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SOCIAL RESPONSIBILITY AND COMPETITIVE ADVANTAGE OF THE COMPANIES IN SERBIA

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ABSTRACT

In this paper, the authors deal with the phenomenon of corporate social responsibility, its role and its ability to achieve competitive advantage. CSR represents the company's orientation towards the improvement of the community welfare, on the one hand, and of the strategic benefits for the company on the other. The goal of the research is reflected through understanding of the application of CSR concepts as a means for achieving sustainable competitive advantage, with special emphasis on the Republic of Serbia. In addition to the review of the literature dealing with this topic and previous research, the authors in their work uses survey method, a form of corporate questionnaire, in order to obtain relevant opinions of financial institutions managers. As far as the practical implications are concerned, the research results and conclusions may be useful for justifying stronger, and better planned, implementation of CSR in the company. Research results obtained in a country that is in late transition, compared to the former socialist economies, represent a special contribution.

Key words: *CSR, competitive advantage, reputation, stakeholder approach, financial sector*.

CORPORATE SOCIAL RESPONSIBILITY

The concept of CSR is one of the key ethical and moral problems which corporate decision-making and behavior is surrounded (Branco and Rodrigues 2006). As a business concept, corporate social responsibility (CSR) has emerged in the late years of the twentieth century, when a growing number of companies started to consider the impacts of corporate decisions on society and the environment. CSR is a concept whose time is coming. In general, CSR refers to the obligations of companies to society, more specifically, refers to the obligations to stakeholders and those who influence corporate policies and practices. According to Caroll (1991) CSR consists of four elements represented in the form of a pyramid, whose top is a philanthropic, followed by legal, social and economic responsibility to the bottom of the company. Economic responsibility is the basic responsibility of the company in terms of company profits through the satisfaction of the needs and expectations of consumers. Legal responsibility is reflected in the fact that the corporation has a responsibility to comply with the law. A company that behaves in accordance with the requirements of social responsibility, we can say that it works considering the business ethical standards. Philanthropic responsibility assumes that the company is a "good citizen" and contributes to community resources. CSR encompasses two main aspects - accountability and transparency. In addition to the default responsibility for its financial performance and profitability, companies are responsible to stakeholders, for their behavior in relation to human rights, business ethics, environmental policies, corporate governance, diversity, community development and job creation problems.

Advocates of CSR point out the following benefits of corporate social responsibility: the increased engagement and retention, stronger relationships with the community, enhanced reputation and brand image, competitive advantage, stronger financial performance and profitability and improved access to capital. CSR is one of the key means of achieving sustainable competitive advantage in the turbulent global environment. According to Porter and Kramer (2006) there is a lack of success with the company's efforts related to CSR in improving business results. Better connectivity of CSR with key business source allows employers to recognize that it can be a source of: opportunities, innovation and competitive advantage. CSR is related to the incorporation of reasonable policies in corporate strategy, culture and daily decision-making, in order to meet the needs of stakeholders. This is related to the creation of company strategy and successful brands (Wether and Chandler 2004).

The review of CSR literature reveals the following economic arguments which can make implementation of CSR more successful:

Creation of a good corporate reputation – reputation is the key to corporate success and comes on top of the list of intangible assets. The scope, within which the company can identify, balance, give priority to, and fulfil expectations of, a number of various stakeholders, is vital for the creation and preservation of reputation;

Increased sales and improved consumer loyalty - consumers today not only seek high quality and safety of a product but wish to be secure in the knowledge that the purchased goods were produced in a socially and environmentally responsible way;

Easier access to capital – until recently companies believed that investors have little or no interest in non-financial aspects of business operations. However, it is becoming more obvious every day that there exists a positive connection between good corporate citizenship and financial performance; a small number of investors can ignore the ways within which companies perform their business activities in accordance with their environmental and social responsibilities;

Improved retention, motivation and the moral of employees – stakeholders have the power to commend or punish corporations. One of the main stakeholders is an employee who is not only the user of CSR policies but is also the key instrument in the implementation of company policies. Employees who are satisfied with the company's commitment to the society will most probably be more positive, loyal and productive than those who work for a less socially responsible employer.

