanding of *the responsibilities* of business organisations. The question is: *What are companies responsible for?* In other words: *What is their purpose in a society?* Two main answers can be found in the literature. One is given by the classical theory of companies’ social responsibility – *stockholder (shareholder) theory*, which claims that companies are responsible towards their owners (stockholders/shareholders) and that companies’ purpose is to make profit. The other is offered by *stakeholder theory*, which argues that companies ought to behave responsibly towards their stakeholders and that the purpose which companies’ serve in a society is to harmonize different stakeholders’ interests. A brief outline of the arguments of both theories will be presented in the passages that follow.

According to *stockholder (shareholder) theory*, the primary responsibility of companies is the one towards owners (stockholders/shareholders). Companies’ purpose is to maximize their welfare. Milton Friedman [16: 59] argues that profit increase, made while respecting “basic rules of societies”⁵, is the only *social responsibility* of companies. As the representatives of stockholders, managers have the legal and moral obligation to make decisions that lead to shareholders’ financial benefits. He believes that the requirement for companies to participate in achieving “social goals” (after they have paid taxes) would be an unnecessary burden for companies which management cannot be competent for solving social problems. Under the conditions of the free market economy, the biggest responsibility of a company is a profitable business, which leads to *the greatest good for a society*. [8: 44]

⁴ Interest group or stakeholder is everyone who affects or can be affected by a corporation’s actions. In particular, Freeman states six main interest groups: consumers, suppliers, shareholders, managers, local community, employees. [4: 66]

⁵ “Basic rules of societies” are both rules embodied in law and those embodied in ethic custom. [5: 61]

On the other hand, R. Edward Freeman [4: 67] thinks that not only owners, but also customers, suppliers, managers, employees and local community have a certain “stake” in a company - they all take some risks. For example, employees risk their jobs and livelihoods; they invest in their work and in return expect a salary, security and meaningful assignments. According to this theory, when setting the goals, the interests of stakeholders *should be* taken into the consideration as well. They must not be treated *only* as an instrument for achieving goals such as profit maximisation. In other words, there are ethical grounds for requesting social responsibility from companies, which are based on Kantian ethics. According to Kantian ethics, in particular his practical imperative, an individual should act to treat humanity in oneself and others as an end-in-itself and never only as a mean [7: 54]. In addition, the duties of gratitude and citizenship, as well as the responsibilities of power require for companies to be socially responsible. [1: 96] Finally, and probably most importantly, there are numerous examples showing that profit maximization does not always lead towards beneficial outcomes for societies, while the classical theory claims the opposite. In a struggle for profit maximisation, companies endanger natural environment, disobey human rights, exploit cheap labour, etc. In other words, this approach cannot be defended by the utilitarian ethics as its proponents were trying to do - it does not lead to the *greatest benefit for greatest number of people*. [9: 5]

While focusing on its ethical aspects, it is important to stress that stakeholder theory does not minimize the importance of the economic aspects of the CSR implementation. It points out that the survival and success of companies are enabled when its activities are *balanced* with the societal interests since the interests of communities and business are *interdependent*. [11: 7] The theory also emphasises that good relationships with interest groups are very important for company’s competitiveness and long-term success [3]. Corporate social responsibility has been actually seen as *a mean* for securing the long-term financial results [11]. When the carefully selected socially responsible activities are integrated into business strategy and adequately communicated to the consumers and broader audience (particularly through so-called non-traditional market communication channels such as direct marketing or Public Relations), they become the effective competitive differentiator by influencing on building strong brand identities [10]. The relationship between the strong brand and the consumers’ loyalty is well known, as well as its influence on companies’ sales and profits. In addition, the responsible activities towards the natural environment, such as for example energy conservation, waste minimisation and recycling, can significantly decrease companies’ operational costs. Moreover, nowadays the reputation is essential for market success and the CSR is a way for ensuring companies’ good reputation among the consumers and the public. Finally, the

CSR may influence macro-level competitiveness by helping to build greater trust in enterprises as a group [3].

In short, on the one hand, there are ethical grounds for demanding responsible behaviour from companies, on the other, integration of the CSR into business strategy can significantly influence on both – business success and the socio-economic development of the country. Now, we will turn to the current situation in Serbia regarding implementation of the CSR.

THE STATE OF CORPORATE SOCIAL RESPONSIBILITY IN SERBIA

Within this section, the place of the CSR for achievement of the social and economic goals seen by the policy makers will be outlined first. Furthermore, the role of media, civil sector and academia for the promotion of this concept in Serbia will be examined. In the end, the CSR practices of companies, which operate at the Serbian market will be analyzed.

