MANAGING STRUCTURAL CHANGES
TRENDS AND REQUIREMENTS

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FOREWORD

The long-standing and effective cooperation between the Group for Monetary and Financial Studies (GEMF) of the Faculty of Economics of the University of Coimbra (Portugal) and the Institute of Economic Sciences of Belgrade (Serbia), as well as the Belgrade Banking Academy (Serbia) resulted in this monograph entitled: ***Managing Structural Changes: Trends and Requirements*.** The main aim of the monograph is to identify key contemporary issues regarding structural change, as well as to determine the necessary directions and strategies for implementation of structural adjustments in order to promote sustained, but also sustainable economic growth and development.

We publish this monograph in a time of global economic crisis. A period of crisis is a time of dangers and challenges, but also opportunities. Every country is facing unique economic situations which require new ideas and approaches. The exchange of ideas among researchers is fundamental in the process of developing new solutions for these unique problems.

The monograph is the result of the endeavour of 71 authors from 6 countries, Serbia, Portugal, France, Russia, FYROM and Algeria. The different chapters of this monograph cover various theoretical and practical aspects of structural change, but most of all issues regarding the macroeconomic framework for structural adjustments, restructuring at the microeconomic level, promoting competitiveness and efficiency, labour economics, and changes undergone by transition economies. In this way, the monograph improves the scientific 'state of the art' within the field of structural change at the macro and micro levels, and provides a collection of theoretical and practical approaches in the field of structural change in transition countries and also some EU countries. We must not forget that there is no unique solution for such very complex problems as those posed by structural change, especially in a time of global economic and financial crisis, so these different approaches and contributions are of major importance.

We believe that this monograph will help the implementation of structural reforms and allow for improvements in the decision making process by governments and institutions, as well as being of wider social interest and importance. We will be very happy if some of our ideas can help solving even just one small problem faced by the different countries. Last, but not least we hope that readers will find the book as a source of new ideas and as an inspiration for future research.

EDITORS

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CHAPTER 18. AFFIRMATION OF PRINCIPLES AND IMPROVED CORPORATE GOVERNANCE IN SERBIA -BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY[1]

Živka PRŽULJ[2]
Bojana RADOVANOVIĆ[3]

Abstract:

The aim of this chapter is to examine whether corporate governance in Serbia is based on affirmation of responsible and ethical conduct. The concept of corporate governance refers to the system by which companies are managed and controlled in order to generate long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole. Companies' responsibility towards their stakeholders is recognized as a principle of good corporate governance. In this chapter, we present results of the poll on the managers' attitudes towards business ethics and corporate social responsibility in Serbian business environment. We found out that managers are uniformed in the belief that companies have responsibilities towards their stakeholders: employees, business partners, suppliers, customers, community and environment. In addition, they are of the opinion that ethical behaviour and business success could go along, and also that immoral conduct is not justified in business. Nevertheless, most of examined managers see current business environment in Serbia as an uncompromising struggle. We can conclude that while managers' attitudes towards business form a solid basis for the affirmation of principles and improved corporate governance, the perception of business environment as an uncompromising struggle indicate that current business practice in Serbia, in fact, hinder ethical and responsible conduct and reflect its opposite.

Key words: *Corporate Governance, Business ethics, Corporate Social Responsibility, Management Attitudes, Serbia.*

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[1] This paper is a part of research projects: 179015 (*Challenges and prospects of structural changes in Serbia: Strategic directions for economic development and harmonization with EU requirements*) and 47009 (*European integrations and social and economic changes in Serbian economy on the way to the EU*) and Ministry of Education, Science and Technological Development of the Republic of Serbia.

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INTRODUCTION

Corporate governance could be defined as the system by which companies are managed and controlled in order to generate long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole. This concept has been receiving a great attention lately. The interest in it aroused due to several events (Claessens and Yurtoglu, 2012). First of all, it has been discussed that the behaviour of corporations and deficiencies in corporate governance endangered the stability of the global financial system during the financial crises in Russia, Asia, and Brazil in 1998. Than only three years later, corporate governance scandals in the United States and Europe undermined confidence in the corporate sector. Finally, the financial crisis of 2007-2009 "has seen its share of corporate governance failures in financial institutions and corporations, leading to serious harm to the global economy, among other systemic consequences" (Ibid 1). It has become clear that weak corporate governance has potential destructive macroeconomic, distributional, and long-term consequences (Ibid).

This chapter aims to examine whether corporate governance in Serbia is based on the affirmation of responsible and ethical business conduct. In the first section we provide definitions of corporate governance and discuss its relation to corporate social responsibility and business ethics. Then, in the second section, we present the results of the poll on the managers' attitudes towards business ethics and the corporate responsibility in Serbian business environment.

CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY AND BUSINESS ETHICS

There are numerous definitions of corporate governance in the literature. One of the most often quoted is provided by Sir Adrian Cadbury (Cadbury, 1992). According to him, "corporate governance is the system by which companies are directed and controlled" (Cadbury, 1992: 9). This author points out that in its broadest sense "corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individuals, of corporations and of society. The incentives to corporations and those who own and manage them to adopt internationally accepted governance standards is that these standards will assist them to achieve their aims and to attract investment. The incentive for their adoption by states is that these standards will strengthen their economies and encourage business probity" (GCGF, 2005:3). According to the Organisation for Economic Co-operation and Development (OECD) corporate governance "involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined" (OECD, 2004). In addition, it "refers to that blend of law, regulation and appropriate voluntary private sector practices which enables the corporation to attract financial and human capital, perform efficiently and thereby perpetuate it by generating long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole" (GCGF, 2005: 5).

The definitions of corporate governance are usually divided into two groups (GCGF, 2005). The first group of definition focuses on the actual behaviour of corporations and the system of their management and control - their performance, efficiency, growth, financial structure, and treatment of shareholders and other stakeholders. The second group of definitions deals with the normative framework, in other words, the rules under which firms operate. Those rules are set within the legal system, the judicial system, financial markets, labour markets, etc. This normative framework can be defined narrowly or more broadly (Ibid). Under a narrow definition, the focus is on the rules in capital markets governing equity investments in publicly listed firms. When it is considered in a broader sense, corporate governance can encompass both the determination of value-added by firms and the allocation of it among stakeholders. In other words, in its broader meaning, corporate governance also encompasses the concept of corporate social responsibility (Ibid).

The question of social responsibility of business entities is raised in regard to international companies during the last decade of 20th century. The number of multinationals almost doubled and their size and the wealth boosted from 1990 to 2001. Some companies increased their profits using the host countries' weak lows, low wages, possibility of breaking human rights and endangering the natural environment. All these influenced on the different activists to undertake certain measures, from boycotts to demonstrations and to demand responsible behaviour from the companies. As a result, corporate social responsibility has become the mainstream of daily business discourse since 1990s. However, 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, different organizations and institutions have offered various definitions of CSR. According to the *European Commission* 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". *International Financial Corporation* defines corporate social responsibility as "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". *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". To sum up, corporate social responsibility is the way that companies manage their economic, social and ecological influence and their relations with the interest groups (stakeholders - everyone who affects or can be affected by a corporation's actions) 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. Finally, it could be inferred from the definitions that socially responsible activities benefit interest groups, but also they have positive effects on the companies themselves (Radovanovic, Brkovic, Stevanovic, 2011).

The question about the responsibilities of companies and the purpose of business is in the heart of business ethics (Przulj, Radovanovic, 2009). Business ethics is a field of applied ethics that examines ethical principles and moral problems that arise in a business environment. It also concerns with the philosophy of business, aiming to determine the fundamental purposes of a company. In the literature, there could be found two distinct answers to the question what the main responsibility of the company is. One is given by the *stockholder (shareholder) theory*, which claims that companies are responsible towards their owners (stockholders/shareholders) and that their sole purpose is to make profit, while respecting the lows and "rules of the game". The other is offered by *stakeholder theory*, which argues that companies ought to behave responsibly towards all stakeholders - everyone included in its operations, or individuals and groups who carry certain risk (stake) in the business, and that the purpose which companies' serve in a society is to harmonize different stakeholders' interests.

