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# **The Institutionalization of Socio-Responsible Business: Global Trends and Regional Features**

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**Abstract:** The article describes the dual nature of business social responsibility: global and regional. The increased pressure of globalization produces a new stakeholder expectations and efforts of companies to conform to it. As a result of return reaction the growing requirements of International standards of business ethics create common effect on corporate management and organizational behavior. However, the institutional conditions of the firm evolution are determined by regional basics of institutional environment. It sets up a local differentiation of socio-responsible activities of corporate sector. Focused on the possibilities of institutional transplantation we consider economic benefits of an importation and a further adaptation of business social innovations for developing countries and Russia.

**Key words:** business social responsibility; firm evolution; corporate management and marketing; institutions; institutionalization; transplantation.

## 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 behavior in the direction of their greater competitive orientation and adaptation of the principles of stable, socio-harmonious development. 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 WTO” [1] 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 [2]. 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.

## **MATERIALS AND METHODS**

The researchers often state that BSR is becoming a peculiar mainstream of entrepreneurship. All over the world the firms are voluntarily increasing the investments into production and allotment of the public profits, reducing negative externalities below the level

required by law supporting social and cultural initiatives, increasing the guarantees and improving labour conditions of employees, making their investments and strategies transparent.

Does it mean that exploitation of hired labour is irretrievably going into the past and modern capitalism is moving towards a complete harmony with society? There is no concrete and clear answer on this question and can't be. The share of philanthropists among the businessmen hardly has a long-term tendency towards an increase. Most likely K. Marx was not mistaken in his statement that "capitalist process... reproduces and immortalize conditions of exploiting the workers" [3]. But the development of capitalism was accompanied by a violent social progress, by the transformations of institutional structure and public consciousness, by growth of education among the people and a total domination of mental of labour, mass expansion of democratic values as well as by Internet revolution, toughening the competitiveness on a global scale and by transition of power at the markets to the consumers.

An exploiting nature of capitalist economics in these conditions is forcibly taking milder veiled even gentle shapes mimicking of their care for employees and public interests. It mainly concerns only those countries where level of maturity of civil society is high and business activity is under stare and control. Anyhow capital in developing countries "reveals" its carefully disguised nature. At the end of 2009 the group Greenpeace International submitted data according to which foreign retailers (including Wal-Mart, Tesco and Ito-Yokado) not only economize totally on "green" initiatives but actively contaminate the environment as well as they don't observe in China their own inner standards of quality for foodstuffs and sell genetically-modified products violating their principles [4].

Therefore, the nature of much deeper institutionalization of BSR in a modern world is related with a complex of reasons. Firstly, it is *protective reaction* to an increasing pressure

on the part of strengthening civil society and state regulators; secondly it is a *response reaction* related with using unprofitable conditions with commercial aim as a component of marketing and PR-companies to improve image and reputation; thirdly, it is a *return reaction* dealing with a forced and rather expensive spreading the norms and practices of social responsibility for their counter agents and partners specially in developing countries to avoid risk of disclosure of disagreement with public standards and detriment to an umbrella brand image.

It is not accidental that BSR is a subject of ceaseless discussions and critics. Classical or rather neo-classical argument first cited by M. Friedman lies in the fact that the only form of corporate social responsibility is maximization of its profit [5]. In other words companies are responsible only to their owners but not to society as a whole, or to individual social groups. Business responsibility to society is directly connected with observance of legislation and indirectly – with provision of employment and innovations; all the rest obligations have an artificial nature [6]. Certainly, BSR being force one by nature though having formally voluntary character has few things common with the principles of liberalism, considering it as an ordinary “attempt to realize the problems of the state policy cheaply and between times” [7]. The critics also reproach BSR ideology for its badly-concealed insincerity and hypocrisy: motivation of many companies launching the programmes of corporate social responsibility is only related with raising their reputation in the eyes of consumers and state to extract additional commercial benefits.

Under influence of growing social demands modern corporations are more and more becoming something like moral agents of society and spectrum of their interests besides maximization of shareholders’ profits also includes satisfactions of requirements of a wide circle of concerned parties, advantage of purchasers, stakeholders including managers, employees, consumers, local population, various public groups and state. *The institute of firm*

*is more and more acquiring the format “extended enterprise”, being a basic element in the network of interrelated internal and external stakeholders, creating supporting and extending its markets [8]. Such extension of the firm is an objective stage of evolution of this institute connected with interiorization forcing pressure of social environment and with transformation into “environmental system”, eroded border of which is defined by interactional contour in the space of market and non-market interactions. These are environmental changes which define key types of the firm activity; during last decades they are developing from the format of classical hierarchy towards flexible decentralized network structures [9].*

In instrumental sense BSR is a way of managing the firm related with a voluntary integration of social and ecological imperatives into all business-processes and business policy as a whole considering interests and expectations of internal and external stakeholders to accumulate reputational capital and a maximum capitalization of brand. The key meaning for management in BSR format has four aspects: 1) socio-oriented management of personnel, business processes and quality of produce according to criterion of minimizing negative externalities and meeting higher standards; 2) forms and scales of interactions with social environment; 3) organizational training (accumulation of knowledge and competencies) [10]; 4) institutional support (regulation and integration into managerial routines). As the analysis of practice of introducing BSR programmes by Russian companies shows that if the first two directions are perceived as evident training and institutionalization remain weak links of the corporate management oriented to social responsibility.

