

Impact of Social Responsibility on the Quality of Company Governance

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Abstract

The central aim of the article is company governance, i.e., researching governance of a company that does not want to be only financially successful but also direct its governance toward socially responsible governance. The article begins with the definition of “theoretical backgrounds,” in which social responsibility in regard to company governance improvement in quality is explained. The article then focuses on the measurement of the quality of company governance; in the research, the selected tool chosen to evaluate the governance of the chosen company regarding social responsibility, i.e., SEECCGAN index, is used. Further, the case study of a Slovenian public limited liability company is used. One of the important research findings is the recognition that the addressed part of the SEECCGAN index needs to be innovated and further developed. Additional questions for the completion of the index used presents the added value of the article. This article has two limitations: 1) it focuses only on the tool chosen to evaluate the governance of the chosen company regarding social responsibility; 2) the case study is based on publicly accessible data.

Keywords: governance, the quality of governance, SEECCGAN index, social responsibility, environmental responsibility, strategic management, innovation

Introduction

The term “governance” presents a set of mechanisms, incentives, and monitoring of the business, with the aim to guarantee the respect of interests of all company stakeholders. Governance should be directed toward transparent company decision-making (Dankova et al., 2015; Larcker et al., 2007). It is conditioned within the legal, regulatory, and institutional framework, which presents factors such as company reputation, long-term success, good business ethics, etc. (OECD, 2009; Štrukelj & Šuligoj, 2014). Many authors believe the necessity to improve governance originates from negative consequences, e.g., scandals, decline of share prices, negative company reputation, fraud, exploitation of the position, violation of human rights, and environment pollution

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and similar consequences, which started decades ago (Money & Schepers, 2007; Simmons, 2004; Walls et al., 2012). Jenkins (2006) states that the necessity to improve company governance is inner, in which a company decides for itself, or outer, in which the environment of a company encompasses the person who leads it to think in the direction of improvement. A significant factor in the improvement of company governance is social responsibility together with environmental responsibility (Husted, 2003; Kang & Moon, 2011; Simmons, 2004; Walls et al., 2012). Simmons (2004) states that financial indicators are no longer enough, i.e., companies must also tackle non-financial ones, be they ethical and moral, in their business. Husted (2003) believes the relation between social responsibility and company governance is the response to the questions that exceed economic, technical, and legal completions, which companies demand. In the author's opinion, the questions, related with the quality of the environment, employees' rights, community development, etc., are important as well; further, with the answers to these questions, a company not only achieves only economic effects but also social. Kang and Moon (2011) describe the concept of social responsibility as the desired viewpoint that successfully has an impact on the quality of governance. The authors believe the concept should be the basic part of a company's competitive strategy.

The aim of the article is to explain the importance of social responsibility from a company's governance perspective. The goal is the presentation of the concept of the governance, the tool of the SEECGAN index and social responsibility, and to include innovation for the SEECGAN index from the area of social responsibility. Two research questions are tested. Research question one (RQ1) reads: With the question of the social responsibility segment in the SEECGAN index, it cannot be identified in which way a company is being socially responsible; therefore, it is necessary to innovate by asking additional questions. Research question two (RQ2) reads: The studied company (NLB, d.d.) is aware of the meaning of "sustainable development"; thus, great importance is given to the meaning of "social and environmental responsibility."

This article discusses the theoretical backgrounds; in addition, the authors researched the relationship between company governance and social responsibility. The advantages of social responsibility and its impact on the quality of company governance are emphasized; further, the article explains the necessity to measure company governance. The theoretical part is supported with findings of a Slovenian public limited liability company as the case study. The article concludes with proposed questions, which present possible innovation and development of the index used and thus added value to the SEECGAN index.

