SUSTAINABILITY AND READINESS FOR CHANGE:
INSIGHTS FROM A BANKING CASE STUDY IN SERBIA

Ljiljana Kontic1* and Jovan Kontic2
1) Faculty of Legal and Business Studies, Novi Sad, Serbia
2) Eurobank EFG a.d., Belgrade, Serbia

Abstract
This paper examines the issues of sustainable banking and readiness for change using the mixed methods research approach. The research setting consisted of an international bank which operates in Serbia. Serbia is one of Western Balkan countries. The concept of sustainability is well explored in developed countries. The financial institutions from Serbia have not been included in those studies. This paper suggests key issues which need to be addressed related to the sustainability and change in the banking sector in Serbia.

The main aim of this study is to assess sustainability and readiness for change in transition environment. This paper contributes to the existing literature by assessing readiness for change in selected bank. Regarding different characteristics of national cultures, the construct validity of research methodology developed in one society will be investigated for a Serbian sample.

The qualitative data about sustainability were sourced from publicly available information about bank. The Organizational Diagnosis Questionnaire (ODQ) developed by Preziosi (1980) is used to assess the bank's readiness for change. The sample consisted of 137 managers different socio demographic variables from bank. The research findings revealed possible practical implementation of ODQ in Serbia. The sustainable attitude of the bank is rewarded by different organizations in Serbia. The results revealed that changes in the bank should be led top down. The findings add to the existing literature on factors causing organizational effectiveness in cross-cultural organizational contexts. The practical implementation and study limitation are suggested.

Keywords: sustainability, bank, management, organizational change, national culture, Serbia

JEL Classification: G21, Q56, M14

Introduction
Among academics the sustainability are widely accepted concept and the key variable to achieve competitive advantage (Montiel, 2008). The results of studies revealed that top management support, human resource management, employee empowerment, teamwork

* Corresponding author, Ljiljana Kontic – ljiljana.kontic@yahoo.com
and reward systems have been important factors for achieving sustainability, on the one hand (Wilkinson, Hill and Gollan, 2001; Daily and Huang, 2001). On the other hand, the sustainability requires organizational change and adaptation on different levels (Linnenluecke and Griffiths, 2010).

The vast majority of sustainability studies has been conducted in developed countries. Only a few studies utilize data from transition countries (Vitezic, 2011; IFC - International Finance Corporation, 2007; UNEP Finance Initiative Central and Eastern European Task Force, 2004). This raises a fundamental question about the transferability of knowledge and practices from European companies to their subsidiaries in transition economies. The financial institutions from Serbia have not been included in aforementioned studies. This paper will suggest key issues which need to be addressed related to the sustainability and change in the banking sector in Serbia.

The main aim of this study is to examine sustainability and readiness for change in Serbian context. The main research objectives are:

- to present the sustainability activities in one retail bank in Serbia (i.e. Eurobank EFG a.d., Belgrade),
- to assess organizational readiness for change using the questionnaire.

The mix methods research approach was adopted to illustrate sustainability and change of an international bank in Serbia.

This paper is organized as follows. The next section presents an overview of relevant literature. The third section discusses the research context followed by method. The final sections discuss the main results and present the main conclusions and implications of this study.

1. Theoretical background

The sustainability has been considered in a number of ways. Based on the extent literature review, Garavan and McGuire (2010, p.490) stated “what constitutes sustainability in the Western context focuses on a broad view of social, environmental outcomes; an emphasis on the long-term perspective; and an inclusive operational dimension of CSR strategy and how it can be implemented in organizations”. There is no consensus on the definition of sustainability, but there are two main approaches to this issue. The first approach explores the environmental issues as an important dimension of business (Garavan and McGuire, 2010). The second approach can be named as triple bottom line focuses on environmental, economic, and social issues (Bansal, 2002).

Review of studies of corporate sustainability can be divided by two major issues (Steger, Ionescu-Somers and Salzmann, 2007):

- Which aspects of corporate responsibility are relevant to managers?
- What is the relationship between social, environmental and financial performance?

