Our goal is to identify the connection between theory and practice in Corporate Social Responsibility (CSR). The method is based on the analysis of scientific and professional publications – journals, books, relevant databases and practical business knowledge in order to reach conclusion on this topic.

The CSR concept is directly connected with the ethical foundations of each organization. It shows necessity of organizational work in society, through corporative philosophy which must take into consideration internal stakeholders as well as external stakeholders.

It is evident that CSR is indispensable for corporations in order to demonstrate their ethical standards in practice to the general public. Accordingly, corporations build an image of the organization that does not only bring profit, but also has obligations towards environment and society in general.

The role of corporations in society is important. In the 20th century, companies already had standards to ensure human working conditions: to provide health care program, housing as well as to donate to charities, but these actions were not defined by the term Social Responsibility. However, in the 21st century due to the growing need for operational competitive performance, customer satisfaction and environmental problems, the term CSR comprehensively, coherently
and professionally summarizes an approach that underlines social responsibility of corporations nowadays. Finally, when comparing major competitors across several industries we find a weak link between environmental, social and governance (ESG) indicators and selected financial ratios.

**Key words**: Corporate Social Responsibility, Stakeholders, Competitiveness, Customer satisfaction, Strategic approach, Environmental leadership, Financial performance.

### 1. CSR AND OPERATIONAL COMPETITIVE PERFORMANCE

The term Corporate Social Responsibility (CSR) is often met in scientific research, but nowadays it is more prevalent in everyday mass-media as well. The main objective of such attention on CSR is to find out and make connection between theory and practice of CSR. It can be observed that Public Relations (PR) is closely connected to CSR, because corporation by its PR actions may recommend CSR approach to other companies. This means that more attention is dedicated to communication in order to establish better connection between theory and practice of CSR in different corporations. In order to accelerate this process, CSR and general social responsibility should be in dialogue for general well-being of society. However, in order to reach operational competitive performance the companies promote their CSR policies. At the same time, the practical use of theoretical CSR policies does not have clear borders between corporate social sphere and government. Therefore, the following question could be posed – is CSR of any company in the first place only the Public Relation instrument for its operational competitive performance, or it is also devoted to real care for the people. In this context, recent decades show increasing problems with sustainability, including climate changing, resource overgrowing consumption, financial crisis and more and more distinctive gap between rich and poor.

(Crane, Matten, Spence, 2008, 6)
The followers of Milton Friedman dominate the world's banks, economics, faculties and governments and support the thought that the social responsibility of business is to maximize profits with which to create reinvestments, jobs and growth (Port, Kramer, 2011, 62) may consider such approach as serious base platform for achievement of operational competitive performance, upgraded by additional CSR approach. This way the role of CSR may grow if we look from the angle of competitive performance of the company. At the same time operational competitive performance reached by CSR of corporations can decrease the negative impact of business on social environment, increase the level of mutual ground between business and social interests, (Crane, Matten, Spence, 2008, 6) which may develop better connection between theory and practice of CSR.

Taking into consideration CSR and operational competitive performance it is important to clearly diversify philanthropy from CSR. Philanthropy can be a one-time charitable act of a corporation towards some recipient. However, CSR is meant to be steady policy of a corporation in order to give back to society by creating work places, by providing health care and payments to different stakeholders in society. For example, a one-time philanthropy act can be donation to some charity organization, but on the other side CSR competitive performance of the company can manifest itself by recycling in company’s practice and by propaganda of recycling model to other organizations.

Illustrative example is Johnson & Johnson Annual Public Company’s Report 2016 with emphasizing slogan “We are committed to always putting people first”, where it’s chairman and CEO Alex Gorsky states that the company puts such important social responsible goal focused on five key areas in order to create sustainable and scalable impact until 2020 year. Those areas are: Global Disease Challenges, Essential Surgery, Women’s and Children’s Health, Health Workforce and Environmental Health. Johnson & Johnson vision is that by motivating partners, influencing on employees and involving communities, the company will make substantial impact on human health. (Johnson & Johnson, 2016 Annual Report) We can say that by such declared by the company – program, Johnson & Johnson manifests an operational competitive performance by using CSR politics.