CSR AND COMPETITIVENESS

The link between CSR and competitive advantage is often viewed as promising if social needs, environmental limits and corporate interests are well coordinated within it. It provides a mutual value for the company and the society (Porter and Kramer 2011). If responsibility were proved to be cost-effective, more firms might be pressurised into applying it in practice. CSR and competitiveness are linked through three management processes: strategy, stakeholder and responsibility. In other words, adoption of CSR strategy directly affects competitiveness because the latter enhances the sustainable development of a corporate vision through a corporate strategy, expands the understanding of CSR complex surrounding and improves the relationship with the main stakeholders through stakeholder management. It also expands the transparency of organization through responsibilities for managing processes.

There are many attempts to define the relationship between CSR and competitiveness. Jones (1995) concluded that the companies involved in repeated transactions with stakeholders based on trust and cooperation, motivated to be honest, reliable and ethical because they yield high for such behaviour. (Waldman et al. 2004) has applied the strategic leadership of corporate social responsibility.

Hillman and Keim (2001) identify the activities of CSR as a corporate form of differentiation that generates competitive advantage, for example in the provision of investment capital. In a study of stock prices of companies from 1995 to 2003.it has been noted the evidence of a link between CSR and competitiveness (Derwal et al., Smith (2003) points out, that reputation contributes to a sustainable competitive advantage because the reputation of socially responsible companies has a significant positive impact on the value of the shares.

Strategic CSR can be observed in three areas: the creation of value, resource-based view (RBV) and competitive advantage. First, the source of value creation for stakeholders and the company was created in connection CSR and strategic interests of the company. Strategic use of CSR is to create value for companies in terms of economic performance. Luo and Bhattacharya (2006) point out that CSR contributes to a positive market value that can help managers to achieve a competitive advantage and greater financial benefits.

Second, CSR can be viewed through the lens of RBV (resource-based view) of companies in which it comes to knowledge about the place and role of CSR in the light of the distinctive strategic resources and capabilities, as sources of competitive advantage. If corporate social responsibility is put into the context of RBV of company and stakeholder management, we can get an answer why companies take this kind of projects, and build the capacity of CSR. The answer is in the pursuit of companies that, by applying the concept of corporate responsibility maintain a competitive advantage. CSR opens new sources of knowledge and improve the processes and structure of the company, so it serves as a source of competitive advantage. In addition, socially responsible behaviour can improve the relationship between external stakeholders such as consumers, investors, suppliers, competitors and people in general.

However, according to Eisenhardt (2000, 1106) traditional approach to resource- based theory is static and therefore not applicable in the study of the competitive advantage of companies that operate in a dynamic environment, therefore, a new concept of capability-based view (CBV) is offered. File et al. (2000, 2) notes that the skills meet gap between intention and results. CSR activities affect the major components of the organizational structure of the company and to its internal and external processes. As a result of extensive dialogue with stakeholders knowledge in corporate strategy was formed and implemented.

Third, as a result of the company's key business policies, CSR can be a source of opportunities for innovation and achieve competitive advantage (Porter and Kramer 2005).

Namely, due to the dynamic market environment, businesses cannot achieve long-term competitive advantage, if CSR activities do not support its strategy. Companies that want to achieve a sustainable competitive advantage need to define CSR as a business strategy and to protect the business opportunities and power, effectively manage internal operational process in order to serve the demands of the external stakeholders and groups that put pressure on the corporation (Porter and Kramer 2006).

Branco and Rodrigues (2006) lead CSR in connection with the company's commitment to contribute to corporate sustainability. Dyllick and Hockerts (2002) defined corporate sustainability as meeting the needs of direct and indirect stakeholders of the firm. Kemp (2005) has defined five dimensions of Sustainability: ethical, social, natural-philosophical, economic and legal dimensions. These five dimensions represent a deeper reflection on sustainable development than does triple bottom line approach of economic, social and environmental aspects. When discusses the important factors for sustainable competitive advantage they are reflected in key relationships, innovation, reputation and strategic asset.

Companies that have built a strategy which is based on the present principle of social responsibility, have the opportunity to build stronger relationships with all stakeholders, differentiate themselves in relation to competition and thus achieve a sustainable competitive advantage. When it comes to developing countries, as is the case with Serbia, in which we carry out research, it is necessary to point out that CSR requires more development and capacity building in order to prevent poverty, pollution and corruption.

Competitiveness is a multidimensional concept which pertains to the firm’s ability to create sustainable competitive advantage on global, national and company levels. On company level competitiveness is described as the ability of the company to produce goods and services which create values or act as a defence instrument against rival firms. Following analysis of numerous definitions, frameworks and suggestions that relate to the concept of competitiveness, Ambastha and Monaya (2004) propose that these may be grouped in five main dimensions:

Performance - including standard financial measures such as income and profitability growth;

Quality of not only products and services but also of the ability to satisfy expectations of customers

Productivity in terms of better use of resources

Innovation – does not include only the domains of products and services but also management processes; Image, including corporate branding in the form of building trust and reputation in dealing with stakeholders.

