INSTITUTIONAL FACTORS OF THE DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY IN TRANSFORMATIONAL ECONOMIES

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Abstract: The paper aims at identifying the relationship between the institutional environment development in post-socialist countries and their level of corporate social responsibility development. As countries with their economies in transition face a range of issues as the old and inefficient system and its elements are constantly changing and modernizing to form a new economically efficient institutional system. Under these conditions the practice of corporate social responsibility (CSR) can be seen as a mechanism of minimizing and overcoming mentioned issues. Thus, the study was conducted to check the interrelation between the level of institutional development and development of CSR within the transformational economies. The results of the clustering analysis proven the existence of the strong trend towards grouping of countries and a pronounced dependence, as countries with less developed institutional environment are characterized by a lower level of corporate social responsibility. In order to overcome the negative influence of continuous structural changes and institutional dysfunctions the special attention should be placed on improving the legal framework and regulation of CSR practices, popularization CSR principles and effects among business representatives and public, promoting social responsibility of business by giving some financial advantages and privileges, positioning CSR as a competitive advantage on the global market.

Keywords: institutional environment, corporate social responsibility, social capital, transformation economies, institutional dysfunctions.

Introduction

The peculiarity of transformational economies is the "decease" of old and inefficient elements of the economic system and institutions and the formation of new ones that meet the requirements of today's global economy. Such transformations disturb the institutional balance and are accompanied by growing socio-economic instability. An example is the market transformation of Ukraine's economy, which was accompanied by the following negative issues:

- The state should lead and plan the future structural transformations and simultaneously modernize itself accordingly, moreover, the state undertakes the responsibility in overcoming institutional gaps and other imbalances.
- The loss of public confidence and trust in government, as the institutional system is in constant transformation, which is perceived as "unpredictability" by the population. Evidences of the crisis of confidence that is observed in most countries with transformational economies are social instability and conflicts. In particular, in Ukraine, according to a survey conducted by the Razumkov Center's sociological service, the level of distrust in government officials was 54.2% in 2019 and increased to 65% in 2020 [Razumkov, 2020].
- Businesses experience increased risks caused by continuous processes of transformations, which also define and modify the "rules of the game" of business, at the same time there is a rise in transaction costs necessary for timely response and adjustment to changing institutional norms. In addition, such unpredictable changes in the "rules of the game" of business restrain the flow of foreign investment and lead to the use of "unfair" forms of doing business, as in the process of institutional transformation there are "grey areas" of legislation that do not have strict regulation. Countries with transformational economies are characterized by a significant share of the "shadow" economy. In particular, according to the data provided by the Ministry of Economy of Ukraine, the level of the shadow economy in January-March 2020 was 31% of the gross domestic product (Ministry of Economic Development, Trade and Agriculture of Ukraine, 2020).

In this context, it should be noted that during the transformation of the economic system it is necessary to ensure the manageability of such modifications. One of the effective mechanisms to minimize the negative and unforeseen consequences of these institutional and economic transformations is to rethink the main forms of interaction between government, business and society. A promising form of such interaction that contributes to overcoming institutional imbalances is corporate social responsibility (CSR), which, according to A. Carroll, is defined as the voluntary taking of social responsibility by business, namely: ethical - compliance with ethical standards of doing business, "fair" cooperation with partners and consumers by providing complete and accurate information; philanthropic - providing financial and other resources to solve socially important problems, preventing social conflicts, taking into account the expectations of society in the process of corporate decision-making [Carroll, 1991].

The practice of CSR was firstly recorded in the 1970s in the United States, when in 1971 the Committee for Economic Development proclaimed the concept of "social contract" between business and society. Social contract defined the relationship between business and society as going beyond the mere satisfaction of needs, as well as advocating for the social responsibility of business. At the same time, this practice was aimed at achieving a more even distribution of wealth, which was mainly concentrated in the hands of big business owners (Association of Corporate Citizenship Professionals, 2020).