The market innovations raised by BSR are related with focusing on socio-significant problems: public health, unemployment, homelessness, surroundings, private trade, human rights etc. H. Pringle and M. Thomson give the following data: 86% of consumers perceive the company demonstrating the results in making decisions of social problems more positively; 76% of consumers are ready to switch over to similar goods and services of the

other company if it is associated with public and useful activity; 64% of consumers are ready to pay 5% more than on average if the goods are associated with social activity; 20% of consumers agree to pay 10% more, if the goods are associated with social activity of companies [11].

An active adaptation of BSR principles as a mental trend leads to a progressive transition from conception of marketing based on socio-significant problems or social-cause marketing [12] to corporate social marketing [13] totally orienting the whole market policy of the firm to a constant correspondence to the expectations of stakeholders. The main task is not their being kept informed of social activity of the company which is often set as a key purpose of BSR programme in the format of the company behavior and mentality of its employees and managers [14].

The interests of socio-responsible firm is not limited by narrow understandable commercial benefit, but is determined by striving to raise social status and accumulate reputational capital which reflects influence *on the institutional expediency of an organized behavior, a special form of determining the actions of organization according to its status and set of roles in society, principles and values, normative-legal and informal environment*. In this case corporate standards of socially-responsible company must exceed minimum requirements and obligations fixed by legislation and collective contracts. Though “virtuous” firms are often rewarded by market for its social responsibility [15; 16], they have to be really virtuosic in their efforts to correspond to expectations, interests and values of numerous stakeholders.

Most of 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 [6]. Hence there follows variety of forms of realizing BSR, for example, in the process of production (introducing resource-saving and ecological technologies, raising safety of working places etc.), as the produce being made (energy-saving engines, foodstuffs without dyes and genetically-modified components and others), in the process of sale (allotment of the profit part to the charitable funds and so on). R. Locke 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 [17]. M. Kitzmueller and J. Shimshack differentiate post-contract, unprofitable and strategic forms of BSR realization [6]. In its turn Carroll's model includes 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 [18].

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 behavior. 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.

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 behavior 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.

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 [19; 20; 21]. 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).

This model has dynamic nature: large companies “grown” to the level of social requirements transfer their models of organizational behavior 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.

## **RESULTS AND DISCUSSION**

BSR – 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 (see Table 1). 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 “sycetism”.

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 don't 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. See Table 2.

*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 [22]. 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” [23]. 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 [24], 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.

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:

- 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;
- 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;
- 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;
- 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 [25]. 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 [26; 27; 28; 4].

## **CONCLUSION**

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 existing 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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Table 1: Institutions of socio-responsible business

<b>Institution</b>	<b>Key functions</b>	<b>Institutional substance</b>	<b>Forms of realization</b>
Corporate charity	Minimizing negative external effects of urgent public problems	Based on moral and ethic norms (religion, philanthropy and others), institutionalization of socio-humanitarian responsibility	Activity on rendering help to the people being in poverty and/or episodic / regular financing social projects not directly connected with the field of firm interest
Sponsorship	Promotion of the firm trade mark; shaping a positive image; minimization of negative business externalities; reduction of explicit costs	Institutionalization of socio-cultural and economic responsibilities	Address material and financial assistance, directed onto the delivery of programmes and measures in sphere of culture, science, sport, ecology contributing to an increase of identification and reputation
Patronship	Creation and consolidation of positive image of the company	Institutionalization of socio-cultural responsibility	Financial support of the projects in the field of culture, science and art, address backing gifted person (bonuses, awards, grants etc.)
Social marketing	Accumulation of reputational capital; extension of community of loyal consumers; long-term increase of scope of sale and profit	Institutionalization of economic and ecological responsibilities	Social orientation of the market behavior of the firm; allocation for social programmes based on revenues as a result of realizing individual brands; initiative social action and projects
Corporate citizenship	Minimization of social and political risks	Institutionalization of civil and legal responsibilities	An active participation in the life of local community, close cooperation with public organizations
Social partnership	Forming the progressive organizational culture; decrease of level of intrafirm opportunism; motivation and stimulation of personnel; reducing the staff turnover	Institutionalization of socio-labour responsibility	Social protection and support of employees fixed by collective contracts and agreements
Social investment	Forming a favourable social environment of conducting business, strengthening reputation	Institutionalization of socio-cultural and ecological responsibilities	Systematic financing of social projects and programmes
Corporate volunteering	Strengthening informal relations and values of the firm	Institutionalization of socio-humanitarian responsibility	Voluntary participation of employees in socially-significant activity