Many leading companies provides CSR compliant policies and slogans on respective websites and in annual reports, but it is still necessary to examine to what extent public announcements are linked to bona fides company actions. Since CSR policies may vary across industries it may be advisable to compare Johnson &
Johnson and some other companies mentioned in this study with major competitors within the same industry. From the industry-wide perspective we’ll take a look at the most comprehensive ESG (environment, social and governance) ratings provide by Bloomberg, and link them to selected financial ratios. The rationale for this approach is based on the well-known fact that companies are prone to green- and blue-washing, i.e. the tendency to accept environmental and supranational (such as UN) standards, but the lack of proper implementation may indicate inappropriate staff training, corporate culture or even resources to comply with recommended behavior at various operational levels, which could be converted into lower valuation. The availability and completeness of ESG data is conditioned by the size and analyst following of a firm, which prompts us to compare Johnson & Johnson Co. with the largest competitors in the industry. Since the country factor may distort our results it is recommendable to compare the competitors in the same country as much as possible. However, if a company originates in a smaller economy and largely surpasses the borders of a domicile country in terms of sales and a customer base, it is justifiable to compare it with international peers demonstrating a similar global outreach.

Bloomberg evaluates a range of environmental, social and governance features so as to be able to assign an ESG ranking to a firm. For instance, in the environmental area energy and water use, water recycling, waste generation and green house emission have been evaluated. Social aspect will pay attention to the participation of women in the workforce, employees turnover, unionization and lost time due to injuries. Finally, governance would examine the quality of board of directors (independence, average age, meeting attendance, size and women participation). As a comprehensive measurement it is evident that companies originating and operating in emerging economies may be allowed to pollute and apply rather unusual governance practices, which would immediately rank them lower. In addition, commonly accepted practices in each industry could keep the industry average at varying levels. These are the limitations that a researcher faces in applying composite ESG measurements.

By referring to the Morningstar list of competitors for a particular company we have selected the top three competitors of Johnson & Johnson. Respective ESG rankings for the longest period available, which generally starts in 2005 or 2006 until 2016, is compared with relevant financial ratios: price-to-book (P/B) ratio, as a measure of company valuation, EBIT to total interest expense, as a tool indicat-
ing whether a company can service debt and is potentially viewed as a “zombie” company, as explained in Verma (2017) and return on assets (ROA). Tables 1 - 4 indicate that companies with higher P/B and ROA have mediocre ESG results, while the entire cohort of firms indicates a rather stable ability to service debt, well in excess of one, which indicates good business prospects for leading companies in this industry. We do not find evidence that superior ESG ratings are linked to better financial ratios across the sample.

*Tables 1 – 4. ESG rankings and relevant financial ratios for Johnson & Johnson and its major competitors*

Source: Worldscope and Bloomberg

There are opposite opinions about the importance of CSR in improving firm’s performance. These opposite opinions debate that company’s investments in CSR are significantly higher than benefits, and accordingly firm’s performance is not improved. Corporate governance might be uncared for as an important factor in the process of understanding the relation between CSR and company’s performance (this in some measure may explain not-achieved consensus on such a relationship) (Aguilera, Williams, Conley, Rupp, 2007, 151). Based on all opposing CSR roles in improving firm’s performance, as well as the absence of consensus
for such a phenomenon, which brings into focus corporate governance factor, we can say that the understanding of CSR, as well as its use in practice and implementation in institutions in the global context is the constant process of change and can have different theoretical interpretations. Accordingly, relation between CSR and Operational Competitive Performance is subject which presents process of changing.

2. ENVIRONMENTAL LEADERSHIP

CSR is closely connected to environmental leadership. The CSR definition of Matten and Moon: “Empirically consists of clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good. Yet, the precise manifestation and direction of the responsibility lies at the discretion of corporation” (Matten, Moon, 2008, 424).