Theoretical Background

Money and Schepers (2007) revealed that more companies are improving the quality of their governance in the direction of sustainable development, i.e., company governance should not represent only an economic viewpoint and maximization of the profit (Friedman, 1962; 1970) but also a moral viewpoint and the strengthening of relationships of all company stakeholders (Hacking & Guthrie, 2008; Husted, 2003; Money & Schepers, 2007; Simmon, 2004; Štrukelj & Šuligoj, 2014; Wight, 2007), beyond donations and investments (Du et al., 2010; Jenkins, 2006). The improvement of the quality of company governance toward strengthening relationships of all company stakeholders is possible with the introduction of social responsibility (Benabou & Tirole, 2009; Caroll & Shabana, 2010; Du et al., 2010; Peršič et al., 2018; Simmons, 2004). Social responsibility strategy is essential for social responsibility to be implemented (Du et al., 2010; Huang, 2010; Jenkins, 2006; Matten & Moon, 2008; Morsing & Schultz, 2006), and publishing nonfinancial reports is important (see EU, 2014). The authors state the areas of social responsibility, which are introduced to a company; in addition, they help a company to consider the interests of all company stakeholders. These areas are a concern for employees, concern for buyers/users and suppliers, a concern for the environment, a concern for the community in which the company works, and a concern for the ethical business and human rights (Moir, 2001; Benabou & Tirole, 2009). This indicates the importance of addressing different viewpoints of social responsibility, although some authors expose environmental responsibility (EU, 2014; Huang, 2010; Jo & Harjoto, 2011; Money & Schepers, 2007; Walls et al., 2012). However, the ISO 26000 standard (ISO, 2010) considers the care for employees and their relations as an important perspective of social responsibility (see also Aguilera et al., 2006; Benabou & Tirole, 2009; Brammer et al., 2007; Jenkins, 2006; Moir, 2001).

The relation between company governance and social responsibility is also described by Jo and Harjoto (2011); they believe social responsibility has a positive impact on the quality improvement of company governance. Also, Huang (2010) states that successful companies nowadays are those that, in the context of their governance, pay attention to social responsibility as well. The authors believe that managers should determine the strategies in achieving social responsibility in accordance with all interests of company stakeholders, inner as well as outer. The demand for this must come from company policy (Dankova et al., 2015; Štrukelj & Gajšt, 2019). To help social responsibility improve the quality of company governance, Huang (2010) states that companies must be ethical and authentic in their business and, above all, responsible for their actions

(See also ISO, 2010). Social responsibility should also be included in a company's code of conduct (Horváth et al., 2017; Peršič et al., 2018; Wheelen et al., 2018).

The authors, who deal with the field of company governance in relation to social responsibility, state that the introduction of social responsibility will benefit a company. Cheng et al. (2013) state the advantages of the financial viewpoint, noting that socially responsible companies have greater access to capital and are thus more attractive for investors. Consequently, companies with larger capital can easily accomplish given strategies and maintain a competitive position. Social responsibility has a positive impact on diminishing costs and risks as well. Husted (2003), Kang and Moon (2011), Benabou and Tirole (2009), and Jo and Harjoto (2011) mention the relation between financial benefits and competitive positions. Jamali et al. (2008) also state nonfinancial benefits such as trust and loyalty of buyers/users. Many authors (Aguilera et al., 2006; Brammer et al., 2007; Jenkins, 2006; Moir, 2001) emphasize employee motivation; thus, due to social responsibility, their loyalty to the company is increased. Jenkins (2006) adds that enhancing a company's reputation will improve the trust of all stakeholder participants and a company's transparency and culture quality. All stated benefits consequently have an impact on the improvement of the quality of the company as well as the quality of company governance.

The quality of company governance needs to be measured, which will give companies insight into their advantage/weak points that need to be promoted/improved. Good company governance diminishes the probability of business errors; also, the processes are performed wisely. Regular measurement of the quality of governance contributes to a more successful and more efficient business (Tipurić, 2015). Many indexes have been developed for the needs of the measurement. Later, the article focuses on the tool of the SEECCGAN index.

