

## DRUŠTVENO ODGOVORNO POSLOVANJE KAO POKAZATELJ ODGOVORNOSTI PRIVREDNOG SUBJEKTA

### SOCIALLY RESPONSIBLE BUSINESS AS AN INDICATOR OF LIABILITY OF A BUSINESS ENTITY

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**Sadržaj:** *U ovom radu autori prikazuju društveno odgovorno poslovanje kao opšte prihvaćeni kriterijum za ocenjivanje uspešnosti poslovanja privrednih subjekta i zadovoljavanja interesa svih drugih lica, uključujući i interese države u sociološkom smislu. Društveno odgovorno poslovanje je nastalo kao dobrovoljana primena etičkih principa u poslovnoj praksi, koja ima direktan pozitivan uticaj na uslove rada, lokalnu zajednicu i životnu sredinu. Na taj način formira se pouzdana i odgovorna kompanija koja istovremeno ispunjava i ekonomski cilj poslovanja, ostvarivanje profita. Širenjem prakse društveno odgovornog poslovanja, sve više se smatra da poštovanje standarda poslovne etike, dugoročno, donosi kompaniji više profita, tako da poštovanje moralnih standarda u poslovanju postaje sve univerzalnije. Autori su istraživali primenu pravila društveno odgovornog poslovanja kod malih privrednih subjekata na teritoriji Vojvodine, koji se bave organskom biljnom proizvodnjom i utvrdili da uz uvažavanje moralnih principa i transparentnim poslovanjem postižu dobre rezultate. Na osnovu analize istraživanja autori su zaključili da društvena odgovornost kompanija kao prvenstveno moralni zahtev koji im društvo postavlja, kao korelat uz dva zahteva sa kojima su one već suočene: ekonomskim, sticanje profita i pravnim, postaje značajan pokazatelj odgovornog poslovanja.*

**Ključne reši:** *društveno odgovorno poslovanje, lica zainteresovanih za poslovanje privrednih subjekata, interes države, neprofitni efekti, uspešnost poslovanja.*

**Abstract:** *In this paper, the authors present corporate social responsibility as a generally accepted criterion for assessing the success of business entities and meeting the interests of all others, including the interests of the state in sociological terms. Corporate social responsibility has emerged as a voluntary application of ethical principles in business practice, which has a direct positive impact on working conditions, the local community and the environment. In that way, a reliable and responsible company is formed, which at the same time fulfills the economic goal of business, making a profit. By spreading the practice of corporate social responsibility, it is increasingly believed that respecting the standards of business ethics, in the long run, brings the company more profit, so that respecting moral standards in business is becoming more universal. The authors investigated the application of the rules of corporate social responsibility to small businesses in the territory of Vojvodina,*

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*which are engaged in organic plant production, and found that with respect to moral principles and transparent business, they achieve good results. Based on the analysis of the research, the authors concluded that corporate social responsibility as primarily a moral requirement that society sets for them, as a correlate with the two requirements they already face: economic, profit and legal, becomes a significant indicator of responsible business.*

**Key words:** *corporate social responsibility, persons interested in the business of economic entities, the interest of the state, non-profit effects, business success.*

## 1. INTRODUCTION

The concept of corporate social responsibility was first established in the German legal system in 1937, with the adoption of the Law on Joint Stock Companies. If we keep in mind that Germany is the creator of the rule of law and the principle of conscientiousness and honesty, as a generally accepted principle in legal life in general, and which is incorporated into all world constitutions and international treaties, it is understandable that this concept was found above all, precisely in German law. Based on the concept of "special interest of the company as a legal entity", this law incorporates the interest of the state in joint stock companies. The law provided for the formation of a bicameral system of management in joint stock companies, the formation of a supervisory board with the aim of taking care of the special interests of the company ("company interest"), which differs from the interests of other persons interested in the company business.

In this way, formally and for the first time, the state was nominated as one of the constituents interested in the company's business. Until then, and in many countries around the world today, the issue of corporate social responsibility, primarily from the standpoint of theory and only later, somewhere institutionally, began to be discussed [1] only with the crisis of the stock market and major stock market scandals, as one segment of corporate governance. Only then was it recognized that the company still has a significant impact on the state in various forms of action, through the impact on the environment, public revenues, state economy, state policy, consumers, etc.