Table 2: Analysis of expenditures and advantages of some BSR institutions

<b>Institution</b>	<b>Status</b>	<b>Expenditures</b>	<b>Advantages</b>
Charity	Charity – unselfish sacrificer on social needs	Growth of alternate costs (underpaid dividends, decrease of investment into extension and modernizing production etc.)	Creation of comfortable social environment of doing business; formation of positive image
Patronship	Patron – protector of culture, art and science		Raising public status, strengthening reputation
Sponsorship	Sponsor – advertiser having high extent of publicity	Considerable costs for financing socio-significant measures/projects	An increase of a number of informative causes dealing with company; creation of associations in consciousness of the consumer with sport, culture, social welfare
Corporate citizenship	Citizen is an authoritative participant of life of local community and civil society	Distraction of considerable temporary and financial resources	The state support, strengthening of positive reputation in society, rising competitiveness
Social partnership	Partner – participant having equal rights in negotiating process on labour problems	Additional expenditures on support and development of personnel	Satisfaction of colleagues pride for the company, growth of labour productivity, rise of labour motivation, stability of the personnel staff, settling down the labour conflicts
Corporate volunteering	Volunteer –active participant of life society with a distinct civil position	Expenditures of personal and/or labour time of colleagues	Solidarity of the labour collective, integration around common values



Figure 1: Evolution of forms of business responsibility

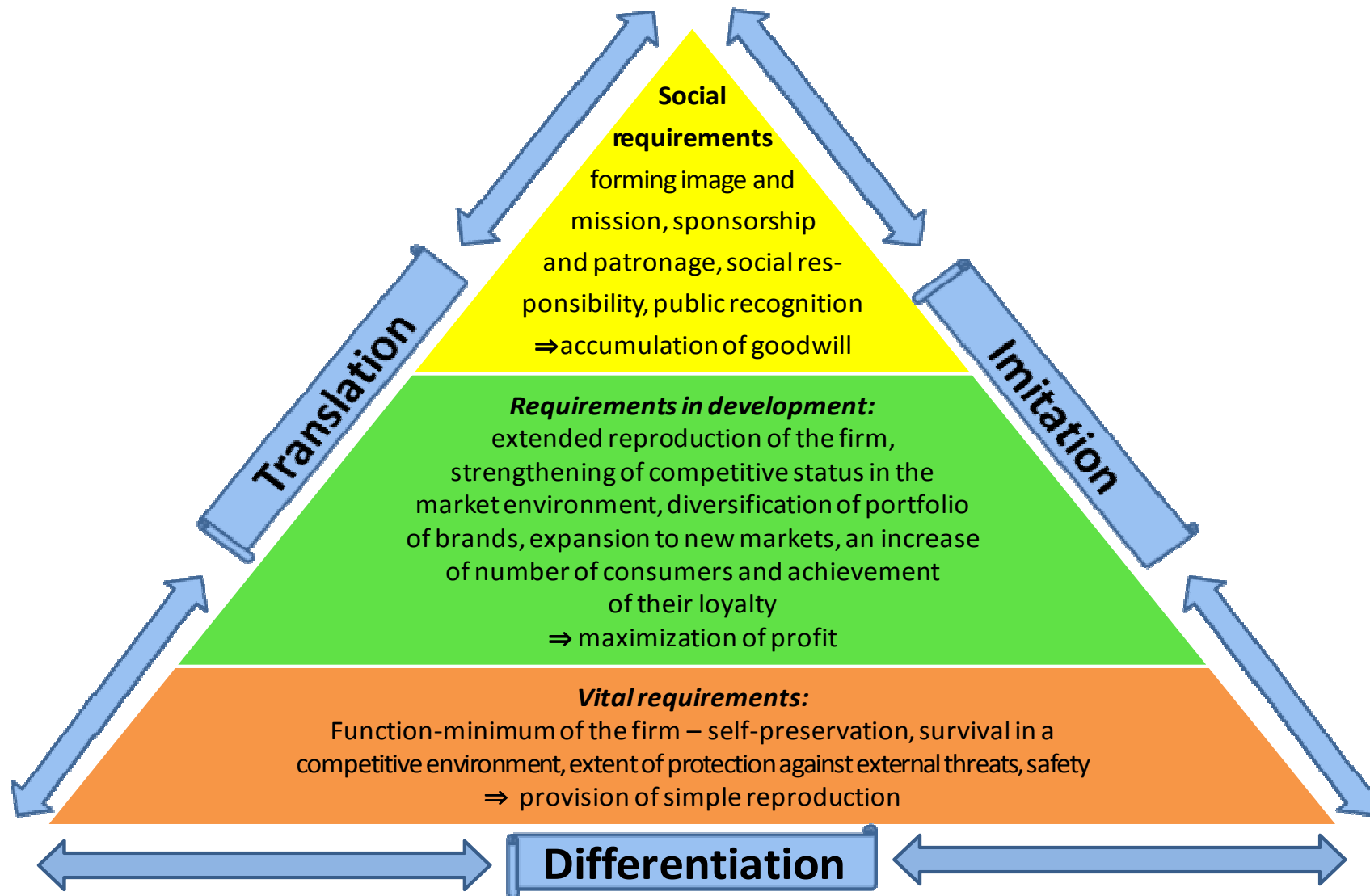


Figure 2: Hierarchy model of the firm requirements