In addition, the active implementation of the basic principles of CSR leads to the transfer of certain social functions of the state to the business sector, which reduces the financial burden on the state budget and contributes to a more effective solution of social problems by business representatives. At the same time, corporate social responsibility stimulates the accumulation of social capital by increasing the level of trust in business representatives by employees, consumers and partners, which is extremely important for countries with transformational economies and can increase the competitiveness of the national economy [Bazylevych et al, 2019] .

It is important to note that despite the positive impact of CSR on the institutional environment of national economies, the latter may hinder the effective application of CSR principles in countries with economies in transformation. Thus, the outdated and constantly changing norms that regulate private sector allow for a "formal" declaration of social responsibility, which usually deepens the institutional dysfunctions and pitfalls of transformational economy. The following factors worsen the efficiency of CSR practices:

- Lack of public awareness on the principles and effectiveness of CSR;
- Unavailability of truthful information about business activities and financial results;
- Lack of a single accountability system for CSR projects;
- Imperfection of the regulatory framework on principles of CSR and its regulation;
- High level of "shadow" economy and corruption, which allow the use of "unfair" methods of competition and personal informal connections, which devalues the importance of CSR as a mechanism to increase competitiveness and improve the welfare of the population.

Therefore, the creation of fair and effective conditions for socially responsible business, informing business representatives and the public on benefits of CSR for society and the economy as a whole are necessary to ensure "predictability" and "manageability" of transformational changes, as such conditions build trust relationships between business and society, that are able to minimize the socio-economic impact of institutional imbalances.

Data

The purpose of the study is to identify the relationship between the institutional environment development in post-socialist countries and their level of corporate social responsibility development. The list of countries includes: Albania, Azerbaijan, Armenia, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Slovenia and Ukraine.

The hypothesis on the existence of the direct relationship between the level of CSR development and institutional development will be check statistically. The following institutional indicators were selected to reach the aim of the study (Table 1):

- CPI – Corruption Perceptions Index - an indicator calculated by Transparency international and characterizes the overall level of corruption in the country (Corruption Perceptions Index, 2020);
- DB – Doing Business - an indicator calculated by the World Bank and demonstrates the degree of simplicity of doing business, which allows to assess the quality of its institutional support (Doing Business, 2020);
- PRI – Property Rights Index - an indicator calculated by the Alliance of Property Rights and determines the degree of institutional protection of property rights of citizens around the world (International Property Rights Index, 2020);
- FSI – Fragile State Index - an indicator calculated by the Peace Foundation and characterizes the ability of states to control the integrity of their territory, political, demographic, economic and social situation in the country (Fragile State Index Data, 2020);
- IEF – Index of Economic Freedom is an indicator calculated by the Wall Street Journal and Heritage Foundation and characterizes the right of everyone to dispose of their own property and labor (Index of Economic Freedom, 2020).

Table 1.
Institutional indicators

Country	CPI	DB	PRI	FSI	IEF
Albania	35	67,7	4,546	58,8	66,9
Armenia	42	74,5	4,812	64,2	70,6
Azerbaijan	30	76,7	5,12	71,3	69,3
Bulgaria	43	72	5,569	49,2	70,2
Croatia	47	73,6	5,168	46,1	62,2
Czech Republic	56	76,3	7,029	35,7	74,8
Estonia	74	80,6	7,173	38,5	77,7
Georgia	56	83,7	5,247	71,2	77,1
Hungary	44	73,4	6,218	47,6	66,4
Kazakhstan	34	79,6	4,855	59,8	69,6
Latvia	56	80,3	5,936	42,3	71,9
Lithuania	60	81,6	6,46	36,5	76,7
Moldova	32	74,4	4,221	66	62
Poland	58	76,4	5,996	41	69,1

Romania	44	73,3	6,028	46,7	69,7
Russian Federation	28	78,2	4,989	72,6	61
Slovak Republic	50	75,6	6,386	38,2	66,8
Slovenia	60	76,5	6,102	25,8	67,8
Ukraine	30	70,2	4,432	69	54,9

Source: (Corruption Perceptions Index, 2020; Doing Business, 2020; International Property Rights Index, 2020; Fragile State Index Data, 2020; Index of Economic Freedom, 2020).