Thus, for the first time, the question of the correctness of the American position, which represents the exclusivity of the interests of the owners of capital in the capital company, was raised. Facing major systemic crises at the global level, the question arose as to whether the company is an institution of private law only (which has only a private law function of pursuing the interests of its owners, or is increasingly an institution with a general social function). and a kind of public law functions of satisfying the interests of other persons, some of which are private interests, and some are public interests) [2], [3].

Consideration of this important issue also raised the phenomenon of corporate social responsibility. The beginning of the new century has become a century of full affirmation of the system of social responsibility of companies. By the way, many equate the notion of corporate social responsibility with philanthropy. Also, the terms "social" and "responsibility" have long been misinterpreted in practice. In the context of corporate social responsibility, the term "social" does not mean what is the domain of government, but represents company's relationship with society, including the environment. The term "responsibility" is, for some, accountability to society, and for others, "good judgment." sense. This concept primarily refers to the protection of human rights, corporate governance, environmental protection and the protection and promotion of workers' and the state's rights in sociological terms.

The United Kingdom is the first country in Europe to introduce the function of the Minister for Socially Responsible Business, in order to favor this institute. The Danish government has developed a social index to measure a company's commitment to social responsibility. The European Parliament is committed to creating mechanisms for enforcing corporate social responsibility rules and recommends that the Commission of the European Union consider the benefits of legally binding standards for the application of corporate social responsibility [4].

Formally, the Republic of Serbia does not lag far behind the countries of the European Union. The Government of Serbia has adopted an Action Plan for the period from 2011 to 2013, which envisages measures and activities for the implementation of the adopted Strategy for the Development and Promotion of Corporate Social Responsibility in Serbia. They envisage that the competent ministries constitute a joint body for these activities, headed by the ministry in charge of labor and social policy. The ministry in charge of economy, the ministry of regional development, environmental protection, the chamber of commerce and other ministries should certainly play a significant role. A significant contribution to this goal is expected from the implementation of the current national strategy for sustainable development of the Republic of Serbia.

## **2. SOCIALLY RESPONSIBLE BUSINESS AND OTHER INTERESTS OF THE COMPANY**

Today, the economic environment in which we live shows more than ever that economic development is constantly accelerating and that the expansion of many companies is largely due to the unprecedented scientific and technical-technological rise they managed in the last decades of the last century (in the field of automation, informatics, military production, biotechnology, genetics, aerospace industry, new materials, quality).

Thus, as we enter the third millennium, the world is facing the same invincible adversary that America faced a century ago. Only this time on a global, not a national level. The brutal philosophy of "power is right" and "money is power" again threatens the finer efforts of homo sapiens. Only, instead of industrial magnates being the instigators of this trend, this time Wall Street is the one controlling things, turning transnational corporations into powerful multinational masters. "integration and acquisition are the way!" - that's the way it's done.

What makes everything possible, of course, is technology. Transnational corporations can now disperse physical production around the globe in search of the lowest labor costs and then integrate it efficiently, with the help of ever-lower transport and telecommunications costs.

In short, the physical factory has fallen down the food chain to the commodity level and to the local economy. Thanks to lower and lower transport and telecommunications costs, the physical factory has been replaced by a global virtual factory. This is now covered by the offer of integrated services, which enables it to deliver products at the speed of light to every customer on the globe. It is an ideal world from the aspect of transnational companies. This is a potentially heavy burden from the point of view of homo sapiens, because it can lead to a new kind of slavery by "money".

All the levers man has invented so far to control unlimited power are still at the local or national level. Yet most corporate power now goes through existing legal gaps into free and open global air above and below local legislators. Trying to reverse that flow is very difficult, because such a thing would require some supranational binding authority, which would have to act with a lot of ethics, just as expected from socially responsible behavior.

