THE INSTITUTIONAL CONTEXT OF CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

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Abstract
Specifics of particular models of corporate governance and appropriate CSR are predominantly conditioned by the character of relations between the two environments - corporate (voluntary, based on market laws) and institutional (binding, based on the regulations and standards). It can be assumed that in the future all models of CSR that prefer sustainable development will be increasingly leaving the first zone and accept the rules of another environment.
This paper analyses some institutional factors that have a significant impact on corporate governance and CSR evolution. The aim of this paper is to demonstrate the importance of the institutional frameworks, to analyze some key aspects and issues related to the observed phenomenon and define its contemporary position.
It starts from the hypothesis that: a) institutional environment represents the most important factor that affects corporate governance development and that there is a direct subordinated dependence in the following relationship: institutional development – corporate governance – sustainable economic development, b) CSR gradually changes, but its position is on the line between rhetorical illusion, voluntary possibility of implementation and the need for forced (institutional) commitment, and c) utilization of institutional pluralism in the fields of corporate governance and i CSR is a precondition for overcoming of the institutional vacuum and monist quasi-institutionalization of neoliberal type.
Analysis of internal and external factors of corporate governance and CSR should reveal possible reasons for its inefficiency so far in most of the transition countries.The conclusion is that it is necessary to institutionally define the achievement of balance between the economical, environmental and social imperatives.
Keywords: *Institution,Institutional Framework, Corporate Governance, Corporate Social Responsibility.*

1. Introduction

Discussions about the nature of the institutional cat the corporate governance (c. g) level, have recently received much attention in both academic and policy making circles. Formal and/or informal institutions create a governance structure at different levels of interaction within an economy. The c. g. practice of countries is not always attuned to the idealized sets of principles. Within these sets of principles, the general institutional setting does play an important role. Many authors prove that specific institutional frameworks should be in place in order to be able to support a strong c. g. framework. Good c. g. need to secure three essential prerequisites of market economies: a) security of property rights, b) enforcement of contracts, and c) collective action (Dixit, 2009, p. 5). Many private economic activities depend on an adequate provision of

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public goods and the control of public "bads". Actually, (2009) includes not just physical but also institutional and organizational infrastructure. Provision of social safety, internalization of externalities, and the control of public bads, (e.g. management of common pool resources) all involve problems of collective action. The author considers that the economics institutions are conducive to good c. g. and to the proper underpinning of well-functioning markets.

The process of globalization is associated to the business and acknowledge. It could be considered as a factor that goes beyond the boundaries of classical economic theory. Effective management of the company entails building of mutual rational relationships and constructive communication with all stakeholders in business processes and market. Analysis of the activities of modern companies entails the acknowledgement of their positive and negative impacts on the society and natural environment. Corporate social responsibility (CSR) is becoming an increasingly important research phenomenon, but also an institution, which serves as an indicator of civilization and sustainable development. Additionally, Carroll (2000, p. 36) argued that the issue of CSR will be more important than ever as we transition to the 21st century.

The subject of our analysis in this paper is the issue of c. g. in the context of its CSR. The activities of conception and development of institutional support of mentioned phenomenon cannot be seen only as a reaction to the major conflicts of interest, affairs and corruption scandals spawned by c. g. in market economy countries. On the contrary, through the aspects of sustainable development it must be constantly worked on overcoming the gap between the legislation and its application in daily practice. Acceptable approach to CSR involves the integration of three basic concepts. The concept of profit supposes that the primary responsibility of management and managers is business and profit maximization. The second concept is related to stakeholder and advocates that the management should take care of the impacts of the activities of the company to its stakeholders and recognize their interests in decision-making and social power. Finally, social responsibility concept assumes that the company and the business must have a certain social responsibility for the possession of power.

