

# Corporate Social Responsibility in large companies in the city of Karlovac

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**Abstract:** Due to the growing social consciousness and public pressure as well as legislation, the business sector is challenged to base its existence and development on the principles of sustainable development. The concept of sustainable development has emerged due to the growing problem of inequality in the world as well as global environmental problems. It aims to achieve balance between economic, social and environmental requirements so that future generations would not have to withhold because of the actions of present generations. Companies that actively participate in resolving the environmental, social and ethical issues are considered to be socially responsible companies. Basic areas of consideration in socially responsible companies are environmental protection and welfare of employees, as well as welfare of local communities and society as a whole. This paper deals with the concept of sustainable development and the application of its principles in companies in Karlovac County. It also seeks for an answer whether large companies in Karlovac County have strategic approach to corporate social responsibility.

**Key words:** corporate social responsibility, CSR, enterprise strategy, sustainable development

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## 1. Introduction

In the second half of the 20th century the world economy grew faster than ever before, bringing numerous positive advances, especially for the more developed countries. The possibilities that the economic growth brought were vast and they pertained to the professional, personal and educational aspect of people's lives. However, that kind of growth also incited numerous negative consequences, especially those harmful to the environment. In the new century, there was a start of global reasoning in a completely different and only possible way—in a manner that will not compromise the right of future generations to live, work and to be in a clean environment. Sustainable or balanced development is the economic development when both the rise and the change of the manufacturing and consumption structure are developmentally acceptable (Vitner Marković and Varičak, 2012). They

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are also developmentally acceptable unless they decrease the overall quality and usability of natural resources. The development of a community is considered to be sustainable if it improves the standard of living, not bringing at the same time the environment under undue pressure and not exploiting the natural resources over their acceptable capacity. Each generation is supposed to pass to the next one the net resources, per capita not lower than those inherited by the previous one (WCED, 1987). The natural resources and environment, know-how, as well as technology and human resources are considered as net resources.

Sustainable development became a dominant philosophy that had to be adhered to by every member of society, including the business sector. It is therefore the reason why a process of transition to sustainable forms of development is inevitable, and it is up to the company managers whether they choose to oppose this transition or they want to be among those who will shape the future. A sustainable and transparent management of economic subjects on a global scale is a manner of looking forward into the future and guarantees sustainable development. This paper will hold a description of the roles of the business sector in the implementation of the principles of sustainable development and application of its principles in the large companies in Karlovac County with the assumption that CSR is more frequent in companies with foreign ownership.

## 2. Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an awareness of the new position and the importance that companies have in the contemporary global society. This type of corporate behaviour has proven to be useful for companies in all aspects of their business activities. Although involved in its practical activities, a large number of employees are not familiar with the terminology and concepts of CSR. The lack of information, education and awareness of employees on corporate responsibility leads to inability for the potential of this model to be released. Therefore, continued support is needed from the state, from local and regional governments, educational institutions, from the media and civil society.

In the last few years there was a series of business cases which pointed out the new business reality due to which companies cannot expect economic prosperity if they don't plan on a long-term, holistic and responsible bases. Many global companies have recognized the change in the demands of stakeholders so they try to adjust. Experience has shown that various aspects of corporate social responsibility deliver a full range of benefits for the company, among which the most important are: reducing costs through greater efficiency in the use of resources, better image, reducing or avoiding court costs, innovative products, higher employee motivation, etc. So, the reasons for implementing CSR strategies are (Osmanagić Bedenik et al., 2010):

- positive image and better social position of the company;
- lower operational costs/ higher operational efficiency;
- easier access to the capital;
- increase of sales and higher loyalty of the customers;
- growth of productivity and quality;
- higher motivation of employees and their long-term employment;

- adopting to the interest and expectations of the market;
- improving innovation process.

Due to the above statements, it can be concluded that redesigning of a traditional company towards modern, innovative, eco-efficient one can lead to various positive results and strengthening the competitiveness of the company. The significance of innovation has increased as a result of globalization processes, the changeability of the business environment as well as the development of a knowledge-based economy (Kozioł et al., 2013).