Research of the theory of resources and capabilities revealed that resource-based view explains why firms become involved in CSR activities, especially through CSR contributions to reputation building (Branco and Rodrigues 2006). These activities favour gaining support from stakeholders through customer loyalty, investment attraction, cooperation with partners, legitimacy from the community and favourable media coverage (Branco and Rodrigues 2006). Sen et al. (2006) suggest that the CSR awareness is connected with stakeholder positive reactions towards the company not only in the consumption domain but in the employment and investment domains, too.

Thus, CSR represents firms' resources which favour positive behaviour of stakeholders (i.e. donations, assets acquisition, purchase of products and services, loyalty) which not only increase company's market value but also improve its relative competitive position. Luo and Bhattacharya (2006) offered an empirical support to CSR positive contribution to company's market value and they claim that companies which invest in CSR may gain competitive advantage because of it.

Marin et al. (2012) came to a conclusion that there exists a positive relation between CSR and financial performance and a positive influence of CSR on competitiveness as well. The authors also point out two important constraints. The first one is the positive relationship between CSR and competitiveness which is stronger when the company pursues a proactive strategy. According to Wagner et al. (2009) some firms follow a proactive strategy thus positioning themselves as actively engaging in and supporting CSR activities. Through proactive communication such companies are trying to disseminate information and create reputation for their social responsibility thus preventing negative CSR information to reach their stakeholders. In such an environment, CSR motivates stakeholders, connects the organisation with them and thus improves business perfection (Sen et al. 2006).The second constraint shows that the company size plays moderating role in the functioning of CSR on competitiveness. Large companies are more efficient in CSR activities and generate more positive responses in relation to small companies. In this way a higher level of competitiveness is achieved. This is the result of both the size and the quality of the Board of Directors where big companies again have a great advantage.

When it comes to the size of the company, the moderating effect is consistent with the opinion of Russo and Perrini (2010) who claim that CSR is not a privilege of big firms only and that they, as well as small and medium-size businesses, must be treated separately so that their corporate responsibility strategies could be examined.

Fonseca (2010) points out that perception of social responsibility has a significant impact on the image of the brand and the company, on the tendency of consumers to buy branded goods and help retailers, but also on the company's financial performance. Wagner et al. (2009) believe that the growing emphasis on the public information about CSR activities, initiated by companies and their motives for becoming involved in CSR, reduces the potential consumer scepticism and confusion.

Exploring the nature of the link between CSR and competitiveness in the financial field, Vilanova et al. (2009) suggested that the link between the two, although indirect, existed. The results showed that both image and reputation are part of the framework which connects CSR and competitiveness, acting as a fundamental driver for the launch, development and installation of CSR strategy in the organisation itself. Reputation acts as a fundamental driver for CSR implementation, bearing in mind that it is recognized and valued as intangible assets, and also as one of the key issues in risk management. Moreover, reputation and image create opportunities for innovation within the organisation in terms of corporate branding, which in turn, generates corporate reputation, image and identity. Apart from being the key initiator for CSR implantation, reputation becomes a driver for running the processes in the company.

All in all, the impact of CSR on sustainable competitive advantage may be divided into five different elements which intersect one another:

Reputation and brand strengthening;

More efficient operations;

Improved financial performance;

Increase in sales and consumer loyalty and

Increased ability to attract and retain high-quality employees.

One of the key problems in the relationship between CSR and competitiveness is reflected in tensions involved in the integration and embedding of CSR into the visions and core business activities. There is a possibility that the implementation of CSR can generate goals, values and processes which are in conflict with the mission and current business objectives of the company. According to Chand and Fraser (2006), this example of tensions is a classic case of the relationship between corporate social performance and corporate financial performance.

Dealing with paradox and collaboration in network management, Ospina and Saz-Carranza (2010) address these tensions as paradoxes. Paradox is linked to contradictory demands, in this case CSR and financial performance. Lewis (2000) points out that paradox occurs increasingly in organisational studies which describe opposing perspectives, or seemingly illogical findings. Paradoxes are contradictory elements that are intertwined; they seem logical when isolated but absurd when appearing simultaneously.