Although it is hardly possible to indicate final answer to the question what CSR actually is (Crane, Matten, Spence, 2008, 20) from the above mentioned definition we may conclude that business responsibility for wider societal good puts in focus environmental protection as soon as environment is under great pressure caused by growing industrialization. Accordingly, environmental leadership starts to be more and more important in the 21st century as the role of corporations in society grows. In mass-media there are often reports on corporate scandals and misbehavior like environmental pollution, and the releasing of toxic elements of chemical industry into the rivers and soil. All mass-media reports, either positive or negative, on environmental leadership put on corporations responsibility to show some concrete CSR activities towards environment. As a result of media pressure on major corporations that adversely affected the environment, a number of companies realized that by being involved in polluting the environment or in misinforming and deliberately harming customers, they must change those practices if they want to survive and be profitable. (Crane, Matten, Spence, 2008, 4) It can be observed that opposite to the previous stage of CSR movement, which started in the 70s of the 20th century when environmental leadership issues were usually connected with obviously toxic oil, chemical and tobacco industries, at the beginning of the second decade of the 21st century there are increasing demands for environmental leadership which legitimized its practices in society at large and across various industries, such as:
tourism, food and beverages industries, health care industry. (Crane, Matten, Spence, 2008, 4)

Since environmental leadership is expected to grow in importance so as to be able to secure a healthy life as the primary concern in society, corporations started the popularization of CSR and environmental leadership in their PR actions towards society. Many large companies now prepare CSR reports, open CSR departments, and set up projects in order to promote environmental leadership principles of their companies. For example, in India the company such as TATA, pride themselves by PR activities on more than hundred years of responsible business practices. (Elankumaran, Seal, Hasmi, 2005, 111)

By promoting environmental leadership of the company CSR can become an important tool for the company’s success, as CSR refers to social and environmental deeds which are not obligatory by law only, but also represent positive step further by “voluntarily internalizing externalities”. (Crifo, Diaye, Oueghlissi, Pekovic, 2014, 183) Accordingly, this can be seen as driving force for developing environmental leadership in corporations.

In a wider sense, corporate governance incorporate list of written and unwritten rules which management take into account in the process of company’s decision making. (Charreau, Desbriere, 2001, 113–114) According to this context we can underline the importance of collaboration in the relationship between theory and practice of CSR regarding environmental leadership.

In the survey on the economies of CSR, Crifo and Forget refer to the CSR definition adopted by The European Commission (2011) that “being responsible means that beyond legal constraints, firms take responsibility for their impacts on society”. Hence, CSR is about the corporation to upgrade it’s actions, not only ones requested by the law but also those related to environment, social and ethical issues and human and consumers rights. (Crifo, Forget, 2014, 120) This leads to conclusion that environmental leadership is the one with major role in order to use CSR theory in practical actions. Accordingly, strategic decisions for CSR are closely related to environmental leadership as soon as environmental protection becomes more important for the survival of nature and human recourses. Taking this into account, environmental leadership can influence a company’s decision to become socially responsible. Theoretical findings of Won-Yong Oh, Zhenhua Li and Seoyeon Park confirm the upper echelons perspective by presenting that CEOs’ personal characteristics and actions have a major influence
on strategic decisions, and also give additional understanding for these lines of research by investigating the influence on CSR. (Oh, Li and Park, 2014, 163) We can say that environmental leadership of the companies is essential in developing CSR, because environmental approach is considered now as essential for firm’s sustainability.

However, it is quite complicated to implement the real use of CSR theory into commodities business practice, which is inseparably connected to environment. The illustrative example is Petroleum refineries in USA in Texas. The US Environmental Protection Agency (EPA) has concluded that Petroleum refineries are one of the most dangerous productions that emit hazardous air pollutants (HAPs). EPA has listed 188 toxic chemicals that have impact on human health and the environment as HAPs based. (EPA, 2012a). Consequences of exposure to HAPs are: lungs, brain and the nervous system damage, cancer, and in some cases lethal outcome (EPA, 2012a). HAPs has been proven to be contributors to the depletion of the earth’s ozone layer as well as global warming process (EPA, 2012a). In practice there are numerous studies on the use of CSR supported by different stakeholders and institutional theories and its implementation into business philosophy regarding CSR and corporate environmental responsibility (CER). However, there is a deficiency of studies that empirically point on stakeholder influence (SI) or on the petroleum refineries CER politics, in particular on those mentioned in Texas. (Birdsall, Ellisor, 2014, 228) Contradiction between CSR theory and its implementation in practice in Petroleum industry is clearly noted in this example.