Methodology

The chosen methodology is qualitative. Two types of methods are used for the theoretical backgrounds: a descriptive method for described facts and a method of compilation, as the topic is based on the findings of various authors (Ivanko, 2007). This article chooses a case study method for the in-depth analysis of the impact of social responsibility on the quality of company governance, which is presented with the selected viewpoint of the SEECCGAN index used as the tool to evaluate the governance of the chosen company regarding social responsibility (Omazić

et al., 2015; Tipurić, 2015). The SEECCGAN index stands for South East Europe Corporate Governance Academic Network, which was developed in 2014. The purpose of the index is to measure the quality of company governance and is used especially for companies in southeastern Europe (Tipurić, 2015). The SEECCGAN index is structured into seven segments: the committee's structure and management (in the case of a two-tier system of the company governance, the segments double, as it is necessary to assess the function of the supervisory board and the management), the transparency of the business and the publishing of information, shareholder rights, social responsibility, the revision and inner control, risk management, and the awards and rewarding (Tipurić, 2015). This article focuses on social responsibility. In the case study, the NLB, d.d. company is presented. It is the largest banking and financial group in Slovenia and has a good market position in southeastern Europe. It is assumed that the studied company is aware of social responsibility. Because the article focuses on only one index, and because all information for the case study NLB, d.d. comes from secondary sources (annual reports and other internal documents), this article has certain limitations.

Research

Table 1 presents part of the SEECCGAN index, which is associated with the social responsibility segment. For better insight, the table is presented in the case of the studied company (NLB, d.d.), which was subjectively selected due to its well-presented publicly available data. The limitations in this table are secondary sources for all information within the right part of the table (column comment).

The segment of social responsibility is represented by 10 questions within the SEECCGAN index. All the answers, obtained for the case of the studied company, were affirmative; consequently, the company received a grade of 10 in the segment researched, which expresses first-rate governance in the field of social responsibility. The strategy of social responsibility of the NLB d.d. is written and publicly published, which is also in the case for the procedures of social responsibility in terms of donations and investments. Also, its nonfinancial data are publicly reported and in accordance with the GRI standards and ISO 14001 standard. To prevent corruption and nonethical business practices, two internal codes of conduct are established; further, it is necessary for all banking members, who are under the auspices of the NLB Group, to comply with them in its activities. Numerous sponsorships and donations are described in the corporate governance policy of the NLB d.d. (see Politika upravljanja NLB, 2017); further, each banking

Table 1. Implementation of Judgment of Governance of the SEECGAN Index from the Perspective of Social Responsibility in the Case of the NLB d.d. Company

Social Responsibility	YES=1; NO=0	WEIGHT (min=1; max=3)	WEIGHTED ASSESSMENT	SOURCE	COMMENT
Does the company have the strategy of social responsibility, which is publicly available?	1	2	2	https://www.nlb.si/nlb/nlb-portal/slo/o-banki/vlagatelj/financna-porocila/letno-porocilo-2017-slo.pdf	NLB d.d.'s strategy of social responsibility is published in the stated annual report and also in the document Politika upravljanja NLB, d.d. (2017).
Are the procedures of social responsibility (donations, investments in the local community, etc.) explicitly stated in the statement of the fundamental values of the company or in similar documents?	1	2	2	https://www.nlb.si/nlb/nlb-portal/slo/o-banki/vlagatelj/financna-porocila/letno-porocilo-2017-slo.pdf	NLB d.d.'s procedures in terms of donations are published in the stated annual report and also in the annual reports of social responsibility (see the document Letno poročilo družbene in okoljske politike, 2017).
Does the company support the standards of social responsibility or initiatives, such as the UN Global Compact, the equator principles, voluntary principles on security and human rights, or industry-best practice or other national/international protocols, associated with corporate social responsibility, environmental responsibility, social responsibility etc.?	1	2	2	https://www.nlb.si/druzbeno-odgovornost-letna-porocila-dop-2017	NLB d.d. in relation to social and environmental responsibility reveals its data according to the GRI standards. In relation to the environmental responsibility, they comply with ISO 14001 (see the document Družbena in okoljska politika, 2010).
Does the company have any published nonfinancial reports?	1	2	2	https://www.nlb.si/druzbeno-odgovornost-letna-porocila	Nonfinancial reports of NLB d.d. are published on its website.
Does the company prepare reports on its social responsibility in compliance with the UN Global Compact, Global Reporting Initiative, B-corporation principles, or some other internationally recognized standards of reporting on socially responsible business?	1	3	3	https://www.nlb.si/nlb/nlb-portal/eng/about-us/social-responsibility/report-2017/gri-standards-2017-slo.pdf	The report on social and environmental responsibility is revealed according to the GRI standards.
Does the company have a code of ethics or company policy, concerning corruption or nonethical business of the company?	1	2	2	https://www.nlb.si/nlb-danes-in-jutri-2014-slo.pdf	NLB d.d. uses two codes of ethics: Kodeks korporativne skladnosti NLB, d.d. (see listed) and Kodeks ravnanja v NLB Skupini (2018).
Does the company have developed procedures for financing the projects for supporting local community and donations (is there a public tendering procedure or a similar transparent procedure for choosing the projects which will be financed by the company)?	1	2	2	https://www.nlb.si/nlb/nlb-portal/slo/o-banki/vlagatelj/dokumenti/politika-upravljanja-nlb-nov.2017.pdf	The company's sponsorship is defined in a special document. The implementation of sponsorship and donations is left to the members of the NLB Group.
Does the company have a member of a supervisory board/management or a department, which primarily deals with a socially responsible business?	1	2	2	https://www.nlb.si/druzbeno-in-okoljska-politika-nlb.pdf	A certain administrator deals with the social and environmental responsibility in NLB d.d.
Does the company perform special meetings with influential stakeholders, on which they display their formal opinion?	1	1	1	https://www.nlb.si/nlb/nlb-portal/slo/o-banki/vlagatelj/dokumenti/politika-upravljanja-nlb-nov.2017.pdf	The communication strategy and the form of social and environmental policy are written in the mentioned document.

