

INSTITUTIONAL FRAMEWORK AS A CONDITION OF EFFICIENT CORPORATE GOVERNANCE

Nikša Grgurević

Univerzitet Crne Gore, Fakultet za pomorstvo Kotor⁹

Milica Delibašić¹⁰

Internacionalni Univerzitet, Ekonomski fakultet Travnik

Sažetak

U radu se prikazuje konceptualna analiza institucionalnog okvira, za koji autori vjeruju da predstavlja uslov efikasnog korporativnog upravljanja i nove paradigme održivog razvoja, odnosno CSR, i koja će u budućnosti zahtijevati sve veće uvažavanje i primjenu. Predlaže se institucionalni pristup CSR. Polazi se od hipoteze da tri postojeća teorijska pristupa (egoistički, altruistički i enlightened self-interest) ne mogu riješiti pitanje efikasnosti CSR. Uključivanje obavezujućih institucionalnih kriterijuma bi značajno unaprijedilo regulisanje odnosa između biznisa i društva. Vjeruje se da bi to bio najefikasniji instrument upravljanja CSR.

Ključne riječi: institucije, korporativno upravljanje, korporativna društvena odgovornost (CSR), korporacije.

Summary

This paper presents a conceptual analysis of the institutional framework, which the authors see as a condition of effective corporate governance and a new paradigm of sustainable development, ie CSR and that it will in the future require increasing respect and implementation. The institutional approach to CSR is being proposed. It starts from the hypothesis that the three existing theoretical approaches (egoistic, altruistic and enlightened self-interest) cannot resolve the issue of CSR efficiency. Inclusion of mandatory institutional criteria would significantly improve the regulation of the relationship between business and society. It is believed that this would be the most effective instrument of management of CSR.

Keywords: institutions, corporate governance, corporate social responsibility (CSR), corporations.

⁹ Dobrota 36 Kotor, Email: niksargrgurevic@t-com.me

¹⁰ Bunar bb - Dolac Travnik, Email: 23.mildel@gmail.com

Introduction

Long since terms like corporate citizenship has been once rose. They determine the connection of general economic principles with existence of Companies in society, and their social responsibility to society.

Because the obvious inadequacy of voluntary responses to requests for protection of the natural environment, as well as the inadequacy of the legal regulation of the corporation (even if they comply with it). Institutional approach to CSR should be a reason, for an alternative and complement to the three now known theoretical approaches: corporate egoism, corporate altruism, by which corporations are required to participate in the improvement of living conditions (The Committee for Economic Development) and the enlightened self-interest, who believes that responsible business is good, because it reduces the long-term profit loss, related to the company, improves the image of the corporation and trust company, attracting new customers, better meet consumer demands, increase sales volume and market value of shares of the company. We recall thinking H. Mintzberg's "Doing Good is Good Business".

Of course, if everything is the way it shows the theory of enlightened self-interest, the question remains: Why missing the broader institutional interventions in the field of CSR, or the application of an alternative institutional approach, which we propose in this paper? Especially since the definition of CSR, as proposed by the leading American Association "Business for Social Responsibility", it appears that commercial success can be achieved only with the observance of ethical norms, people, society and the natural environment.

In this paper, through conceptual analysis to prove that the institutional factors are an indispensable condition for effective corporate governance and a new paradigm of sustainable development and CSR.

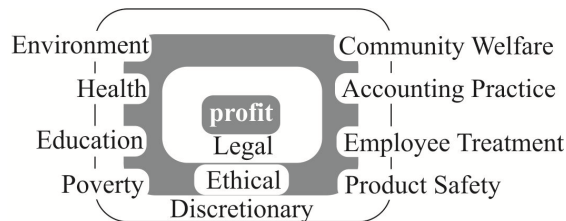
Review of relevant literature

In literature CSR has been viewed as an effective tool for corporations to enhance their reputation and build brand image and customer loyalty, as well as to positively influence society. Many authors have shown that engaging in CSR activities can help a company in various ways. Increasingly, companies and brands associate themselves with a cause as a means to: a) differentiate from competition; build an emotional bond with their customer; b) engender employee satisfaction/loyalty; c) create a cushion for greater customer acceptance of price increases; d) generate favorable publicity/counter negative publicity; e) help win over skeptical public officials (who might determine expansion/growth); and f) build corporate reputation and brand loyalty.

