

# The influence of corporate social responsibility on organizational performance: a research in AP Vojvodina<sup>1</sup>

Утицај корпоративне друштвене одговорности на организационе перформансе: истраживање у АП Војводини

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**Abstract:** The goal of the research was to explore and determine the relationships between CSR related to employees and business and environmental performance. The authors conducted field research on the territory of Autonomous Province of Vojvodina, Republic of Serbia in the period from October 2019 until the end of March 2020 to collect the data from business organizations on their CSR activities and organizational outcomes. The research is conducted as a part of a one-year research project funded by the Provincial Secretariat for Higher Education and Scientific Research of Autonomous Province of Vojvodina for 2019. To explore these relations, there has been performed PLS analysis in the statistical software Smart PLS 3.

**Keywords:** corporate social responsibility, employees, financial performances, environmental performances

**JEL classification:** M14, O15

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**Сажетак:** Циљ истраживања био је утврђивање релација између КДО праксе која се односи на запослене и пословних перформанси и перформанси које се односе на заштиту животне средине. Аутори су спровели теренско истраживање на територији Аутономне покрајине Војводине, Република Србија, у периоду од октобра 2019. године до марта 2020. године, како би прикупили податке пословних организација о њиховим КДО активностима и организационим резултатима. Истраживање је спроведено у склопу једногодишњег пројекта који је финансиран од стране Покрајинског секретаријата за високо образовање и научноистраживачку делатност Аутономне покрајине Војводине у 2019. години. Како би се истражиле наведене релације, аутори су применили ПЛС анализу у статистичком софтверу Смарт ПЛС верзија 3.

**Кључне речи:** корпоративна друштвена одговорност, запослени, финансијске перформансе, еколошке перформансе

**JEL класификација:** M14, O15

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## Introduction

Modern business is constantly changing due to new challenges and risks related to the wider business environment, such as economic and political instability, strong competitiveness in business, rapid technological innovations, new migration issues, aging as social phenomena, strong environmental concerns, ethical questions, etc. All of the above mentioned direct companies to take into account new ideas and activities that they did not perform earlier.

A business concept that is usually mentioned as a possibility to balance between all-important business issues is corporate social responsibility (CSR). It is widely accepted in modern business and scientific literature as a business concept that “allows the balance between economic, social and environmental goals, it is widely accepted business practice in the developed countries of the world” (Berber et al., 2019, p. 2), and brings benefits to the company and the wider community (Čelić, 2019). CSR is increasingly present as a topic in research worldwide, especially in research on relations between CSR and other business activities or outcomes, such as employees behavior (Collier & Esteban, 2007; Turker, 2009a; Lee et al., 2013; Gao & He, 2017), financial performances (Mishra & Suar, 2010; Saeidi et al., 2015; Cho et al., 2018; Ali et al., 2020), environmental performance of companies (Tang & Tang, 2012; Nazari et al., 2017; Chuang & Huang, 2018), etc. Also, CSR is seen as a very complex construct that can be created from different aspects. For this research the authors chose responsibility for employees as one very important dimension, which is usually present in this type of research (Turker, 2009b; Fatma et al., 2014; Saedi et al., 2015; Ko et al., 2019) to explore business and environmental performances. This is important since Brammer and Millington (2008) and Meier et al. (2019) pointed out that more research needs to focus on specific dimensions of CSR.

For this study, the authors made research into the relations between CSR (dimension related to the employees) and financial and environmental performances. The main goal of the research was to determine the relationships between CSR related to employees and business and environmental performances. The authors conducted

field research on the territory of Autonomous Province of Vojvodina, Republic of Serbia in the period from October 2019 until the end of March 2020 to collect the data from business organizations on their CSR activities and organizational outcomes.

