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SOCIAL RESPONSIBILITY TOWARDS EMPLOYEES AS A FACTOR OF COMPANY PROFITABILITY

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ABSTRACT

The issue of social responsibility (social behavior) towards employees and the achievement of business goals has also initiated theoretical debates about the nature of the correlation between ethical principles and financial results. Maximizing profits as the sole goal of a corporation has come into conflict with the strategy of a modern corporation. In new business environments there was a problem of social responsibility and awareness of the company towards all stakeholders and not just shareholders. The globalization of the economy, which creates an unstable competitive environment, as well as growing social expectations for the proper functioning of the corporation has placed new demands on the management of the company. At the theoretical level, a discussion began on the need for a new approach in thinking about the corporation and its activities, especially in terms of protection of socio-economic rights, environmental protection and socially responsible business.

The obtained research results show as the correlation between the financing of social rights of workers and the observed variables is small, with the realization of added value of the company (0.200), net profit margin (0.061), return on equity (0.208), while with the indicator of basic earnings significant statistically related almost no there is (0.004).

Key words: *Social responsibility, socio-economic rights, profitability*

1. INTRODUCTION

The development of a free market economy as well as a global market required the development of modern ways of managing and leading to satisfy all actors of modern business processes from owners, through managers to workers and regulatory bodies. Therefore, the practice of corporate governance is an extremely complex process with the necessary knowledge of all problems in the real sector, monitoring the daily processes within companies and in the market. Companies are forced to follow new management trends and adapt to the socio-economic requirements of the environment in which they operate.

Today, due to the easier availability of information, it is easy to create an impression of the company, not only because of direct parameters such as product or service quality, customer relationship, but also because of indirect ways such as contributing to the social environment. The opinion we gain about a particular company or organization affects our habits of using products or services which is reflected in the business performance of that same company. In order to raise their reputation, companies have started to implement responsible policies towards the environment and society.

2. METHODS OF IMPLEMENTING RESPONSIBLE BUSINESS OPERATIONS OF THE COMPANY TO EMPLOYEES

Employees are part of one of the three basic aspects of the Triple bottom line concept. In addition to economic profitability (profit), every company should be focused on environmental responsibility (planet) and social responsibility (people). Corporate social responsibility applies to employees, shareholders, customers and the community at large. According to the official strategy of sustainable development of the Republic of Croatia (OG 30/2009), one of the basic items is the realization of social cohesion and justice. Although there is no scientific evidence of research conducted in Croatia, corporate social responsibility towards employees must not be neglected as a driver of sustainable development of the community.

Man, as the most important and most precious factor of production and deserves all-round attention. That is why he needs to create such working conditions that during his work experience: he preserves his health and working ability; achieves the maximum performance of work in relation to the spent working time and invested energy; develops his physical and mental abilities and is constantly interested in the prosperity of the company in which he works; be satisfied during work and outside working hours (Šijaković et al., 2013).

The basic responsibilities that a company has towards its employees are defined by law. Additional measures that companies can implement to increase

employee satisfaction are: to offer a certain share in the company, a share in the capital (principal) of the company, to increase employee loyalty and perseverance; wage growth in line with rising living standards; organizing various events and creative workshops to strengthen team spirit; and many other benefits that have a positive effect on employee awareness and a positive attitude towards the company. These additional measures are especially important today, when millennials (born between the early 1980s and the mid-1990s) and members of the so-called Generation Z (those born between 1995 and 1999). Members of these generations question the goals of the company, do not have a sense of loyalty to employers and do not stay in the workplace for long. According to a Deloitte survey when it comes to millennials, 43 percent plan to leave their current job within two years, and only 28 percent intend to stay in the same job for more than five years. Among millennials willing to leave their current job in the next two years, 62 percent consider part-time jobs a suitable alternative to permanent employment. The level of loyalty is even lower among Generation Z employees, of whom 61 percent claim they would leave their current jobs if they had the opportunity. In order to win over these workers, companies need to change their way of doing business and their attitude, not only towards the workers, but also towards society as a whole. Knowledge about the connection between the social sensitivity of the company towards its employees and the profitability of the company is not known, but the reduction of labor turnover also significantly contributes to the security of the company in the business environment.