CSR has been addressed in the organizational/management and economic literatures from a number of different perspectives (Carroll, 1979, 1999, 2000; Margolis & Walsh, 2003; Van Marrewijk, 2003; Wood, 1991). Friedman (1962) offered the view that the only responsibility of business is to make a profit, within the limits of the law. An opposing stance, however, is that the corporation has responsibilities to others, in addition to shareholders. Increasingly, organizations have

faced pressures to address societal concerns (Lewis, 2003; Margolis & Walsh, 2003; Matten et al., 2003). As a result, organizations have been sensitized to the importance of making a positive contribution to society, and many act accordingly.

FIGURE 1. CARROLL'S FRAMEWORK OF CORPORATE SOCIAL RESPONSIBILITY



Source: Carroll (1979, p. 499).

Carroll (1979, 1999) argued that CSR is composed of four components: economic (the basic responsibility to make a profit and, thus, be viable), legal (the duty to obey the law), ethical (responsibility to act in a manner consistent with societal expectations), and discretionary (activities that go beyond societal expectations). Carroll (1999, p. 283) described the ethical portion of CSR framework as ... *the kinds of behaviors and ethical norms that society expects business to follow. These extend to behaviors and practices that are beyond what is required by the law.*

CSR involves a broad range of issues related to the role, position, and function of business in contemporary society (Jonker, 2005, p. 21). Van Marrewijk (2003, p. 236) stated that CSR ... „refers to company activities - voluntary by definition - demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders“.

The seminal theme of CSR is that organizations have responsibilities beyond profit maximization (Carroll, 1979, 1999; Moir, 2001). The challenge faced by companies in the current environment is to „use their capabilities and capacities to contribute in a traditional business sense while accepting a social role“ (Jonker, 2005, p. 20). Adopting this dual perspective, many leading corporations have been shifting from a traditional charity perspective to strategic CSR which attempts to integrate corporate donations and community service activities with business operations and interests (Dean, 2003, p. 78). Similarly, cause-related marketing, whereby firms link the promotion of their product to a social cause and contribute a share of the revenues to the cause, is an increasingly common manifestation of business-society linkages (Higgins, 2003, p. 13).

The institutional framework of CSR

Innovative approaches to business pioneered by the California Public Employees' Retirement System (CALPERS) lists five basic corporate principles: accountability, transparency, equity, voting methods, and codes of best practices. Long-term vision implies that the company has a clear idea of how it will develop in the future. It is logical that the inevitable expansion liability company follows the expansion of their business impact. Pressure state authorities and society to companies in terms of their social responsibility is increasing. However, we believe that the formation of a new paradigm of corporate social responsibility is not possible without creating a solid institutional framework. For now, there are some essential prerequisites for its formation, as corporate citizenship, social investment and social partnership. It seems that the consistency of the new paradigm of social responsibility corporations mentioned elements should be added to a clear and binding institutional framework. Why?

The corporate governance and CSR involves many players: shareholders (owners, ownership state; individual and institutional), wage workers (managers and employees), managers (internal and external) and corporate units (firms, banks). Their mutual relationships are complex and are determined by the institutions - the rules of the game, both formally and informally. It is therefore logical that the appropriate institutional environment and institutional competition requires effective corporate governance and the new paradigm of sustainable development. After all, if it is proven to have effective institutions precondition of economic development, it is logical to assume the same cause-and-effect relationship, and when it comes to corporate governance and CSR.