The stockholder theory was predominant in the period when the separation of ownership and control occurred and when the agency problem became a threat for shareholders. The concept of corporate governance was then focused on the ways companies are governed and controlled so that the investors' interests are respected and the long-term success company's success secured. Milton Friedman is known for its understanding that profit increase, made while respecting "rules of the game" and legal regulations, is the only social responsibility of companies, and managers, as the representatives of stockholders, have the responsibility for their financial benefits. Under the conditions of the free market economy, the biggest responsibility for a company, or a manager that manages it, is profitable business. According to this theory, every other goal is in the shadow of the main goal and can be justified if it is in function of profit increase. However, R. Edward Freeman thinks that owners, as well as customers, suppliers, managers, employees and local community have a certain “stake” in the company and because of that they take some risks. Therefore, when setting company’s targets the interests of every mentioned group need to be taken into the consideration. The company is responsible towards each of the interest group (stakeholders). Also, every interest group can positively or negatively influence the company and in some moments could be of the crucial importance for company’s success and survival. Therefore, none of them should be the instrument for achieving the end goal (especially not consumers, employees, suppliers and local community), and the needs of all of them should be incorporated into company goals. Although they seem on the different ends of continuum, two presented approaches to social responsibility could bridge their differences. Followers of the stakeholder theory emphasise good relationships with all interest groups as crucial for company’s competitiveness and long term success. They do not minimize the importance of profitability and long term financial success, but emphasise that corporate social responsibility is the way to secure financial results and at the same time responsible relationship with stakeholders. As it is mentioned above, Friedman stated that company have to operate according to the “rules of the game”. We could say that in four decades time after Friedman wrote his article, “the rules of the game” have changed. Although in modern business world companies that do not make profit cannot survive on the market, the concept of profitability is changed. Today profit seen as the goodwill, credibility and trust given to the company by the society is more valuable than the profit in terms of money and return on investment. The company’s image depends on people’s satisfaction – costumers’, suppliers’, employees’ and the local communities’ etc., and long term success and survival is enabled when company’s activities are balanced with the society’s interests, or what Peter Draker says, every company is the part of the society and has a function in the society. According to Di George, business is a social initiative where the community determines its powers and limitations. In line with this understanding, the business can ignore the moral claims of individuals, but can hardly neglect moral demands of the entire society, because it is part of society it depends on society (De George, 2003). Therefore, the argument that companies have certain responsibilities towards stakeholders has become predominant in the literature of management and business ethics. As a result, the concept of corporate governance has encompassed corporate social responsibility and consequently companies’ responsibility towards stakeholders is recognised as a principle of good corporate governance. In line with it, OECD Principles of Corporate Governance recommends that “the corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprise" (OECD, 2004).

MANAGERS ATTITUDES TOWARDS BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITIES IN SERBIA

Serbia is a country where a long time socialist system created a prejudice that capitalism is exploiting and therefore unethical system that neglects interests of the working class and society, and in the foreground puts the race for profits "at any cost". The issue of ethics in business is placed under the responsibility of individual decision makers. These decisions have consequences in the lives of individual actors, businesses, a society and its development as a whole. However, decisions of individuals are based on their values and attitudes that are embedded in the social values. Therefore, the analyses of the Serbian managers' attitudes about business and their responsibilities is of a particular importance for both understanding the values that underpin the attitudes and actual practice. The question in focus of this chapter is whether managers' attitudes towards business form a solid basis for the affirmation of principles and improved corporate governance in Serbia. We will present the results of the poll on the managers' attitudes towards business ethics and corporate responsibility in Serbian business environment.

Hundred and twenty eight managers participated in this research. The sample was 55% female and 45% male. The largest age category was 31-40 (40%), followed by the category "up to 30" (24%), than 41-50 (20%) and finally "above 51" (16%). Majority of respondents obtains a university degree (74%), while there was 16% with a college and 10% with a high school degree. The largest management level category was middle and operational 34% each, while there were 32% of top managers. Respondents were employed in the following industries: manufacturing industry 11%, civil engineering 10%, trade 12%, financial services 42%, and other sectors 25%.

The questionnaire consisted of two parts. The first one regards attitudes towards business (9 items) and the second is related to the attitudes towards companies' responsibilities (18 items). Each questionnaire item used a five point Likert rating scale, where 1 stands for "strongly disagree", 2 - "disagree", 3 - "neither agree nor disagree", 4 - "agree", and 5 - "strongly agree".

Most of respondents agree that business makes sense only if it brings a lot of money, but also that market and competition are merciless struggle in which winners are those who have the least scruples and that most business people do not stick to ethical principles in business. Most of managers strongly disagree that in business there is no room for respect for the other people needs and interests, but only the interests of owner, also that business and morality cannot go along, finally they strongly disagree that morality in business has no impact on long-term business survival and that it cannot contribute to companies' success. Most of examinees disagree that on the way to profits all means are justified and that companies have no moral obligations more than to operate in compliance with the law. It could be concluded that although managers are of the opinion that ethical behaviour and business success could go along, and also that immoral conduct is not justified in business, most of them nevertheless see current business environment as an uncompromising struggle.

The shares of managers that "strongly disagree" (1), "disagree" (2), "neither agree nor disagree" (3), "agree" (4) or "strongly agree" (5) with the proposed statements related to business practices and business ethics together with the mode (M_o) and median (M_e) are presented in the Table 1.