The indicators of corporate social responsibility include (Table 2):

- CSR HUB – a company that provides access to corporate social responsibility ratings of companies. The number of companies in certain countries is taken as a basis [Corporate Social Responsibility and Sustainability Reports, 2020];
- UN Global Compact – the number of companies that follow general principles and implement projects to reach the goals (UN Global Compact, 2020);
- SC – Social Capital – the sum of social stability and welfare of the total population, based on the indicator of the global index of sustainable competitiveness, which is calculated by SolAbility [Global Sustainable Competitiveness Index, 2020];
- RI – Resource Intensity – the ability to effectively manage available resources, based on the indicator of the global index of sustainable competitiveness, which is calculated by SolAbility [Global Sustainable Competitiveness Index, 2020];
- NC – Natural Capital - an indicator of the natural physical environment, based on the indicator of the global index of sustainable competitiveness, which is calculated by SolAbility [Global Sustainable Competitiveness Index, 2020].

Table 2.

Indicators of corporate social responsibility

Country	Companies (CSR HUB)	Participants (UN Global Compact)	Social Capital	Resource Intensity	Natural Capital
Albania	2	7	45,5	45,4	45,9
Armenia	2	2	49,9	44,4	36,6
Azerbaijan	4	10	47,3	44,1	33,7
Bulgaria	81	40	46	44,1	53,5
Croatia	80	42	47,2	59,8	57
Czech Republic	21	18	52	53,3	35,6
Estonia	15	3	51,9	46,5	63,3
Georgia	12	69	47	45,8	47,2
Hungary	29	6	45	47,4	44,4
Kazakhstan	31	14	50,9	33,6	42,6
Latvia	14	7	47,2	61,1	56,7
Lithuania	31	30	45	56,8	52,3
Moldova	4	3	47,6	58,3	37,1
Poland	372	89	50,2	50,4	43,7

Romania	90	19	47,5	55,7	51,2
Russian Federation	353	72	36,7	39,6	55,4
Slovak Republic	12	5	50,6	58,8	40,5
Slovenia	29	4	53,4	49,3	43
Ukraine	83	75	41,3	42,2	45,2

Source: (CSR HUB, 2020; UN Global Compact, 2020; Global Sustainable Competitiveness Index, 2020).

In total, 19 countries and 10 separate independent indicators were selected for analysis.

Results

In order to facilitate the calculation, all indicators were standardized according to the average value. It is worth noting that among them there is only one destimulator, meaning that the indicator improves with a decrease in its level, that is about Fragile State Index. Also, each indicator was given a separate impact factor. Among the institutional indicators, the distribution is as follows: Corruption Perceptions Index - 40%, Property Rights Index - 40%, Doing Business Index - 7.5%, Economic Freedom Index - 7.5%, Fragile State Index - 5%. Among the indicators of corporate social responsibility, the indicators were distributed as follows: Social capital - 40%, Resource Intensity - 35%, Natural capital - 23%, Number of companies under CSR HUB - 1%, Number of companies under UN Global Compact - 1%.

Under these conditions, the map of institutional indicators and indicators of corporate social responsibility is as follows (Figure 1).

