

## THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON THE FINANCIAL PERFORMANCE IN THE REPUBLIC OF SERBIA

DOI: 10.5937/JEMC2202095A

UDC: 005.35(497.11)

Original Scientific Paper

**Marko ALEKSIĆ<sup>1</sup>, Miloš PJANIĆ<sup>2</sup>, Nemanja BERBER<sup>1</sup>, Agneš SLAVIĆ<sup>1</sup>**

<sup>1</sup>University of Novi Sad, Faculty of Economics in Subotica, 24000 Subotica, Segedinski put 9-11,  
Republic of Serbia

<sup>2</sup>University of Novi Sad, Faculty of Economics in Subotica, 24000 Subotica, Segedinski put 9-11,  
Republic of Serbia

E-mail: [milos.pjanic@ef.uns.ac.rs](mailto:milos.pjanic@ef.uns.ac.rs)

Paper received: 11.08.2022.; Paper accepted: 06.10.2022.

**Under conditions of globalization and increasing market integration, competitiveness is a prerequisite for survival in the global market. The goal is not only to achieve a competitive advantage but to make it sustainable. The most stable and long-term source is reflected in business innovation. Innovative activities encourage companies' development and influence the preservation of market position as well as the company's profitability. The effects of applying the CSR concept can positively influence a company's financial performance. The authors of this paper investigate whether there is a connection between the concept of corporate social responsibility and financial performance in the Republic of Serbia. The paper presents the results of research conducted in the territory of the Republic of Serbia. The research covers 165 large companies during the period November 2019 - August 2021. The data were processed using the Smart PLS program. The research results show that the application of the CSR concept has a positive effect on the financial performance of large companies in the Republic of Serbia.**

**Keywords:** Corporate Social Responsibility; Financial performance; PLS-SEM, Serbia.

### INTRODUCTION

Today, due to the globalization process of the market and economy, the development of information technologies, and knowledge, socially responsible business is getting stronger, so the success of a company's business is conditioned by its socially (ir) responsible activities and practices. Namely, the trend of global business offers a large number of corporations some new opportunities for expanding their activities in hitherto inaccessible markets. For corporations where this kind of growth proves to be successful, it is true that besides generating more profit, they gain greater power that is not only economic but also social (Porter & Kramer, 2019). Precisely, with globalization, which represents a fertile ground for the creation of conglomerates, comes the need to discuss the companies' key role in the development of the well-being of both the economy and society.

Therefore, in their global business, with the intention of achieving socially responsible business, corporations can be involved in community development in several ways. By raising environmental awareness, donations, philanthropic activities, education, scholarships, and volunteering, corporations raise the social standard (Čoćkalo et al., 2015; Sharma, 2019; Sinthupundaja et al., 2019). What is crucial for these conglomerates is to present the mentioned activities to society by promoting their results, to create a better image of themselves and thus getting closer to the population and winning their favor in a very competitive environment (Bošković et al., 2021).

Companies that have a strategic approach to implementing the CSR concept and have built relationships with stakeholders can gain advantages that will allow them to survive and be

successful in a competitive market. These benefits are: improving financial performance; improving reputation; increasing sales, customer satisfaction, and loyalty; strengthening customer relationships and expanding market share; improving competitive advantage, satisfaction, creativity, and employee commitment (Hur et al., 2018; Luo & Bhattacharya, 2006; Ngai et al., 2018; Rettab et al., 2009; Saeidi et al., 2015; Sekulić & Pavlović, 2018; Xie et al., 2017). Future-oriented corporate business gets a new flywheel – the restoration of the natural environment as a business opportunity and obligation. The efficiency and effectiveness of the new green cycle cannot be achieved without educated and aware consumers (demand), in which corporations play a significant role through relations and communication with the public.

The research was conducted in the business environment of the Republic of Serbia on a sample of 165 large companies. The research model is based on the management team of large companies and their perception of the concept of corporate social responsibility and financial performance. The Smart PLS program was used to analyze the relationship between the concept of CSR and financial performance. The obtained research results showed that there is a positive statistical correlation between dimensions of corporate social responsibility and financial performance. The paper is structured in three parts. The first part refers to an overview of the prevailing views on the concept of corporate social responsibility and financial performance. The second part is based on the applied statistical research method, while the third part refers to the analysis of the obtained results, recommendations for future research, and conclusions.