Nawaiseh (2015) in his research conducted on a sample of 59 companies listed on the Amman Stock Exchange in 2013. An empirical test of the connection between company size and financial performance with socially responsible business towards employees and the environment was made. The research proved a positive significant connection with the size of the company and socially responsible business from the aspect of employees and the environment. However, research has shown a significant positive association of ROA with corporate social responsibility towards employees but not towards the environmental dimension, where the association is positive but insignificant. The ROE indicator has a negative insignificant correlation with social responsibility towards employees, but it shows a positive insignificant correlation with the ecological dimension of socially responsible business.

Carballo-Penela (2019) conducted a survey on whether potential employees value employment messages, including information on the social dimension of sustainable development. The results of the study confirmed that organizational attractiveness is greater when organizations show responsibility to employees.

Basically, in carrying out its business activities, every company certainly cannot be separated from responsibility, because responsibility is one of the obligations towards all participants in business processes, towards consumers, employees and the environment. Responsibility also means doing something like embodying employee awareness, efforts that the company makes to improve employee welfare in society such as providing benefits to employees in the form of health care and other insurance (Abbas et al., 2019).

3. RESEARCH METHODOLOGY AND RESEARCH RESULTS

The company's focus on earnings and profitability are considered key elements of a company's successful long-term business. Many business owners and managers analyze the company's operations by measuring profits, profitability and profit, and based on the results obtained strategic plans of the company, of course in accordance with available resources. Furthermore, companies must feel equally responsible for the well-being of all stakeholders: owners, employees, suppliers, consumers and others associated with their business. Planning a professional career in a company is also essential for personal development and integration into a group. That is why managers must take care of the professional development of their employees, not neglecting the social aspects of the environment. However, we are witnessing that companies in business practice do not adhere to the principles of the so-called. good business people, workers' rights and socio-economic sensitivity towards society are often neglected with the aim of sustainable development of the entire social community. Profit maximization as the sole goal came into conflict with the strategy of responsible management. The globalization of the economy, which creates an unstable competitive environment, in the face of growing social expectations for the proper functioning of the corporation, has put new demands, socio-economic awareness, before the management of the company.

The subject of the research includes determining the importance of the socio-economic sensitivity of the company for the long-term realization of the company's profitability. The research starts from the assumption that the social sensitivity of the company and socially responsible business are extremely important and necessary for the successful long-term operation of the company. Therefore, this research sought to prove the importance of social sensitivity of companies to their employees to achieve profitability, as a setting for sustainable development.

3.1. OBJECTIVES AND HYPOTHESES OF THE RESEARCH

The defined problem and the subject of the research led to the fundamental goal of the research. The basic goal of the research is to determine the im-

portance of financing the social rights of employees as a factor in the successful operation of the company in order to achieve long-term competitiveness and profitability. Based on the set goal, it is necessary to scientifically answer the following question: To what extent does the financing of social rights of workers contribute to the profitability of the company?

In today's business world, all actors in the economic system are interested in achieving profitability and long-term value creation of companies, while new models of corporate governance based on the implementation of sustainable development strategy, and more recently management based on social rights of all stakeholders. Therefore, this paper seeks to investigate how much the financing of social rights of company workers (material rights of workers, costs of education and social protection) contributes to the creation of profitability and long-term value creation of the company. In accordance with the above, and the previously defined problem and subject of research, a basic scientific hypothesis has been set:

H1: Financing the social rights of workers is positively and significantly statistically related to the realization of the added value of enterprises

Thus, the basic hypothesis is set, and in accordance with the presented research tasks, the following auxiliary hypotheses arise:

H2: The financing of workers' social rights is positively and significantly statistically related to the realization of the net profit margin

H3: Financing of workers' social rights is positively and significantly statistically related to the return on equity indicator

H4: Financing of social rights of workers is positively and significantly statistically related to the core earnings strength indicator