Studies designed to explore first issue reveal little empirical evidence (e.g. Cruz Deniz-Deniz and Garcia-Falcon, 2002; Quazi and O’Brien, 2000; Judge and Elenkov, 2005;
Roome and Wijen, 2005). In order to investigate second issue authors based their researches on case studies (Ballard, 2005).

To help make sense of different interpretations of sustainable development, Hopwood, Mellor and O’Brien (2005, p. 41) are “suggesting a mapping methodology based on combining environmental and socioeconomic issues”. The usual model for sustainable development is a complex concept to manage. Therefore, the transformation in the usual model is essential (Hopwood, Mellor and O’Brien, 2005).

Regarding sustainability in the banking sector a number research questions arise. In this study two questions are of special interest: 1) what is sustainable banking? 2) Which model can be used in the banking sector?

“Sustainable banking can be defined as a decision by banks to provide products and services only to customers who take into consideration the environmental and social impacts of their activities” (Bouma, Jeucken and Kilkers, 2001, p. 101).

Previous studies revealed main drivers and barriers for implementing sustainable banking in Central and Eastern Europe (UNEP Finance Initiative Central and Eastern European Task Force, 2004). Main drivers were: enhanced reputation, social responsibility, cost savings and competitive advantage. Obstacles to implement sustainable banking were in the domain of measuring benefits, absence of legal requirements, absence of business case and high implementation costs.

Literature review showed two models of bank towards sustainability and one guidelines (Jeucken, 2004; Stubbs and Cocklin, 2008; United Nations Environment Programme Finance Initiative - UNEP FI, 2011). Jeucken’s model (2004) consisted of four stages: defensive, preventive, offensive and sustainable banking. His main criteria for sustainability measurement were: communication (e.g. environmental policy, environmental reporting, ISO-14001 certification), published information (e.g. quantitative and qualitative data about internal environmental care), financing (e.g. environmental risk analyses), products (e.g. sustainable investment funds) and social issues and charity. Stubbs and Cocklin (2008) presented sustainability business model of Bendigo Bank as well as structural and cultural attributes of the model. UNEP FI (2011) provides a summary of sustainability roles within the bank and the wider context in which the institution operates. To complete these recommendations, the modification of strategies, structures, and processes in the bank is needed. Organizational change management is concerned with facilitating these processes.

In this regard, researchers have directed their attention to readiness for change (e.g. Holt, Armenakis, Harris and Feild, 2007; Jones, Jimmison and Griffiths, 2005; Wanberg and Banas, 2000). The results of studies revealed that Weisbord’s model (1976) has been a useful tool for bank diagnosis and identifying strategic options (Heracleous and DeVoge, 1998; Kontic, in press).

In this study we have investigated the relationship between purpose, structure, helpful mechanisms, leadership, rewards, relationships and readiness for organizational change. The positive correlation between good and effective work relationships in organizational change was verified (Vakola and Nikolaou, 2005).
2. Research context

The banking sector has been chosen as the research context for the following key reasons. First, over the last decade, the banking sector in Serbia has witnessed large changes. It is evidenced a decrease in the number of banks (i.e. from 115 in 2001 to 33 in 2010), and a takeover of the market by foreign banks. Therefore, the confidence in the stability of the Serbian banking sector largely depends on the reputation of foreign banks that have subsidiaries in Serbia (Kontic and Kontic, 2009). Second, banking sector in any economy is a vital service industry and when is competitive and efficient it spurs positive impact on other industries. The share of balance sheet total of the banking sector in GDP in Serbia was 85.28% (National Bank of Serbia, 2010).

Third reason is that Serbian banking sector operated with considerable profit in 2010. The banks in Serbia reported the highest efficiency ratio in managing their assets compared to countries in the region.

