

The evolution of socio-responsible business in developing countries: an institutional perspectiveDaniil Petrovich Frolov¹ and Anna Anatolievna Shulimova²¹Volgograd State University, Universitetsky prospect, 100, Volgograd, 400062, Russia²Institute of Economics and Management in Medicine and Social Sphere, Sadovaya street, 218, Krasnodar, 350042, Russia

Abstract. This paper explores the socio-responsible business practices in corporate management, suggesting the usefulness of adopting an institutional perspective. Focused on the possibilities of institutional transplantation, the economic benefits of an importation and a further adaptation of business social innovations, leading companies create adequate forms of realization of business social responsibility (BSR). This research demonstrates that the firm evolution and global trends assign incentives to introduce BSR institutions in organizational behaviour for minimization negative externalities, creation and consolidation reputational capital, maximizing capitalization of brand. The case study highlights a number of contradictions and problems that delay the successful building of managerial strategies to improvement business-government relations, meeting stakeholder expectations and produce customer loyalty.

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Introduction

By virtue of global economic integration and international competition native firms of developing countries are compelled to introduce the international standards of corporate sustainability. National business is getting a powerful impetus to changing strategic behaviour in the direction of their greater competitive orientation and adaptation of the principles of stable, socio-harmonious development [1]. In particular, embedding of Russian companies into the global value chains and into the supply chains objectively requires meeting global principles of corporate social responsibility. As the world experience shows that “creation of stable internal institutes for entrepreneurship is a determining factor of getting the advantages of medium-term development and growth which make provision for joining World Trade Organization (WTO)” [2] and cooperation with other international economic organizations. One of such institutes is *business social responsibility* (BSR).

The theoretical analyses presented in this article are based on the author’s interpretation of key concepts of evolutionary and institutional economics. The institutes are considered to be as genotypical functional and structural models of economic relations, typical complexes of complementary institutions for organizing specialized transactions. The institutions are status functions of subjects of individual and collective activity namely agents and organizations [3]. Both firm and BSR can be considered as institutes being understood as the systems of interrelated institutions while concrete firms and forms of organizing corporate

social responsibility are phenotypical manifestations of institutes.

It will be required for the national entrepreneur community to analyse and consider the experience of the transnational corporations and enterprises with foreign investments in the field of reputational and brand-management as well as it is specially important to adapt innovative practices established in the sphere of BSR. Such practices are usually connected with charitable and social activity, but their component can also include ecological commitments, observance of labour conditions and human rights, provisions of transparency in commercial operations etc. being also significant. One of the main challenges of Russia joining WTO for strategic management and marketing consists in the fact that BSR must become a key element of business strategies for the majority of the national companies. It requires a complex institutional analysis of nature, global trends and regional specificities of BSR, its positive effects and contradictions on economies of developing countries, as well as its structure and adequate forms of realization.

Research methodology

Most investigators are inclined to consider BSR as established in society, formed institute as invariable economic reality ignoring the metamorphoses going on with it and its inner dynamics being gnosiologically in the fact that integral conception of BSR is still at the stage of its formation, the consequence of it is an illegibility of understanding of BSR and difficulty in its management. The main

attention of the scientists is drawn to BSR content and in this connection variety of concrete forms of manifestations of their institute is somewhat ignored.

It happens because of insufficient comprehension of the fact that the firms often produce public goods and especially externalities in the process of realizing their basic functions, i.e. production and sale of private goods [4]. Hence there follows variety of forms of realizing BSR, for example, in the process of production, as the produce being made, in the process of sale. R. Locke [5] suggests to consider BSR through the prism of various dichotomic measurings: instrumental and ethic motivation, shareholders and stakeholders as beneficiaries, an institutional format as the contract and post-contract obligations, relation with financial results like a profit increase or decrease, a direct and an indirect effects for business. M. Kitzmueller and J. Shimshack [4] differentiate post-contract, unprofitable and strategic forms of BSR realization. A. Carroll [6] suggests theoretical model including four hierarchically structured types of corporate social responsibility: economic component as profitability and meeting the customers' requirement; legal component as law observance; ethic component as keeping to moral norms and values, philanthropical component as corporate citizenship.