## 1. Theoretical background

According to Sekulić and Pavlović (2018, p. 61) “socially responsible behavior of companies is reflected in their adoption and realization of discretionary business practice and investments that provide support to the community to improve its well-being and environmental protection”. CSR is usually seen as a formative contract that is created from different dimensions. Those dimensions are derived from past researches, and the most prominent are economic, legal, ethical, and discretionary expectations (philanthropic) (Lee et al., 2013; Saeidi et al., 2015) or customers, employees, shareholders, environment, market, community, etc. (Turker, 2009b; Fatma et al., 2014).

One of the most important parts of social responsibility is environmental responsibility. It is even seen as a part of the green economy (Munitlak-Ivanović et al., 2018). Greening any business sector involves efficiency improvements in energy, water, and waste systems, which saves money and prevents pollution and lead to other benefits, like health, liability as well as a public image (Gavrilović & Maksimović, 2018, p. 37). According to Radivojević et al. (2019) “environmental sustainability as a crucial element of sustainable development occupies a central place in considering the long-term perspective of human survival and progress” (p. 473).

Also, one more important responsibility dimension is related to employees. The human capital of a firm is recognized as one of the most important resources for modern business (Collier & Esteban, 2007; Kordić & Milićević, 2018; Meier et al., 2019; Bogićević-Milikić, 2019). Social responsibility to employees involves different activities inside human resource management (HRM) like communication and information flow, fair and adequate training and development, empowerment of employees, looking after the health and well-being of employees, balance of working and family life and concern for the safety of the workplace (Berber et al., 2014). Slavković & Slavković (2019) pointed that training and development are related to the permanent acquisition of new knowledge and skills, as a necessary basis for the development and survival of the society (p. 116).

A third important dimension of CSR is economic results. Since CSR is seen as a concept that balances economic, social, and environmental performances and goals, it is important to mention this dimension, too. Economic goals in the area of CR research are usually presented as different financial and non-financial results that should be reached every year. The most common are return on assets (ROA), return on equity

(ROE), an increase in business revenue, profit, sales, level of production and productivity, market share, etc. (Saeidi et al., 2015; Blasi et al., 2018).

### **1.1. Hypotheses development**

For this research, the authors chose responsibility for employees as one very important dimension that is usually present in this type of research (Turker, 2009b; Chen and Wang, 2011; Ko et al., 2019) to explore with business and environmental performance.

According to Meier et al. (2019), there is a positive, but nonlinear relation between sustainable HR practices and financial performance. This research was based on 591 European companies and 1405 firm-year observations. Also, Chen and Wang (2011) found that there are positive relations between CSR and financial performance, and especially between CSR dimensions related to employees and performance. They explored 204 employee samples through exploratory factor analysis. Blasi et al. (2018) explored the sample of 988 US-based companies from nine different sectors. They found positive, relations between CSR dimensions that are related to employees and ROA indicators. In a sample of 191 companies listed on the Korean Stock Exchange, Cho, Chung, and Young (2019) investigated the relationship between CSR and profitability and firm value. They found that employees dimension of CSR is also positively correlated with ROA and growth rate in sales revenue. Regarding environmental performance, Berber et al. (2019) pointed out that there are positive correlations between the existence of a human resources strategy and CSR statements with the environmental performance levels of the organization. Walsh and Sulkowski (2010) found that there is a significant positive relationship between employee satisfaction and the level of perceived environmental performance. Also, based on the data from 183 supervisor-subordinate dyads employed in casinos and hotels in Guangdong China and Macau, Tian and Robertson (2019) found that employees' CSR perceptions indirectly affect their engagement in voluntary pro-environmental behavior through organizational identification. Based on the abovementioned, the authors proposed two hypotheses:

*H1: CSR to employees is positively related to financial performance.*

*H2: CSR to employees is positively related to environmental performance.*

## **2. Methodology**

The main goal of the research was to explore and determine the relationships between CSR related to employees and business and environmental performance. The authors conducted field research on the territory of Autonomous Province of Vojvodina, Republic of Serbia in the period from October 2019 until the end of March 2020 to collect the data from business organizations on their CSR activities and organizational outcomes. The research was conducted as a part of the one-year research project funded by the Provincial Secretariat for Higher Education and Scientific Research of