One of the first definitions of social responsibility is the one that was given by Howard R. Bowen in 1950, according to which social responsibility refers to the obligation of the business sector to apply business policies, make decisions and implement actions that are desirable with regard to the objectives and values of the community (Carroll, 1999). Accordingly, even then it was thought that companies have responsibilities that go beyond the responsibility just for financial gain. During the 1960s a few authors began to write more about social responsibility, and one of the most significant authors of that time dealing with this issue was Keith Davis. He believed that social responsibility is not just ‘an idea on paper’. He considered that the business which is based on social responsibility can bring long-term economic benefits and social power to the company (Davis, 1967). He was one of the originators of the idea that social responsibility must be viewed in the context of management or that it should be part of the company strategy. Joseph McGuire wrote that social responsibility implies that the company has not only economic and legal obligations, but also obligations to society that go beyond the legal framework (Carroll, 1999). That means the company has to take care of the welfare of the community, employee satisfaction, education, engage in political issues, etc. According to Kotler, corporate social responsibility is a commitment of the company to improve community well-being through discretionary, voluntary business practices that are taken on the account of their own resources (Kotler, 2009).

Social responsibility has to be incorporated into business strategy because it represents special commitment of the company. Due to that, companies that want to build a responsible approach to the environment and the society have to incorporate that intent into their vision, mission and goals. Social responsible companies must require the commitment to the principles of sustainable development of all stakeholders—owners, managers, employees, suppliers, customers, state and civil society. This type of commitment is required because only in this way it is possible to contribute to the achievement of sustainable development.

## 2.1. Approaches to corporate social responsibility

Despite the fact that principles of corporate social responsibility are now almost universally accepted there are some problems that can occur during their operating. Many companies adopted modern trends and their role in the community but there are also others that continued to operate according to traditional principles. Due to that, a theory developed three types of approach which can explain the relationship between company and the environment. The first approach is called business as usual, which implies that the company shows open hostility towards the protection of nature because they believe that environmental costs are an obstacle to economic growth and profits (Šimleša, 2003). Another approach, according

to Šimleša, is called business as (un)usual. This approach is characterized by the acceptance of the concept of sustainable development, but the practice is mostly limited to partial projects. The third approach is called the paradigm of green knowledge (Šimleša, 2003). This paradigm includes companies that are dedicated to vision of sustainable development. Those companies take care of environment, human rights and public health.

## 2.2. Aspects of corporate social responsibility

There are various areas in which companies can act to protect nature and take care of the welfare of the society. Among the most frequently conducted activities are those that solve the problems of the local community, customers and also environmental issues and employment policies. The following figure shows all aspects of corporate social responsibility that is now considered to be particularly significant.

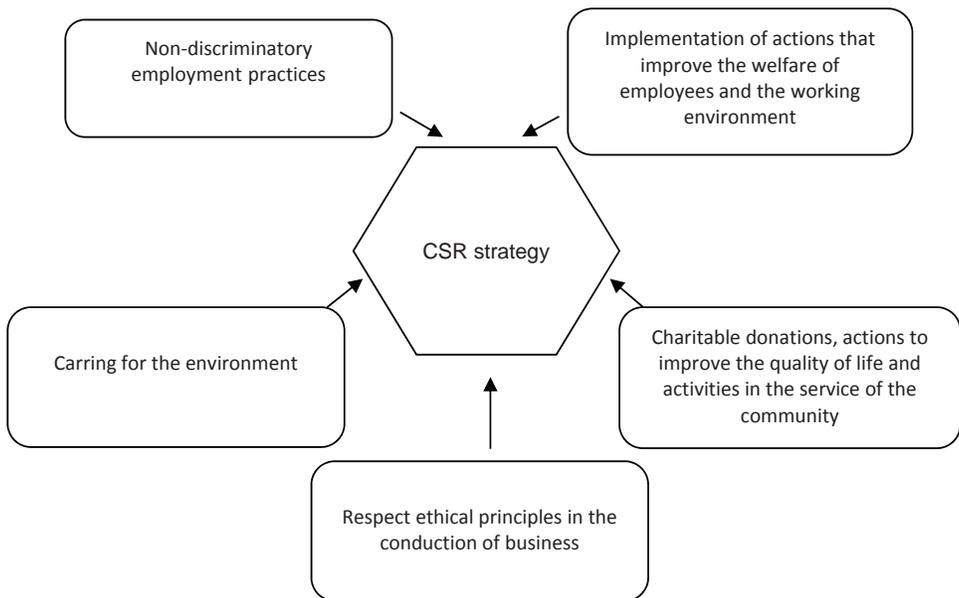


Figure 1. Aspects of CSR

Source: (Hill et al., 2003, p. 348—adopted by the author).

In the famous UN report *Our common future* (WCED, 1987), the author Bruntland emphasizes three key elements of sustainable development: environmental protection, economic development and social equality (Krkač et al., 2007). Implementation of CSR definitely has a positive impact on business activities and long term sustainability of a company, so it is important that the management recognizes and understands the ultimate benefits of such engagement.