As major producers of an environmentally harmful products oil companies are another good candidate for ESG evaluation, as explained earlier in the paper. Unsurprisingly, Petrochina brandishes lower ESG ranking when compared to counterparts in developed countries, such as Exxon, Chevron and Royal Dutch Shell. The top three firms in ESG rating are closely bundled, but Exxon demonstrates high social responsibility indicators and good valuation results. While all firms have reduced ability to service debt due to the fracking boom started in 2010 and a significant loss in revenue due to lower oil prices, they cannot still be regarded as “zombie” firms. In addition, these companies can easily diversify into clean sources of energy, which could boost revenues in the following years. Unsurprisingly, the CEOs of these companies discuss clean energy not only as a PR stunt, but also as a genuine business survival strategy.
However, strict environmental regulations on the Petroleum refining industry emission of HAPs may need further improvements and additional restrictions. In order to use correct technological and managerial approaches, key stakeholders should have impact on the strategy of Petroleum refining industry and mutual collaboration. (Birdsall, Ellisor, 2014, 228)

EPA was created in 1970 by the US government in order to develop, implement and enforce protective regulations for public health and the natural environment (EPA, 2012b). The USA Congress was adopted addendum to the list of rules in the form of the Clean Air Act (CAA), in order government have a protective tool for the USA air quality (EPA, 2012b). In 1990, the Clean Air Act Amendments (CAAA) imposed that EPA has to develop additional regulations and programs for the control of air pollution level that would improve air quality (EPA, 2008). (Birdsall, Ellisor, 2014, 229)

As per Texas Commission on Environmental Quality (TCEQ) the fact is that EPA had listed more than 130 sources of HAPs in June 2012. 27 HAPs have been identified as a result of operations of different petroleum refineries. (Environmental Protection Agency (EPA) 2015) The list of HAPs includes benzene, cresol, cu-
men, hexane, methanol, phenol and xylene (NARA, 2012). EPA regulations for HAPs listing must be applied to all 149 petroleum refineries in the United States (US Energy Information Administration (EIA), 2012a). (Birdsall, Ellisor, 2014, 228)

Through this elaborative example of the path of different governmental rules and the creation of the EPA, in order to introduce Corporate Environmental Responsibility (CER) into the practice of Petroleum refineries which has to be compatible to Corporate Social Responsibility (CSR), we can conclude that it is a complicated process to make compatibility between theory and practice of corporate responsibilities.

It can be observed that general public as well as industry have lose of trust in the TCEQ and the EPA due to numerous conflicts and lawsuits between petroleum industry, EPA and the state of Texas (Air Alliance Houston, 2013). Environmental quality requires effective tools and solutions for all involved stakeholders (Air Alliance Houston, 2013). Accordingly, on the top of environmental regulations, voluntarily work of stakeholders with corporations is necessary in order to upgrade management CER philosophy of their businesses in practice. (Birdsall, Ellisor, 2014, 230)

These findings indicate the complexity in establishing connection between theory and practice of CSR, where the environmental leadership should have much larger implementation in industries such as oil industry, shown in this case.

Environmental leadership is under influence of senior management, and only through their environmental leadership the capability of solving environmental problems in practice can be possible.

As communication and science are a dominant feature of the global village, it is noticeably clear that whole mankind habitat the same environment and simultaneously exist as an raising factor of what we call “nature”. (Gordon, Berry, 2006, 6) The practical approach as well as the scientific approach can lead to the conclusion that, although theory of CSR is not easy to implement in practice, at the same time theory and practice of environmental leadership have to overcome gaps and establish mutual collaboration. All this emanates from the presumption that a successful leader would operate from the strong ethical base. We can say that any kind of human activity on Earth is in different ways connected to the environment, so in practice all leadership corporate politics become to a significant extent “environmental”. All above mentioned theoretical approaches should be of serious interest to business leaders, as the environmental problem solving will be
growing up and could be one of the vital leadership skills in the 21st century. The development of strong ethical corporate base can be crucial for successful environmental leadership in our time.

Gordon and Berry encourage to use “Leadership tree” concept, which means that the roots represent core values and ethical system particular to each leader; the trunk shows leadership skills and manners; the branches and leaves represent the applications of values and skills in problem solving and the fruit represents achieved best solutions and relations. The tree can be used as a manual for CSR leadership as an individual can make carefully inventory of his values, skills and experiences of solving problems. By having this inventory, the leader can create leadership learning plan. (Gordon, Berry, 2006, 8)

We may notice that described ‘Leadership tree’ concept can be a good tool for the development of environmental leadership, which is world wide very important task in the twenties of the 21st century due to globalization process, population growth, technological revolution and environment, as well as due to such important question as connectivity of above-mentioned theoretical approach with environmental leadership of company’s captains in practice, and due to governmental-economic policies which also need to have strong ties to theoretical approach. At the same time, with the spreading of globalization and a growing gap between rich and poor countries the contradiction between theoretical CSR approach and CSR in practice is apparent.