Undoubtedly, the main interest of the company is to provide profit, which, however, in the largest part of the world in the last few decades is limited by moral aspects. Therefore, it can be concluded that the "interest of the company" is the totality of all the stated individual interests of all constituents. In this totality, the primary, therefore only in the first place, is certainly the interest of shareholders, ie owners of capital, but that is not the only interest in any case. In addition to the above, the management of the company is the bearer of a special constitutive interest („the interest of the management,,), because it brings into the company its specific organizational and human capital. However, considering the prescribed duty of the management to work in the best interest of the company, in case of conflict of self-interest with the interest of the company, the management is obliged to be loyal to the company it manages (fiduciary duty).

The company is only at first glance a compact, legal entity with one interest, the interest of the owner. However, the company is also full of conflicts and contradictions from within, [5] and thus towards the outside world. The company is characterized by multi-layered different interests (risks) that exist in each company, the interest of shareholders, creditors, employees, management, the shareholder and the company, or the interest of the state. To these interests can be added the interest of external constituents, consumers and others [6]. In addition to the special interest of consumers, the company itself certainly has a special interest, so we can talk about the interest of society (company) and the interest of the state in the sociological sense of the word, so we can talk about more interests:

- interest of the owner of the capital,
- interest of creditors,
- interest of employees,
- interest of the director (management) and
- the interest of society
- interest of the state [7].

The interests of these persons are often contradictory in relation to each other and always dynamic, which makes the company a conflicting and not at all idyllic subject [5]. Due to the existence of different interests, the legislator has a special, not at all easy role to regulate and harmonize these interests as much as possible by regulations [8]. It is important that the case law is stable and predictable when resolving disputes arising from different interests.

Also, the question arises, where is the position of the state and society in the sociological sense of the word? The state is also integrated in the position of the capital company in terms of interest in its position, such as the relevant integration of employees and management, creditors (creditors and others), consumers and users of services (products), which in turn presupposes its duties and the duties of management. (company nationality, legal personality, environmental protection, property and capital registers, tax subject, criminal liability, financial reports, transparency of operations, etc.) [9].

Today, the system of corporate social responsibility in the European Union is integrated into several segments:

- protection of the environment and sustainable development, such as improving the standard of emissions of harmful gases in the use of cars by prescribing the obligation of environmentally friendly fuel, etc.
- protection of labor rights, elimination of all forms of forced labor, abolition of child labor, encouragement of education for work, elimination of discrimination in employment, compliance with health and safety regulations,
- protection of consumer interests,

- social issues and employment,
- public procurement,
- human rights policy, where the question of whether a subsidiary established in another country should respect the standards of these rights existing in the country of its seat or such standards of the state of the controlling company as the founder [10] is particularly open, and
- external relations and at the same time the company's policy towards internal and external stakeholders [11].

### **3. PURPOSE OF THE WORK AND METHODOLOGY USED**

Information and data used in this paper related to the application and effects of socially responsible business are provided through interviews with 22 entrepreneurs engaged in organic production in Vojvodina, their practical examples and analysis of legislation in Serbia and abroad. The main goal of this paper is to show that socially responsible business brings significant positive results not only to the business entity in business, but also to the state and all other persons interested in the business of business entities. The research was conducted on the territory of Vojvodina for three years.

The following methods were used in the research of the selected topic, in order to collect and evaluate relevant information:

- interviews of manufacturers as a descriptive method, which show whether they apply the rules of corporate social responsibility in practice and whether there are positive effects of these rules and that the observed cases can be taken as typical cases,
- the comparative method enabled the authors to come to generalizations or new conclusions by comparing the same or similar phenomena or establishing similarities and differences between them,
- synthesis method, was used at the end to summarize the conclusions, with recommendations for the application of socially responsible business rules.

From the analysis of all collected data, the authors came to the conclusion that, given that Serbia is a predominantly rural country with an unpolluted agricultural system, due to the use of smaller amounts of chemicalization, organic production is a method of production that maximally protects the environment.

Entrepreneurs whose activities have been the subject of research for years voluntarily apply ethical principles in business practice, which directly positively affected their working conditions, employees, local community and the environment and thus formed reliable and responsible businesses that make a profit and operate properly on the market.

