SOCIALLY RESPONSIBLE CONDUCT OF COMPANIES IN TRANSITION ECONOMIES: THE CASE OF REPUBLIC OF MACEDONIA

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Abstract

There is growing attention about the roles and responsibilities of the business in society in the past two decades has turned academics' and practitioners'. The development of an integrated approach to a strategic socially responsible conduct is quite a challenge for the companies in the transition economies which are now taking up new roles and responsibilities in the society. Their efforts in the field of solving community problems and adhering to the welfare of the entire society vary – from the form of good citizenship or mitigation of the harmful effects from their value chain activities to a transformation of the business activities and establishment of a new corporate strategy that integrates the principles of corporate social responsibility. The results vary from country to country and that there is still plenty of room for progress towards positive acting in the environment in which they operate.

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1. INTRODUCTION - THE RISE OF CORPORATE SOCIAL RESPONSIBILITY

The private sector's relationship with both the state and the civil society has been radically changed in the last twenty years. Globalisation, deregulation, privatisation and redrawing of the lines between state and market have changed the basis on which private enterprise is expected to contribute to the public good. Meanwhile, the relationship between companies and civil society has moved on from paternalistic philanthropy to reconsideration of companies' roles, rights and responsibilities in the society. These dynamics combined with the macro-level changes (globalisation and the associated growth in competition; increased size and influence of companies; retrenchment or repositioning of government and its roles; companies competing for expertise; growth of global civil society activism; increased importance of intangible assets) have led to the emergence of a new approach to corporate social responsibility (CSR), with companies recognizing that improving their impacts and addressing wider social and environmental problems will be crucial in securing their long-term success. Increasingly, high profile companies are implementing CSR processes such as public commitment to standards, community investment, continuous improvement, stakeholder engagement and corporate reporting on social and environmental performance and this area is even now being discussed and debated in the public policy sphere.

Being socially responsible means not only fulfilling societal expectations, but it also means going beyond compliance and investing more in human capital, environmental protection and relations with the stakeholders.[i] It means commitment by the business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large and operating as a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business.[ii] Thus, CSR exhorts firms to diverge from their sole aim of maximizing profits and to lay more importance on improving the economic and social standards of the community in their countries of operation. With regards to this, CSR can be simply defined as the additional commitment by businesses to improve the social and economic status of various stakeholders involved while complying with all legal and economic requirements. The three major elements of CSR are product use which focuses on contribution of industrial products which help in well-being and quality of life of the society, business practice which focuses on good corporate governance and gives high impetus for the environmental well-being and equity which aims towards distribution of profits equitably across different sectors and societies.

The basic drivers of CSR consist of:

1. *Values* – a value shift has taken place within businesses where they companies only feel responsibility for wealth creation, but also for social and environmental goods.
2. *Strategy* – being more socially and environmentally responsible is important for the strategic development of a company.
3. *Public pressure* – pressure groups, consumers, media, the state and other public bodies are pressing companies to become more socially responsible.

Having all this in mind, the new rules of corporate conduct could be considered as:

- Legitimacy – to earn and retain social legitimacy, the corporation must define its basic mission in terms of the social purpose it is designed to serve rather than as the maximization of profit;
- Governance – the corporation must be thought of, managed, and governed more as a community of stakeholders and less as the property of investors;
- Equity – the corporation must strive to achieve greater perceived fairness in the distribution of economic wealth and in its treatment of all stakeholder interests;
- Environment – the corporation must integrate the practices of restorative economics and sustainable development into the mainstream of its business strategy;
- Employment – the corporation must rewrite the social contract of work to reflect the values of the workforce and increase both the effectiveness and loyalty of employees and the corporation;
- Public/private sector relationships – to ensure the success of the power shift, corporations must work closely with governments to achieve a viable and publicly accepted redefinition of the roles and responsibilities of the public and private sectors;

- Ethics – the corporation must increase and monitor the level of ethical performance in all its operations in order to build the trust that is the foundation of sound relationships with all stakeholder groups.[iii]

The areas that the companies usually get involved in the society are:

- Protection of the environment: recycling, waste disposal, efficient use of the energy and the resources;
- Fair working practices: freedom to associate and effective recognition of the right to a collective bargaining, elimination of all the forms of forced and compulsory work, effective abolition of the child labour abuse, elimination of the sexual/ national/ religious discrimination etc;
- Protection of the human rights: creation of job posts that are free of discrimination where the creativity and learning could result in fair rules for professional behaviour and where there could be a balance between the work and the other (social) aspects of our lives;
- Adherence to the business and quality standards;
- Ethical market behaviour: ethical marketing, quality and safe products, complete information for the consumers about the characteristics and the quality of the products and services etc.