For example, due to cheap labor in Asia, many American and European companies transferred their manufacturing facilities to Asia, and in this way avoid more strict Western environmental rules and inspections. Such practice is contradictory to environmental leadership ethics.

Contradictory face of environmental leadership in practice can be observed in one of the latest business news, about so-called ‘advanced manufacturing’. Namely, the example is that the Adidas company high tech factory brings production back to Germany. That factory will use robots and new kind of production techniques known as ‘3D printing’. Adidas sports shoes factories, with turnover of 80 billion USD a year have been transferred to China, Indonesia and Vietnam. Production is due to begin in mid 2017, German speed factory, as the Ansbach plant is called, and it is a new level of industrialization based not on human, but on robotic workforce. Adidas motivation for this speed factory which they further on want to implement in America and Asia is not only low robot labor
cost, but speed of manufacturing which now is 18 months and with robots they can make it in less then a year. The details of this factory have been kept secret for now. Speed factory will introduce 160 human jobs, in comparison with more than 1000 in average factory in Asia, so the need for huge quantities of manual workers in Asia will diminish. (Advanced manufacturing Adidas’s high-tech factory brings production back to Germany, The Economist, 2017)

We can notice that from one side robotization makes production process quicker, easier and cheaper for the Adidas corporation, accordingly such new German factory is expected to be environmental friendly; but the other side of the coin is that in Germany as in other places around the world Adidas corporation will leave in practice armies of people jobless. Jobless people can not have positive impact on environment as by struggling to survive today, they simply can not think of such questions as protecting environment for tomorrow. However, they could migrate from impoverished countries and move to advanced economies, which could provide a temporary boost to economic activity, which is the case in Germany nowadays thanks to the influx of refugees from war-torn and other countries. However, an increase in population via less-skilled immigration and the boost in the labor skill differential over the last 40 years, contributes to a rise in the Gini coefficient along with a downward trending of labor share in a country’s income (Freeman, 2015, 1). This macroeconomic mechanism is further complicated by recent projections that artificial intelligence can and will replace labor in not only low-paid and low-skilled manufacturing jobs, which used to be the case in the 20th century, but also across all industries and various management levels. “The race to the bottom” will be accelerated by the jockeying of not only advanced but also emerging countries’ companies to support diminishing profit margins in the global economy with the decelerating population growth, declining labor income share and lackluster economic activity. What robots can do for advanced economies is to erase the cheap labor advantage that some countries, such as China, have enjoyed for several decades with exemplary productivity gains (Bateman, 2015, 12). With lower energy costs and robotization the playfield may be levelled, but the brunt of the costs will be borne by those who mainly rely on labor as a source of income. The ramifications of the same could be dire not only for future Trumpnomics – like statesmen/stateswomen mushrooming across the globe, but also for countries that have the least resources
or ideological readiness to appease populist views. The pending threat of these adverse changes could slow down the pace of robotization at many levels. It can be concluded that this example is a very controversial topic for environmental leadership of Adidas corporation and it shows controversy between theory and practice of CSR.

When compared with major competitors, Adidas is the second only to Nike, who is the leader in ESG ranking in the shoe-manufacturing industry (Tables 9 -12). It seems that Nike manages to keep social responsibility rankings in tune with business results, but other firms in the sample occupy interchangeably various positions.