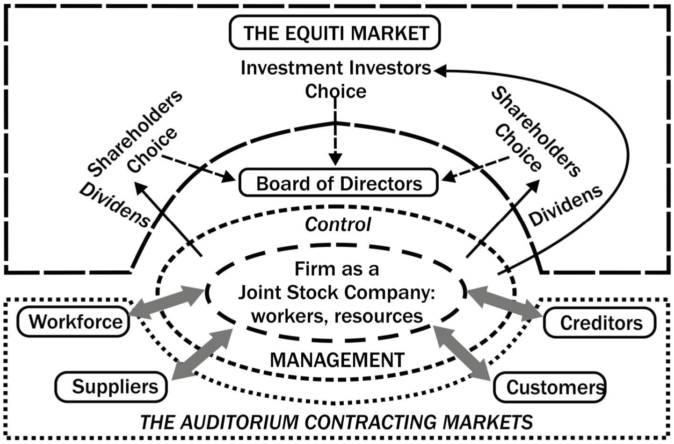
2. Literature Review

Late 20th and early 21st century have witnessed intensification of the movement for socially responsible c. g., which involves protection of interests of all institutional actors and all levels of c. g. Institutional aspects are emphasized in the opening of the introduction of c. g. and the formation of the modern corporation. Actually, from the moment of which the owners were no longer be personally responsible for the obligations or for any other obligation that a company can create (limited legal responsibility), i.e. occurrence of the division of the ownership function from the function of administering the firm's resources. Above trend is identified by A. Berle and G. Means (1932 – Figure 1) as one of the most important in economic history. Berle and Means studied thedevelopment of the corporation and capital markets, characterized corporate ownership as consisting of dispersed individual shareholders, and found a separation between ownership and control functions within operating companies. In this sense, the modern corporation is formed as an intermediate institutional management mechanism, which has a duty to diversify risk and reduce the cost of capital, although it creates a natural conflict between those who face the risk (shareholders) and those who run it (managers).

Analysis of various theoretical models (ownership theory, stakeholder theory, agency theory, stewardship theory, institutional theory, and others) of modern corporation and c. g. clearly induces the dominant role of institutional factors in their construction and development (Figure 1, and Figure 2).

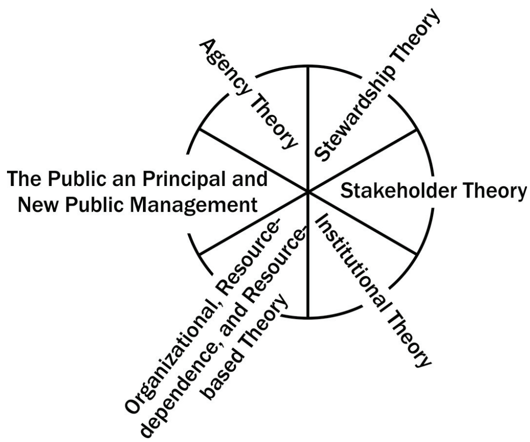
For institutionalists, c. g. concerns "*the structure of rights and responsibilities among the parties with a stake in the firm*" (Aoki, 2000, p. 11). From the comparative institutional prospective analysis employing game theory, c. g. is seen as "*self-enforcing mechanisms that govern (such) strategic interactions among the players*" and is defined as "*a set of self-enforceable rules (formal or informal) that regulates the contingent action choices of the stakeholders (investors, workers, and managers) in the corporate organization domain*" (Aoki, 2001, p. 281).An approach by Aguilera and Jackson (2003) which emerged from institutional theory is focused on "*actor-centered institutionalism*", which explains firm-level c. g. practices in terms of institutional factors that shape how actors' interests are defined and represented. Those factors describe c. g., and the institutional domains including three dimensions - management, capital and labor (Figure 3).

Figure 1: The structure of Berle and Means's modern corporation



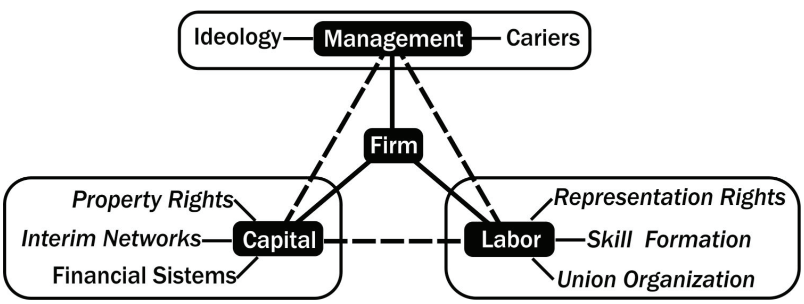
Source: Adapted to Draskovic, M.&Lojpur, A., 2013.