2. CHARACTERISTIC OF THE COMPANIES' INVOLVEMENT IN SOCIETY IN TRANSITION ECONOMIES

Empirical analyses of samples of transition economies prove that the companies' socially responsible practices have the following distinctive characteristics:

- CSR tends to be less formalised or institutionalized in terms of the CSR benchmarks commonly used in developed countries i.e. CSR codes, standards, management systems and reports;
- Where formal CSR is practiced, this is usually by large, high profile national and multinational companies, especially those with recognized international brands or those aspiring to global status;
- Formal CSR codes, standards, and guidelines that are most applicable to developing countries tend to be issue specific (e.g. fair trade, supply chain, HIV/AIDS) or sector-led (e.g. agriculture, textiles, mining);
- In transition economies, CSR is most commonly associated with philanthropy or charity, i.e. through corporate social investment in education, health, sports development, the environment, and other community services;
- Making an economic contribution is often seen as the most important and effective way for business to make a social impact, i.e. through investment, job creation, taxes, and technology transfer;
- The issues being prioritized under the CSR banner are often different in developing countries, for example, tackling unemployment, improving working conditions, provision of basic services, supply chain integrity, and poverty alleviation;
- Many of the CSR issues in transition economies present themselves as dilemmas or trade-offs, for example, development versus environment, job creation versus higher labour standards, strategic philanthropy versus political governance;

- The focus on CSR in transition economies can be a catalyst for identifying, designing and testing new CSR frameworks and business models.[iv]

The reason for these trends is that there is an insufficient desire and will among institutions, organizations and legal entities which truly should decide and initiate the direction for the society's development and the lack of understanding for their new roles. The corporate social responsibility is strongly influenced by the socialist system under which the enterprises were assigned a special social mission for achievement of the national level objective for full and permanent employment, and provision of social services to their employees and local communities that would otherwise be provided by the government. Through specially created social and cultural funds, state owned companies thus developed extensive social welfare functions. During the transition to democracy and a market economy, many companies had to eliminate their social and cultural funds and cut down their social programmes in order to secure survival in an emerging competitive market environment. At the same time the global trend towards greater corporate social engagement and responsibility put increasing pressures on them to become 'good corporate citizens'.

How have companies in post-communist countries managed to cope with these conflicting pressures regarding their basic goals, functions and role in society? In order to answer this question one should explore the complex transformation of the paternalistic social mission of state socialist firms during the period of post-communist restructuring and privatisation and the institution transfer of corporate social responsibility ideas and practices developed in the more advanced market economies.

The companies in transition economies have been systematically exposed to the influence of the global trend towards corporate social responsibility through specialised international institutions that target responsible business practices, such as the Global Compact of the United Nations and at the very beginning, the implementation of CSR programmes was actually a transfer of corresponding CSR programmes originating from and being implemented in the developed economies. But, there are numerous problems when transferring CSR programmes from the developed to the transition economies: the pressure from various stakeholders differ, the social, economical an political situation in transition economies are quite different from developed countries which subsequently affects CSR programmes etc.

Moreover, CSR in transition economies should be more directed towards local companies and not only multinational companies, which would contribute to the development of the country, which in turn would favour the local companies since they would generate more profit. At the end, this would favour the competitiveness of the country, which is one of the conditions for sustainable development. Furthermore, in order for the CSR programmes to be effective, small and medium enterprises must become an integral part of the process in addition to multinational companies and local governments. This would be to truly start from the bottom.

Another issue is the question whether CSR work should be voluntary or mandatory. There is a perception that since working with a responsibility programme might increase a corporation's image, it can and should stay voluntary. If it was to be mandatory, it is in the hands of the corporation to decide what precautions to take when conducting business; they will be the ones deciding what factors are important in developing a society. CSR is not something that should be put on a corporation's shoulders unless voluntary. When CSR is voluntary, and it is every individual's free choice to participate in the effort, it has to be meaningful for individuals in order for them to participate into that endeavour.