Smith and Lewis (2011) identify four categories of paradox which represent core activities and elements of organisations: the first one pertains to learning (knowledge) and appears as a dynamic system of changes, updates and innovations. Complexity and plurality drive belonging paradoxes, or tensions of identity. Organisational paradoxes that appear as complex systems create competitive designs and processes in order to achieve the desired outcome. These are reflected through the tension between cooperation and competition, giving authority (empowerment) and directing, or between routines and changes. Performance paradoxes stem from the plurality of stakeholders and result in competitive strategies and goals. Here, tensions arise between different, often conflicting, demands of various internal and external stakeholders.

As an illustration, CSR emphasizes the double bottom line in which performance depends on the financial and social goals.

Since globalization, hypercompetition and growing social demands are creating more dynamic and complicated settings, the paradox becomes a critical theoretical lens for understanding and managing in contemporary organizations. In their work, Vilanova et al. (2009) emphasize four key paradoxes in connection with CSR implementation: the strategy paradox, the stakeholder paradox, the accountability paradox and the competitiveness paradox. The strategy paradox is the relationship between the convergence and divergence of business mission, vision and goals, when the organization adopts CSR. The stakeholder paradox is the relationship between unity and diversity of goals and objectives among stakeholders themselves.

The accountability paradox is the relationship between dispersion and concentration of responsibility. This paradox exists as an idea whereby companies tend to be more transparent and in dialogue through various channels of communication with stakeholders, which may result in the loss of the ability to convey a coherent and the central message about the company and its visions. The competitive paradox is the relationship between business and the responsibilities of business practices. The paradox lies in the notion that accepting the key CSR policies effectively reduces certain competitive advantages, although CSR reinforces other competing factors of corporate practices.

Vilanova et al. (2009) believe that, in order to get a better understanding of the relationship between CSR and competitiveness, it is necessary to concentrate on the plan and interpretation of the ways which companies need to manage their paradoxes. This seems more important than the management of results, effects and outputs generated from CSR policies which has been the practice up until now.

Many practitioners argue that CSR has a chance to become a real business issue once CSR criteria are used more to evaluate the firm. Additionally, current practices in CSR management are largely based on actual results rather than on processes, which makes understanding and managing of the relationship between CSR and competitiveness more difficult. There is no doubt that reputation is a key driver behind the design and installation of CSR in corporate strategy, so the debate should not be about the reputation and competitiveness but on best ways to use reputation as an engine for installation of CSR in core business processes which have a direct impact on competitiveness.

When it comes to developing countries, Visser et al. (2007) define CSR through formal and informal ways in which business contributes to the improvement of administrative, social, ethical, labour and environmental conditions of developing countries in which they operate, while remaining sensitive to the prevailing religious, historical and cultural context.

CSR drivers in developing countries undeniably are:

Autochthon cultural traditions, philanthropy, business ethics and community embeddedness (Visser 2008);

Political reform whereby CSR is seen as the road to EU membership (Baskin 2006);

Socio-economic priorities whereby poverty would be reduced, health care, education and infrastructural development provided (Amaeshi et al. 2006);

Access to markets where businesses should implement strategies which are focused on converting the poor into profitable consumers;

The international standardisation through CSR codes

Governance gaps as the result of week and corrupt governments which are incapable of securing social services, foremostly health care and education (Blowfield and Frynas 2005);

Stakeholder activity developing as the crucial CSR driver.

METHODOLOGY

Apart from the review of the literature dealing with the relationship between CSR and competitive advantage of the firm, direct research using surveys was conducted. The reason we have chosen financial service companies is manifested in the fact that they must create high levels of confidence, are required to apply proactive strategies themselves, and they belong mostly to large companies. Each characteristic has a positive impact on the implementation of CSR in the company, particularly in view of its strategic character. The survey uses Company questionnaire with 13 questions for managers of financial services companies in the Republic of Serbia. The questionnaire has been designed to explore the perceptions of managers responsible for implementation of CSR and its role in achieving a sustainable competitive advantage. The questionnaire consists of the following parts:

- understanding the concept of CSR and insight in the ways in which companies' CSR activities are organized
- Its role and special contribution to achieving a competitive advantage and
- The relationship between Christianity and CSR.

The conducted survey aimed to assess the link between strategic CSR activities in financial companies and the achievement of sustainable competitive advantage. The main requirements are reflected in the activities undertaken to establish the types of CSR activities, determine the motivation factors, identify activities related to strategic corporate social responsibility (CSR) and perceived benefits of sustainable competitive advantage.

Answers to these questions should help find the optimal strategies for corporate social responsibility which allows the company to build a sustainable competitive advantage.