Figure 2: Corporate Governance: Important Theories



Source: Ibid.

Figure 3: Institutional Domains Shaping Corporate Governance



Source: Adapted to Aguilera & Jackson, 2003.

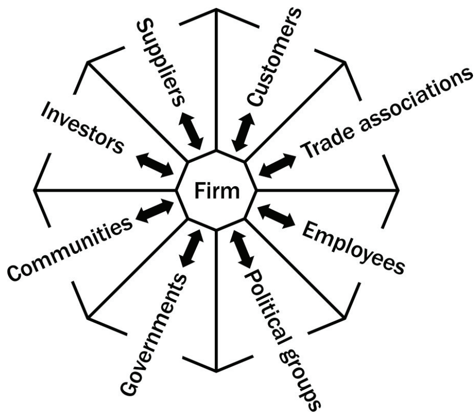
The stronger movement for socially responsible c. g. has started in the late 20th and early 21st century which comprises the protection of the interests of all institutional actors and all institutional levels of c. g. In the introductory part of the *Principles of c. g.* (OECD, 2004, p. 9), the emphasis is put on the importance of the legal, institutional and regulatory framework for c. g.: "*it provides guidance and suggestions for stock markets, investors, corporations and other stakeholders in the process of developing good c. g.*" ...The pluralistic economic institutional framework is not possible to make corporate management and it becomes the "*synergy between macroeconomic and structural policies in achieving basic objectives of development policy ... and a key element in improving economic efficiency and growth as well as increasing of confidence of investors... and the level of trust necessary for proper functioning of the market economy*".

New Institutional Economics (NIE) is a multilevel concept, which means that institutions can be defined at the level of macro-conditions, markets, and at the firms. Furubotn and Richter (1998, p. 2), in their authoritative book, maintain that 'the New Institutional Economics began simply as an attempt to extend the range of neoclassical economics. In particular, marginalize was not rejected'. NIE is concerned with the choice of a governance structure of economic actors under a given institutional environment, as well as with the effects that various institutional environments have on economic performance and development, and the change of these environments over time (Draskovic, Stjepcevic, 2012, p. 28).The NIE of studying organizations has been informed by subjects of control and coordination that fall within the field of c. g., which broad definition is exploring the implicit and explicit relationships between the corporation and its constituents. The NIE of North and Williamson have offered frameworks concerning the role of institutions in c. g. Their frameworks rooted in a rational actor model of the corporation. Actually, North argues that a national system of c. g. may be seen as an institutional matrix that provides both the roles to the players and the goals to be pursued by the corporation while Williamson acknowledges the embeddedness of c. g. arrangements in larger, society-wide systems of institutions.

Institutions, whether formal and/or informal, creates a governance structure at different levels of interaction within an economy. One important level of interaction is at the corporate level. Discussions about the nature of the institutional setting at the corporate level have recently received much attention for both academicians and policy makers. According to many authors, specific institutional frameworks should be in place in order to receive a strong c. g. framework. Zingales (1997, p. 3) defines c. g. as "*the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated in the course of a relationship*". These constraints are largely determined by the institutional settings which may influence contracting relationships between various parties on the market (Postma, Hermes, 2002, p. 3). Dixit (2009, p. 5) considers that the economics institutions are conducive to good c. g. Following Nee (2003, p. 26), the institutional environment presents the formal regulatory rules monitored and enforced by the state that governs property rights, markets and firms. It imposes constraints on firms through market mechanisms and state regulations what is reflected on the shape of the structure incentives.

If we focus on the definition of c. g. proposed by Gillian andStarks (2003), which is related to„*the systems of laws, rules, and factors that control operations at a company Set of structures, which include participants, such as managers, workers, suppliers of capital*", it is clear that institutional aspects of c. g. represents an integral part of its systemic construction.Supporters of the *stakeholder approach* criticized the ownership model as unrealistic, because it is unacceptable in normative and institutional terms. The question the asked is: why would the shareholders have greater rights than other stakeholders in the company? A company is made up of all those who participate in market operations and who have direct interest in its success (e.g. employees, trade unions, general public, local community, buyers, suppliers, strategic partners, the state, investors, financial institutions and supranational institutions). Essentially, they insisted on respecting the complex institutional set up for c. g., which involves various economic institutions – market, state, ownership and control type ones.