*Tables 9 – 12. ESG rankings and relevant financial ratios for Adidas and its major competitors*

![ESG Ranking](image)

![Price to Book Ratios](image)

![EBIT/Total Interest Expense Ratio](image)

![ROA](image)

Source: Worldscope and Bloomberg

3. **CUSTOMER SATISFACTION**

Customer satisfaction implicates the implementation of CSR in company's activities, and can be based on VIGEO database. Vigeo is the most respected European rating authority which provides dependable environmental, social and governance (ESG) information. Vigeo has developed five broad principles methodology. The aim is to provide clients with trustworthy opinions: international norms and standards are used as evaluation criteria; analysis process is structured and precise; specific model for different sectors are applied; data collection is mul-
ti-source and traceable and opinions are well argued and actionable. This methodology follows the recommendations of the ISO 26000 Guidelines for Social Responsibility, which respect a definition of social responsibility established on the idea of obeying for international standards of behavior. (Crifo, Diaye, Oueghlissi, Pekovic, 2014, 185) It is noticeable that the obedience for international standards of behavior of corporations can improve customer satisfaction. Accordingly, customer satisfaction can be a measurable bridge between theory, as supported here by the VIGEO database, which provides solid theoretical criteria with supporting methodology and practice of every day company’s activities.

The main driving force of CSR in society is understanding that it helps to improve rating and corporate reputation, as well as it develops better communication with clients about their satisfaction. Accordingly, such communication opens connection between theory and practice of CSR.

CSR concept includes the main aspects that consist of six core characteristics: “voluntary; managing externalities; multiple stakeholder orientation; social and economics alignment; practices and values; beyond philanthropy”. (Crane, Matten, Spence, 2008, 6)

From these core characteristics, we can infer that all of them are important for customer satisfaction. For example, voluntary can be seen in the case of several companies in UK in 2011 such as Mc Donald’s, KFC, Pret A Manger and Pizza Hut, arranging to expose quantities of calories by labeling their restaurant food and beverage items. (Triggle, 2011) The program has developed model for working in partnership with eighteen organizations connected to health and social care policies. The estimation is that through mentioned eighteen organizations more than other 300 000 organizations across the voluntary sector can be reached. (The Department of Health voluntary sector strategic partnership program, UK). CSR voluntarism in the mentioned case can develop better customer satisfaction in the fields of health and social care.

Managing externalities is an aspect of CSR which deals with such externalities as: human rights management, violations of workforce rights, diminishing carbon emissions, estimation of the social and economic influences of curtailment, lessening the health impacts of ‘toxic’ and other kind of dangerous products etc. (Husted, Alen, 2006, 842) Hence, we can understand that the management of such externalities can increase not only customer satisfaction, but also satisfaction of other stakeholders, like workforce for example, as well.
Multiple stakeholder orientation takes into account interests and footprints among different stakeholders often than shareholders exclusively. (Crane, Matten, Spence, 2008, 11) As soon as consumers are one of the most important parts of stakeholders, CSR targets customer satisfaction in high extent by multiple stakeholder orientation.

Social and economics alignment is fourth important characteristic of CSR, as it represents balancing of different stakeholders interests. In spite of many discussions, a lot of definitions of CSR from business and government underline that the major point is advanced self-interest where social and economic responsibility are interconnected. (Crane, Matten, Spence, 2008, 11) It is obvious that the alignment of social and economic responsibility can bring much higher customer satisfaction.

The values dimension of CSR is partly the reason why the subject raises so many questions. The main question is not about the deed that company has implemented in society but about the real reasons which are standing behind its actions. (Crane, Matten, Spence, 2008, 11) Although there is so much controversy as to why companies use philosophy of CSR, it is clear that theoretical grounds and practical use of this philosophy can improve customer satisfaction.

Beyond philanthropy value of CSR we already discussed. We underlined that philanthropy can be a one-time action, but according to Wayne Visser CSR needs to become the ‘new DNA’ of business. (Visser, 2010, 11) This definition leads to observation that customer satisfaction can grow if CSR as theoretical ‘DNA in business’ is implemented in corporate practice.

4. CSR AND CORPORATE FINANCIAL PERFORMANCE

Companies that adopt CSR strategies are expected to accumulate in terms of financial capabilities. It is agreed that competitiveness has a crucial role in the firm’s sustainability. Corbett et al. (2005) confirm that as competitiveness raises to a higher degree, company undergo improvement in financial performance. This model shows how choice of competitive priorities by companies should furthermore organize the structural and infrastructural decisions.

The operational competitive performance is a final result of company’s competitive capabilities (Rosenzweig and Easton, 2010, 127). The concept of CSR ensures that competitive capabilities of a firm through reduced costs of personnel
and customer loyalty improve company’s profits as well as increase market share. Capabilities that are showed in increased quality of product or service can make contribution to higher profits, growth of sales and emerged market share.