Figure 1 presents the conception of evolution BSR which is closely connected with the paradigm of steady development and embodied in the system of business relations with society and state concerning voluntary assumption of a wide range of obligations forming hierarchical order of ways of organizational behaviour. While legal responsibility of business is supported by the state enforcement, system of control and sanctions of economic responsibility is realized in automatic mode of responding to the market signals. Ecological and socio-labour responsibilities in equal extent are defined by law requirements and by negotiating trade unions and specialized non-government organizations; in its turn civil, socio-cultural and socio-humanitarian responsibilities deal with the sphere of voluntary institutional initiatives. Their role lies rather in filling in legal "gaps" in this sphere and complement of existing norms and forms of control than in substitution of the state regulation.

Maturity of BRS is determined by institutional logics of the firm evolution and the level of economic progress of a company. Thus, on stage 1 the firm offers to observe legislation, protect civil rights and freedoms and counteract corruption. On stage 2 in addition to that the firm follows an economic policy of profit gaining, produce of qualitative goods and services, generation of marketing innovations. On stage 3 in addition to the previous responsibilities the firm volunteers economical use of resources, preservation of environment. On stage 4 the firm adds responsibility to

care for provision of employment, improvement of labour conditions, supply of social guarantees, investments into human capital. On stage 5 the firm obligations extend over the development of local community, interaction with institutes of civil society. On stage 6 the firm acquires ability to support large social and cultural initiatives. On stage 7 the firm proves out all accepted obligations and responds to the urgent social problems.

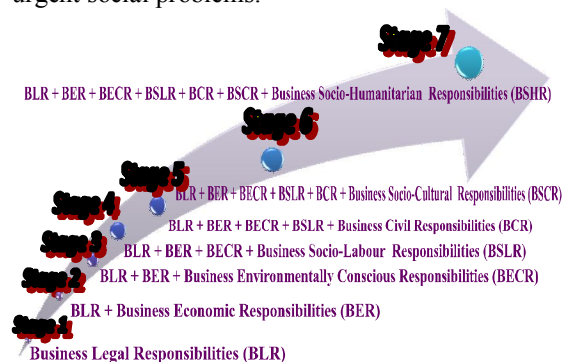


Figure 1: Evolution of forms of business responsibility

Flexibility, adaptation, relative freedom of keeping to voluntary norms and obligations stipulate their high potential in provision of constructive multilateral interaction in the field of BSR institute. Voluntary institutional initiatives can develop under patronage and support of the state; act as a result of industry self-organization or policy of separate and non-governmental organizations and so on. Such types of initiatives are particular regulative mechanisms which can play theoretically an important role in regulating behaviour of firms and industries. These are any collective efforts aimed at putting in order and raising certainty of corporate social responsibility by the methods not required by legislation. They are created to strengthen and compensate for drawbacks of the state regulating mechanisms. Their potential advantages evidently outweigh drawbacks. Firstly, in the light of toughening competitiveness reputation and image for the overwhelming majority of most manufactures and retailers have a great importance which allows to treat critically towards prospect of mass demonstrative adaptation to BSR conception. Secondly, initiatives of "masses" are always more flexible as compared to changes of national and especially international mechanisms of regulating legal acts. New problems in the field of BSR can be solved much faster and with an appropriate extent of effectiveness by means of informal mechanisms of self-regulation.

The model of introduction BSR institutions into organizational behaviour

As the results of studying the introduction of BSR institute into developing countries show, the size of the firm is more significant factor of developing the social activity of corporations [7, 8, 9]. It is connected with the fact that social responsibility is referred to higher level of hierarchical “pyramid” of the firm requirements. As the claims to a well-known “Maslow's pyramid” are related just with an excessive detailing the requirements, there was suggested aggregative approach to their classification for the model to be discussed (see figure 2).