TABLE 1. EXAMPLES OF INTERNAL AND EXTERNAL CORPORATE GOVERNANCE INSTITUTIONS

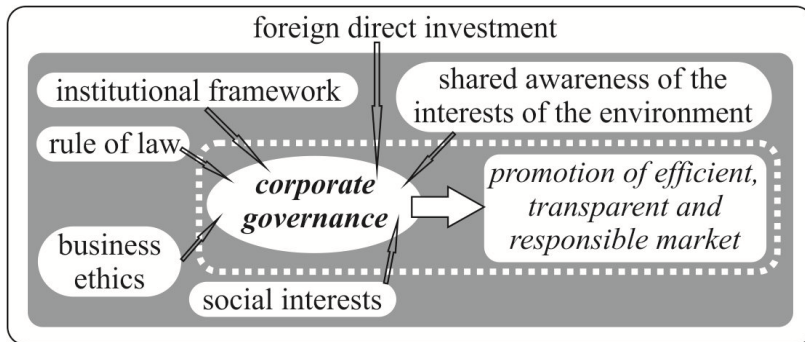
Institutions	Internal control	External control
Formal	<ul style="list-style-type: none"> – Supervisory board – Management team – Shareholders – Workers council – Guidelines and authority relations 	<ul style="list-style-type: none"> – Competition authorities – Laws on, e.g., property rights, bankruptcy and insolvency procedures, and rules regulating enforcement – Exchange rules (stock exchange) – Accounting standards,

		and auditing and disclosure principles
		– Reputational agents (financial analysts, accountants, and the like)
		– Institutional organizations like Central Banks, OECD, World Bank, EBRD
Informal	– Firm specific norms and values	– Self-regulation in a sector
	– Managerial ethos	– Reputation (trust)
	– Codes of conduct	– Societal norms and values

Source: Postma & Hermes, according to: Draskovic & Stjepcevic (2012, p. 30).

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is directed, administered or controlled. Draskovic and Stjepcevic (Ibid.) Point next to the above mentioned control relationships, which are generally more formal in character; there may also be informal institutions that play a role in corporate governance. Such informal institutions may be firm specific norms and values, management ethos and codes of conduct in business, as well as more general norms and values existing in society at large, self-regulation within a certain industry, and the reputation of a firm in its relations with its competitors, suppliers and customers. The specifications of corporate governance indicate that corporate governance institutions are aimed at supplementing formal contracts between different stakeholders.

FIGURE 2. INSTITUTIONAL, INTERNATIONAL AND OTHER FACTORS OF INFLUENCE TO THE CORPORATE GOVERNANCE AND CSR



Source: Draskovic & Stjepcevic (2012, p. 34).

Nobel Laureate D. North (1990) coined the term: institutional matrix, in order to explain the legal, cultural and normative components of the surroundings. The significance of the institutional matrix lies in the way it shapes the strategic choices and enhances economical activities. Babić (2010, p. 561) says correctly that if the formal institutional frame is underdeveloped, the informal rules become more important. The formal and informal institutions act like linked vessels, and that is why when the formal institutions are lacking, the informal institutions based on the personal relationships are more important. Finally, Babić (Ibid. p. 564) points out that the discussion on corporate governance always opens an old issue of human existence - a tension between individual freedom and institutional power.

Short comparative analysis of American and European models of CSR

The given analysis has to respect the relatively different entrepreneurial and institutional factors influence. U.S. pushing freedom of economic entities, voluntary bilateral agreements and the principles of self-regulation remain the standard. State regulation has been reduced to the key areas of inalienable human rights. They are built by many businesses in the mechanisms of social support: corporate funds, vocational education and other important social programs, tax cuts, non-commercial projects, foundations (e.g. B. Gates - \$27 billion U.S.).

The European model of CSR is regulated by the norms, standards and laws of the state in the field of ethical, environmental, legal and economic responsibility of the firm. State regulation in this area is primary. Ethical responsibility is most present in atomic energy, medical experiments on animals and products of genetic engineering.