3. Methodology

Procedure

Considering that managers are usually the most familiar with the business operations, the survey has included only top and middle-managers. This choice has ensured relevant responses related to the subject of the research. The total of 150 managers from one international bank participated in the survey. Respondents from a bank differed in their hierarchical positions i.e. from regional managers to branch managers. In the selection process of focus bank three main criteria were used: (1) the access to the bank, (2) bank's competitive position, (3) previous sustainability activities in Serbia.

Eurobank EFG Serbia (EFG) was established in March 2003 through the acquisition of Post Bank by the Eurobank EFG Group. Three years later, EFG has become the majority owner of the National Savings Bank. Its products and services are available through 126 branches and business centers across Serbia. It has 7% market share in the banking sector of Serbia (Eurobank EFG, 2010a). The bank offers a wide range of financial services, including mortgages loans, investment products, insurance, and foreign exchange services. Profit for the year 2010 amounted to RSD 2.6 billion (EUR 25 million).

The vision statement and strategy is followed (Eurobank EFG, 2010a, p.3):

“We want to become the first choice bank for our retail and corporate clients, operating with a sense of responsibility toward customers, employees, stakeholders and society”.

EFG’s strategy is to “offering clients modern and innovative products and high quality services. Strong capital position, prudent risk management, stable business growth, efficiency and solid profitability, as well as high quality human resources create value for our clients and shareholders” (Eurobank EFG, 2010b, p.6).

The dominant values in the EFG are: creativity, innovation, efficiency, emphasis on quality and respect towards people and the environment comprise.

The survey was conducted directly, i.e. the participants were aware they were participating in a survey, but the questions were not known ahead of time. This was important to avoid
any behavioural bias in the responses. To encourage participation, the questionnaire provided a degree of anonymity (i.e., it did not include financial information pertaining to the company or personal information about the respondents). Electronic and hard-copy versions of the questionnaire were offered for the convenience of respondents. Over the two-week period in November 2010, a total of 150 questionnaires was distributed to managers in the EFG bank. 138 managers returned their questionnaires (a 91.33% response rate).

Respondents

The sample was distinguished by gender, age, education level, and bank’s region (see Table no. 1).

60.3% of managers were females and 39.7% were males. 68.2% of managers were aged up to 40, and 31.8% were aged over 40. The majority of observed managers had a high school or college degree (53.4%) and faculty level (43.6%). In the study, managers from Belgrade, Nis, Kragujevac, and Vojvodina regions participated.

Table no. 1: Respondent profile

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of respondents</th>
<th>Percentage of the total sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>82</td>
<td>60.3</td>
</tr>
<tr>
<td>Male</td>
<td>55</td>
<td>39.7</td>
</tr>
<tr>
<td>Education level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High school</td>
<td>34</td>
<td>25.6</td>
</tr>
<tr>
<td>College</td>
<td>37</td>
<td>27.8</td>
</tr>
<tr>
<td>Faculty</td>
<td>58</td>
<td>43.6</td>
</tr>
<tr>
<td>MBA</td>
<td>3</td>
<td>2.3</td>
</tr>
<tr>
<td>MBc</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-30</td>
<td>30</td>
<td>22.7</td>
</tr>
<tr>
<td>31-40</td>
<td>60</td>
<td>45.5</td>
</tr>
<tr>
<td>41-50</td>
<td>28</td>
<td>21.2</td>
</tr>
<tr>
<td>51-60</td>
<td>13</td>
<td>9.8</td>
</tr>
<tr>
<td>Over 60</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>Region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgrade</td>
<td>34</td>
<td>24.8</td>
</tr>
<tr>
<td>Kragujevac</td>
<td>38</td>
<td>27.7</td>
</tr>
<tr>
<td>Nis</td>
<td>33</td>
<td>24.1</td>
</tr>
<tr>
<td>Vojvodina</td>
<td>32</td>
<td>23.4</td>
</tr>
<tr>
<td>Total</td>
<td>137</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In Serbia, the bank employs 1,587 professionals in 119 branches. 48% of managers positions are held by women. The average age of the employees in the bank is 38. The business operations are divided into following four regions Belgrade, Vojvodina, Kragujevac and Nis (Eurobank EFG, 2010b, p.21).
Measures
The mix methods research approach was adopted to illustrate sustainability and change of an international bank in Serbia. Vitale, Armenakis and Feild (2008, p. 90) stated “combining quantitative and qualitative data collection methods within studies can provide numerous benefits”.