### **4. RESEARCH RESULTS**

For the purposes of this paper, the authors conducted an interview with 22 entrepreneurs engaged in organic production in Vojvodina. All have been involved in organic plant production for at least ten years and are all members of an association of organic producers. All persons regularly follow the news in this area.

The research was conducted in a period of three years, from 2019 to 2021. In the observed period, all persons had a successful and long business, they regularly paid obligations to all persons, the state, employees, benefactors, they gained the trust of customers and operate transparently.

In order to research this topic in the case of organic products, it was necessary to determine the basic attributes of socially responsible business and business results:

- are producers operating economically profitable,
- do they comply with regulations,
- do they have regular customers of the product,
- do they pay debts regularly, according to sellers, the state, employees.

Serial number	Elements of business	Business			Effects of socially responsible business		
		2019	2020	<b>2021</b>	2019.	2020	2021
1.	Economically viable business	Yes	Yes	Yes	Yes	Yes	Yes
2.	Compliance with regulations	Yes	Yes	Yes	Yes	Yes	Yes
3.	Competitiveness in the market	Yes	Yes	Yes	Yes	Yes	Yes
4.	Customer satisfaction	Yes	Yes	Yes	Yes	Yes	Yes
5.	Payment of obligations	Yes	Yes	Yes	Da	Da	Da
6.	Business transparency	Yes	Yes	Yes	Da	Da	Da

Table 1: Source: Research of Autors.

It is generally known that organic production by the nature of things is such a way of production whose imperative is the preservation of the environment, so that this element of socially responsible business with the observed persons is assumed. The basic principles for the establishment and development of organic agriculture were set by the International Federation of Organic Agriculture Movements (IFOAM - International Federation of Organic Agriculture Movements 1972.), International umbrella organization for organic production, which was founded in 1972. These standards are based on European Union regulations, then the Codex Alimentarius, as well as the Law on Organic Production and Organic Products of the Republic of Serbia.

The basic principles on which organic agriculture is based according to the stated principles are the following:

- principle of health - organic agriculture should maintain and increase the health of land, plants, animals, people and the planet as a whole,
- principle of ecology - organic agriculture should be based on living ecosystems and cycles, to support them and help maintain them,
- the principle of justice - organic agriculture should be based on fair relations with the general environment, nature and life,
- the principle of nurturing and caring - organic agriculture should be managed in a careful and responsible way to preserve the health and well-being of present and future generations and ecosystems.

The research found that entrepreneurs whose business was the subject of the study respect the rules of socially responsible business, as well as believe that they have economic benefits from ethical treatment of persons who have an interest in entrepreneurship, by retaining and

increasing satisfied customers, sustainable business. the timing of state subsidies and the availability of new information in the field in which they operate.

## 5. MISSION AND VALUES

In their business, companies are traditionally faced with the obligation of fulfilling two goals: economic, making a profit and legal, respecting the legal regulations of the country of business and beyond [11], but also the application of the so-called. soft business rules, in the last few decades such as various, world-renowned standards, codes, including socially responsible business [9].

The main business goals of today's company and its management are:

- stable and growing return on investment,
- constant cash flows,
- increased earnings,
- high income of the administration with the possibility of obtaining valuable annual bonuses,
- growth and expansion in order to expand activities and markets,
- good competitive position in the market [12].

These goals are in a cause-and-effect relationship and logically the experiential matrix of every corporate governance. Thus, we come to the imperative activity of the company and its management towards the constant increase of profits, because that is how the safe life of the corporation is maintained [12]. Profit is a means of distributing periodic and annual corporate profits to shareholders through earnings, management rewards and a significant portion of accumulated for new projects, or saved in case of aleatory or occasional cyclical economic events in the world. Profit is a means for a company to live [13].

After several decades of applying the rules of socially responsible business in the world, we can say that a socially responsible company is one that respects the applicable law and the requirements of the state based on it [14]. A socially responsible company is one that is legally responsible, respects the legitimate national legal system, including human rights standards in the country of practice and the rights of other constituents interested in the company's business [9]. The obligation of the company to act in accordance with the additional, higher standards of civil rights, which exist in the country where the company is headquartered, remains a moral, not a legal obligation. Local legislation determines the lower threshold of the company's obligations, and their real reach above that threshold is determined exclusively by moral requirements [5]. Therefore, it is logical to conclude that the social responsibility of companies is primarily a moral requirement that society places on companies as a correlate with the above two requirements, economic and legal, with the aforementioned moral, ie. the non-profit effects of the company become an important criterion for assessing its success and responsibility in business [5].