Criso’stomo et al. (2011, 295) confirms a negative impact that CSR has on company’s financial performance. They state that CSR cannot raise company’s value, because socially responsible companies have various costs that can put them in disadvantaged position when compared to less socially responsible companies. On the other side, although CSR strategies incur additional costs like environmentally friendly technology, the change of personnel or costly latest designs, benefits that company may have afterwards far exceed in value previously mentioned costs. It is concluded that by actively communicating through CSR with stakeholders, a company is in a position to widespread its reputation and image, which positively affects its financial performance. Others also suggest positive links between CSR and company’s financial performance. (Aguinis & Glavas, 2012, 932). Ilona and Kazlauskaite (2012, 5) state that thanks to the company CSR activities, the company itself can increase its financial results in the current year and even have important financial benefits in the coming years.

The idea of CSR has been explained by various factors which are sometimes interconnected and sometimes are completely contradictory. In the past, companies observed social activities as a part of marketing communication which was important for the promotion of the company itself. Nowadays through CSR activation there are magnificent opportunities to gain effectiveness and efficiency within business aims. The concept of ‘shared value’ that was firstly presented by Porter and Kramer (2011, 62) states that the historical trade-off between companies and society doesn’t exist any more and therefore firms must introduce shared value for the society as well. But at the same time companies cautiously evaluate correlation with benefits that are linked to these policies, based on the drive to reposition products and markets, redefine productivity growth in the vertical chain and support businesses at the local level. Being aware of the limits attained by neo-classical profit maximisation in a saturated global economy, the authors try to reinvent products, markets, business relations and productivity nodes by businesses that are morally upright and socially responsible. Precisely speaking, the road of success is measured by potential benefits and costs caused by CSR activities, which company has to be aware of during the preparation and implementation of strategy plan. However, it is not clear why multinational companies would apply
a “shared value” approach to socially responsible investments, because one of the major spin-offs of aggressive globalisation was not only the reduction of poverty across the globe, which is ultimately converted into new markets for products and services mainly imported from or designed in advanced economies, but also the creation of potential global competitors originating in emerging economies, which is another factor contributing to the tightening of profit margins. The technology gap between advanced and emerging economies is rapidly disappearing, while the densely interlinked global economies render industrial espionage quite effective. For instance, some Chinese companies, such as Didi, Baidu and Alibaba have made headlines for keeping Uber, Google and Amazon at check domestically. At the same time, large companies from emerging economies still have to reposition and strengthen brands so as to become appealing to international customers. With purchases of strategic assets in Western economies (IBM computer business or Volvo, for instance), an international outreach may not be too difficult to attain.

Companies that perform CSR activities have furthermore possibility to attract and keep more employees, which leads to lower turnover and general personnel training costs. CSR as a certain type of investment shapes different opportunities for expansion in business. According to Qi et al. (2011, 371) the overall output of the firm is measured using parameters such as competitiveness, sales results, profitability, return on investment and market share. This correlates with the fact that companies that have strong CSR commitment enjoy a variety of benefits like increasing its goodwill, which furthermore embetters company’s image and overall financial performance. Also, by raising its reputation, company through high CSR positively influences financial performance. At the same time strategic CSR practice proposes activities within the company that effectively uses all resources.

Nowadays there is an increased pressure on executives to move from traditional strategic business measures to social and ethical parameters, which can easily communicate the shared value not only to the stakeholders but also to the society. The main difference in basic communication of CSR policy and the communication of real CSR value is recognised by financial markets, through the higher return on investments and risk reduction.

According to the theory, CSR is linked with the shared value through the corporate governance systems and investments done in capital and management control base. Many companies integrate social responsibility with monitoring system in order to ensure quality and satisfaction of different groups of interests. In
reality, this kind of system is capable of measuring every type of CSR in order to improve the decision-making process.

This newly integrated company’s report determines the value of the organization. Some of the parameters are financial, but some of these are still not (intellectual values, social performance, a company image, people...) It should enable organizations to facilitate potential investors to manage potential risks and allocate resources.