### 3. CSR practices in large companies in Karlovac County

The paradigm of sustainable development is generally accepted, however, the implementation of its principles is far from satisfactory level, especially in countries in transition such as the Republic of Croatia. Struggling with the consequences of centralized system and transition, as well as the consequences of privatization and the war, Croatia is unable to fully adapt to modern trends. Nowadays, companies in the world develop CSR strategies that bring benefits not only to themselves but also to the wider community. Companies in Croatia rarely develop such strategies and those organizations that partly deal with these problems are usually foreign-owned.

Karlovac County is, although rich in natural and anthropogenic resources, on a relatively low level of economic development. Gross domestic product per capita is among the lowest in the Republic of Croatia, the unemployment rate is among the highest, and educated population is insufficient to satisfy the demand for high technology in metal and food industry for which Karlovac is known.

Subjects of this research are large companies that are classified in accordance with the Accounting Act (NN 109/07, 54/13). In Karlovac County there are 4 large and 22 medium-sized enterprises. Manufacturers have always been the engine of development of the County and the survey conducted for the purpose of this paper was based precisely on large manufacturers. Manufacturers are observed for the reason of their impact on the environment which is generally more significant than the impact of trade or financial companies. Also, according to some research in the field of safety at work, most injuries at work occur in the manufacturing companies, hence this is also one of the reasons for selecting these companies.

The survey was carried out in all four major companies and the method was interviewing managers of medium and top levels as well as using a questionnaire. The questionnaire consisted of 37 questions and was based mainly on the multiple-choice questions. The questions in the questionnaire were divided into three categories. In the first part were the questions that are related to the basic information about the company. The second part of the questions was related to the information about the manager, and the third part included questions related to sustainable development and its impact on company's strategy. In the reference sample, 50% of the companies are privately domestically-owned and other 50% are privately foreign-owned. Respondents who filled in the survey are in managerial positions (75% at the highest management level, and 25% at medium level). Survey showed that employees are familiar with the goals and vision of the company. However, during the in-dept interview it was discovered that only one company has adequate channels of communication with employees. In fact, only one company shares information about business activities, investment, environmental protection, safety at work through printed materials while others specified that they share information exclusively at management meetings. Therefore it is questionable how much information and in what form comes to employees.

All companies have indicated that their strategy includes the principles of sustainable development. When reviewing the components of strategies and other documents that were available during the research, it can be concluded that foreign-owned companies include the principles of sustainable development into their business strategies. Domestic enterprises

have partially different situation, one company in a part of the strategy involves a commitment to a sustainable development and corporate social responsibility, and in other written documents that were available it does not include the principles of sustainable development. All companies, regardless of ownership, take the view that the business sector has an important role in preserving the environment and caring for the community.

Pursuant to the research all companies have developed a system for monitoring the consumption of energy and materials as well as waste management. They also invest in a new, modern technology. In most companies the consumption of energy, water and materials per unit of output has declined. Reduction of energy consumption per unit of product is 7–15%. One local company recorded an increase in energy consumption per unit of production by 20%. In the last 5 years, the majority (50%) of the companies remained on the same material consumption per unit of product, 25% have decrease in material consumption but they didn't mention specifically the percentage of decrease and 25% had an increase in consumption by 10%. Figure 2 shows the results related to material consumption.

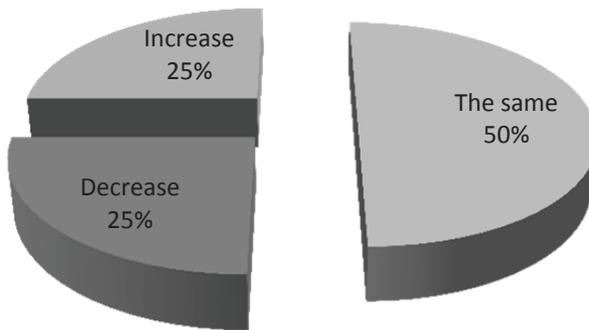


Figure 2. Material consumption per product

Source: Author's own elaboration.

In all examined companies a source of energy are fossil fuels. The interview with the manager of one domestic company showed that his company has built a plant for heating and cooling which uses geothermal energy, and their goal is to further invest in renewable energy. The survey also showed that all companies invest in the development of clean technologies.

The following questions were related to the care for employees. According to the survey all companies care about the health of employees and they also invest in their education. However, the interview showed that foreign-owned companies are significantly more concerned about employees, particularly of their health, safety and education. Their concern exceeds the obligations prescribed by the law. Domestically-owned enterprises only meet the obligations required by the law on the issues of occupational safety and health care. For example, the domestic companies have standard protective equipment for employees, while a foreign company has made individual protective equipment. A foreign-owned company funds spe-

cial medical examinations for their employees regularly every year or every two years (they finance systematic and specialized examinations of employees in private clinics), while locally-owned company sends their employees for regular check-ups at doctor of occupational medicine depending on the demands of the workplace.