Either way, voluntary or mandatory, when pursing a CSR agenda, the companies should consider the following:

- The CSR framework should be integrated into their business systems, objectives, targets and performance measures;
- The governance system, whose purpose is to control, provide resources, opportunities, strategic direction of the organisation and be held responsible for doing so, is an integral part of business hence CSR system;
- Central to the CSR framework is the transformation of stakeholders' needs and expectation into business strategy, where the organisation has to balance the need for CSR from their key stakeholders with entrepreneurship.

It can easily be seen that the transition economies have a long way to go before they reach a mature form when they will be regarded doing business and management in a responsible manner. If the responsible corporate activity is not related to the basic business activity of the firm, if it does not contribute to the success of the firm, it stays at the periphery of the company operations and quickly dies out with the lack of continuing moral incentive or in situations of business hardship.

3. IMPLICATIONS FOR THE GOVERNMENT AND THE PUBLIC POLICY

The implementation of the CSR codes and standards is not something to be done solely by the business. The government, the policy-makers and society as a whole have a significant role to play in the development of the business case for corporate social responsibility. This could be done through the creation of partnerships involving companies, international organisations, governments and charitable organisations. Furthermore, additional stimuli are needed so that the private sector could engage itself in socially responsible initiatives on a long-term basis – market mechanisms such as tax deductions, as well as special purchasing funds in regard to the production of socially important products and services. With the creation of effective economic mechanisms to stimulate the business sector to be socially responsible, society will be guaranteed that the companies will continue to substitute for inefficient government policies and engage in socially important causes.

Also, there should be an organ, an institution on a national level that would be in charge of:

- Engaging business in national economic development and encouragement the use of responsible business practices;
- Raising awareness of corporate social responsibility and helping create an economic and political environment that provides conditions to support the aim;
- Bringing together business, civil society and the public sector to jointly act on a range of social, economic and environmental issues;
- Building local capacity for cross-sector partnerships by providing information and analysis on corporate social responsibility and cross-sector actions and by helping to build leadership and skills in those areas;
- Developing a code of conduct for doing business based on moral principles.

4. THE LEVEL OF COMPANIES' INVOLVEMENT IN THE MACEDONIAN SOCIETY

The remaining part of this paper focuses on the involvement in and implementation of socially responsible practices by companies in Republic of Macedonia. Based on the latest survey performed by UNDP and European Commission, the engagement of Macedonian companies in the area of corporate social responsibility lacks a strategic focus. CSR is mostly understood as an add-on activity to the core business operations. It has been established that almost 46% of companies do not have a CSR strategy nor do they envisage developing one. CSR is not an integral part of their business strategy nor is it seen as an instrument for achieving their strategic goals. Most companies haven't made any substantial organizational changes that integrate the CSR principles of work, nor have engaged operating management in processes that identify and prioritize social issues based on their salience to business operations and their importance to the company's competitive context. So, companies must shift from a fragmented and defensive posture to an integrated, affirmative approach.

Since there are numerous social problems in the environment, the companies should focus on the most important ones or at least the ones that they could really solve. This means making some short term expenses that will result in a shared value on the long run. This should actually be seen as a long-term investment in the company's future competitiveness. The companies should build focused, proactive and integrated social initiatives in concert with their core strategies.

Unfortunately, despite the recognized benefits that the companies could receive from their involvement in the society, there are several obstacles that prevent their more serious positive impact on the society. These impediments are:

- Lack of understanding of the concept of CSR, its scope and the business case for CSR – the CSR activities are mainly seen as add-on to the business and not as a tool for supporting and achieving the strategic goals of the company. The companies, also, fail to see the economic justification of their CSR involvement;
- Volatile business climate – companies are more short-term focused as opposed to the long-term focus in their business strategies and practices due to the instability and the uncertainty of the business climate;
- Lack of socially responsible investors that could act as major drivers to raising awareness for promotion of the practices of CSR in the developing countries;
- Low level of awareness and weak enforcement of the consumer rights and lack of consumer activism – companies pay little attention to the observance of the consumer rights, while the enforcement capacity of the government in this area is also weak. The consumer considerations are generally price-driven and instances where the companies pay attention to the social or environmental impact of products or companies are practically non-existent;
- Weaknesses in the corporate governance – although there have been major changes in the model of corporate governance due to the new company law, there is still a need for resolving the principal-agent problem that arises in terms of establishing effective mechanisms for managerial responsibility and accountability towards shareholders. Also, a lot remains to be done for improving the corporate transparency;
- Lack of dominant model of corporate governance.[v]

5. MAJOR AREAS FOR IMPROVEMENT OF THE SOCIAL RESPONSIBLE CONDUCT OF MACEDONIAN COMPANIES

The main problems of the unsatisfactory implementation of the CSR practices and policies in the strategy and mission of the companies lie in the low implementation capacity of the main actors in this field – the national government and the companies themselves.