Figure 4: The stakeholder model of the firm



Although it is increasingly accepted that CSR is about voluntary activities, this has not ended the controversy over the voluntary nature of CSR. The controversy is being kept alive by two unresolved questions. The first concerns the adequacy and role of business regulation and the second is whether business should determine its social responsibilities where society has not incorporated its expectations of business into legally obligatory requirements. Some scholars consider CSR as an alternative to regulation. On the other hand, promoters of CSR want acceptance of its voluntary nature to translate into acceptance that voluntary initiatives are the sufficient and preferred means of addressing the social consequences of business activity. The proponents of CSR are trying to explain that the company can operate successfully while operating responsibly in relation to stakeholders, the society and the environment. Since, 1970s, some western companies have been "involved" in the idea of "*broader social responsibility*", but reality shows that most of them haven't done much in that field. In the economic reality of transition countries, the process of c. g. has just got out of the 'diapers' phase and it is, in the language of the life cycle theory, somewhere near the stage of "puberty". Considering all this, it is obvious that we cannot expect much in terms of CSR in transition countries in the near future.

Among others, the subject of our analysis in this paper is the issue of c. g. in the context of its CSR. The activities of conception and development of institutional support of mentioned phenomenon cannot be seen only as a reaction to the major conflicts of interest, affairs and corruption scandals spawned by c. g. on the national market economy. On the contrary, through the context of sustainable development, it must be constantly worked on overcoming the gap between the legislation and its application in daily practice. The European Union has recognized in its numerous documents the law of justice and free economy as key principles for building wealthy societies. Accordingly, good c. g. is considered in terms of legality, security and transparency. These are necessary conditions for the free flow of capital, goods, people and information. Legality is just a starting point since the corporate culture is necessary as well. From the perspective of sustainable development, in the previous context, the following question arises: Are there any chances that the CSR paradigmatically imposes itself as the predominant form of business strategy? This refers not only to the global, European and regional frameworks, but our national environment as well, where the institutional framework is underdeveloped.

This question, of course, entails a few logical questions: Is there a place for sustainable development in modern conditions, in which the corporations their "pathological power" is dominant? Is it realistic to expect that corporations behave ethically in the neo-liberal capitalist system, which has been created at the global level by largest corporations and states and driven by selfish interests and insatiable greed for profit? Is it achievable to build the in-conflicted relationship between corporations-profits-sustainable developments in the near future? These are all issues that require an urgent response, which is of main concern for the national well-being. It is multidimensional, multidisciplinary, complex and contradictory. As such, it appears to exist more as a theoretical abstraction and alternative for researchers and a practical desire of billion consumers, than as a readily realizable institutional initiative. In this paper, we will try to give at least an approximate answer to some of the questions directly and indirectly, with no pretensions to make our opinions and suggestions final.

According to Crane et al. (2008, p. 568), the study of CSR has been „*hampered by a lack of consensus on the definition of the phenomenon, unifying theory, measures, and unsophisticated empirical methods. In addition, globalization has added to the complexity of CSR issues to be addressed*". The literature considers that_the institutional analysis of CSR does not completely examine institutional effects such as isomorphism, homogeneity and consensus, but also heterogeneity and contestation.

3. Strength and weakness of the corporation

Providing long-term yield to the shareholders is the primary aim of each corporation. However, managers often make decisions that result in a negative outcome, not only for the corporation but also for its environment. Let us recall the various frauds (*Arthur Andersen*, *World Com*, *Enron*, *Parmala*t, *TE*, *ImClone* etc.), which have caused a drop in public confidence in corporate governance, the morality of today's companies and socially responsible behavior of corporations. Recent studies by *Gallup* showed that 90% of Americans thought that people who run corporations do not care about the interests of their employees, only 18% of respondents believe that corporations care about their shareholders, about 43% of respondents believe that the members of the Executive board are focused only on personal gain. A similar survey in the UK has shown that such an opinion is present even at 95% of the respondents.