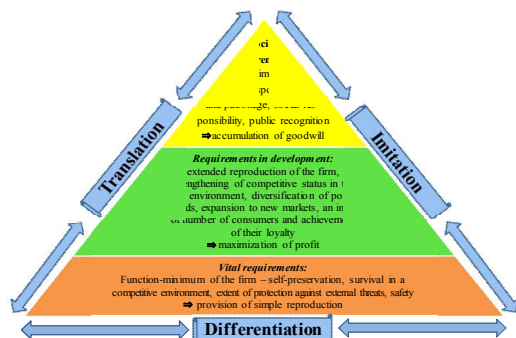


Figure 2: Hierarchy model of the firm requirements

This model has dynamic nature: large companies “grown” to the level of social requirements transfer their models of organizational behaviour to their counterparts and partners demanding their observance of analogous standards to form a favourable institutional environment of their activity as well as they are generators of the best practices and standards for leading bench-marketing competitors. Small and middle-sized business are inclined to imitate the requirements of higher level especially in the sphere of strategic management and marketing; at the same time there takes place an objective differentiation of the corporate requirements, broadening opportunities of their satisfaction in different forms.

BSR is a special economic institute of capitalism being a *genotypical model of assigning functions (institutions) to the corporate structures embodied in the system of principles, rules, norms, requirements and values of business social orientation*. The content of this institute is a heterogeneous complex of specific institutions steadily fixed and socially legitimized status functions of subjects of economy. They are: corporate charity, patronship, sponsorship, social marketing, social investment and partnership, corporate citizenship and volunteering. The problems of identifying individual BSR institutions are explained by the fact that social programmes and practices, codes and standards, public non-financial reporting etc. are a total product of activity of various institutions in different combinations which create illusion of institutional “sycrretism”.

BSR institutions are functionally diverse and closely interacted which reflect their evolution concised in time and a complicated adaptation to effects of economic, political, ethic, religious, cultural and other social factors. Incorporating and realizing these institutions modern companies are becoming the subjects of socio-responsible actions aimed at harmonization of targets of commercial activity with the purposes, interests and expectations of different groups of internal and external stakeholders. In spreading BSR institute among the subjects of corporate sector there are naturally manifested modern trends of developing global economy connected with strengthening democratization, humanization, tolerance, solidarity and cooperation based on equal rights in dialogue of business, state and society. These trends do not change the nature of capitalist firms essentially but reflect the increased social demands and induced adaptational processes.

From economic point of view assigning complex of institutions of social responsibility to the company supposes expenditures of resources on realizing these functions and reproductions of corresponding social statuses leading to gaining certain advantages including useful effects.

BSR institutionalization can be represented as the process of evolutionary complication, differentiation and integration of the system of corresponding institutions and raising the place and role of this institute in society. One should stress that institutionalizing the company as a socio-responsible subject is closely connected with the problems of legitimacy and legitimization of business [10]. Legitimacy of firm is connected not only with legality of its activity i.e. realization of legal responsibility but with social sanctioning. Therefore “to become and continue to remain legitimate the firm must constantly demonstrate various forms of its responsiveness to the requirements of external environment” [11]. Legitimate organizations understand, accept and correspond not only to the law requirements but also to public expectations, ideas and values of various social groups.

This process is not as so simple as it may seem at first sight. In modern world public distribution of human activity has a global and superintensive nature expressing in deepening the fractionalizing i.e. unification of people into compact groups according to their interests (fractions). One of the new forms of fractionalizing is tribalism [12], formation of virtual “tribes” in social networks whose members have common values and views, interests and rules, knowledge and experience, rituals and memes. Traditional segmentation of the markets are swiftly becoming obsolete as it supposes analytical division of consumers area: while segments are artificially singled out groupings, the fractions and “tribes” – are really

existing social microgroups. Immense and continuously growing number of social fractions and network “tribes” mean for business an increase of risk of discrepancies to expectations of this or that group of stakeholders which must be much more evident in the light of minimization of costs for spreading negative information.