Autonomous Province of Vojvodina for 2019. The authors used a questionnaire that was developed based on different previous research (Rettab et al., 2009; Turker, 2009b; Saedi et al., 2015). There are three parts of the questionnaire; the first part is related to the organizational details of the company, the second part contains questions on CSR, and the third part is related to the question about organizational outcomes. For this paper, the authors explored the relation between CSR dimension that is related to employees and two organizational performance indicators, financial and environmental performance. For example, questions regarding employees' dimension were: "Do you treat all employees fairly and respectfully, regardless of gender or ethnicity", "Do you provide all employees with pay according to their workload", "Do you support all employees who want to continue their education and develop their careers", "Do you help all employees coordinate their personal and professional lives", "Do you involve the interests of employees in business decisions". All the questions were defined as closed questions, and responses possibilities were based on the Likert scale from 1 (not at all) to 5 (to a great extent).

According to the data, the sample consists of 53 large companies that operate on the territory of AP Vojvodina, with more than 250 employees, mostly from the processing industry (35,8% of the sample), which are in private ownership, with 66% national companies and 34% foreign companies (subsidiaries). The average number of employees is 773. To explore these relations there has been performed PLS analysis in the statistical software Smart PLS 3.

### 3. Results

The first parts of the results are data related to the measurement of the reflective constructs in the model. For this type of measurement Grubor et al. (2018) and Hair et al. (2019) suggest analyzing reflective indicator loadings, internal consistency reliability, convergent validity, and discriminant validity. The first table presents the results for reflective factor loadings. In the first step, some variables did not pass this test, since their loadings were below 0.708, and they were extracted from the later analysis (variables Emp1, EnvP1 and EnvP2, and Fin4 and Fin5. In the second step, it is clear from Table 1 that all factors had loadings higher than the thresholds of 0.708 (which is the minimum according to Hair et al., 2019).

Table 1: Indicator reliability and construct reliability and validity

	Employee_CSR	Envi_Perf	Fin_Perf	Cronbach's Alpha	Composite Reliability	AVE
Emp2	0.863			0.912	0.938	0.792
Emp3	0.868					
Emp4	0.922					
Emp5	0.904					
EnvP3		0.947		0.890	0.948	0.901
EnvP4		0.951				

Fin1			0.846	0.866	0.906	0.707
Fin2			0.824			
Fin3			0.838			
Fin6			0.855			

Source: Authors' research

Table 1 also presents internal consistency reliability and convergent validity, measured by Cronbach's Alpha, Composite Reliability, and average variance extracted (AVE). According to the data, internal consistency and convergent validity are satisfied for all three reflective constructs (Cronbach's Alpha between 0.70-0.90, max 0.95; Composite reliability between 0.70 and 0.95; AVE  $\geq$  0.50). In the case of discriminant validity, there were performed Fornell-Larcker criterion and Heterotrait-Monotrait Ratio (HTMT). Discriminant validity means that each construct captures a unique phenomenon not represented by any other construct in the model (Hair et al., 2017). In both tests, all constructs reached suggested thresholds (HTMT < 0.90), from Table 2.

Table2: Discriminant Validity - Fornell-Larcker Criterion and Heterotrait-Monotrait Ratio (HTMT)

Fornell-Larcker			
	Employee CSR	Envi Perf	Fin Perf
Employee CSR	0.890		
Envi Perf	0.633	0.949	
Fin Perf	0.403	0.572	0.841
HTMT			
	Employee CSR	Envi Perf	Fin Perf
Employee CSR			
Envi Perf	0.701		
Fin Perf	0.425	0.637	

Source: Authors' research

The multicollinearity analysis showed that all variance inflator factors did not surpass the value of 5, which points to the Colinearity issues (Hair et al., 2019). The final part of the analysis was to explore the relations between CSR dimension related to employees, financial performance and environmental performance. The data from Table 3 and Figure 1 show coefficients for PLS-SEM relations, their significance level, and the R2 value. The R2 value is 0.401 for environmental performance and 0.162 for financial performance. This indicates that the independent variable explains 40.1% of the variance in the environmental performance and 16.2% of the variance in the financial performance.

