

THE INSTITUTIONAL FACTORS OF THE CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT IN THE CENTRAL EUROPEAN COUNTRIES

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1. Introduction

Since the author of the idea of corporate social responsibility, H. R. Bowen (1953), pointed out in his *Social Responsibility of the Businessman* [14] the necessity of managers' sensibility to values of society, the concept of corporate social responsibility (CSR) has become discussed issue in all developed economies.

In 2001, a Green Paper [10] was published by the European Commission, the purpose of which was to launch a debate over the nature of CSR and what was needed to foster a suitable environment for its promotion throughout Europe. The concept of corporate social responsibility was defined as „a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis“. [7] According to this working definition, CSR is about what a business can do, not about what a business must do. It is about opportunities, not about obligations or new rules. In short, it's about ways entrepreneurs can add values to their business by taking a closer look at some of the social and environmental aspects of their operations.

Often quoted definition of CSR states that „Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.“ [19]

In March 2006 the European Commission published a new Communication on CSR. The underlying theme of the Communication was to „make Europe a pole of excellence on CSR“. The part of its strategy is the need to foster a voluntary framework for CSR that best responds to the diverse nature of the market place and stimulates innovation. It reaffirmed that CSR is by definition „about companies taking action beyond their le-

gal obligations“. [5]

The issue of the development of CSR in the Central European Countries appeared with the enlargement of the European Union. The vision of the development of CSR raises a question about the distinctiveness of the socially responsible practices in CEC. The group of researches interviewed business leaders in Bulgaria, Romania, Czech Republic and Slovakia to identify private sector views of corporate social responsibility and the ways in which these views are put into practice. The evolutionary approach to institutions was used in this research. The case studies of Bulgarian, Czech, Romanian and Slovak companies were used to identify the specific features of introduction of CSR in the CEC. Based on these case studies, the institutional factors that slow down the convergence of socially responsible practices were defined.

The main results of case studies illustrate the theoretical approach to institutions and show the nature of distinctiveness of the CSR development in the CEC. This helps to understand why the convergence of the CSR forms in the CEC will only slowly proceed in near future.

2. The Evolutionary Approach to Institutions

In order to apply an evolutionary approach to institutions it is necessary to define an institution. The term, institution, is commonly applied to customs and behaviour patterns important to a society, as well as to particular formal organizations of government and public service. [4] Institutions can be seen as a major determinant of economic performance and a key factor in understanding the vast cross-country differences in prosperity. In our case the institution is considered as the essential base of social life and thus it is the starting point of the analysis. Using this approach to institutions we have to distinguish between institutions as rules and

institutions as actors. The institutions as rules correspond to a consistent set of collectively admitted prescriptions of behaviours (the CSR is an example of such an institution). Institutions as actors are groups of individuals with a certain stability and with a capacity of action on their environment (e.g. group of employees). There are close links between institutions as rules and institutions as actors. Generally the role of institution is to create regularities of behaviours and thus to coordinate individual actions.

Institutions participate in building of the social order and they incorporate a collective dimension. The core of an evolutionary approach to institutions is an identification of the institutional dynamics. There are several theories of the institutional dynamics. The three criteria were chosen to identify the participation of different theories of the institutional dynamics in the building of evolutionary approach to institutions. The first criterion results from the view of the institutional evolution as a process of cumulative causation. „Institutions are not only themselves the result of a selective and adaptive process, which shapes the prevailing or dominant types of spiritual attitude and aptitudes; they are at the same time special methods of life and of human relations, and are therefore in their turn efficient factors of selection.“ [21] The second discussed criterion is the mechanism of the institutional changes. The question is whether this mechanism is a genetic or teleological process. Comparing different theories the conclusion is that the evolution of institutions is partly spontaneous and partly artificial process. [16],[20] Finally, the definitions of the actors of institutional changes are considered to be important to distinguish between different theories of institutional dynamics. Mostly, these definitions are based on the idea of collective action. „We may define an institution as collective action in control, liberation and expansion of individual action.“ [4]