The data was collected from three sources: (1) Organizational Diagnosis Questionnaire (ODQ), (2) content analysis, and (3) observations of the company’s activities.

The Organizational Diagnosis Questionnaire (ODQ) was administered to four branches. It is used to analyze managers as well as to assess the thinking of different levels of management or supervision (Preziosi, 1980). This questionnaire consists of 35 items divided into 7 dimensions: 1) Purpose, 2) Structure, 3) Leadership, 4) Relationships, 5) Rewards, 6) Helpful mechanisms and 7) Attitude toward change. The first six dimensions are elements of the original Weisbord's model. Seventh element attitudes toward change was added to provide researchers with input on readiness for change.

Respondents are asked to indicate their current views of their organization on a scale from 1-disagree strongly with 7-agree strongly, with a score of 4 represents a neutral point. The ODQ was accompanied by demographic variables (gender, age, education level and bank's region).

Data were also generated from a vast array of company archival information that included financial reports, corporate responsibility reports, internal memoranda, strategy documents, and case studies about company.

Data analysis
For the purpose of data analysis, both quantitative and qualitative methods were computed. We used descriptive statistics, Pearson correlation, and multiple regression, t test, and One-way ANOVA. Data analysis was conducted using SPSS Statistics 19.

Descriptive statistics and t test were used to identify inhibiting and promoting factors. Concretely, the scores above 4 indicate the lack of a problem. The scores below 4 indicate a problem with bank’s functioning.

In order to analyze correlations between independent variables, Pearson correlation was computed. The correlation matrix has been shown positive and significant relationship for all independent variables (at p<0.01 level). The reason is that all variables got positive ratings by managers. The strongest correlation occurred between the elements: rewards and helpful mechanism (r = 0.718), followed by the correlation between leadership and helpful mechanism (r = 0.657), structure and purposes (r = 0.641). All internal elements had an average above 4; therefore, the Pearson correlation matrix indicates strong interrelationships.

The readiness for change is estimated as a multiple regression in the following form:

\[ Y_a = \beta_0 + \beta_1 P + \beta_2 S + \beta_3 L + \beta_4 R + \beta_5 RW + \beta_6 H + \xi \]  

(1)
where:
Y, dependent variable - readiness for change
independent variables:
P-purposes,
S-structure,
L-leadership,
R-relationships,
RW-rewards,
H-helpful mechanisms.

4. Results and discussion
The reliability of the questionnaire was tested. The internal consistency was examined by Cronbach's alpha. Cronbach's alpha of the scale was 0.919. This means that the instrument has a high degree of reliability. This supported by Lok and Crawford's (2000) research.

Sustainability at EFG
The data about sustainability were sourced from publicly available information (primarily bank Web site, annual and Corporate social responsibility reports). The content analysis has included following three dimensions:

- Economic dimension considered profit. Profit for the year 2010 amounted to RSD 2.6 billion (EUR 25 million). Profit in the first nine month of the year 2011 was RSD 2.3 billion (EUR 23 million).

- Environmental dimension embodies a wide range of activities in order to create ecological values, and

- Social dimension has included development of employees, customers, suppliers, NGOs and other stakeholders.

During the year 2010, the EFG has introduced following new products and services: “MediFree” health program that offers free medical services, the new “Veliko Srce” credit card, a new savings program for children, factoring and interest rate risk hedging products for corporate clients, etc. Since now the bank has not developed green products. In the establishing legislation in sustainable development the major importance has consumers' attitudes, knowledge and behavior (Dinu, 2012).