BSR is one of many examples of “transplanting” institutes i.e. their copying from more developed economic system into less developed to accelerate development of the latter. The illusion of possibility of importing the institutions and institutes functioning in more developed countries in a “ready-made form” has been recently refuted by institutional theory and practice. Under effect of exogenous factors there take place modifications and transformations of “transplanted” institutional objects which correspond to the basic D. Falconer's equation of environmental deviation: $P = G + E$, where P – phenotypical, G – genotypical, E – environmental value. This formula shows that intrasystem transfer of the institute in the form identical to the institutes of system-donor is impossible. Created according to “image and likeness” of standard the institutional objects move away phenotypically from their samples under influence of factors of “alien” environment, preserving only genotypical likeness to their originals.

Problems and advantages development of socio-responsible firms

The process of adapting transplanted institute of BSR to specificity of institutional environment of Russian economy occurs in three forms which coexist in parallel changing gradually structural proportions:

exaptation: superficial introduction of this institute which is accompanied by changing its set of functions as compared to the standard one expressing in demonstrative social responsibility, in forced social investment and partnership, in episodic social actions realized without system and not aimed at long-term prospect;

cooptation: a deep introduction of the institute to be discussed connected with transition from correspondence to obligatory normative and legal requirements to voluntary initiatives, extension of using commercially oriented forms (sponsorship, social investment, social marketing);

integration: BSR institute enrooting in organizational culture, using innovative practices (corporate citizenship and volunteering), installing the appropriate principles into all business processes of the firm and its economic policy including implementation of the rules of meeting the international standards in this fields.

Development of institutions of social responsibility is accompanied by numerous problems among which are the following:

1. a distorted idea on social activity of companies among their owners and top-managers leading to the substitution of BSR initiative forms by sponsorship and point social investment with the aim of forming positive image in state and gaining an additional profit;

2. one-sided understanding of the social responsibility by local and regional authorities considering this institute as a form of additional exploitation of business as budget donor by means of delegating functions;

3. functional “dystrophy” of social responsibility, for example, contraction of sphere of realizing social partnership up to interaction with the corporation administration and trade union in the field of labour relations;

4. immaturity, insufficient activity and high fragmentation of the institutes of civil society which don't provide for enough impulses to business subjects for widening spectrum of social programmes.

But an evident deficiency of motivation of top-management of Russian companies towards introducing BSR institutions and programmes remains as the main problem. Social responsibility is not accepted so far even by “active minority” of the business leaders as an objective necessity and basis of strategic development. In the conditions of post-crisis restoration “corporate social activity rather reminds the next “burst bubble” than demonstrates innovative potential allowing to get out of crisis with competitive advantages. The reason of it is clear i.e. an excessive dependence of national business on power which sets off the accents of its social policy as well as a general low level of competitiveness of most inner markets which makes superfluous and economically ineffective for business the struggle for their legitimacy in front of whoever it was with the exception of power structures of different levels [13]. It reflects an institutional “immaturity” of business and civil society of our country, but the established situation does not pose “a trap” and can be overcome. Russia's joining the WTO in medium-term prospect is able to create necessary exogenous impulse to increase activity of Russian firms in the sphere of social responsibility. Similar situation was observed in many developing countries: China, Vietnam, Malaysia, Bangladesh, Pakistan and others [14, 15, 16, 17, 18].

Conclusion and implications

An intensive introducing the conception of social responsibility into practice of modern business is reflected in broadening the scales of this institute,

formation of new ones and complication of the exiting institution, raising prestige of corresponding ratings actualizing new theoretical and methodological as well as problem-oriented investigations in this sphere of knowledge. It is especially significant in the light of internationalization which will lead to stimulate using BSR standards and practices to make integration with foreign partners more effective. As the experience of developing countries already passed this process shows that content, focusing and forms of BSR realization can considerably differ in various countries depending on peculiarity of political, cultural and other social institutions. Search for Russian institutional model of BSR will require a flexible, adaptive state policy based on combination of administrative and market methods of regulation and it is impossible without an active participation of civil society.

At the same time unreasoned social business innovations as well as local resistance of introducing BSR institutions create new threats and problems for national business. And finally we can confirm with certainty that insincere and hypocritical attempts to exploit social and ecological sensitiveness of customers would be punished by more and more becoming complicated global market. An objective necessity of increasing effectiveness of transplantation of BSR institute demands to integrate regional features to the logics of firm evolution.

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