## THEORETICAL BACKGROUND

Many large companies have an important role to play in the business environment in which they operate, as well as in their ability to influence social circumstances. Precisely on that basis, the environment requires transparency of corporations in the performance of their activities. Generating as much income as possible and survival no longer represent the crucial goals of international corporations, but those are reflected in socially responsible business (Lee, 2008; Wu et al, 2020). Based on that, companies gain the loyalty of all the interested parties, i.e. stakeholders; business continuity; importance and influence in society; bringing the company itself to a better position in

the market where it operates and thus strengthening the competitive advantage concerning its main competitors, also, on the company's reputation (Fauzi & Idris, 2009).

Every large company bases its corporate social responsibility on the implementation of new (clean) production processes, to reduce and eliminate the harmful effects on the environment and improve working conditions for the employees. If technological development is at the center of general development, then it must be affirmed and encouraged, noting that the technology should be used sensibly and for common good, which is not always the case (Asif, et al., 2013). Corporate social responsibility of companies is most often based on the ideology and beliefs of the top managers themselves. In this regard, the vast majority of the companies have an individual ethical code of socially responsible business, created according to their needs, which is often based on a very similar ideology, i.e. on improving the general well-being of the society and environmental protection (Aleksić et al., 2020; Gupta et al., 2017; Berber et al., 2021).

Large companies that apply the concept of corporate social responsibility suffer certain pressures from society, the employees, and the local community in which they operate, which influences the conception of a socially responsible business policy. The integration of certain business activities within the activities of organizations is often done based on research (Lindgreen et al., 2009). In this regard, the organization conducted an internal survey concerning the well-being of the working environment. By implementing legal regulations that companies must comply with (e.g. minimum wage), to do more responsible business, many companies make provisions like additional health protection, improvement of working conditions and safety at work, improvement of work organization, and care for the employees even outside the work environment (Đervidal-Lekanić et al., 2016; Samy, Odemilin, & Bampton, 2010). In addition, positive CSR activities have a positive effect on the company's employees (Cheema et al., 2020).

The implementation of the CSR concept depends on several factors related to the size of the organization, the market in which it operates, as well as the influence of various interest groups. To achieve the positive effects of social cohesion, it is necessary to establish a correlation between social,

environmental, economic, and philanthropic business policies at the national level (Vukotić et al., 2019).

The application of ethical business should become the "norm" and practice of all companies (small, medium, and large), given that many studies have proven that companies that apply the concept of CSR achieve significant growth in business performance (Morsing & Schultz, 2006).

Generally speaking, the concept of corporate social responsibility implies that the profit achieved by the organization should not be directed only to the employees and the shareholders, but also to other groups of interested parties (stakeholders), who have, with their activities, participated in any way in the creation of financial performance (Carroll, 1991).

The correlation between the financial indicators and the indicators of corporate social responsibility has been the subject of a lot of research in the field of management since the second half of the 20<sup>th</sup> century. Financial indicators presented in the form of ratios, indices, and equations provide insight into the quantified performance of the observed organization (Mali et al., 2022; Tripathi, & Kaur, 2020).

Financial performance plays a significant role in the concept of corporate social responsibility (Grubor et al., 2020; Javed et al., 2020; Scholtens, 2008). So far, a lot of research has been conducted in which it has been proven and confirmed that there is a positive correlation between corporate social responsibility and financial performance.

According to the authors McWilliams and Siegel (2001), it can be concluded that there is a certain level of socially responsible business that will maximize profits, and at the same time satisfy the demand for socially responsible business of interested parties. The measured level of CSR in the research was determined by cost-benefit analysis (McWilliams & Siegel, 2001, p. 125).

The financial result represents one of the most used indicators for determining the strategic value of CSR, and the satisfaction of stakeholders is the key to a company's financial performance (Orlitzky et al., 2003, p. 40). According to the meta-analysis, 55% of 160 respondents to the study believed that there is a positive correlation between the CSR and financial performance, 22% of the respondents did

not answer, while 18% of them were not sure of the answer, and 4% of the respondents gave a negative answer (Rettab et al., 2009, p. 375). Author Orlitzky et al. (2003) conducted another meta-analysis and found similar results (p. 43). The analysis of the mentioned studies gives credence to the widely accepted understanding that socially responsible business would in most cases improve a company's financial performance. Therefore, it could be concluded that in developing economies, the connection between CSR and the company's financial performance depends on the stakeholders' perception of CSR activities.