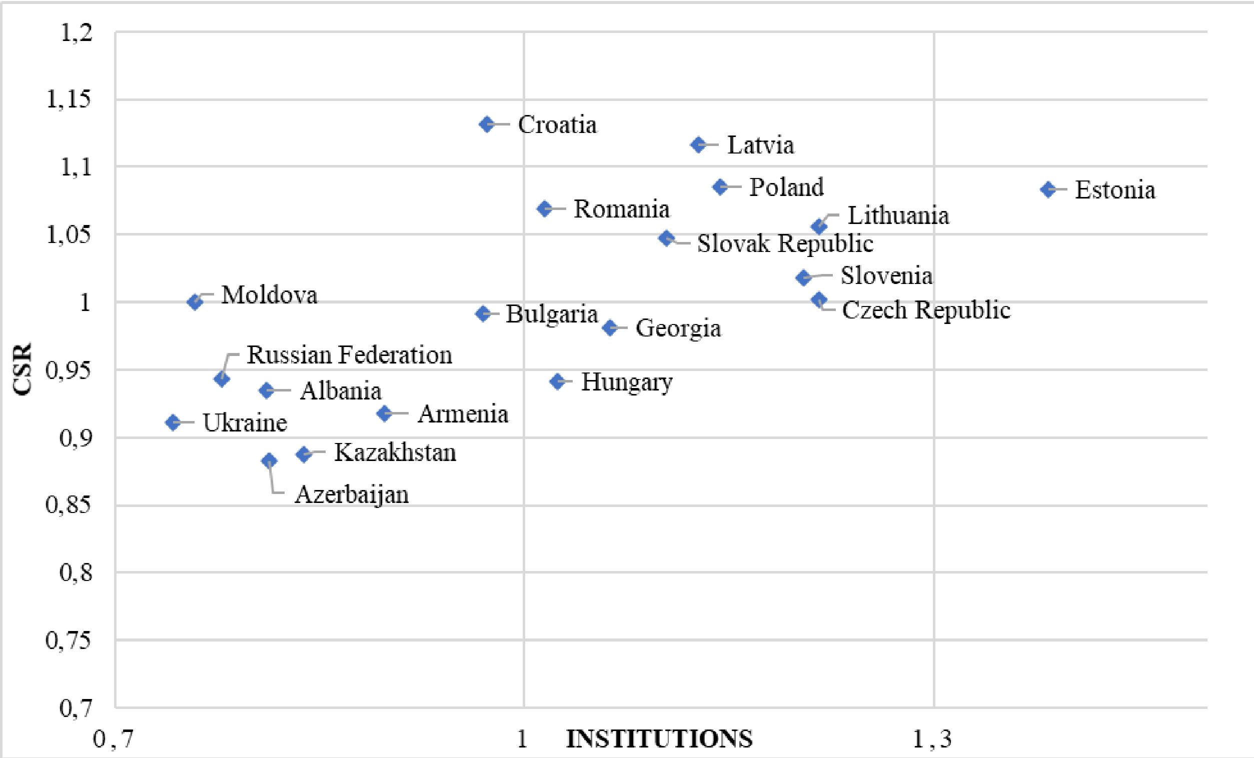

Figure 1. Map of obtained results of the analysis on institutional indicators and indicators of corporate social responsibility. Source: developed by the authors.

According to Figure 1, the strong trend towards grouping of countries and a pronounced dependence can be noticed, as countries with less developed institutional environment are characterized by a lower level of corporate social responsibility.

Clustering of these countries was used to confirm or reject the observed trends (Figure 2).