Table 1. Implementation of Judgment of Governance of the SEECGAN Index from the Perspective of Social Responsibility in the Case of the NLB d.d. Company – continuation

Social Responsibility	YES=1; NO=0	WEIGHT (min=1; max=3)	WEIGHTED ASSESSMENT	SOURCE	COMMENT
Has the company rooted the social responsibility in its supply policy, quality standards and code of conduct?	1	3	3	https://www.nlb.si/kodeks	The social responsibility and its meaning of NLB d.d. are defined in the following documents: in the annual report, in the Kodeks ravnanja v NLB Skupini (see listed), in the Kodeks korporativne skladnosti NLB, d.d. (see the document NLB Danes in jutri 2014) and in the document Politika upravljanja NLB, d.d. (2017)
The Segment Assessment		21	21		

Source: Omazić et al., 2015; adapted for the NLB, d.d. company

member decides how he or she will perform it. An administrator in the company deals with the establishment of social and environmental responsibility. In the previously mentioned document, the communication strategy and forms of social responsibility are written as well. The supply policy, the quality standard, and the codes of conduct contain the concept of social responsibility. The social responsibility in relation to the governance was reviewed in the theoretical backgrounds. Because NLB d.d. accepts the concept of social responsibility, it is part of the company vision, company policy, and business strategies. They also act in accordance with ethical values.

Discussion

Even though all the answers in the research were affirmative, it is believed that, based on questions in Table 1, it is difficult to conclude in which way the company is socially responsible. For that reason, it is suggested to add a few more questions to Table 1 for further development. The strategy of social responsibility and its public announcement, which is the first question in the index, is well placed. Various authors, including Du et al. (2010), Huang (2010), Jenkins (2006), Matten and Moon (2008), Morsing and Schultz (2006), indicated that the strategy is essential for social responsibility to be implemented. For the next question, which refers to donations and investments in terms of social responsibility, it is believed that only the economic viewpoint of social responsibility is overly emphasized (Hacking & Guthrie, 2008; Wight, 2007). For that reason, it is suggested to add the following question to the index: *“Does the company have defined areas in which its social responsibility is displayed?”* This added question would address if a company is socially responsible in advanced defined target areas of function (mentioned also in theoretical backgrounds). In terms of those areas, companies can mention donations

and investments but also other viewpoints. In regard to that topic, authors Du et al. (2010) and Jenkins (2006) make suggestions that go beyond donations and investments. The third question of this segment deals with which standards of social responsibility the company follows. The following question refers to the nonfinancial reports. For this purpose, in 2014 in the EU, a directive was statutorily defined, and it stated that large companies are obliged to publish non-financial reports (see EU, 2014). The following question is related to the previous question, to the preparation of the reports on social responsibility. The next question refers to the company’s code of conduct and its content we recommend to innovate (according to Horváth et al., 2017; Peršič et al., 2018; Wheelen et al., 2018). The changed question reads: *“Does the company have a code of conduct in which social responsibility is presented as well?”*

