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CORPORATE SOCIAL RESPONSIBILITY OF COMPANIES IN BOSNIA AND HERZEGOVINA

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Abstract

The concept of corporate social responsibility implies that the company has far more responsibilities that overcome its basic economic responsibility. Corporate social responsibility is the imperative of modern business and one of the prerequisites for achieving competitive advantage. Thus, in order to be socially responsible, it is important for a company to demonstrate a certain level of responsibility towards its stakeholders. Historically, the concept of social responsibility has been the subject of numerous discussions, but also different theoretical models. Some of these will be presented in the paper. The aim of the paper is to explore the notion of corporate social responsibility, with the presentation of social responsibility in Bosnia and Herzegovina, and the analysis of the perception of social responsibility of representatives in local companies. Paper shows results of the research of 100 companies in Bosnia and Herzegovina, about their most important stakeholders and various types of social responsibility. The paper will also examine the impact of sociodemographic factors and job characteristics on the attitudes about corporate social responsibility. The paper, in addition to the conclusion, offers concrete recommendations for improving the state of corporate social responsibility in Bosnia and Herzegovina.

Keywords: corporate social responsibility, companies in Bosnia and Herzegovina

1. INTRODUCTION

In the last couple of decades there is a growing interest for corporate social responsibility (CSR). Interest in CSR is mostly expressed by representatives of academia, business, but also government, media and general public. Being socially responsible in today's business means following the current practices that presume that companies need to focus on other direct and indirect stakeholders, alongside its customers. By doing so, company can be socially responsible according to different categories of responsibility, from initial economic responsibilities to holistic philanthropic responsibilities. From the view of theoretical framework presented in this paper it is possible to state the following hypothesis: The companies in Bosnia and Herzegovina follow the hierarchy of corporate social responsibility represented by Carroll's pyramid of social responsibility. This means that companies primarily demonstrate economic responsibility (business, making profit, fulfillment of customers' needs). In order to understand the concept of CSR, the first part of the paper will present the historical development of CSR. This part will also present the theoretical concept of CSR, with its current definitions. Second part of the paper shows research regarding CSR in Bosnia and Herzegovina. This is done by analysis of publicly conducted CSR activities and published research. The empirical part of the paper explores the attitudes of representatives of companies in Bosnia and Herzegovina, regarding CSR. Research show attitudes about different categories of CSR and key stakeholders of the company. Furthermore, this paper analyzes influence of social-demographic characteristics of the respondents on their attitudes towards CSR. The research has been conducted according to the primary data collected through the use of telephone survey. At the end, paper lists recommendations for action and future research in order to improve the state of CSR in Bosnia and Herzegovina.

2. CORPORATE SOCIAL RESPONSIBILITY

The history of CSR is marked by a central debate on the essence of social responsibility and its main purpose, as well as a series of theories that focus on defining the term of CSR. The area of CSR becomes particularly interesting after the World War II and during the 60's. Market development lead to more competition, which forced companies to find new ways of creating their own competitive advantage. Parallel to that, there was a sudden rise of social movements that demanded the fulfillment of various social goals. This created unprecedented pressures on governments and the business world. Different authors quickly responded and started extensive research in the area of CSR. Today, CSR is accepted as a valid paradigm and is subject of interest of numerous institutions and groups that have been specifically designed to further research and promote CSR practices. An overview of CSR research shows that the authors and researchers initially dealt with the essence of a company's existence, answering the question of whether the basic role (purpose) of company is narrow economical by its nature, or broader social. Bowen in his

book about CSR published in 1953, defines social responsibility of a company as an obligation to follow policies, make decisions, and conduct the actions that are desirable within the goals and values of our society (Bowen, 2013). Later on, the same author will extend this definition, adding that CSR refers to a set of moral and personal obligations that the employer must follow, considering his own policies, decisions and actions in the context of the goals and values of society (Martinez, Fernandez & Fernandez, 2016). In the introduction of his book, Bowen emphasizes that corporate decisions and actions have a direct impact on the quality of our lives and our personalities. Corporate decisions do not only affect the company, but its stakeholders, its workers, customers – they influence the lives and destinies of all of us (Bowen, 2013).