Table 1: Attitudes towards business

	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)	M_o	M_e
Business makes sense only if it brings a lot of money	23.4	17.2	10.9	36.7	11.7	4	4
In business there is no room for respect for the needs and interests of other people, but only the interests of owners	46.1	23.4	13.3	13.3	3.9	1	2
The market and competition are merciless struggle in which winners are those who have the least scruples	13.3	21.9	15.6	28.1	21.1	4	3
On the way to profits all means are justified	32.8	36.7	12.5	14.1	3.9	2	2
Most business people do not stick to ethical principles in business	10.9	15.6	12.5	36.7	24.2	4	4
Business and morality cannot go along	41.4	28.1	14.8	10.9	4.7	1	2
Morality in business has no impact on long-term business survival	41.4	31.3	12.5	10.9	3.9	1	2
Morality in business cannot contribute to companies' success	50.0	26.6	10.2	8.6	4.7	1	1.5
Companies have to operate in compliance with the law and have no moral obligations more than that	28.9	34.4	12.5	19.5	4.7	2	2

Most of managers strongly agree that companies have the following moral obligations towards their employees: to respect their dignity, to respect employment contracts, to pay regular and fair compensation for the work as well as the social security liabilities, to take account for safety at work, to encourage professional development and training of employees, to apply the criteria of position requirements, candidates' capabilities and results in the recruitment and promotion.

Regarding companies' moral duties towards users of their products and services, managers strongly agree that companies ought to provide products and services that do not endanger life and health, than to clearly inform customers of a product or service content so they know exactly what they buy, also to pull out products and services that endanger users as soon as the problem is noticed, in addition to enter into a business transaction by both parties fully understand the potential risks, and finally not to manipulate the marketing messages by giving false or insufficient information.

According to the greatest number of respondents, companies also have moral obligations towards the social and natural environment, particularly not to threaten the natural environment, than to secure that its operations do not in any way endanger the lives and health, also to preserve jobs and increase the possibilities for job creation, finally to assist and participate in socially beneficial actions of the local community.

Finally, most of the respondents strongly agree that companies have the following moral obligations towards their suppliers and business partners: to respect signed agreements, to regularly pay its obligations in compliance with the agreements and terms, and to regularly inform their partners and suppliers about any changes in business conditions.

The shares of managers that "strongly disagree" (1), "disagree" (2), "neither agree nor disagree" (3), "agree" (4), and "strongly agree" (5) with the proposed statements related companies 'responsibilities, as well as the mode (M_o) and median (M_e) are presented in Table 2.

Table 2: Attitudes towards corporate social responsibilities

	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)	M_o	M_e
Companies have the following moral obligations towards their employees:							
To respect their dignity	0	0.8	3.1	8.6	87.5	5	5
To respect employment contracts	0.8	0.8	1.6	3.1	93.8	5	5
To pay regular and fair compensation for the work as well as the social security liabilities	0	1.6	0	3.9	94.5	5	5
To take account for safety at work	0	0.8	0.8	4.7	93.8	5	5
To encourage professional development and training of employees	0	0	1.6	11.7	85.9	5	5
To apply the criteria of position requirements, candidates' capabilities and results in the recruitment and promotion	0	0	0	11.7	87.5	5	5
Companies have moral obligations towards users of their products and services:							
To provide products and services that do not endanger life and health	0	0	2.3	3.9	93.8	5	5
To clearly inform customers of a product or service content so they know exactly what they buy	0	0	0.8	8.6	90.6	5	5
To pull out products and services that endanger users as soon as the problem is noticed	0	0	0	10.2	89.8	5	5
To enter into a business transaction by both parties fully understand the potential risks	1.6	1.6	3.1	11.7	82.0	5	5
Not to manipulate the marketing messages by giving false or insufficient information	1.6	1.6	3.1	13.3	78.1	5	5
Companies have a moral obligation towards the social community and natural environment:							
Not to threaten the natural environment	0	0.8	3.9	3.9	90.6	5	5

	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)	M_o	M_e
That its operations do not in any way endanger the lives and health	0	0.8	1.6	2.3	94.5	5	5
To preserve jobs and increase the possibilities for job creation	0.8	2.3	8.6	13.3	75.0	5	5
To assist and participate in socially beneficial actions of the local community	0.8	1.6	9.4	15.6	72.7	5	5
Companies have the following moral obligations towards their suppliers and business partners:							
To respect business contracts	0.8	2.3	0	2.3	94.5	5	5
To regularly pay its obligations in compliance with the agreements and terms	0	1.6	0.8	9.4	87.5	5	5
To regularly inform their partners and suppliers about any changes in business conditions	0.8	1.6	3.1	7.0	86.7	5	5

It could be concluded that managers are almost uniform in the attitudes regarding business' responsibilities towards employees, customers, business partners, community and natural environment, while among them there are some disagreements in the attitudes towards business practice and business ethics. Therefore, we will focus in more details on the first part of the questionnaire. Particularly, using the Chi-Square Tests, we will analyse whether gender, management and educational level on one hand and their attitudes towards business on the other are independent variables. In other words, we will consider whether the attitudes differ due to the fact that respondents are male or female, than whether they belong to the top, middle or operational level of management, or if the differences in educational level make differences in attitudes.