It is believed that a company could have a social impact on the environment, to which the request for socially responsible conduct of the company comes down, it must be economically successful, so unprofitable investment must thus be profitable. The question of whether moral consensus has a place in the business of companies is not without significance, because it is increasingly believed that respecting the standards of business ethics, in the long run, brings the company more profit [15]. Respect for moral standards in business decision-making of the board of directors is becoming more and more universal, so that the company's social

responsibility is determined not only by legal standards, but also moral ones, which constitute a kind of standards of business ethics [9].

If the question arises as to how to act in the event of a conflict of interest between profit maximization and corporate social responsibility, social responsibility theory provides arguments in favor of social responsibility [16]. In theory and practice, the elements of socially responsible business are elaborated and presented through the pyramid of socially responsible business, namely:

- economic responsibility of the company - to make a profit, without which the company can not survive [15],
- legal responsibility - the obligation to comply with legal regulations,
- ethical responsibility - the obligation of moral, fair and good business,
- philanthropic responsibility - which means being a good company [17].

If the company's responsibilities were presented in the form of a pyramid, the broadest basis and power would have 1) economic responsibility, then 2) legal responsibility of the company, while after that came 3) moral responsibility and at the top, as least in power and commitment of the company, bi 3) charitable or philanthropic responsibilities, which reflect even the smallest part of the company's social responsibility. Of course, the rule is that ethical and charitable responsibilities are taken only if it increases the company's profit [18].

## **6. ADVANTAGES OF SOCIALLY RESPONSIBLE BUSINESS**

The reasons for ethics and the reasons for marketing point to the application of the phenomenon of socially responsible business, but also because both have their economic expression in increasing profits [19]. It is believed that socially responsible business is a kind of investment, the so-called. socially responsible investment, not the cost of the company [20]. It is a real condition without which there is no sustainable development of the company in the long run, as well as the development and stability of the environment in which the company operates or the development and stability of the state.

Corporate social responsibility provides the company and all other constituents with more favorable effects:

- leads to improved economic efficiency of the company,
- provides access to domestic and foreign capital markets,
- leads to more stable sources of financing and lower cost of capital,
- ensures the reputation of the company, management and other executives [21].

Companies with socially responsible business respect and reward their employees more, because they are able to understand the values of human resources and thus their contribution to business. Socially responsible business is also aimed at finding ways for stakeholders to invest in human and physical capital at a socially efficient level, which is certainly in the interest of both the state and local communities [1], [22].

An important advantage of socially responsible business is providing fresh capital inflows, which in the long run contributes to greater competitiveness of companies. The application of high standards of socially responsible business reduces the risks associated with investing in a company, because a socially responsible company is one that the public trusts.

Corporate social responsibility contributes to respecting the legitimate interests of all participants in corporate activities, trust between all groups involved in corporate activities,



which can improve the quality of the company's business, by increasing company value, job creation, company growth, ability to attract investment and increase financial stability and profitability of the company [23].

Companies that respect social responsibility contribute more to the economy of the country of nationality of the company and to the wider social community. Such companies base their business on sound foundations and can provide greater profits to capital owners, employees and all other external [23] and internal stakeholders.

Corporate social responsibility contributes to a better reputation of the company, which has become a key element of a company's goodwill. Such companies gain the trust of the public and goodwill, which leads to greater trust in the company's products and services and certainly increase the profitability of the business [24].

Corporate social responsibility is often associated with the term "enlightened self-interest" - the way companies plan and manage relationships with the most important stakeholders. With the development of technology and the interconnection of interest groups that facilitate communication and information sharing, with easier mobilization of national and international activist and pressure societies and with the support of the media, today almost every business entity in the market can be significantly influenced.