The Serbian Government has adopted the *Strategy for the development and promotion of the corporate social responsibility in the period 2010 – 2015* in July 2010. The aim of this document is to analyze the understanding and the implementation of the CSR among the companies that perform their activities at the Serbian market, as well as to promote this concept based on the EU practices and standards in order to foster sustainable and inclusive socio-economic development of the country. Furthermore, Serbian Government sets a particular role of the CSR in the achievement of the goals set by the *National strategy for sustainable development in the period 2008 – 2017*, the *Strategy for cleaner production* and by the *National youth strategy*. Finally, the big companies are not the only ones, which should integrate socially responsible activities into their business strategies, but it should be done by small and medium-sized enterprises (SMEs) as well, as it is outlined within the *Strategy for development of competitive and innovative small and medium-sized enterprises 2008 – 2013*.

The National strategy for sustainable development defines sustainable development as a goal oriented, long-term and synergetic process that affects all aspects of life (economic, social, environmental and institutional) at all levels. According to this document, the role of the CSR is of a particular importance for the achievement of the sustainable socio-economic development. In addition, the cleaner production is a part of the sustainable development concept, as seen by the *Strategy for cleaner production*. This is primarily related to the industry and industrial pollution. Key industries and individual companies should introduce significant changes in order to achieve the needs of the future generations.

Therefore, as a part of the integrated CSR concept, the cleaner production should be a long-term policy of the companies. *National youth strategy* points out that the implementation of the CSR is one of the ways that leads to solving the problem of unemployment and informal work of Serbian youth. In addition, it is a way of improving the quality of the employment contracts. Therefore, by introducing responsible activities that are focused on young people, companies could prepare them for their future careers, giving them the necessary work experience.

As it is outlined within the *Strategy for the development and promotion of the corporate social responsibility in the period 2010 – 2015*, CSR is a tool for poverty reduction and social inclusion. The document points out that there are numerous ways in which the State could influence the CSR framework for the benefit of the deprived. To mention some, encouragement of the market fragmentation and development of the informal markets, promotion of inclusive products, or products which allow poor people to participate in economic activities.

Apart from the crucial role that the State plays in the promotion and encouragement of the CSR activities, academia, civil sector, media, business and professional associations, also play an important role in the development of the CSR. Firstly, the academia is necessary for the creation and dissemination of the knowledge related to the CSR concept. However, the academia still have only a modest impact on CSR promotion and knowledge creation in Serbia, since subjects on corporate social responsibility are not a part of curricula in most of the higher educational institutions [15].

In addition, the civil sector plays a significant role in the CSR promotion as well as in indicating the irresponsible activities performed by companies. While there are NGOs involved in promoting the CSR in Serbia, some of them still lack the necessary skills to engage in dialogue with business and business associations. Initiatives of civil society in promoting CSR are often seen as short-term and inconsistent. On the other hand, civil society is insufficiently engaged in the education of the other stakeholders involved in CSR practices. They should suggest to companies how to structure their CSR activities and support them in development of organized dialogue with employees and engaging stakeholders [15].

Moreover, Media can contribute significantly by building awareness of the need for the CSR. They can also highlight examples of the good CSR practices that can inspire other companies to follow these examples and can also put pressure on companies that behave irresponsibly towards the natural environment and society.

Since the Republic of Serbia is in the initial phase of implementing the CSR principles into business strategies and daily operations, the role of the Media is essential. Given their power to influence the public opinion and encourage the introduction of changes, the media can provide an incentive to promote the CSR. by representing and defending the public interest in the field of the CSR. Although the occasional reports on the CSR activities are provided by the Media in Serbia, they are more a part of the companies' market communication, than the initiative for the CSR promotion done by the journalist.

In addition, consumers by choosing product express not only their preferences regarding the products' characteristics, but also their attitude towards companies' behaviour and could put pressure on companies to behave in accordance to the social responsibility. However, Serbian consumers continue to focus mainly on the price of goods and services when making their purchasing decision, while considerations of the CSR is not settled sufficiently. They do not put a pressure on the companies to behave responsibly. The knowledge regarding the CSR concept, as well as the power that consumer associations have in requiring responsible behaviour is lacking.