The Committee for Economic Development (CED) in the early 70's used the concept of "three concentric circles" in explaining CSR - inner, intermediate and outer responsibility. The inner circle referred to the basic economic functions (production, jobs, economic growth, etc.), while the intermediate circle was devoted to the development of awareness about changing social values and priorities (environmental conservation, hiring, relations with employees, etc.). Outer circle emphasized new responsibilities that are yet to be placed in front of the company (poverty, urban blight, etc.) (Karake-Shalhoub, 1999). Early theoretical papers about CSR are linked to Sethi's model of social responsibility, which presented three types of socially responsible behavior. These behaviors, labeled as "socially responsible performance", include (Katsoulakos & Katsoulakos, 2006): social obligation (obligation towards legal and market restrictions), social responsibility (responding to social norms, values and expectations of performance) and social reactivity (anticipatory and preventive adaptation to social needs). In Sethi's model social commitment implies fulfilling the basic conditions of business environment, while social responsibility is related to the way companies respond to the demands according to applicable social norms, values and expectations of the public. The highest level of social activity implies social reactivity, that is anticipating the future demands of the society and responding to it. Companies at the first level behavior follow the legal instructions, while at the last level they are actively involved in addressing social needs. Starting from Sethi's model of social responsibility, Carroll created model of four categories of social responsibility (Carroll, 1979): economic, legal, ethical and philanthropic responsibility. Together, these categories make the pyramid of CSR. Carroll's pyramid had a significant influence on the acceptance of CSR movement in the business community because Carroll challenged the accepted dogma which assumed that individual entrepreneurs and companies must simultaneously be business-minded, ethical, socially and ecologically responsible (Letica-Cerjan, 2010). CSR pyramid, on the other hand, states that there is a hierarchy of different categories of CSR, and that companies can enhance their own position within a particular category. Primary responsibility is economic responsibility because it is fundamentally related to the company's existence (making profits). After that, follows a legal, ethical, and finally philanthropic category of social responsibility.

Wood at the beginning of the 90's stated that CSR can be observed in the context of different roles that company can have in one society. Thus, company can be seen as an institution within a society, as an individual organization or as individual managers who have a moral role within the company (Wood, 1991a). Based on this, three principles of CSR can be developed: institutional, organizational and individual. Wood creates a concept of social performance that besides these principles, also focuses on processes of social adaptation, and the results of business behavior. Social adaptation in this model relates to environmental assessment, stakeholder management and problem management, while the results of business behavior can be: social influence, social programs and social policy (Wood, 1991b). Encouraged by the processes of globalization, Quazi and O'Brien developed a multinational CSR model, adapted to new business conditions in the global marketplace. Authors criticized existing CSR models because they were solely based on the ethnocentric experiences of Western countries. Instead, the focus of their research was directed at countries like Australia and Bangladesh. The model consists of two dimensions - the long-term CSR and the results of CSR activities (Quazi & O'Brien, 2000). These are also the basic differences between CSR implementation in different cultures.

The dominating model of CSR today emphasizes that CSR can be seen as economic, environmental (ecological) and social responsibility towards all stakeholders and the general public (Zheng, 2010). Economic responsibility means that company should take into account the fulfillment of basic economic functions, that is to be financially successful and long-term profitable. Environmental (ecological) responsibility seeks to promote the principles of ecological sustainability and responsibility towards the planet Earth. This is manifested through a series of responsive activities (waste disposal, recycling, biodiversity conservation, attitudes towards climate change and so on). Social responsibility in this model is more widely understood and refers to the overall welfare of society. The company should help improve the welfare of society and increase the welfare of members of local community. Defined like this, CSR is a long-term commitment of the company, focused on tackling the effects of its own activities in the context of the economic, ecological and social dimensions of the environment. This ensures fair and long-term benefits without harm to all involved stakeholders (De Regil, 2013).