Author Scholtens (2008) analyzed 289 US companies to determine the correlation between CSR and financial performance, using the data collected from 1991. to 2004. Based on the analysis and the obtained results, it can be concluded that the correlation between CSR activities and the financial performance of the companies is positive (Scholtens, 2008, p. 47).

To investigate the impact of CSR on the business's financial performance: return on investments (ROI- Return on Investment), return on invested funds (ROA- Return on Assets) and return on capital (ROE- Return on Equity) authors (Tanggamani et al., 2018) have used "The Dow Jones Sustainability Index". Based on a sample of 2,500 of the largest companies in the world, it can be concluded that all three indicators had a positive impact on social performance, i.e. on corporate social responsibility (Tanggamani et al., 2018, p. 338). Also, other authors confirm that CSR activities have a positive effect on financial performance (Cho et al., 2019, p. 11; Hafez, 2016, p. 40).

Research conducted on 314 Turkish companies shows that CSR has a positive effect on the financial performance of the business and the competitive advantage of the company. It was found that larger manufacturing companies are somewhat more sensitive to CSR, while in the case of heavy industries less emphasis is placed on CSR activities because, to a certain extent, these activities are far from the public (Ağan et al, 2016, p. 1872).

The interest and practice of socially responsible business in the Republic of Serbia have existed for quite a long time, with the fact that its manifestations and goals were considered in the socio-economic milieu. In the past, socially

responsible business was more oriented toward internal responsibility (responsibility towards employees), while today more emphasized is the so-called external social responsibility, i.e. responsibility towards the environment, that is, towards the selected target groups.

In research conducted on a sample of 53 large companies in the Republic of Serbia, the authors proved a significant positive correlation between the CSR activities related to the employees on the financial results and environmental performance. The obtained results show that corporate social responsibility activities can improve their financial performance in the current year, as well as have significant effects on their financial results in the following year, and vice versa (Grubor et al., 2020, p. 9).

## RESEARCH METHODOLOGY

The research was conducted in large companies operating in the business environment of the Republic of Serbia in the period from November 2019. to August 2021. A total of 165 companies responded to the questionnaire, i.e. one manager from each company who is at the level of top management in the organization responded. Large companies in the Republic of Serbia are considered to be the ones that have more than 250 employees, in this regard the sample size in this research is 29.15% of the total sample (Popović, 2020). The questions in the questionnaire consist of three segments. The first segment of the questionnaire is based on the questions related to the socio-demographic characteristics of the respondents, what economic activity they are engaged in, and the type of market (local, regional, international, or global market). The questions related to the concept of corporate social responsibility represent the second group of questions, divided into six dimensions. The first dimension refers to responsibility towards the community and contains four questions, the questions are presented as Comm1, Comm2, Comm3, and Comm4. The second dimension, responsibility towards the environment, is based on four questions that are marked as Envi1, Envi2, Envi3, and Envi4. The third dimension refers to the responsibility towards the employees, and the questions are presented as HRM1, HRM2, HRM3, and HRM4. The next dimension refers to the responsibility towards the investors, which contains questions marked as Invest1, Invest2, Invest3, and Invest4. The fifth dimension refers to the responsibility towards the

suppliers and contains five questions tagged as Supp1, Supp2, Supp3, Supp4, Supp5, and the last dimension refers to the responsibility towards the customers and contains four questions that are marked as Cust1, Cust2, Cust3, and Cust4. This part of the questionnaire is structured in the form of closed questions on a Likert scale from 1 to 5 (1 - do not agree at all; 2 - do not agree; 3 - neither agree nor disagree; 4 - agree; 5 - completely agree) (Rettab et al., 2009). The third segment of the questionnaire refers to the company's financial performance. The questions and marks in this segment are: Concerning your competitors, rate your business results over the past year related to 1. market share (FinPerf1), 2. rate of profit/profit (FinPerf2), 3. Return on Investment - ROI (FinPerf3), 4. Return on Assets - ROA (FinPerf4), 5. Return on Equity - ROE (FinPerf5) and 6. Growth in sales volume (FinPerf6). All questions in the questionnaire are structured in the form of closed questions on a Likert scale from 1 to 5 (1 - weak or the smallest in the branch; 2 - below average; 3 - average or equal to competition; 4 - better than average; 5 - superior). The questionnaire created has been compiled relying on previous research (Saeidi, et al., 2015).