3.2. SAMPLE AND RESEARCH METHODS

Effective corporate governance implies satisfying the interests of all stakeholders for the successful profitable operation of the company and the long-term creation of added value. Based on the above, research hypotheses were set up where the independent variable is the costs for financing the social rights of workers and education. Data on costs for financing the social rights of workers were taken from the financial statements of the company on 31.12.2018. years. In hypothesis H1, the dependent variable is the value added of the company (VA - Value Added), which was calculated from the financial statements of the company on 31.12.2018. years. For other hypotheses, the dependent variables are as follows, which were also calculated from the underlying financial statements of the company as at 31.12.2018. years:

- for H2 the dependent variable is net profit margin (ROS)
- for H3 the dependent variable is the return on equity (ROE)

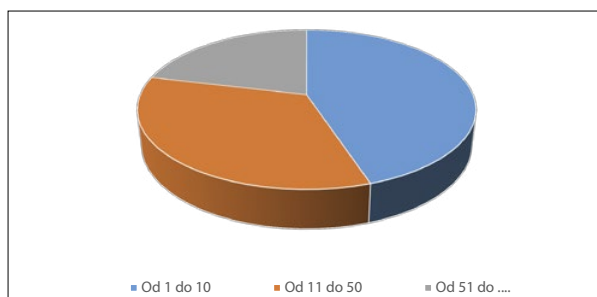
- for H4 the dependent variable is an indicator of the basic earning power (TSZ)

In accordance with the above, the research was conducted by empirical testing on a sample of 127 active companies by random selection, using the database of the Croatian Chamber of Commerce, available at the web address <https://digitalnakomora.hr/hr>. In the first phase of data collection, 150 companies were selected, but due to the impossibility of obtaining relevant, adequate data (financing of social rights of workers) for processing, the final sample is 127 companies operating in the Republic of Croatia. Statistical methods were used to process the collected data using the SPSS Statistics 17.0 program.

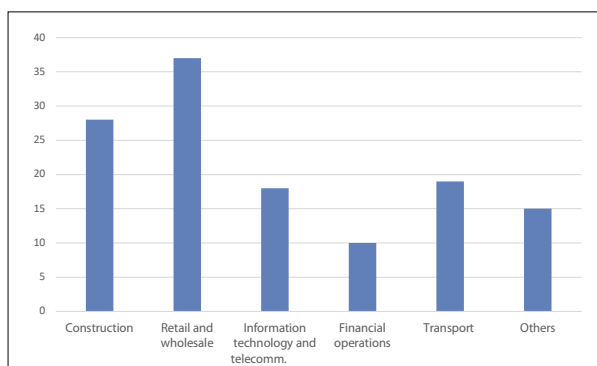
3.3. RESEARCH RESULTS

The obtained research results are presented below. The observed companies from the sample according to the number of employees are classified into three groups: the first group, 57 of them, consists of companies from 1 to 10 employees, then 43 companies with 11 to 50 employees, and companies with more than 51 employees.