The EFG bank received the “VIRTUS” award for the project “We invest in European values”, “Best from Serbia” award for the provision of financial services. The award is given by the Ministry of Commerce and Services, the Serbian Chamber of Commerce and the Privredni Pregled financial review. In addition, EFG was named “Bank of the Year” by the Association of Business Journalists. The summary of the EFG bank initiatives is presented in Table no 2.
### Table no. 2: Summary of EFG Bank’s Initiatives

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurobank EFG PARKS</td>
<td>The reconstruction of 8 city parks in 6 towns in Serbia.</td>
</tr>
<tr>
<td>Recycling</td>
<td>Head office recycling programs (paper and IT equipment).</td>
</tr>
<tr>
<td>Environment protection</td>
<td>The bank financed the Nuclear Waste project in Vinca, lending $25 million to the Ministry of Sciences and Technology.</td>
</tr>
<tr>
<td>Waste management</td>
<td>Waste management system for all materials and equipment (toners, waste electronic equipment, batteries, used lamps etc.)</td>
</tr>
<tr>
<td>Eurobank EFG SCHOLARSHIP</td>
<td>Every year bank provides scholarships for best students from Serbian universities.</td>
</tr>
<tr>
<td>Public loan</td>
<td>EFG is among a consortium of banks that have extended a €250 million loan to the Serbian state.</td>
</tr>
<tr>
<td>SME loan</td>
<td>The bank signed deals with the EBRD and the IFC, for SME financing of approximately €100 million.</td>
</tr>
<tr>
<td>Inclusive development</td>
<td>Join project between the Inclusive Society Development Center and EFG aimed to adjusting the branches to persons with disability.</td>
</tr>
</tbody>
</table>

From 2009, Eurobank has respected the EU 761/2001 on environmental management. The bank adopts a formal environmental policy aiming to reduce environmental impact as well as applies environmental risk management process to finance.

Since 2006, the bank has donated EUR 3.6 million to local communities in Serbia. In 2010, EFG became the first financial institution in Serbia that joined the United Nations Environment Programme Finance Initiative (UNEP FI). The signing of UNEP FI along with working on environmental care (e.g. recycling, waste management, and business travel) categorizes the EFG in offensive banking stage (Jeucken, 2004). This stage precedes sustainable banking in which the banks are prepared to “accept lower margins and/or higher risk to stimulate certain activities that do not have a chance to succeed in the current socio-economic paradigm. At this time, the goal of sustainable banking appears to be feasible for only a few niche players” (Jeucken, 2004, p. 134).

EFG supports personal and professional development of employees. It is worth to mention that EFG maintained the same number of employees in 2010 (1,587 compared to 1,583 in 2009). “The average age of the employees is 38. In EFG, 48 percent of management positions are held by women. The number of trainings carried out in 2010 increased from 238 courses compared to 105 in 2009. The total number of training hours went up by some 15 percent (29,477 hours in 2010, compared to 25,802 hours in 2009). The number of employees who attended at least one course in 2010 was 92.25 percent. EFG offered two graduate scholarships in cooperation with reputable ALBA University in Athens” (Eurobank EFG, 2010b, pp. 21-24).

In order to improve its position in Serbian market, managers in EFG have announced merger with bank A in Serbia that creates a need for change.
Assessing readiness for change

The results of the regression are included in Table no. 3.

### Table no. 3: Prediction model Readiness for change

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>R square</th>
<th>F</th>
<th>p</th>
<th>St. B</th>
<th>t</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purposes</td>
<td>.458</td>
<td>18.32**</td>
<td>.000</td>
<td>.335</td>
<td>3.540**</td>
<td>.001</td>
</tr>
<tr>
<td>Structure</td>
<td>.335</td>
<td>3.540**</td>
<td>.001</td>
<td>.062</td>
<td>.658</td>
<td>.512</td>
</tr>
<tr>
<td>Leadership</td>
<td>.062</td>
<td>.658</td>
<td>.512</td>
<td>-.209</td>
<td>-2.124*</td>
<td>.036</td>
</tr>
<tr>
<td>Relationships</td>
<td>.247</td>
<td>3.047**</td>
<td>.003</td>
<td>.247</td>
<td>3.047**</td>
<td>.003</td>
</tr>
<tr>
<td>Rewards</td>
<td>-.209</td>
<td>-2.124*</td>
<td>.036</td>
<td>-.040</td>
<td>-.397</td>
<td>.692</td>
</tr>
<tr>
<td>Helpful mechanism</td>
<td>.392</td>
<td>3.482**</td>
<td>.001</td>
<td>.392</td>
<td>3.482**</td>
<td>.001</td>
</tr>
</tbody>
</table>