The next question is related to the second question in the researched segment of the index. It is referred to as the financing procedures to pursue donations and investments in terms of social responsibility. Again, it is believed that this question, as well as the second question in the index, overly emphasizes the economic viewpoint (Hacking & Guthrie, 2008; Wight, 2007). In compliance with the theoretical backgrounds, company governance should not only tackle a financial viewpoint but also a moral one (Husted, 2003; Money & Schepers 2007; Simmon, 2004; Štrukelj & Šuligoj, 2014). It is believed that it is necessary to consider environmental responsibility in terms of social responsibility (Huang, 2010; Jo & Harjoto, 2011; Money & Schepers, 2007; Walls et al., 2012). Social responsibility united with environmental responsibility presents a step closer to sustainable development. Also, the EU directive (EU, 2014) determines that large companies should add environmental responsibility to nonfinancial reports. The question, which we propose to be positioned for this purpose, is as follows: *“Is the company in terms of social responsibility dedicated also to the environmental*

responsibility in terms of using environmental-friendly products/services?" The following question refers to identifying if the company has a special department for social responsibility. In the segment of social responsibility, it is also suggested to include the following question: *"Does the company have defined care for employees?"* This question covers an important area of social responsibility, which is also in compliance with the theoretical backgrounds of several authors (Aguilera et al., 2006; Benabou & Tirole, 2009; Brammer et al., 2007; Jenkins, 2006; Moir, 2001). Also, the ISO standard 26000 (ISO, 2010) considers the care for employees and their relations as an important perspective of social responsibility; therefore, it is believed this question would be well-placed. The penultimate question refers to the company's meetings with company stakeholders for the purpose of social responsibility (Dankova et al., 2015; Peršič et al., 2018). We thus recommend adding the following questions: *"Is the company the winner of an award, associated with social responsibility (Slovene companies: the HORUS award, the Golden Thread award, Family-Friendly Company award, Top Employer award, etc.)?"* The added question would justify a company's contribution to social responsibility. The mentioned awards are limited in time, which means that awarding companies must constantly improve their processes to also win the award the next year. It is believed that this question shows not only if a company is socially responsible but also which companies are constantly improving and advocating social responsibility. This question is suggested in compliance with the award-giving institutes, e.g., IRDO Institute (IRDO, 2019), the leading Slovenian organization for the concept of social responsibility. The last question is well placed because it refers to the integrity of social responsibility via the company's policy, quality standards, and its behavior.

Conclusion

This article covers important topics for company performance, with social responsibility and its impact on the quality of company governance as the main research object. It is concluded, based on theoretical backgrounds (Brammer et al., 2007; Dankova et al., 2015; Huang, 2010; Jamali et al., 2008; Jo & Harjoto 2011; Money & Schepers, 2007; Štrukelj & Šuligoj, 2014) and the case study, as presented, that social responsibility positively affects a company (which is also revealed by, e.g., Dankova et al., 2015; Du et al., 2010; Huang, 2010; Walls et al., 2012) and lifts the quality of company governance (which is also revealed by, e.g., Aguilera et al. 2006; Jamali et al., 2008; Kang & Moon, 2011; Štrukelj & Šuligoj, 2014). It is thus concluded that the concept of social responsibility is

directly associated with company governance (EU, 2014; ISO, 2010; Štrukelj & Gajšt, 2019; Tipurić, 2015). Further, it is shown in the article that implementation of the social responsibility concept brings many benefits for company performance, such as financial (Benabou & Tirole, 2009; Cheng et al., 2013; Husted, 2003; Jo & Harjoto, 2011; Kang & Moon, 2011) and nonfinancial (Aguilera et al., 2006; Brammer et al., 2007; Jamali et al., 2008; Jenkins, 2006; Moir, 2001). It is further suggested to regularly measure the quality of governance, i.e., by measuring the quality of governance, companies can expose their advantage/weak points and the direction of their promotion/improvement (Omazić et al., 2015; Tipurić, 2015).