The main weaknesses of the implementation capacity of the national government are:

- Low capacity to implement the rule of law – there is an extensive legal framework that regulates all the aspects of the socially responsible behaviour of the companies, but this framework is not fully enforced. The problem is in the weaknesses of the judicial system that is burdened with lots of unresolved cases, that is slow, inefficient and lacks transparency and simplicity in its work.;
- Unsatisfactory enforcement of the regulations and standards that complement the formal laws, especially in the area of customer protection;
- Widespread corruption that undermines the values and principles of market economy and relatively high level of state capture;
- Insufficient market competition that would force the companies to differentiate themselves by involvement in socially beneficial actions;
- Insufficient government commitment to implementation of the corporate standards and practices due to the lack of its strategic focus and failure to recognize the competitive advantage realized through CSR;
- Urgent need for improved coordination among the government bodies, business associations, labour unions, academia etc.

The main weaknesses of the implementation capacity of the companies are:

- Misalignment of the companies' strategy and their CSR goals or simply a lack of CSR agenda integrated in the companies' mission and vision;
- Unchanged corporate culture that does not envisage the potential long term benefits from the involvement in the society;
- Insufficient knowledge about the meaning and the practical implications from the standards and procedures regarding CSR etc.

These are not the only actors in charge of the implementation of CSR practices. Business and professional associations, branches of international business associations, NGOs, media and academia could also make a positive impact foremost on building the consciousness regarding the need of bigger involvement in the society. When compared to other countries based on the level of CSR development, Macedonia ranks very low, especially in terms of legal and political environment. Lessons from other transition economies and present EU member states suggest that in an environment where the maker-based incentives for CSR are still weak, the government must play an important supporting and enabling role in promoting CSR. For that purpose a National coordinating body on corporate social responsibility has been established. It serves as a key focal point for CSR promotion activities in Macedonia and as a coordinator of the various sectors and actors involved in this field, and is in charge of developing CSR action plans. Since there is relatively high level of awareness on CSR, the Government of Republic of Macedonia should focus on the achievement of the following mid-term objectives:

- Development of capacities and competences to help mainstream CSR by the means of: training and exchange of experience, development of CSR performance management systems and improved corporate governance and

- Ensuring an enabling environment for CSR by: creating CSR incentives, creating legal obligations for CSR and imposition of CSR disclosure.[vi]

6. CONCLUSION

With increasing and widespread commitment of corporate resources to CSR, attention is now shifting to the strategic formulation, implementation, and measurement of the market returns to CSR initiatives. But companies are still concerned with whether their focus on "doing good" will provide positive returns to their CSR actions. This emphasizes the need for better measurement models of CSR that capture and clearly estimate the effects of a company's CSR actions on its stakeholders and on the entire economy in which it operates. Public sector institutions and governments are continuously introducing reforms to achieve the balance, but it seems that it is not sufficient to bring revolutionary changes in the social progress. So there is an urgent need that all stakeholders in national economic development put synergistic effort to create a positive impact.

Implementing a CSR agenda is a real challenge in the developing countries where there seems to be a conflict between the objective 'maximization of the profits of the well-functioning companies' and the objective 'positive impacts of companies' functioning on the society'. In these countries, being socially involved and positively contributing to a sustainable economic development is a relatively new venture and there are several negative factors that prevent the full positive effect of the CSR programmes, such as: low level of awareness of the significance of CSR for business financial performance; less formalised or institutionalized approach; partial and occasional responsible actions; actions motivated by brand value enhancement or image improvement etc.

The level of CSR practices in Macedonia is unsatisfactory, since the companies fail to see the opportunities of building a competitive advantage through CSR practices. There are several obstacles that should be overcome in order to build an integrated strategic approach. Unless they are solved, there could be no lasting positive impact on the environment in which the companies operate and no positive feedback on companies' performances.

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