Economic responsibility focuses on the relationship of the company to shareholders (as in the USA), but not to the workers and the local community. Legal liability is the foundation for all forms of responsibility, where the state acts as an institution that defines the rules of conduct.

TABLE 2. MODELS OF CSR IN THE U.S. AND EUROPE

Aspects of CSR	USA	Europe
Economic Responsibility	Consist focus on advanced principles of corporate gover-nance, which refers to a rewar-ding and Consumer Protection	Legislative frameworks define behavior, e.g. standardized 35 hour work week, regulation of the over-time working norms, rules of economic activity and health testing of employees.
Legal Liability	Low level fixed legal rules of corporation	Deep-drafted legislation on rules of running a business
Ethical Responsibility	Dominant tendency of support to local community	High taxes and high levels of state social protection
Philanthropy (donations)	Sponsorship of arts, culture and University education	High tax burdens that are used for state funding of culture, education and others.
Main stakeholders at the level of significance	Shareholders, consumers, workers, society	Workers, consumers, society, shareholders

Source: authors

TABLE 3. THE MAIN CONCERNS OF STAKEHOLDERS

Name of Stakeholders	Basic Interests
Shareholders	Amount of dividend, increasing the value of shares, increase the value of the company and its profits, stock price fluctuations
Institutional Investors	Volume of investments with a high level of risk, expectation of higher profits balance of the investment portfolio
Workers	Guarantee of employment level of real wages, conditions of rental, career development opportunities
Consumers	Desire quality products, acceptable price products diverse range
Dealers / Distributors	Quality service timeliness and security of supply quality of goods and services
Suppliers	Stability of the order, payment within the terms of the contract and
Representatives of Government	Secure of employment, paying taxes, answering the requirements of law and business support or joint implementation projects contribution to social infrastructure.
Social and Non-governmental associations	Care for the natural environment support to the local social activities, implementation of CSR
Media	Obtaining accurate and complete information about the work of Corporation, access to top managers for getting comments

Source: author

The problem of CSR in transition countries

It is not easy to define a model appropriate and effective management at all levels at which figures: companies, regions, industries, companies and other subjects that make up the complex economic reality. Corporate Governance and CSR has long been the subject of theorists and practitioners attention with an emphasis in large corporations. This task is very difficult because researchers are faced with information barriers, trade secret regime, but no data available on the actual number of employees, the structure of relations in the corporation, social engineering, management and other indicators.

In modern society, and the economy happened a shift to flexible organization processes, adaptive network organizational structure, extensive use of new information technologies and electronic communications, and global strategies such as outsourcing and others. Qualitative complexity of the object of management, caused the development of the subject management and development model of interaction equal subject-subject, which is the essence of modern corporate governance.

Corporate governance has a special relevance and significance in transition countries. In them, a noticeable active, indiscriminate and uncritical “borrowing” some elements from different Western models of management organizational schemes, including those that are not compatible, with the specific conditions of transition (primarily institutional, and then the nature of the company, their work ethic, social orientation, corporate culture, work motivation, ownership structure, management style, work motivation, corporate communications, customer relations and similar).

If the institutional framework is missing in the Western concept of CSR, it can be imagined the situation in this regard in the transition countries, where many problems are expressed in terms of institutional change. Modern western (“market”) is the dominant (mixed) pluralist society type in institutional meaning. In many transition countries neoliberal institutional monism type are pushing. It is clear that these are two completely different institutional frameworks, the factors influencing the formation, operation and development of corporate management. Discard the analysis of neoliberal practices, in terms of whether it institutional monistic, or pseudo-monistic. However, the above elaboration becomes more important when viewed through the prism of the indisputable fact that the corporate governance in the West formed the socio-economic institutions. It is systemic integrated into the appropriate system (institutional plural) social order. In this context, it is clear why establishment of the institutions of corporate management has not experienced a complete (rather bigger) realization in many transition countries. It actualizes problem of institutional conflicts between artificial (not to say interest) forced market monism and natural, objective, proven in practice and only possible institutional pluralism. The absence of institutional competition in years (decades) of transition reforms meant isolation of corporate management and its links with other areas of life.