Based on previously stated theoretical viewpoints and presented research methodology, the authors of this paper propose a research hypothesis that reads:

- H: The application of dimensions of the concept of corporate social responsibility has a positive effect on the financial performance of large companies in the business environment of the Republic of Serbia.

## RESEARCH RESULTS AND DISCUSSION

Based on the mentioned research methodology, the authors of the paper checked and tested the questionnaire, i.e. analyzed its internal consistency. Internal consistency was checked by calculating Cronbach's Alpha (Cronbach's Alpha), composite reliability (CR), and average variance extracted (AVE) for each construct in the model (Bjekić et al., 2021; Grubor et al., 2018; Hair et al., 2019). The variables that were excluded from further analysis of the indicators are those that had values below 0.708. Based on the above, the authors have excluded from the analysis the following indicators: HRM1, Invest3, Cust3, and Cust4. The following figure, Figure 1, shows the research model.

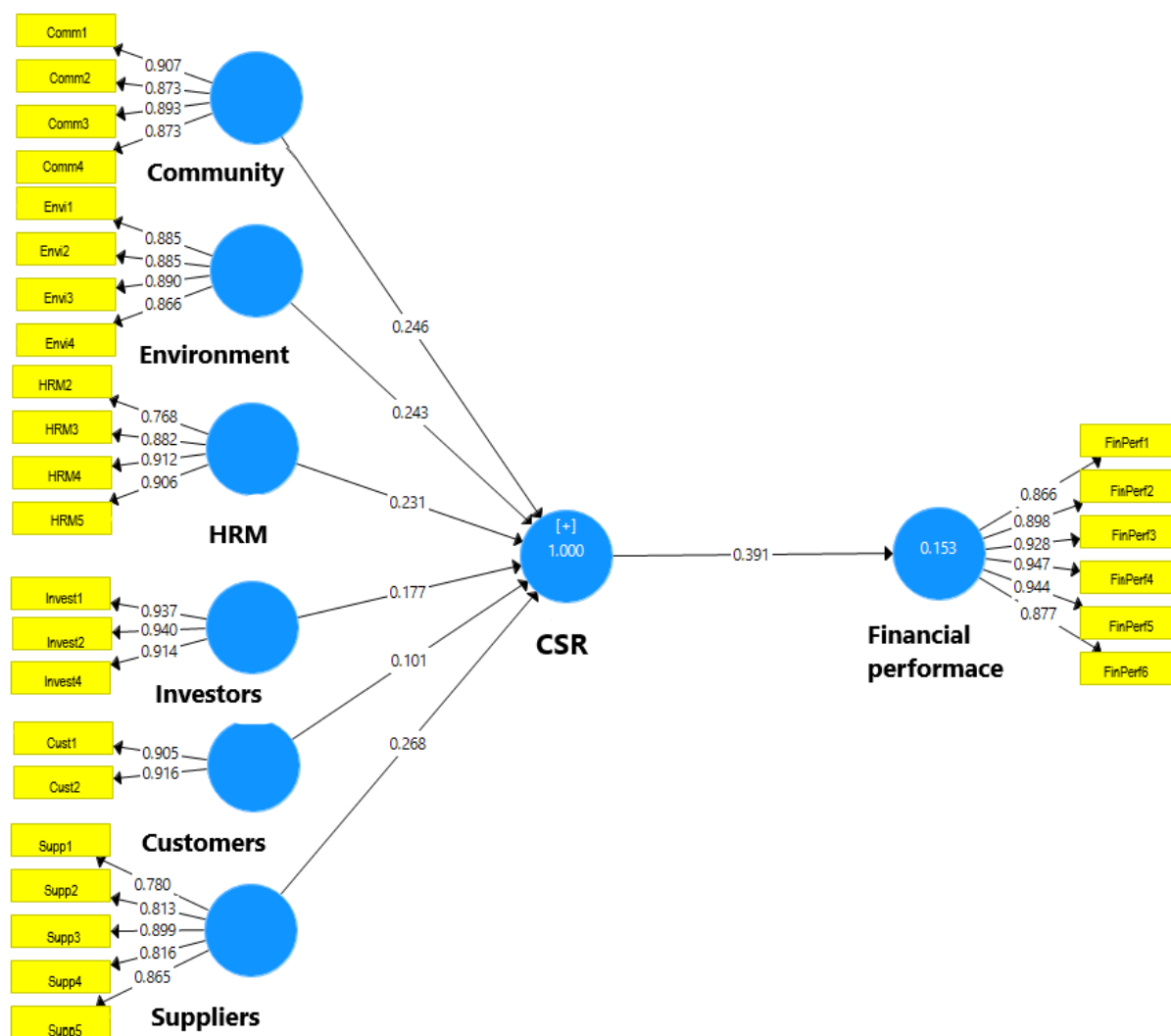


Figure 1: Path coefficient estimates

Table 1: Indicator reliability and construct reliability and validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Suppliers	0.891	0.920	0.698
Environment	0.905	0.933	0.777
HRM	0.890	0.925	0.755
Community	0.909	0.936	0.786
Investors	0.923	0.951	0.866
Customers	0.794	0.907	0.829
Financial performance	0.959	0.967	0.829

Table 1 presents the obtained results of internal consistency, related to the assessment of the questionnaire's validity. Internal consistency was performed by calculating Cronbach's Alpha, Composite reliability, and Average variance extracted for each construct of the model.

The analysis of the obtained research results in Table 1 shows that Cronbach's Alpha values are in the range of 0.890 to 0.959. According to previously conducted research by Hair et al., (2017), it is stated that the lower limit of

acceptability is 0.7. The second indicator refers to composite validity, which is measured by different factor loadings for each part in the model, and the values shown in Table 1 are in the range of 0.907 to 0.967. In this regard, the authors conclude that the criterion of composite reliability is met, given that the lower limit of acceptability is 0.7 (Hair et al., 2017). The third indicator shown in Table 1 refers to the analysis of the average extracted variance. By analyzing the data obtained, it can be concluded that the values range from 0.698 to 0.866, given that the lower limit of AVE acceptance is 0.5 (Hair et al., 2017, p. 118). Based on this, convergent validity is satisfied for both constructs in the model.