Graph 1: Enterprises by number of employees



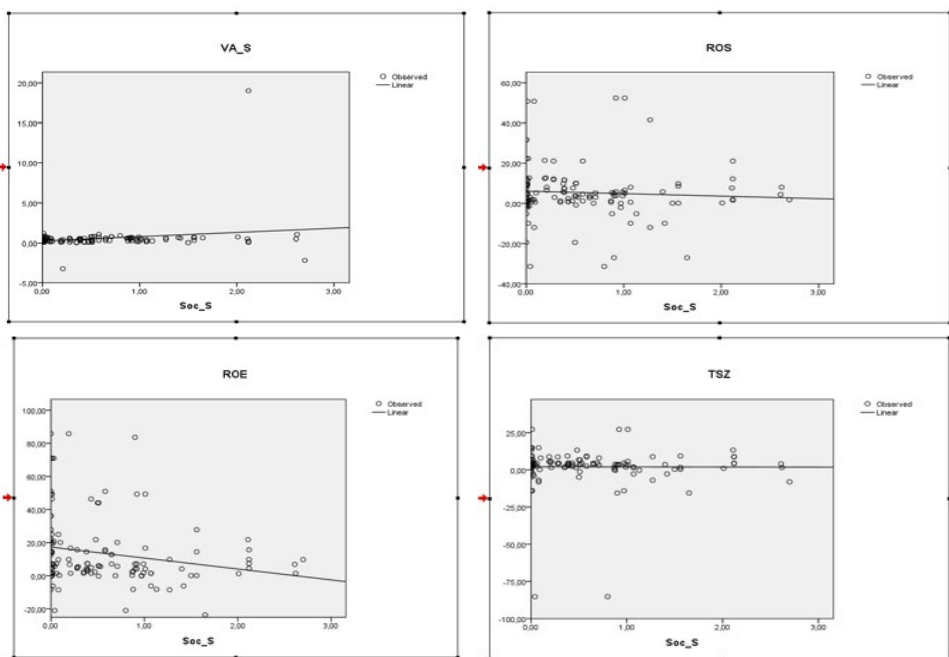
Graph 2: Enterprises by activity



In the observed sample of analyzed companies according to the activity they are engaged in, most of them belong to the activities of retail and wholesale, followed by companies whose main activity is financial operations (bookkeeping services and financial consulting), then companies whose main activity is transport, and information technology and communication, in the last places are construction and other activities.

The first step in analyzing the data collected was to examine the relationships among the selected variables. Possible linear and nonlinear relationships are examined, which are graphically presented below. There is a significant linear relationship between the financing of workers social rights and indicators of value added and indicators of the fundamental strength of earnings. A negative linear relationship is visible between the financing of workers' social rights and the return on equity indicators.

Graph 3: Graphical representation of the linear connection of the financing of social rights of workers with VA, ROS, ROE and TSZ



The correlation between the variables was calculated and presented, and it was determined whether the correlation was significant. Tables 1 to 4 show the results of a survey on the statistical significance of financing the social rights of workers (Soc/S) with the realization of value added by enterprises (VA/S), net profit margin (ROS), return on equity (ROE), and fundamental earning power (TSZ).

Table 1: Regression model Soc/S i VA/S

Model Summary ^b											
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R Square Change	F Change	df1	df2	Sig. F Change		
1	,200 ^a	,040	,032	1,71605	,040	5,031	1	121	,027	2,019	

a. Predictors: (Constant), Soc_S
 b. Dependent Variable: VA_S

From the correlation coefficient R we can see that the correlation between the variables is small (0.200). The coefficient of determination R² is closer to zero than to one, so we cannot talk about good representativeness of the model, and with a given level of significance 0.05 and with the number of degrees of freedom (1.21) the basic hypothesis is partially confirmed. The financing of social rights of workers is minimally related to the indicator of creating added value of the company. Durbin-Watson has a value of 2 which indicates the absence of autocorrelation of relation errors.

Table 2: Regression model Soc/S i ROS

Model Summary ^b											
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R Square Change	F Change	df1	df2	Sig. F Change		
1	,061 ^a	,004	-,004	13,30518	,004	,466	1	125	,496	1,941	

a. Predictors: (Constant), Soc_S
 b. Dependent Variable: ROS

From the correlation coefficient R we can see that the correlation between the variables exists but it is extremely small. The coefficient of determination R² is closer to zero than to one, so we cannot talk about good representativeness of the model, and with a given level of significance 0.05 and the number of degrees of freedom (1.25) the obtained data do not sufficiently confirm hypothesis H₂. Financing of workers social rights is positive but minimally related to the net profit margin. Durbin-Watson has a value of about 2 which indicates the absence of autocorrelation of relation errors.

Table 3: Regression model Soc/S i ROE

Model Summary ^b											
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R Square Change	F Change	df1	df2	Sig. F Change		
1	,208 ^a	,043	,036	20,38664	,043	5,579	1	123	,020	1,881	

a. Predictors: (Constant), Soc_S
 b. Dependent Variable: ROE

From the correlation coefficient R we can see that the correlation between the variables exists but it is small (0.208). The coefficient of determination R² is closer to zero than one, with a given level of significance of 0.05 and the

number of degrees of freedom (1.23) partially confirm the hypothesis H3, ie the financing of workers' social rights is not significantly related to return on equity. Durbin-Watson has a value of about 2 which indicates the absence of autocorrelation of relation errors.