Reform of every society includes intensive flows of innovation in all social, political, economic, legal, cultural spheres, all levels of management and all aspects of life. This statement per se is proving to be an institutional pluralism, and that every

institutional sidedness (especially if it has the pseudo prefix) results in systemic inefficiencies, contradictions and imbalances, which in extreme lead to crisis situation. As much as it was viewed in isolation, the microeconomic and macroeconomic environment is part of the overall institutional milieu. If these ambient in many ways does not correspond to the character of the Institute of Corporate Management, which by definition requires a pluralistic harmony of elements, then import other people's recipes has no chance of success. This is especially impossible in terms of monist institutional dominance pseudo market, pseudo-ownership, of pseudo-governmental and pseudo-control structures, which, looking at them individually, often represent a vulgarization of the monist institutional structures. About their pluralistic combination cannot be discussed, because rhetorically neoliberalism by definition excludes such a possibility. Of course, these are anti-civilization construction, which contradicts not only the development but also common sense. We will not engage in the evaluation and analysis of the above anti-institutional scenario. It is enough to ascertain that institutional monism has no chance of success in modern pattern of social, economic, informational, and other relations, not to mention its vulgarized pseudo-institutional structures. If nothing else, it is obvious at first sight she interrupts and deforms natural relations between microeconomics and macroeconomics; which eliminates the possibility of positive and rational activity of corporate management, and therefore the basic conditions for CSR and sustainable development.

Adaptation of the Western rich experience in corporate management and CSR is only possible in conditions of transition selective methods, which need be adapted to specific institutional and systemic conditions. It is objectively possible only under conditions of institutional pluralism, which essentially provides an effective framework for the development of corporate management and CSR in developed countries. Any reduction of institutional pluralism and its reduction to the formal institutional monism (and essentially rhetorical, vulgarized and / or pseudo form) does not provide even elementary conditions for the development of corporate management and CSR.

Many theoretical and methodological aspects of corporate management and CSR in most transition countries have not developed sufficiently. Especially, not in the area of depend on to corporate management on institutional theory of economic change. Besides the legal dimension, which dominates in the scientific research of the phenomenon of corporate management and CSR, we need fundamental research which observes the mentioned phenomenon in terms of socio-economic and property relations.

Conclusion

Social and economic reforms are successful only when the actors consciously and responsibly participate with the most significant actors and when they realize the institutional conditions are maximally respected and applied. Mutual harmonious partnership relations of political, social, economic and institutional entities and conditions should provide gradual, steady and sustainable economic and social

development. It implies an increased importance of non-financial factors of development, such as social stability, environmental safety and social responsibility.

CSR wider range of communications capabilities corporate relationship with society and create new instruments of interaction with shareholders.

Doing the "right thing," in an environment where corporations are increasingly criticized for unethical activity, may ward off backlash and contribute to the reputation as an entity that cares, and thus may enhance its image.

In the process of realizing socially responsible policies, increasing the role of corporate governance should provide effective implementation of social, economic and environmental objectives of the company. Worldwide efforts have been made to the modern corporate sector appears not only as an effective economic subject, but also an effective instrument of social policy, which takes into account social expectations. The bottom line is that it is known environmental and social cost of economic efficiency. Basic principles of CSR must be openness, public (transparency), accurate, informative; create open dialogue, regularity, consistency, system institutionalization, focus, timeliness, efficiency, comprehensiveness and avoiding conflicts.

No matter how respectable, attractive and diverse research on corporate and organizational culture, the evolution of corporations and their organizations, it seems that belong to the primacy of institutional-evolutionary approach to corporate governance and CSR.

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