THE RESEARCH RESULTS

In 2012, we conducted a study in the Republic of Serbia on the presence and influence of CSR activities in the financial sector companies. Choosing from 33 banks and 22 insurance companies that are currently present on the Serbian market, we sent questionnaires to 20 financial institutions. The survey drew responses from 10 companies. After processing the data, we obtained the following results. A positive trend has been observed in the organizational presence of CSR in Serbian financial sector and its departments that were exclusively set up to deal with it. 62.50% of the companies established special departments to deal with CSR issues and 37.50% of them have other departments (marketing, human resources, namely department for relationships with financial institutions) involved in corporate and social activities. Only 10% have a special committee – within the board of directors – which monitors CSR activities. The respondents maintained that the bearer of initial CSR activities was the board of directors (10%), CSR board (10%), the employees (30%) and others (50%).

The most important CSR implementation drivers, according to the respondents, are: corporate culture and values (8.41%), respect for regulations (8.21 %), corporate reputation (7.81%), positioning development and leadership in the field, as well as transparency for stakeholders (7.01%), attraction and retention of talented staff (7.01%), community expectations and ethical awareness (6.81%), management intentions (6.40%), differentiation (6.21%), share prices increase (5.81%), environmental awareness (5.61%), profit maximization (4.40%) and the rise in prices of goods and services (4.20%).

Surveyed companies believe that their CSR activities are best defined by corporate citizenship – commitment to the stakeholders over the interests of the company (24.71%), strategic competitiveness (20.11%), ethical practices (19.54 %), sustainable development (13.79 %), social investment (13.20 %) and philanthropy (7.47 %).70% of respondents believe that CSR implementation in their companies is satisfactory, and 10% believe that it exceeds expectations whereas 20% cannot give assessment. The greatest benefits of CSR, according to the respondents, are good relationships with stakeholders (10.82%), increased marketing opportunities (10.29%), attraction and retention of talented staff as well as strengthening of corporate reputation and image (9.50%), building of social infrastructure (9.23%), solving problems regarding the social environment and community expectations (8.70%), cost reductions and increase in productivity (8.17%) and performance growth (7.91%).

Strategic CSR actions in companies that are seen as crucial are: human rights (7.69%), health care and safety (7.50%), donations to the community and quality standardisation (7.31%), staff training (7.12%), building relationships with stakeholders (6.94%), accident response (6.56%), competitive advantages and benefits (6.37%), environment protection (6.00%), fair trade - fair competition - fair prices (5.81%), sustainability aspects (5.62%), etc.

Company representatives were asked to give their opinion on CSR. 17.79% considered CSR to be crucially necessary, 11.86% believe it determines the reputation and image of the company, 30.82% that it creates corporate sustainability, and 12.65% that it contributes to the development of the company’s positioning. However, only 7.92% of them think that it can be a crucial contribution to achieving profits.

87.5% of companies believe that corporate social responsibility is connected to basic Christian postulates which significantly affect its level of development. Limited availability of resources and time explain the limited number of companies included in the sample survey in just one sector of the national economy. In order to achieve better results in the future, a larger number of interviewees from several sectors of the economy must be covered by research.

CONCLUSIONS

We can conclude that a positive trend in organisational forms that are holders of CSR activities in financial services companies has been observed. Despite the fact that the majority of companies define their CSR policies, but do not make them public, these are not used as a means of achieving competitive advantage.

Results of this study indicate that managers chose corporate culture and values as the main reason for CSR implementation in the company. Future research may find the conclusion according to which managers give regulation respect driver a slight advantage over corporate reputation, positioning, and the field of leadership development an interesting one. This possibly speaks of the need for more education for leaders in terms of elucidating the importance of CSR role in strengthening corporate reputation which is, as such, a significant source of competitive advantage.

As for the understanding of CSR activities of a company, interests of stakeholders were favored over the commitment to the company, in relation to the strategic competitiveness. When asked what they considered the greatest benefit of CSR, the respondents put strengthening corporate reputation and image in fourth place only. Respondents' perception of their companies' strategic activities, related to CSR, indicated a lack of connection between CSR and its competitive role. Despite everything, and using it as their own stance, the respondents strongly emphasise that CSR helps create the company's sustainability, improves its positioning and is crucial in determining reputation and image. Previous research into the role of CSR underlines its relationship with the achievement of sustainable competitive advantage, especially if seen through the stakeholder theory and the resource based theory of the firm.

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