A. Chandler characterized a modern corporation as the most important creation of the 20th century. But, nearly two centuries before that, even in the initial stages corporation formation, when corporations were far away from their current forms and power, B. Thurow said a cautionary sentence that about corporations "*do not have a soul that could be saved, or a body that could be detained*". N. Chomsky points out that "*the corporation has no moral conscience... and as an institution it is monstrous*". Understanding the Corporation in the manner that J. Bakan did in his cult work "*Corporation- the Pathological Pursuit of Profit and Power*" indicates the evilness of corporations today. Bakan (2004, p. 6) states, "*In his work 'the Wealth of Nations' Adam Smith warned that because the money of other people cannot be entrusted to managers, neglect will be the result of corporate business organization. Indeed, at a time when Smith wrote this, in 1776, the institution of the corporation has been banned in England for more than 50 years. In 1720, the English Parliament, laden with cases of fraud on the stock market, had outlawed the institution of the corporation, although with some exceptions*".

In their infancy in the U.S., corporations were small, they had clearly defined contracts with the state, they knew what they could produce, how long would they have the right to work, the amount of capital has been regulated, it was not allowed to take over the other companies, etc. Therefore, they were subordinated to serve to a man. Over time the deviation from the initial idea occurred. The corporations have grown to huge proportions, so that some of them go beyond the economic power of many states. For example, the world's largest company by the number of employees - the *Wall Mart*, according to the realized income stands immediately behind the 20 largest world countries, and behind it, there are other 15 companies. Looking through this context, as well as in the context of extremely serious environmental problems caused by the corporations, it is logical to point outthe issue of endangered globally social development and its sustainability.

It is not questionable that the power of corporations (and their owners) grew out of the exploitation of social resources, wherever they are. In economic term, this means that the Pareto optimal number is not being respected since the private interest is being forced to detriment the public interest. Forcing the ideology of individualism, unlimited private property and economic freedom (ignoring the fact that the above principles should be applicable to all, to the masses, and not only to some individuals) is the core of neo-liberalism economics. The former is possible only under conditions of fiasco of social and economic institutions. Therefore, the establishment of an institutional framework and its appropriate implementation is a prerequisite for CSR in both internal and external environment. For the reason that many "morbid" disorders of corporations are apparent such as a) indifference to the feelings of others, b) inability to maintain stable and enduring social relationships, c) indifference regarding the safety of others and d) dishonesty (repeated lies and deception of consumers, the society etc.).When all of this is known, in modern conditions of a fairly big threat to the planet, and through the context of "*a big business is too big to be human*" (H. Ford), and that the corporation was "*ingenious tool for obtaining individual profit without individual responsibility*" (A. Biers), one can rightly ask the question whether CSR category is necessity or is it the result of consciousness and notions of responsibility and ethics, or be subject to strict institutional changes (orders)? It seems that for the deliverance of the planet and of humanity, the third possibility must be imperative for the sustainable development. Until today, there were too many consequences to be able to continue to ignore the needs and interests of those who may in the future suffer even greater consequences of irresponsible business decisions made by corporations and their managers.

4. The role and importance of CSR

CSR implies that for the realized profit, companies are not responsible only to shareholders but also to individuals and groups (i.e. all stakeholders) to which the profit reflects in any way. It consists of obligations of businessmen to pursue those regulations, bring those decisions and take those steps which are desirable in terms of objectives and values represented by society. Most often cited in the literature is the definition of *World Business Council on Sustainable Development* (2000), which states that CSR stands for "*constant commitment of the business world to behave ethically and contribute to economic development, at the same time improving the quality of life of the work force and their families, and local community and society in general*". Interesting definition of CSR is proposed by Carroll and Buchholtz (2003, p. 36), who believe that it should "*unite economic, legal, ethical and philanthropic expectations of the society, in relation to the organizations at some point*". Additionally, *corporate social responsibility (CSR) can be defined in basic terms as the voluntary commitment of a firm to contribute to social and environmental goals." (European Commission, 2002)*