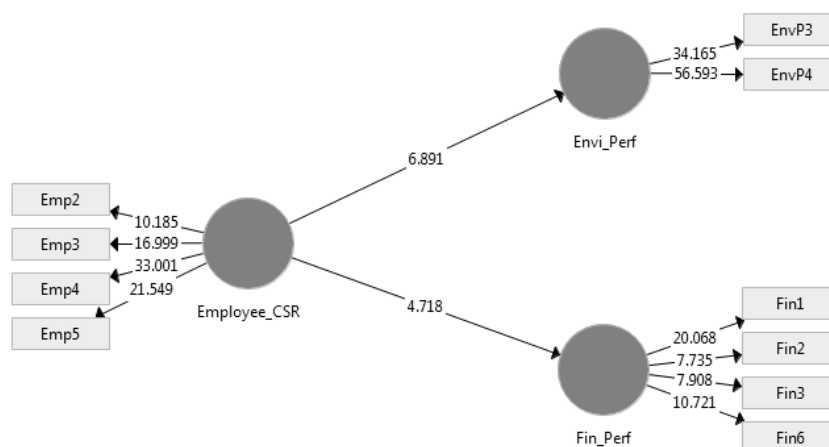
Table 3: Mean, STDEV, T-Values, P-Values

	Original Sample	Sample Mean	SD	R2	T Statistics	P Values
Employee CSR -> Envi Perf	0.633	0.638	0.092	0.401	6.891	0.000
Employee CSR -> Fin Perf	0.403	0.438	0.085	0.162	4.718	0.000

Source: Authors' research

All coefficients representing the relationships between the reflective constructs, independent and dependents are positive and statistically significant with  $p < 0.01$  (Table 3). Its values were recorded, 0.633 with environmental performance and 0.403 with financial performance.

Figure1: The path model with bootstrapping results



Source: Authors own research

## Conclusion

CSR is becoming increasingly important for business organizations. It is clear that this is going to become a standard in business, having in mind that EU commission created a certain number of directions, there is already presented ISO standard 26000 related to the social responsibility, and also many other benefits that CSR can bring to the business and wider community and environment. Also, the Sustainable Development Goals Report 2018 promoted 17 sustainable goals, where the third goal is to ensure healthy lives and promote well-being for all at all ages (births attended by skilled health personnel increased globally) (Radukić et al., 2019, p. 11).

Based on the results of this research, the authors confirmed both hypotheses, that CSR activities related to employees have positive and significant relations with financial results and environmental performance. The results of this research are in the line with previous, where it has been found positive relations with financial performance (Chen & Wang, 2011; Saedi et al., 2015; Meier et al., 2019) and with environmental financial performance (Chen et al., 2015; Ağan et al., 2016). This means that companies should deeply explore the HRM activities that are recognized as socially responsible, like action programs to improve the participation of marginalized groups in the workforce, flexible time management and job rotation, profit sharing, and

employee share ownership (Berber et al., 2019b), communication and information flow, better-defined training needs, empowerment of employees, looking after the health and well-being of employees, balance of working and family life and concern for the safety of the workplace (Berber et al., 2014). Implementation of such activities inside business strategies can improve employees' wellbeing, their commitment, loyalty to the company, their performance, and on that basis, the overall organizational performance.

Although the authors found statistically significant relations, there are some limitations to the research. The first and most important is a relatively small sample. Also, only one dimension of the CSR was used in the analysis, so it will be interesting to explore the full CSR index and its associations with the outcomes. These two limitations will be improved in the future since the authors are planning to enlarge the sample and to create structural models with different constructs to explore the proposed relations.

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