The criterion of discriminant validity, i.e. Heterotrait-monotrait (HTMT) is the next criterion that will be shown in Table 2. The specified criterion means that all the values are below 0.9, that is, that the defined components are sufficiently different from each other and therefore show different phenomena. HTMT is an indicator that shows that all ratio values below 0.9 are acceptable, that is, it shows that the defined components are sufficiently different from each other and that they show different phenomena (Hair et al., 2019). Based on the results obtained in Table 2, it can be seen that all the values are below 0.9 and that the criterion of discriminative validity using the HTMT criterion is fully met.

Table 2: Discriminant Validity: Heterotrait-monotrait (HTMT)

	Suppliers	Environment	HRM	Community	Investors	Customers	Financial performance
Suppliers							
Environment	0.544						
HRM	0.647	0.700					
Community	0.578	0.760	0.669				
Investors	0.582	0.558	0.433	0.582			
Customers	0.609	0.637	0.505	0.596	0.516		
Financial performance	0.378	0.322	0.359	0.312	0.319	0.214	

The following Table, Table 3, shows the Variance Increment Factors (VIF). The limit of acceptance of the value of the variance increase factor is defined so that the value is less than 3 and then there is no problem with multicollinearity (Knock, 2015). Based on the indicators obtained, it can be concluded that there is no multicollinearity problem between the formative constructs, given that all the values are below 3.

Table 3: Variance inflation factor- VIF

Formative construct	CSR
Suppliers	1.944
Environment	2.442
HRM	2.076
Community	2.337
Investors	1.671
Customers	1.640

Table 4: Mean, Standard Deviation, T-statistics, P-values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
CSR -> Financial performance	0.391	0.390	0.079	4.927	0.000

Table 4. shows the results related to the correlation between the dimensions of corporate social responsibility and financial performance. Based on the obtained results, it can be concluded that there is a positive statistically significant correlation between corporate social responsibility and financial performance (T=4.927; p= 0.000) in large companies in the Republic of Serbia. The obtained results have similarities with previously conducted

research (Cho et al., 2019; Grubor et al., 2020; Hafez, 2016).