Being socially responsible means not only to fulfill legal obligations, but to go further and invest more in human capital, the environment and relations with stakeholders (Green Paper, 2001). M. Porter believes that social responsibility in many forms, including philanthropic, directly determines the competitive advantage of the company, so it could be concluded that it is a "*high demand commodity*" on a global scale. It is undisputed that the following key principles that connect all the existing definitions of CRS are being imposed: participation in community life, accountability, sustainability, transparency, ethical behavior (corruption), honesty, etc. In that sense, their common features are subdivided into the following a) they are universal and could be apply to all types of businesses regardless the sector and company size b) their realization is on a voluntary basis, c) they are focused on cooperation with the stakeholders, d) they express obligation to contribute to the quality of life, e) they emphasize development, and not only the economic growth, f) socially responsible companies hold onto the "triple results" approach (the impact on society, economy and environment).Leonard and Mc Adam (2003) conclude that corporate social responsibility include issues such as human rights, workplace and employment issues (e.g. employee health and safety), unfair business practices, organizational governance, environmental aspects, marketplace and consumer issues, community involvement, and social development.

As we indicated previously, acceptable approach to CSR involves the integration of three basic concepts: 1) the concept of profit, which assumes that the primary responsibility of management and managers is business and profit maximization, 2) stakeholder concept, which advocates that the management should take care of the impacts of the activities of the company to its stakeholders and identify their interests in decision-making and social power and 3) social responsibility concept, which assumes that the company and the business must have a certain social responsibility for the possession of power. Proponents of emphasized social responsibility of corporations do not query the legitimacy of profit. They are just trying to redefine it in order to include the set of goals that include general public interest. Notion of "*corporate conscience*" is an challenge to humanize the company, to give their managers a whole variety of motives that exceed selfish race of their owners (shareholders) for the wealth. Arguments for "pro" social responsibility start from the fact that the organization is a natural member of society, that it takes resources from society and that it should pay an equivalent amount, helping the company to solve many problems. Moreover, among the arguments for "pro" we can hear most often that an organization need to fix what went wrong (air pollution, environmental accidents, etc.), and that the organizations that treat the community with care gain the goodwill since the society treats them more kindly.

According to the CSR literature, the motivations for engaging in social and environmental initiatives differ significantly. Some companies think of CSR as an instrument to enhance the relationship with the stakeholders (customers, regulatory authorities, local communities, NGOs etc.). Others consider CSR as a means to increase operational efficiency and reduce costs. Furthermore, others are motivated by the market potentials from having a reputation as a good corporate citizen. In addition, some companies may simply believe that commitment to CSR is morally correct (Pedersen and Neergaard, 2006). Based on the existing literature, it is actually quite difficult to predict whether companies are motivated by instrumental or more emotional features. Some empirical studies report that concern for corporate image/values is the primary motivation whereas others conclude that ethical/moral reasons are the main driving force for companies implementing various CSR activities (TNS Gallup, 2005; Pedersen, 2006; Poksinska et al., 2003).

The heterogeneity which characterizes the managerial perceptions of the responsibilities toward society can also be found when looking at the managerial motives for CSR. The quoted authors based on the research carried out in one company have reached the conclusion that, as seen from Table 3 the managers consider "*It is the right thing to do*" as the main reason for doing CSR. Nevertheless, a large number of managers also consider the company's CSR activities as having something to do with the corporate image/brand. The findings also indicate that top management commitment is seen as an important implementation factor. In thise sense we can cited one manager that argues following: "*There has to be a will behind it and if there is no top management who wants to do these things, then nothing happens.*"