Following given criteria the three institutional dynamics principles were identified in this research: the causes of emergence of CSR, the mechanism at work, and the actors involved in this dynamics:

- The causes of the institutional dynamics are complex and it appears that they are at the same time sources and effects of multiple other changes, such as technological, organizational, social, ethical;
- The mechanism of the institutional evolution is generally mixed, made of a spontaneous process and artificial selection of institutions;

- The actors of institutional changes are shaped by existing institutions and by collective action. The collective action plays a determining role in this process and institutions cannot substitute themselves for individuals.

Although the process of the institutional changes is a cumulative one, where the institution can be cause and effect at the same time, the result of the institutional change process cannot be defined a priori.

The evolutionary approach to institutions leads us to the following statements concerning the analysis of CSR in the CEC:

- CSR should be considered as a process of institutional evolution that covers new practices as well as the old practices that continue to exist.
- The progress of CSR in the CEC cannot be measured without taking into account the context in which companies have been evolving.
- The forms of CSR implemented in the EU-15 countries do not have to meet the forms of CSR in the CEC.

Before we start to examine specific features of the institutional dynamics principles in the CEC, it is useful to remind main features of the socialist unit of production. The socialist unit of production is an administrative entity with only a formal autonomy in a non-competitive environment. It is not forced to produce good quality products, to reduce costs of production and increase profit as there is no competition, and socialist unit of production cannot go bankrupt.

Another significant feature of the socialist firm is the number of different functions it has to fulfil. These functions include production function, business function, social function and also political function. Because of the existing companies' social functions, the project of CSR does not seem revolutionary in the CEC. The socialist firm did fulfil social roles not only towards their employees but also to the local community. From this point of view the social function of the socialist companies seems to be compulsory because of the political and ideological reasons.

3. The Institutional Dynamics Principles in the CEC

Presentation of the main results of our research follows three institutional dynamics principles identified

tified in the previous section. The research started in 2004 and covered four countries: the Czech Republic and Slovakia (members of the EU), Bulgaria and Romania (at that time countries supposed to join the EU). Different companies have been selected from different sectors (primary, secondary, tertiary) with different size (small, medium, and large). Presented research results involve 19 case studies that are based on face-to-face interviews with the top managers of selected companies.

The issue of CSR was raised under the conditions of economic transition and growing social strains. The place of company in a free market economy had to be redefined, so the economic and social roles of the companies were separated. There was made a clear distinction between the social responsibility assigned by the socialist government and human resources policies of the employers. Managers of privatised companies, under the pressure of free market competition, were forced to focus on the most important activity - business. Due to the fact that they usually were not able to finance the acquired facilities of the social infrastructure, they sold them. The social role of companies almost disappeared, although the transition had high social costs associated with high levels of unemployment and growing number of people strongly affected by the economic changes. These were especially social categories of teenagers, minorities, and women.

Nevertheless, as the concept of CSR has been gradually introduced in the CEC, it became evident that CSR is an inevitable part of the successful business practices in a given region. This idea should be acknowledged by all entities in the region.

Based on the research in the selected companies operating in the CEC, **main causes** of acting in a social responsible way were identified:

- CSR is used to improve the image of the company and to distinguish this company from competitors, which can help to promote company's position in the region.
- CSR can help to attract labour force, especially that with high qualifications.
- CSR can contribute to smooth running of the company and so create conditions for a healthy development of the company.
- Good achievements in CSR help companies to attract new external investors.
- CSR is one of the means to protect some social categories strongly affected by the transition process.

The research results show many different practices that companies use to introduce CSR into their activities. These practices usually result from a combination of old inherited elements of social protection and new elements of CSR imported by multinational companies. Based on the prevalence of certain kinds of the elements, the **mechanism of CSR** can be described in two ways, as the continuity-based and innovation-based CSR.