Table 4: Regression model Soc/S i TSZ

Model Summary ^a										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	,004 ^a	,000	-,008	13,08343	,000	,002	1	125	,964	2,121

a. Predictors: (Constant), Soc_S
 b. Dependent Variable: TSZ

From the correlation coefficient R we can see that the correlation between the observed variables is almost non-existent (0.004). The coefficient of determination R² is closer to zero than one, and the F ratio is higher than the theoretical value, with a given level of significance 0.05 and the number of degrees of freedom (1.51) the obtained data do not confirm the hypothesis, ie financing of workers' social rights is not related to the basic indicator. strength of earnings, and it is stated that the hypothesis H4 is not confirmed. Durbin-Watson has a value of about 2 which indicates the absence of autocorrelation of relation errors.

Given that the financing of workers social rights as an operating expense has a direct impact on the realization of the amount of profit, the obtained results can be partially considered as expected. Despite the small statistical correlations between the observed variables, there is a connection, so it can be concluded that investing in education and social rights of workers, first lead to employee satisfaction and better efficiency and due to their accounting in operating costs, these costs directly reduce profits. Therefore, it can be stated that the set hypotheses have not been confirmed, ie the financing of social rights of workers is positive, but not significant, statistically related to the realization of added value of the company and the profitability of the company.

4. CONCLUSION

The implementation of this research was intended to prove the extent to which the financing of social rights of workers is statistically related to the successful operation of the company. Stakeholder management method based on the strategy of socially responsible business, implies social responsibility towards employees and the wider community, which is one of the basic items of the official strategy of sustainable development of the Republic of Croatia. That is why the material and social rights of workers must not be neglected

because workers are considered key stakeholders in achieving a positive business result, is profitability. The fact that such issuances, for the social and material rights of workers, increase operating costs, so the results of this empirical research are considered logical because increasing operating costs reduces profits. Therefore, the hypotheses set in this study were not confirmed, ie the financing of social rights of workers is not sufficiently related to the realization of added value of the company (0.200), net profit margin (0.061), return on equity (0.208), while the indicator of core earnings statistically related is almost non-existent (0.004). Although the correlation is not large, it is almost insignificant, while the scatter plot for the observed variables shows a linear relationship with the creation of added value. This certainly does not mean that the material and social rights of workers as stakeholders of stakeholder management should be neglected because companies that develop an organizational culture and image of a prudent, selfless and transparent entrepreneur will more easily win the trust of customers, investors and creditors.

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DRUŠTVENA ODGOVORNOST PREMA ZAPOSLENICIMA KAO ČIMBENIK PROFITABILNOSTI PODUZEĆA

SAŽETAK RADA

Pitanje društvene odgovornosti (socijalnog ponašanja) prema zaposlenicima i ostvarivanja poslovnih ciljeva iniciralo je i teorijske debate o prirodi korelacije između etičkih načela i financijskih rezultata. Maksimiziranje profita kao isključivi cilj korporacije došlo je u sukob sa strategijom moderne korporacije. U novim se okolnostima javio problem šire društvene odgovornosti i osviještenosti ciljeva korporacije prema mnogo širem članstvu, nego što su dioničari. Globalizacija ekonomije, koja stvara nestabilno konkurentsko okruženje, u susretu sa sve većim društvenim očekivanjima za ispravno funkcioniranje korporacije stavila je nove zahtjeve pred menadžment poduzeća. Na teorijskom je planu počela rasprava o potrebi novog pristupa u promišljanju korporacije i njezinih aktivnosti, a naročito u pogledu zaštite socijalno-ekonomskih prava, zaštite okoliša i društveno odgovornog poslovanja.

Temeljni cilj istraživanja bio je utvrditi značaj financiranja socijalnih prava zaposlenika poduzeća kao čimbenika uspješnog poslovanja u svrhu postizanja dugoročne konkurentnosti i profitabilnosti. Dobiveni rezultati istraživanja pokazuju kako povezanost između financiranja socijalnih prava radnika među promatranim varijablama je mala sa ostvarivanjem dodane vrijednosti poduzeća (0,200), neto profitnom maržom (0,061), povratom na vlastiti kapital (0,208), dok sa pokazateljem temeljne snage zarade značajna statistička povezanost gotovo da i ne postoji (0,004).

***Ključne riječi:** Društvena odgovornost, socijalno-ekonomska prava, profitabilnost*