Regarding empirical research about CSR, there were many studies around the world. While authors discussed the legitimacy of CSR, consumers and investors have developed clear preferences for socially responsible companies. For example, empirical evidence shows that sometimes socially responsible initiatives, under certain conditions, can affect consumer intentions of purchasing products of a given company (Sankar & Bhattacharya, 2001). Scientific research focused on the understanding company's stakeholders, defining which types of CSR could be applied and the way of reconciliation of CSR with some established business priorities (Tafra-Vlahović, 2009). Different studies concluded that CSR has a positive impact on the final balance, plays an important role in reputation management, increasing operational efficiency, and creating a positive atmosphere among employees. As far as ranking on CSR

pyramid, available research shows different results. In Singapore, respondents rated legal responsibility highest, followed by ethical responsibility, economic responsibility and philanthropic responsibility (Tan & Komaran, 2006). The study of 457 respondents in Malaysia showed that Malaysian stakeholders ranked the four dimensions as economic, ethical, legal and philanthropic accordingly (Dusuki & Tengku Mohd Yusof, 2008). Within this paper, empirical research will be conducted based on Freeman's stakeholder theory and Carroll's CSR pyramid. Stakeholders are defined as anyone who influences or is the subject of company influence (Gray, 2001).

3. CSR IN BOSNIA AND HERZEGOVINA

When it comes to Bosnia and Herzegovina, there is little research done on CSR. This is a area that is still developing, both in academia and business world. This implies that there is an exceptional need for affirmation of CSR concept (Delić, 2013), which should be a focus of academia, companies, government/regulators as well as general public.

Over the last few years, some studies have shown that companies in Bosnia and Herzegovina understand CSR as philanthropy, donations, well-defined employment strategy and business within the legal norms (Čatić-Kajtazović, 2011). One consumer report stated that most consumers do not perceive companies in Bosnia and Herzegovina as socially responsible companies (Mešanović, 2005). On the other hand, employees in Bosnia and Herzegovina have a positive attitude on social responsibility (Prutina & Šehić, 2016). By examining company representatives and students, it was concluded that the general perception of CSR in Bosnia and Herzegovina is related to behavior that does not jeopardize the companies' stakeholders (Babić-Hodović, Mehić, Resić & Kramo, 2008).

The results of Prime Communications research show that most company representatives (92%) state that CSR is included in their companies' annual plans, but 87.5% of them added that their companies are still occupied with other priorities. Representatives think that they should devote more time to CSR activities. This research also showed that around 58% of companies in Bosnia and Herzegovina do present their CSR activities publicly (BH Telecom, 2016).

It is important to note that there is no institutional mechanism for the development of CSR in Bosnia and Herzegovina. Nevertheless, the UN Global Agreement Network has been established. This network brings together 72 representatives of local companies and civil society organizations, with a clear mission of promoting CSR. In addition, there are a number of other initiatives aimed at developing and enhancing CSR in Bosnia and Herzegovina.

4. EMPIRICAL RESEARCH OF CSR IN COMPANIES OF BOSNIA AND HERZEGOVINA

For the purpose of testing the hypothesis, the authors have conducted the primary research through the use of original questionnaire. Stratified random sampling was used for small, medium-sized and large companies in Bosnia and Herzegovina in relation to the number of employees. Authors used population list that was created by Indirect Taxation Authority of Bosnia and Herzegovina. Representatives of one hundred companies have been phone interviewed (31.25% usable response rate). The results were analyzed in SPSS software through the use of descriptive statistics, t-test of independent samples and One-way ANOVA. Moreover, Likert scale was used to measure respondents' perceptions of company's social responsibility.

Table 1

Respondents' perceptions of CSR

Question	Strongly agree	Agree	Neither	Disagree	Strongly disagree
Our company is characterized by conducting socially responsible activities.	85%	15%	0%	1%	0%
Our company is characterized by high degree of economic responsibility.	86%	14%	0%	0%	0%
Our company is characterized by high degree of legal responsibility.	83%	17%	0%	0%	0%
Our company is characterized by high degree of ethical responsibility.	82%	16%	2%	0%	0%
Our company is characterized by high degree of philanthropic responsibility.	77%	20%	3%	0%	0%

Source: Author's calculations

Research shows that 85% of respondents fully agree with the claim that their company is socially responsible. As far as Carroll's CSR pyramid, 84% of respondents fully agree that their company has high level of economic responsibility. Also, 83% of respondents fully agreed regarding the legal responsibility of their company and a total of 82% of respondents fully agrees that their company is ethically responsible. When it comes to philanthropic responsibility, 77% of the respondents fully agree that their company is responsible (by the norms of this CSR category).