We performed the Chi-Square Tests for each question, and summarized *p* values in the Table 6.

Table 6: Chi-Square Tests 4

	Gender	Management level	Educational level
	p value	p value	p value
Business makes sense only if it brings a lot of money	0.841	0.436	0.086
In business there is no room for respect for the needs and interests of other people, but only the interests of owners	0.151	0.401	0.234
The market and competition are merciless struggle in which winners are those who have the least scruples	0.754	0.710	0.853
On the way to profits all means are justified	0.815	0.213	0.403
Most business people do not stick to ethical principles in business	0.417	0.435	0.030
Business and morality cannot go along	0.583	0.981	0.314
Morality in business has no impact on long-term business survival	0.188	0.908	0.532
Morality in business cannot contribute to companies' success	0.879	0.925	0.122
Companies have to operate in compliance with the law and have no moral obligations more than that	0.542	0.725	0.945

According to the results of the Chi-Square Tests, where the p values are higher than 0.05 except in one case, we could conclude that, except in one case, we can conclude that there are no statistically significant dependence between gender, level of management and education on the one hand and the attitudes towards business on the other.

However, we can conclude that the level of education influences the attitude that most business people do not stick to ethical principles in business, since in this case p value of 0.03 is less than 0.05. While 54.7% of managers holding a university degree agree or strongly agree that most business people do not stick to ethical principles, much stronger consensus on this is among their colleagues with college degree – even 86% and high school degree – 66.7%, which could be seen in the Table 7.

Table 7: Most business people do not stick to ethical principles

	Strongly disagree (%)	Disagree (%)	Not sure (%)	Agree (%)	Strongly agree (%)
University degree	12.6	17.9	14.7	37.9	16.8
College degree	9.5	0	4.8	33.3	52.4
High school degree	0	25.0	8.3	33.3	33.3

After we presented the analyses of managers' attitudes, we can turn to our main question - whether managers' attitudes towards business form a solid basis for the affirmation of principles and improved corporate governance in Serbia. We saw that managers are uniformed in the belief that companies have responsibilities towards their stakeholders: employees, business partners, suppliers, customers, community and environment. In addition, they are of the opinion that ethical behaviour and business success could go along, and also that immoral conduct is not justified in business. However, most of them nevertheless see current business environment in Serbia as an uncompromising struggle. In general, gender, management level and educational level and managers' attitudes towards business are independent variables.

CONCLUSION

In this chapter, we analysed concept of corporate governance with the aim to examine whether corporate governance in Serbia is based on affirmation of responsible and ethical conduct. Corporate governance could be defined as the system by which companies are managed and controlled in order to generate long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole. Companies' responsibility towards stakeholders is recognised as a principle of good corporate governance. In that sense, OECD Principles of Corporate Governance recommends that "the corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprise" (OECD, 2004).

The question in focus of our analyses is whether managers' attitudes towards business form a solid basis for the affirmation of principles and improved corporate governance in Serbia. We presented the results of the poll on the managers' attitudes towards business ethics and the corporate responsibility in Serbian business environment. Our analyses show that managers are uniformed in the belief that companies have responsibilities towards their stakeholders: employees, business partners, suppliers, customers, community and environment. In addition, they are of the opinion that ethical behaviour and business success could go along, and also that immoral conduct is not justified in business. However, most of them nevertheless see current business environment in Serbia as an uncompromising struggle. In general, gender, management level and educational level and managers' attitudes towards business are independent variables.

It is important to note that there is a disproportion between the attitudes of managers surveyed and the impression that we have about Serbian reality full of various scandals in business practices, which may at least be characterized as unethical, and which often is not under the legal limits. Such neglect the legitimate interests of individuals (e.g., non-payment of the wages), but also society as a whole (environmental damage, manipulation of the privatization process, etc.). This might be implicitly present in managers' perception of business environment as an uncompromising struggle. It could be concluded that while managers' *attitudes towards business* form a solid basis for the affirmation of principles and improved corporate governance, the perception of business environment as an uncompromising struggle indicate that current *business practice* in Serbia, in fact, hinder ethical and responsible conduct. Further analyses in this field might prove fruitful for the profound understanding of Serbian managers' behaviour and attitudes.

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