The continuity-based form of the CSR, which dates back to the socialist economic system representing certain solidarity between workers and their managers, requires a specific work organization, so called „work teams“. The case study shows that this form of the CSR practice was maintained in a Bulgarian building trade company. Also other companies maintain and even enlarge sets of social benefits offered in the past.

The manager of a Slovak state enterprise presented different kinds of the mechanism of the CSR. For example, the form of the CSR, which includes individual responsibility of employees with respect to local community and natural environment, dates back to the pre-socialist era when the company was established. Although this kind of responsibility was not developed during the period of socialism, now it was rediscovered and may be reactivated.

Innovation-based form of the CSR refers to the transposition of external models of the CSR to the CEC. The transposition can go through the following channels:

- Local state owned companies operating on competitive international markets that use CSR practices to achieve better position in those markets.
- Local private firms setting up forms of the CSR corresponding to the professional experience that their owners acquired abroad.
- Foreign companies installing their models of the CSR to their subsidiaries in the CEC.

As an example of the imported CSR practices can be considered labour force training programs, which are one of the most important elements of CSR. For example, a French group that bought a Bulgarian bank organizes six-day training programs for all employees each year, while before privatisation there were only half-

-day programs. Also some Slovak and Czech firms started to organize several-day stays in order to share information between executives and employees following a typical Anglo-Saxon model. The study has shown that the process of combination of continuity-based and innovation-based CSR exists in the CEC.

Analysing **main actors** of the CSR practices, we have identified three main expressions of the CSR: hierarchical, participative, and minimalist CSR.

Hierarchical CSR represents the conception of the CSR with leading role of managers. There is very strong mutual loyalty of the employees and managers in this type of the CSR conception. Managers decide about CSR practices and, in addition, they consider themselves responsible not only for their employees but also for the employees' families. In return managers get a strong commitment to the company from their employees. In the studied companies the hierarchical model of CSR results from neo-paternalist vision of managers' responsibility. Although this conception is not based on a balance of powers of actors within a firm, there is a possibility of future evolution of the hierarchical form of the CSR.

Participative CSR represents more balanced form of the CSR, which is based not only on managers but also on employees or their representatives. The company should do its best for acceptance its values formulated through vision and credo by all its co-workers. [20] In our research we have found several examples of the participative CSR practices in the Czech, Slovak and Romanian enterprises, while Bulgarian enterprises seem to prefer hierarchical form. The reason can be the fact that trade unions in this country have no real influence. It is not easy to introduce the participative CSR model, where an employee becomes a strategic partner of the company, in the CEC. Regular meetings between managers and trade unions, where problems of human resources management are discussed, can support the participative approach to the CSR. For example, in the studied Slovak company with a foreign majority stakeholder, the strategy of outplacement going beyond the standard social convention (retraining funding, job search) is attributed to its responsible behaviour.

Minimalist CSR consists of compulsory CSR imposed by the state and voluntary CSR that

appears as a limited commitment of the company. For example, payments of national insurance contributions on behalf of the employees made by an employer were interpreted as a dimension of the CSR in his company. The reason for which the payment of the employer's contributions can be considered as a compulsory CSR element imposed by the state is that many private companies employed workers without declaring them. Voluntary measures of CSR are limited and usually consist of occasional charity activities.

Finally we can state that hierarchical and participative forms of the CSR correspond with the European Commission definition of the CSR. Minimalist approach to the CSR corresponds only to the first part of the standard definition, which means that this form of CSR fulfils legal expectations but it does not go beyond them. Even the compulsory CSR should not be called CSR if the standard definition is applied.

4. Conclusion

The case studies of the companies in the CEC and evolutionary approach applied in our research let us conclude that the CSR in the CEC is a permanent process of institutional evolution. This process results in the forms of temporarily stabilized types of the CSR. Our study shows that there are not only multinational firms importing social responsible practices in the CEC but local firms are also able to install their own voluntary measures of the CSR. However, multinational firms have an important role in the process of formalization of the CSR practices. Some local firms elaborate their formal CSR rules by imitating multinational firms, and the only group involved in this process are employees, while the other actors such as local communities, clients, non-governmental organizations are left out.