## **7. CORPORATE SOCIAL RESPONSIBILITY REPORTING AND GLOBAL REPORTING INITIATIVES (GRI PRINCIPLES)**

Reporting on the business of companies and communicating their impact on society helps to prove openness and transparency, but also the seriousness of intentions to improve business. Proactive and open communication creates a positive environment in which companies are presented in a better light.

The rules of corporate social responsibility are evolutionary, can only be observed in development and adapt to the conditions of the market in which the companies operate. It is justifiably considered that public reporting (primarily public opinion) and then consumer activities is the most effective forced mechanism for companies to submit to voluntary codes of socially responsible behavior. On the other hand, the legal system of countries is usually the most efficient method for the application and introduction of new standards of corporate social responsibility policy [24].

Corporate social responsibility is an area that is developing faster and faster, and reporting on social business and economic sustainability is increasingly becoming a common practice of reputable companies. Organizations that implement socially responsible business usually make their activities in that part of the business available to the general public as part of their annual reporting or as independent voluntary reporting. This ensures a certain openness and communication of the company with the public, and all boards of directors try to successfully prove that this is an exemplary and highly moral company. Reporting helps the company to clearly and precisely set goals, to measure the impact and success of changes, and the results show data on the company's impact on the environment, society and economy. Internationally agreed data and benchmarks make the information contained in the reports accessible and understandable to all those interested in the company's operations.

One of the most commonly used forms in practice for reporting to the public and others is the G4 Guidelines (Sustainability Reporting Guidelines of the Global Reporting Initiative). The

GRI project was created in 2000 to develop frameworks for reporting on corporate social responsibility and business sustainability. That's when the first guidelines came into being. This framework has evolved over time and adapted to new trends, so that the G4 is the fourth generation of guidelines intended for all businesses, regardless of size, sector or market in which they operate. For now, the guidelines provide a comprehensive framework for measuring and reporting stakeholders.

## **8. CONCLUSION**

The high assessment of trust in the company, voluntary application of the rules on socially responsible business stems from the fact that corporate social responsibility is nowhere prescribed as a legal obligation, and has entered the normative field through declarations and resolutions, which do not create a legal obligation although they have a certain moral weight, especially if they coincide with the economic purpose of the company (profit).

The authors believe that socially responsible business is a voluntary application of ethical principles or "soft rules" in business practice, which has a direct positive impact on working conditions, employees, local community and the environment and thus forms a reliable and responsible company that makes a profit. . Regardless of the definition, the goal of corporate social responsibility is to contribute to the fact that economic entities (small and large) can be profitable and successful, and at the same time responsible and sustainable.

Positive and proactive action of the business sector above the levels prescribed by law in various business processes (eg production processes, environmental impact, employment policy, continuous training and education of employees, investing in the community, etc.) has become indispensable practice in the developed world. Over time, it has become clear that such practices have multiple benefits for both the company and society as a whole.

Interest in the environment in which a company operates is increasingly influencing the corporate strategy of large companies, as well as small and medium-sized enterprises and entrepreneurships around the world. Such changes in business policy have led to the development of corporate awareness and increased concern for society and the environment in which they operate. The characteristic of responsible companies is the focus on strategic long-term goals and activities that contribute to their achievement. Managing socially responsible activities means working with others (interest groups), not in isolation. Measuring business performance not only by financial, but also environmental and social performance has come into common use in management and can most often be found under the term triple balance sheet or 3 P (profil, people, planet).

Respect for the interests of the constituents not only in word, but also in spirit and, a combination of words and deeds, have already become constants in a large part of the world, which will be judged by the public. So it will be in the future. If it turns out that someone is not able to work for the benefit of others, sooner or later they will fail. This will also be taken care of by competition as the highest controller of market power and an instrument of devolution.

The application of the rules of socially responsible business significantly contributes to the economy of the country of nationality and place of business of the company and the wider community. Corporate social responsibility contributes to a better reputation of the company, and it contributes to increasing the value of the company. Such companies become

recognizable in the market, gain the trust of the environment and wider and goodwill, which significantly affects the business results of companies and thus the economic environment in the country as a whole .

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