Regarding concerns about the community, all companies are active on this issue, but mostly it is all about sponsorships and other activities that largely serve promotional purposes of the company. Only one foreign company does not promote itself and therefore they award grants mainly to educational institutions, associations of persons with disabilities, cultural and artistic communities. This activities are not covered by the media.

Most executives of surveyed enterprises believe that business activities which are aligned with the principles of sustainable development bring competitive advantages. These competitive advantages are long-term and they are reflected in a better placement of products on the market, reduced sick leave and related expenses, increased efficiency, reduced costs per unit of product, improved image and improved perception of consumers and society about the company. The following figure shows the results of the survey related to the above question.

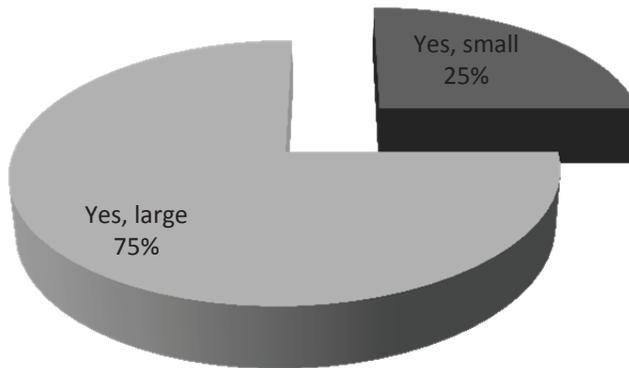


Figure 3. CSR and competitive advantages

Source: Author's own elaboration.

The last questions in the survey were about the ways in which companies take care for protection of the environment as well as the specific goals that businesses want to accomplish in the next three years in relation to the care and protection of the environment. All companies have a person or an office responsible for the impact of business activities on the environment. 75% of the surveyed companies have their own environmental management system and environmental management system ISO 14001. All surveyed companies plan to implement certain organizational and technological changes to increase the level of environment protection in the next three years.

## 4. Conclusions

The principles of sustainable development are adopted at global, European and national level but the implementation of those principles in Croatia is not on satisfactory level. One of the reasons for such situation is lack of human resources in the field of environmental management. Environmental managers must possess high expertise in natural and social sciences and they must act as coordinators between economics and ecology. It is now believed that there is no economic development if it is environmentally and socially unsustainable so taking care for the environment and the community has become a powerful source of competitive advantage.

According to the data obtained during the survey, all large companies in Karlovac County carried out various activities of corporate social responsibility. According to the research, types of socially responsible activities depend on the type of ownership. Companies that are foreign-owned emphasize health care and education of employees as well as working conditions. Also foreign-owned companies have codes of ethics that govern the observance of ethical standards in business. On the other hand, domestically-owned enterprises emphasize two aspects of corporate social responsibility—respect for the environment and the community.

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## Spółeczna odpowiedzialność biznesu w dużych firmach w Karlovacu

**Abstrakt:** Ze względu na rosnącą świadomość i presję społeczną, mając na uwadze stosowne przepisy, sektor biznesu zmuszony jest oprzeć swoje istnienie na zasadach zrównoważonego rozwoju. Pojęcie zrównoważonego rozwoju pojawiło się ze względu na narastający problem nierówności na świecie, jak również z powodu światowych problemów związanych z ochroną środowiska naturalnego. Ma on na celu osiągnięcie równowagi pomiędzy wymogami gospodarczymi, społecznymi i środowiskowymi, tak aby przyszłe pokolenia nie musiały wstrzymać rozwoju z powodu działań podejmowanych współcześnie. Firmy, które aktyw-

nie uczestniczą w rozwiązywaniu problemów środowiskowych, społecznych i etycznych, są uważane za podmioty społecznie odpowiedzialne. Obszary ogólnej troski uwzględniane przez odpowiedzialne społecznie przedsiębiorstwa to ochrona środowiska i dobrobyt pracowników jak również działania na rzecz społeczności lokalnych i społeczeństwa jako całości. Prezentowany artykuł dotyczy pojęcia zrównoważonego rozwoju i stosowania jego zasad przez firmy w powiecie Karlovac. Ma on również odpowiedzieć na pytanie, czy dla dużych przedsiębiorstw w Karlovacu społeczna odpowiedzialność biznesu jest zadaniem strategicznym.

**Słowa kluczowe:** społeczna odpowiedzialność przedsiębiorstw, strategia biznesu, zrównoważony rozwój