Respondents also provided answers about the importance of different stakeholders in their CSR activities. Results show that highest level of agreement regarding the significance of a particular stakeholder is shown for suppliers (85%). They are followed by customers (84%) and government (83%). After them, respondents placed owners/shareholders of the company (82%).

With the purpose of identification of differences among respondents' answers in relation to attitudes towards company's social responsibility and depending on social-demographic characteristics, t-test was used to compare mean values of dependent variable for two groups of respondents and one-way ANOVA was used to compare mean values of dependent variables for several groups. The level of significance ($p=0.5$) was used for both cases. If obtained values are lower than the level of significance the null hypothesis will be rejected meaning that there are no significant differences among the average values of dependent variables of the observed groups.

T-test independent samples were used to investigate possible statistical differences between mean values of answers of male and female respondents, and married and unmarried respondents. Likert scale was used to measure respondents' perceptions of company's social responsibility. Respondents were obliged to answer on 12 questions.

Table 2

T-test independent samples

Question	Gender	Marital status
	Sig. (2-tailed)	
Social responsibility	0.940	0.855
Economic responsibility	0.365	1.000
Legal responsibility	0.600	0.793
Ethical responsibility	0.353	0.659
Philanthropic responsibility	0.386	0.237
Responsibility towards the owner/shareholders	0.547	0.045
Responsibility towards the employees	0.034	0.148
Responsibility towards the consumers	0.270	0.806
Responsibility towards the suppliers	0.644	0.103
Responsibility towards the government	0.723	0.146
Responsibility towards the community	0.711	0.047
Responsibility towards the environment	0.755	0.320

Source: Author's calculations

Statistical significant difference was found only for mean values of male and female answers related to social responsibility towards the employees, while the statistical significant difference between mean values of married and unmarried respondents' answers was found only for the question related to social responsibility towards owner/shareholders and the wider (general) community.

One-way ANOVA test was used to compare mean values of answers among different groups of respondents. The following social-demographic characteristics were observed: size of the company, respondents' age, service increment, professional qualification, characteristics of jobs, average salary, and position. Obtained results showed that most answers had no statistical significant differences among the observed groups. In reference to answers with

statistically different mean values it is not possible to define specific and general conclusions.

5. CONCLUSION

CSR is a global trend that has been developing for a couple of decades. This trend also affected companies in Bosnia and Herzegovina. The paper presented the historical development of the concept of CSR, and showed that different authors had different visions of CSR. Regarding the development of CSR in Bosnia and Herzegovina, it can be concluded that this area is still relatively underdeveloped in relation to the practices of developed countries. Research results confirmed the stated hypothesis that the companies in Bosnia and Herzegovina follow hierarchy of social responsibility presented by Carroll's pyramid of social responsibility. The highest percentage of agreement was for statements regarding company's economic responsibility (business, making profit, fulfilling customers' needs). The following percentage of agreement was for the statements related to company's legal, ethical and philanthropic responsibility. Regarding the key stakeholders of CSR activities, companies in Bosnia and Herzegovina, state that they are primarily responsible for suppliers, then consumers, government bodies and owners.

The analysis of the influence of sociodemographic characteristics and job characteristics on attitudes about CSR showed that mainly there is no statistically significant difference in the responses of different groups of respondents to the largest number of questions asked, so it can be concluded that different sociodemographic characteristics and job characteristics do not generally affect attitudes about CSR. According to the presented results, the following recommendations can be made for companies, government, non-governmental organizations and researchers in Bosnia and Herzegovina:

Companies should work more on switching to higher categories of social responsibility, such as ethical and philanthropic responsibility. Economic responsibility is the core responsibility of companies in Bosnia and Herzegovina, but in order to keep up with current world trends, it is necessary to work on enhancing other categories of CSR.

Government and NGO should continue with campaigns promoting socially responsible practices. Long-term goal is to promote and develop a socially responsible business culture in Bosnia and Herzegovina.

There should be more research done about the perception of CSR according to the sociodemographic and job characteristics. This would explain some results presented in this paper.

Finally, it is important to note that this paper tries to provide a basic insight into the CSR of companies in Bosnia and Herzegovina. Consequently, it should be viewed as the foundation for future research in this area.

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