This article presented a case study on the NLB, d.d. company, which indicated that the studied company is socially responsible. However, all information for the studied company is based on secondary resources (publicly accessible annual reports and other internal documents), which presents important limitations of this article. Also, another limitation here is the SEECGAN index used for measuring the quality of company governance, especially for the companies in southeastern Europe. In this research, it is the only index that is researched; further, this index is only from the viewpoint of social responsibility.

The value in this article presented added questions for the SEECGAN index to further develop important propositions from the theoretical and practical point of view. It is believed, based on original questions from the SEECGAN index, that it is difficult to conclude in which way a company is being socially responsible. With added questions, which are based on theoretical backgrounds and which provide starting points for further research, it is suggested that a company defines target areas of a function to pursue social responsibility. Also, to root and incorporate social responsibility into the company's business, it is important to include social responsibility in the company's vision, policy, and business strategies and in its internal codes of conduct. The next added question focuses on environmental responsibility. The original index questions refer to social responsibility, and none of the questions refer to environmental responsibility. It is believed that the synergy of these areas together presents a step closer to sustainable development. The next added question refers to care for employees because this area is among the important areas of social responsibility. It is believed that companies must incorporate their social responsibility within the selected areas and continue with its enlargement onto other areas. The last suggested question would justify companies' social responsibilities. The award giving companies for the area of social responsibility measures/research the companies' social responsibility.

In the Introduction, two research questions were proposed. Both can be confirmed based on the theory-building qualitative research. The research question RQ1 in regard to the needed innovation of questions in the segment of the social responsibility in the SEECSGAN index was confirmed in the Discussion section, where additional questions for determining the way of the company's social responsibility was confirmed, supported with the theoretical findings. The research question RQ2 about the awareness of the meaning of sustainable development and thus the emphasis on the social and environmental responsibility of the NLB d.d. company, based on the publicly available data, can be confirmed because discovered that the company researched has developed an internal document for this purpose, i.e., the social and environmental responsibilities are written in codes of conduct and in the company policy. All nonfinancial reports are chronologically publicly available to all

stakeholder participants. The NLB d.d. is also the winner of many awards and certificates from the area of social and environmental responsibility. It is thus suggested to perform a deeper study from this area in further research and to determine the compliance presented here with publicly available data.

The conclusions are based on information that companies are socially responsible or at least report to be. Due to this, the present research can confirm that social responsibility as a part of companies' governance, which has an impact on the quality of companies' governance. For further research, it is suggested to develop the measures of company governance with enough holistic determination, e.g., with the developed innovated social responsibility segment of the SEECSGAN index, as proposed in this research.

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Vpliv družbene odgovornosti na kakovost upravljanja podjetja

Izvleček

Osrednji namen prispevka je upravljanje podjetja, ki ne želi biti le finančno uspešno, temveč svoje upravljanje usmerja tudi v družbeno odgovorno poslovanje. Prispevek začnemo z opredelitvijo teoretičnih izhodišč, v katerih pojasnujemo družbeno odgovornost kot vidik izboljšanja kakovosti upravljanja podjetja. Pri tem se osredotočamo na merjenje kakovosti upravljanja podjetja, kjer v raziskavi uporabimo za to izbrano orodje SEECGAN indeksa za oceno upravljanja izbranega podjetja z vidika družbene odgovornosti. Uporabimo študijo primera slovenske delniške družbe. V nadaljevanju ugotavljamo, da bi bilo smiselno obravnavati del SEECGAN indeksa inovirati in dalje razviti. Dodatna vprašanja kot dopolnitev uporabljene metodologije predstavljajo dodano vrednost prispevka. V prispevku se srečujemo z dvema omejitvama, saj se osredotočamo le na izbrano metodologijo uporabljenega indeksa, študija primera pa temelji na javno dostopnih podatkih.

Ključne besede: upravljanje, kakovost upravljanja, SEECGAN indeks, družbena odgovornost, okoljska odgovornost, strateški management, inovacije.