Furthermore, business and professional associations are crucial for raising awareness among its members. Several associations have conducted the activities addressing the CSR issues in Serbia. In particular, *Serbian Chamber of Commerce* is a very prominent player in promoting the CSR and it has been active in this field since 2003, initiating a number of projects and achieving many partnerships. Moreover, *the Republic of Serbia has adopted United Nations Global Compact* in 2007. Nowadays, the United Nations Global Compact Serbia has a semiformal structure and functions through the activities of the Steering Committee (consisting of five members), the Secretariat and the five working groups: Social inclusion and persons with disabilities; fight against corruption; corporate social responsibility in the banking and finance; support the development of the Strategy; and environment. Furthermore, *Business Leaders Forum Serbia* was established in 2008 with a mission to stimulate the development of the CSR practices in Serbian business sector. Finally, an on-line database of Serbian companies' good CSR practices has been established within the internet site of the *Serbian Investment and Export Promotion Agency*.

While the Government perceives the importance of the CSR for Serbian socio-economic development, it is noticeable that pressure on companies to undertake socially responsible activities made by media, NGOs, consumers and business partners is not remarkable. As a result, the number of companies operating in Serbia that have incorporated the concepts and practices of the CSR as an integral part of their business strategy is still relatively low [15]. Only a small number of

companies have introduced the position of the CSR manager in their organizational structure. The picture is slowly changing, as a number of multinational corporations operating in the region have their branches in Belgrade, which provides the inflow of foreign knowledge and experience in the CSR.

Among the socially responsible activities that companies operating at the Serbian market practice, humanitarian activities and sponsorship of cultural and sport events prevail, while the introduction of standards related to the CSR, then the partnership with local governments, employee participation in decision-making and programmes that would stimulate entrepreneurship, employment and development of individuals within socially vulnerable groups are less frequent [15]. While most companies establish a dialogue with its employees, it is still not a common practice for companies to enter into a structured dialogue with another stakeholder. In addition, a number of companies still consider that CSR is only a tool for public relations and not the long-term commitment. The activities that have in focus vulnerable groups such as children, elderly people, unemployed, Roma population, etc, are marginal. The lack of awareness and commitment to responsible behaviour is even higher among the SMEs.

However, it is noticeable that most of the companies have introduced the international standards regarding the safety at the working place and environmental protection [15]. The weakest point is still the reporting of aspects of the business and the impact on the natural and social environment. Most of the companies still do not provide such reports, while companies that make efforts in this area rarely use internationally recognized standards or systems.

Companies operating in Serbia still do not fully distinguish CSR from corporate philanthropy and legal compliance. As a result, engagement in activities related to supporting charities and sport and cultural events prevail, while the development of the long-term programmes has been rarely made. The integration of the CSR into the business strategies is lacking in most of the cases. In short, the business community still does not have enough CSR initiatives that would be both beneficial for the community and profitable for companies.

CONCLUDING REMARKS

This paper has pointed out that corporate social responsibility is an adequate tool for reaching smart, sustainable and inclusive growth, as it is pointed out within the Europe 2020, as well as sustainable and inclusive socio – economic development in countries such as Serbia. It can be argued that not only companies have an ethical obligation to behave responsibly towards the stakeholders, but

also such behaviour has a positive impact on their business success. Although the integration of the CSR concept into business strategies is made on the voluntary bases, there is a significant role played by the governments, civil sector, media and academia in the promotion of this concept.

Serbia, as a country that strives to become an EU member in the future, is adopting good practices and standards of the Union. In this manner, Serbian Government perceives the importance of the CSR for Serbian socio-economic development and it has adopted the *Strategy for the development and promotion of the corporate social responsibility in the period 2010 – 2015*. However, it is noticeable that the pressure on companies to undertake socially responsible activities made by media, NGOs, consumers, and business partners is not remarkable. Although there are certain practices that could be considered as socially responsible, the integration of the CSR into the business strategies of the companies and their long-term commitment to serving the goals of the communities is rare. Moreover, it is noticeable that companies usually do not have the awareness of the benefits that CSR offers for the brand identity and their financial success.

Therefore, all the interest groups should undertake the activities that promote CSR among the business community, as well as actions that raise awareness of the importance of this concept for the society as whole. Since the main obstacle for the CSR implementation is the lack of proper understanding of this concept and its benefits, the education on the CSR is essential. The role of the academia, civil sector and business associations is crucial for the achievement of this goal. The higher educational institutions must improve their curricula by including the CSR as an important subject, especially in the field of business administration, economics, public administration, law and studies on environmental protection. In addition, civil society and business associations should organise trainings and seminars on the CSR for managers, and for the broader audience. On the one hand, the managers would acquire the necessary knowledge and skills on the CSR, and on the other the consumers, journalist and the public would become more aware of companies responsibilities and the possibilities that the CSR offers for the development of the community. As a result, media and consumer associations would put more pressure on companies to behave responsible. The state has a particular role in stimulating CSR through rewarding the socially responsible behaviour and through public-private partnerships in addressing the needs of the society.

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