Note: ** p<0.01; * p<0.05

Source: Authors’ calculation

We expected significant prediction based on strong correlation between internal elements. All six elements of Weisbord's model are significant predictors of the bank changes in 46% of the total variance. Purposes, relationships and helpful mechanism were found to have a positive impact on attitudes toward change (significant at 1% level). Thus, the following hypothesis may be formulated:

**H1:** Model of organizational changes will be based on existing purpose and helpful mechanism. It is necessary to maintain existent work relationship after the merger.

The positive correlation between good and effective work relationships in the process of organizational change was verified in other study (Vakola and Nikolau, 2005).

Unexpected results are that leadership was a negative predictor of attitudes toward change. In order to investigate in detail this result, the partial correlation was computed. The results showed that the following items are negatively correlated to attitudes toward change: item 10- The leadership norms of this organization help its progress, item 24- It is clear to me whenever my boss is attempting to guide my work efforts, and item 31- I understand my boss’s efforts to influence me and the other members of the work unit. All three items pointed to high power distance as a characteristic of Serbian national culture.

High power distance implicates that middle managers in Serbia expect top management to demonstrate authority of a position and capability for high performances (Janicijevic, 2007). In high power distance, it is assumed that unequal distribution of power is a natural and effective solution for the issue of influence allocation (Lok and Crawford, 2000). Therefore, the following hypothesis may be formulated:

**H2:** The changes should be led top down. Leaders should give precise instructions to middle managers.

The conclusion on the influence of the national culture on selection of the style of organizational change management is that the directive changes are preferred and more effective in cultures with high uncertainty avoidance, high power distance and collectivistic cultures. This goes in line with the study of Leung et al. (2005).
Conclusions

The concept of sustainability is well explored in developed countries. The financial institutions from Serbia have not been included in aforementioned studies. This paper suggested key issues which need to be addressed related to the sustainability and change in the banking sector in Serbia.

This study has highlighted positive example of an international bank the transferred sustainable banking practice to their subsidiaries in Serbia. Managers in EFG are aware of potential benefits of sustainable finance, but due to the lack of sustainability reporting systems they experienced non-financial benefits. For sustainability behavior the bank received many prestige rewards in Serbia (i.e. “VIRTUS” award, “Best from Serbia” award for the provision of financial services). Considering the important role of the banking sector for economic development, it is vital for managers to ensure sustainable banking. Therefore, the analysis of specific characteristics of sustainability in the banking sector should be also viewed as a contribution to a more detailed assessment of sustainability and change in transition countries.

In order to improve its position in Serbian market, the bank accounted merger with Bank A. Taking into account that Cronbach's alpha is 0.919 questionnaire should be viewed as acceptable for researching phenomena of readiness for change in the banking sector in Serbia. The proposed research instrument created in one national culture can be used in transition environment such as Serbia.

Our results suggest that leaders need: (1) to select carefully the model to be used to manage the merger; (2) to maintain purpose and helpful mechanism, (3) to keep existing work relationships; and (4) to lead in top down manner.

This paper presents step forward to get insight into sustainability and organizational change in a specific environment. According to author’s best knowledge, there is no similar study in Serbia.

It is also important to note that this study not free of certain drawbacks. The results as presented, may have limited generalization, since the study has focused on banking sector in Serbia. Therefore, the results and any relevant discussion are biased towards a situation in the banking sector in Serbia.

Future research could include more banks from Serbia as well as other financial institutions.

References