The evolutionary approach to institutions shows that the result of the evolution of the CSR in the CEC cannot be predicted. Although the two countries, Slovakia and Czech Republic, in which case studies were carried out, were at that time members of the European Union, there were couple of reasons for which, the convergence of the socially responsible practices could not be expected in the new EU member states in a near future. In spite of geographic nearness and the integration process, the resistance and legacies of the new member states as well as the

heterogeneity of the European model of CSR keep national models of CSR from a convergence. This process of convergence requires also harmonization of the social rules defining CSR practises and it is not a case for the moment. In order to harmonize these practices, the European framework should be adopted to allow local governments and enterprises to act in favour of cohesion. Indeed, the hypothesis of convergence will be further discussed because the forms of the CSR vary strongly from one country to another. The behaviour of companies considered in one country as irresponsible may appear normal in another country. Moreover, recent debates at the European Multistakeholder Forum [13] showed that the process of convergence regarding the CSR did not mean necessarily an improvement of the socially responsible practices. Business and employer organizations argued that forced speeding up of the convergence would contradict the CSR's essence; it would reduce flexibility and innovation leading to poor solutions. It would reduce companies' ability to choose or develop a tool that suits their own circumstances and adds value to their business.

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Doručeno redakci: 14. 12. 2007

Recenzováno: 11. 2. 2008

Schváleno k publikování: 7. 4. 2008

ABSTRACT

THE INSTITUTIONAL FACTORS OF THE CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT IN THE CENTRAL EUROPEAN COUNTRIES**Maria Horehálová, Jana Marasová**

There is a one important reality economists agree on and it is the changing role of businesses in society. The way in which the role of businesses in society is growing is given by increased sensitivity to and awareness of environmental and ethical issues. Issues like environmental damage, improper treatment of workers, and faulty production that inconveniences or endangers customers are more and more in the centre of peoples' attention. These trends contribute to the pressure on companies to operate in an economically, socially, and environmentally sustainable way. One of the solutions that can improve corporate social behaviour is the CSR policy. The European Commission published several Communications on CSR with the objective to help companies integrate corporate social responsibility into the way they do business, every day.

With the enlargement of the European Union the issue of the development of CSR in the Central European Countries appeared. The transformation of centrally planned economy to free market economy brought a new view of the role of company in society. It was necessary to reformulate company's objectives on one hand and its roles on the other hand. In this situation the way of implementation of the CSR policy to the company's behaviour, especially company's investment decisions, became the issue of economic research. Considering continual institutional changes in the CEC the evolutionary approach to institutions was chosen as the research method. In order to identify the specific features of introduction of CSR in the CEC, Bulgarian, Czech, Slovak and Romanian companies were chosen as the case studies. The application of the evolutionary approach to institutions required defining what an institution means. At the same time the three institutional dynamics principles were identified based on several theoretical analyses of the institutional dynamics: the causes of emergence of CSR, the mechanism at work, and the actors involved in this dynamics. The evolutionary approach to institutions in the CEC also required reminding of the main features of the socialist unit of production.

The first outcome of the research of companies' behaviour lies in the identification of several main causes of company's acting in a social responsible way. Secondly, the mechanism of CSR was described in two ways as the continuity-based and innovation-based CSR. Finally, the main actors of the CSR were analysed in terms of hierarchical, participative and minimalist CSR.

In spite of the EU integration process, this research showed that it seemed difficult to expect in a near future a convergence of the socially responsible practises in the new EU member states. The main reasons for that are linked to the resistance and the legacies of the new member states as well as to the heterogeneity of the European model of CSR.

Key Words: *institution, evolutionary approach, institutional dynamics, corporate social responsibility.*

JEL Classification: M14, D02