5. CSR AND INNOVATION

Innovation considers adoption of new ideas, systems, procedures, technologies and is accepted as a key point of creating added value, crucial for company’s competitive advantage. It is a certain link between CSR activities and innovations within the company. By applying CSR practices, companies require certain technology changes which are afterwards applied by research & development department. That leads to the conclusion that CSR gives numerous opportunities for the innovation through social, environmental, educational and other parameters. This is how the whole process of creating new products and services appear.

Innovations processes create more flexible company’s technology that furthermore may allow any type of customers preferencies application. That increases customer satisfaction and improves the whole company’s image through new CSR practices. But not all CSR activities can create added value, because many of them are too expensive. Although they may have positive reaction on stakeholders and even whole society, the company’s stock value may decrease. Regarding that fact companies may not have desire to innovate in their products or services. Precisely speaking, when a company creates CSR activities in order to produce and offer more newly developed products and services, it usually takes twice as much time to show its added value (Alvarez et al, 2011, 1709).

The relation between CSR and innovation is also not the same within the sector industry (Pavelin and Porter, 2008, 711). While there is a positive link in energy and IT sector, services industries don’t have positive relationship. However, from the theoretical point of view the relationship between CSR practices and innovation processes is positively seen.
6. CONCLUSION

According to six mentioned features of CSR, we can conclude that theory and practice of CSR certainly represents work in progress, as soon as, like we mentioned in the beginning, in the twenties of 21st century there is an increase of necessity of sustainability, due to climate change, recourse exhaustion, financial instability and more visible stratification between rich and poor. Accordingly, general public can have expectations that corporations care for the needs of society by implementing the theory of CSR into practice. However, it is not straightforward simple task for corporations, as soon as in different business situations different strategic goals can appear in practice, like improvement of financial numbers mixed with operational problems.

Practice of CSR is the one to develop well-being of society and to increase standards of living, and in order to do so strategic management and business ethics are very important contribution to CSR practice.

It is indicated that when companies settle in their CSR activities they are likely to gain customer loyalty, quality of its product & service, flexibility, cost reductions and improve overall performance. To executive managers that means importance in CSR investments as it will return in greater competitiveness, sales volume and market share. Finally, we do not find a strong link between ESG ratings and selected financial ratios, which indicates the complexity of social responsibility measurements, the values of which are strongly affected by categories evaluated and not seldom by the unavailability of certain item values. A further analysis of data provided by various ESG rating agencies would be necessary to confirm or refute the findings.

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Web documents


Rezime

Cilj istraživanja je identifikacija veze između teorije i prakse u okviru korporativne društvene odgovornosti. Metod koji je korišćen se zasniva na analizi naučnih i stručnih publikacija – časopisa, knjiga, relevantnih baza podataka i praktičnog poslovnog znanja u cilju odgovora na zadatu temu. Koncept korporativne društvene odgovornosti je u direktnoj vezi sa etičkom osnovom poslovanja svake organizacije. Ukazuje na neophodnost organizacionog rada u društvu, kroz korporativnu filozofiju koja mora uzeti u obzir kako interne tako i eksterne interesne strane. Evidentno je da je korporativna društvena odgovornost neophodna za korporacije kako bi demonstrirala etičke standarde svog poslovanja pred javnošću. Shodno tome, korporacije grade imidž organizacije koja ne stvara samo profit, već ima i obaveze prema okruženju i društvu u celini. Uloga korporacija u društvu je velika. U 20. veku kompanije su imale standarde u cilju obezbeđenja uslova rada: obezbeđenje zdravstvenog programa, stambenog pitanja, čak i dobročiniteljske donacije, ali se sve te aktivnosti nisu definisale kao društvena odgovornost.
Међутим, у 21. веку у складу са нарастајућом потребом за оперативним ком- петитивним натрупом, у циљу задовољења потрошаčа и решења еколошких проблема, термин ‘корпоративна друштвена одговорност’ сведохватно, коherentно и професионално регулира приступ који истиче данашњу корпоративну одговорност корпорације. Коначки, поредећи главне конкуренте у неколико различитих индустрија, пронађена је слаба конекција између еколошких, социјалних и управнних индикатора и изабраних финансијских састава.

**Клjučne reči:** Корпоративна друштвена одговорност, Интересне стрane, Конкурентност, Задовољење потрошаčа, Стратешки приступ, Лидерство у екологији, Финансијске performanse

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