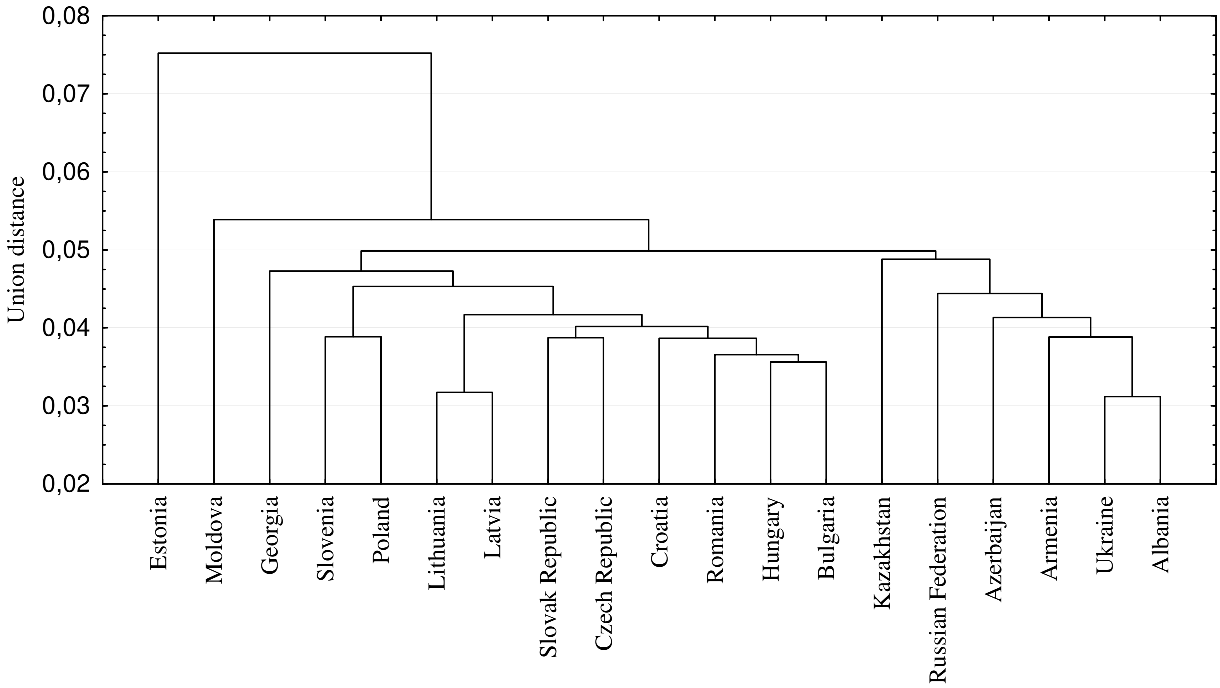

Figure 2. The results of clustering post-socialist countries by level of institutional development and development of corporate social responsibility. Source: developed by the authors.

Therefore, the results of clustering (Figure 2) formed the following clusters with a line of demarcation at the level of 0.4:

1. Armenia, Ukraine and Albania;
2. Croatia, Romania, Hungary and Bulgaria;
3. Slovakia and the Czech Republic;
4. Lithuania and Latvia;
5. Slovenia and Poland.

At the same time, Estonia did not get into any cluster due to high institutional and corporate social responsibility indicators (expressed in Figure 1). Moldova did not get into any cluster because it has abnormally high corporate social responsibility indicators with low level of institutional environment development (Figure 1). Georgia has low corporate social responsibility with a high level of institutional development (Figure 1) Kazakhstan, Russia and Azerbaijan generally have low rates in both groups, but they are higher than in cluster 1 and lower than in others, which is why they are between them.

Summary

To sum up all the above, it can be concluded that the level of the institutional environment development and corporate social responsibility are interdependent in transformational economies. The analysis showed that among the post-socialist countries there are a number of clusters that unite these countries according to the levels of development of these indicators. It should be noted that under these conditions, the existence of exceptions is possible and not critical. In this context, institutional reforms are extremely important for transformational economies, as they help not only to overcome institutional dysfunctions, establish common "rules of the game", but also to develop corporate social responsibility.

Despite some achievements in the field of corporate development social responsibility in transformational economies, there is no adequate and efficient legal framework of CSR, lack of methods of its effectiveness evaluation, there is a weak public support of CSR, population distrust in the state and large businesses, the predominance of informal practices of interaction between the state and business over formal. Thus, reaching the potential of corporate social responsibility development can be an effective mechanism for overcoming negative influence of structural changes and institutional dysfunctions. The following actions can stimulate further development of CSR:

- advances in institutional and organizational framework on corporate social responsibility implementation;
- ensuring openness and transparency of interactions between private businesses and the state;
- active implementation of CSR principles in state enterprises;
- state encouragement of private business to follow the principles of CSR by providing tax benefits and advantages;
- lending and microfinance of socially responsible enterprises and companies, providing them regional preferences;
- information support for CSR development, in particular, promoting the image of companies that adhere to relevant principles;
- positioning CSR as a global competitive advantages of domestic business in the global environment;
- popularization of corporate social responsibility principles, the dissemination of CSR ideas among consumers, consumers and public;
- deepening cooperation between business, universities and research institutions to adapt the best international practices and training in the field of CSR.

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