Based on the performed analysis and obtained research results, it can be concluded that the hypothesis (H: Application of dimensions of the concept of corporate social responsibility has a positive effect on the financial performance of large companies in the business environment of the Republic of Serbia) is accepted.

## CONCLUSION

Advancement of business towards the global market requires from the company's management team: new skills, techniques, and knowledge, agility in business, decisiveness in making business decisions, as well as readiness to react quickly and solve problems in a dynamic and competitive environment. Relying on their knowledge and experience in the field of motivation and encouraging certain targeted behavior of consumers, companies' managers are increasingly creating positive changes in society, based on the so-called social awards, i.e. on a wider social benefit that extends beyond the usual coordinates in which the company operates. Socially responsible business practices in companies represent a concept according to which the economic entities consciously and voluntarily dedicate themselves to the activities with the aim of having a positive impact on their work, social and natural environment. This behavior is a consequence of the developing awareness of the importance that companies have in modern society. Companies' operations, as well as their effects, go beyond the companies' internal framework of an organization, so an increasing emphasis is placed on companies' activities, which aim to satisfy a wider circle of interested parties.

The primary business goal of every company is profit growth; however, the strategic goals of the company are strengthening the market position through the improvement of business digitization, increasing revenue with innovative business opportunities, increasing efficiency, and maintenance. From the aspect of socially responsible business, companies take as their strategic goals the education of employees through various programs, implementation of the highest standards of this type of business, and contribution to the development of local communities through various supporting activities.

The concept of corporate social responsibility is based on the balance between the economic, social, and environmental goals of companies. The role of CSR can be defined as the organization's intention to contribute to the community in which it operates through its business activities. Accordingly, businesses should concentrate on those CSR activities that demonstrate significant results, ensuring that they only engage in efficient, effective activities. CSR has a significant impact

on the organizational performance of companies, especially financial performance. Financial performance was observed from the aspect of applying financial indicators (profit rate, return on investments, return on invested funds, etc.) concerning corporate social responsibility. The results of this research show that CSR activities are not only a cost for companies but can improve the company's corporate value in the long run.

Based on the previous analysis in this paper, practical implications are based on empirical evidence that unequivocally indicates that there is a positive correlation between the concept of CSR and the financial performance in the Republic of Serbia. The role and importance of dimensions of corporate social responsibility represent an imperative for future business. The limitations of this study are reflected in the sample, in terms of the size of companies, and future research efforts need to be expanded so to include medium-sized companies as well.

## ACKNOWLEDGMENT

This research has received a financial grant from the Provincial Secretariat for Higher Education and Scientific Research of the Autonomous Province of Vojvodina, the Republic of Serbia, during the project "Financial, marketing and management aspects of energy efficiency in the function of sustainable development of AP Vojvodina" (number: 142-451-2537/2021).

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## UTICAJ KORPORATIVNE DRUŠTVENE ODGOVORNOSTI NA FINANSIJSKE PERFORMANSE U REPUBLICI SRBIJI

U uslovima globalizacije sve veće rastuće integracije tržišta, konkurentnost predstavlja preduslov za opstanak na svetskom tržištu. Cilj nije samo ostvariti konkurentsku prednost nego je cilj učiniti je održivom. Najstabilniji i dugoročan izvor ogleđa se u inovativnosti poslovanja. Inovativne aktivnosti podstiču razvoj kompanija, utiču na očuvanje tržišne pozicije kao i profitabilnost kompanija. Efekti primene koncepta KDO mogu pozitivno uticati na finansijske performanse kompanija. Autori ovog rada istražuju da li postoji veza između koncepta korporativne društvene odgovornosti i finansijskih performansi u R. Srbiji. U radu će biti predstavljeni rezultati istraživanja sprovedenog na teritoriji Republike Srbije. Istraživanje je obuhvatilo 165 velikih kompanija u periodu od novembra 2019. do avgusta 2021. godine. Podaci su obrađeni pomoću programa Smart PLS. Rezultati istraživanja pokazuju da primena koncepta CSR pozitivno utiče na finansijske performanse u velikim organizacijama u Republici Srbiji.

**Ključne reči:** Korporativna društvena odgovornost, Finansijske performanse, PLS-SEM, Srbija.