Table 3: The Reasons for CSR

Question: To what extend do you agree with the following statements (1= strongly disagree, 5= strongly agree)

statements	*scores*
I am well informed about our social and environmental policies	4,2
The managers agree to a large extent on the business unit's responsibilities towards society	4,0
I consider the social and environmental implications of my decisions and actions in my everyday practices	3,8
The business unit has significantly increased its investments in projects and services that have a positive social and environmental impact	3,7
The communication of both the positive and negative social impact of our activities is balanced, transparent and honest	3,6
The interests of relevant stakeholders are considered in all business operations that have an important social and environmental impact	3,6
The human resources for achieving the social and environmental goals are adequate	3,5
The business unit has formalised procedures to consult with and listen to the stakeholders on social and environmental issues	3,5
There is an adequate budget for social and environmental improvements	3,4
The employees have been well trained in addressing social and environmental issues	3,3
The economic benefits from our CSR activities exceed the costs	3,2
Suppliers have economic incentives to comply with our social and environmental policies	2,6
Part of managers' bonuses, rewards and/or compensation schemes are inked to social and environmental performance	2,2

Source: Pedersen, Neergaard, 2006,p. 26.

Practice has proved that it is not enough that corporations adhere to regulations. The society therefore cannot be satisfied, because the law did not anticipate many aspects of sustainable development, nor it is not being consistently applied. CSR goes beyond the rule of law. It entered into the practice of ISO standard forms by extending itself to human rights, the environment, consumer protection and fraud, and corruption prevention. In the part relating to the principles of social responsibility, in addition to general views, seven principles have been set out in detail: accountability, transparency, ethical behavior, respect for stakeholder interests, and respect for the rule of law, respect for international norms of behavior and respect for human rights. These principles are not a substitute for legal obligations arising from the “rule of law” in a state. They serve as “helpers” to give responsibility a moral component in addition to legal one. Based on this statement, one enters the institutional zone, which generates the behavior of all participants of economic activities and their relationships because they are implemented within the constraints. They are conditioned by the institutional structure of society and which narrow the field of individual and corporate choices. The effective institutional environment is able to decrease the negative consequences of opportunistic behavior of corporations since its basic element - the norm, is considered as a rule of conduct and/or an obligation, generating the penalties for non-compliance. The norm is based on the principle of obligingness and as such represents a complete opposite of the voluntary principle, which characterizes CSR.

5. The institutional aspects of corporate governance and CSR

C. g. is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is managed, administered or controlled (Tchouassi, Nosseyamba, 2011, p. 198). C. g. institutions are those that establish the playing field of internal and external stakeholders in the firm. C. g. can be considered as a form of institutional design. These institutions are mainly path-dependent (historically determined) and mostly determined by the institutional context. C. g. includes both internal and external control relationships. Relationships between the internal and external control mechanisms reflect the interplay between internal institutions and external forces (notably policy, legal, regulatory, and market forces).Next to the above mentioned control relationships, which are generally more formal in its character, there may be informal institutions that play a role in c. g. They may be firm specific norms and values, management ethos and codes of conduct in business, as well as more general norms and values existing in society at large, self-regulation within a certain industry, and the reputation of a firm in its relations with its competitors, suppliers and customers. C. g. institutions are aimed at supplementing formal contracts between different stakeholders.

C. g. institutions are those institutions that determine the game rules of internal and external actors/stakeholders in the firm. Postma and Hermes (2002) find that c. g. can be considered as a form of institutional design and that these institutions are mostly determined by the institutional (legal and economical) context. They argue that c. g. contains both internal and external control relationships. Internal control refers to the interaction between management, shareholders, and other stakeholders, such as debt holders and employees. The internal control relationships boards are usually created as solutions to tackle agency problems between shareholders and/or other stakeholders on the one hand and management on the other hand. The previous discussion was transformed into a matrix by Postma and Hermes (Ibid.) as presented in Table 1.

The relationship between c. g. institutions and the overall institutional environment were defined in the set of OECD-principles (1999). The OECD principles suggest that the following institutional aspects are key areas of c. g. at the company level: a) Ownership structure (who are the shareholders; are there major block holders; is there a general shareholder meeting; how are voting rights organized; are there any anti-takeover mechanisms; is there any insider trading); b) Board structure and process (what kind of board is prevalent (one/two tier boards); Are there any committees); c) Stakeholders' rights (are interests of stakeholders protected by law); and d) Transparency and disclosure (accountants; accounting standards; other reputational agents).

Table 1: Internal and external corporate governance institutions

Institutions	*Internal control*	*External control*
Formal	Supervisory board; Management team; Shareholders; Workers council; Guidelines and authority relations.	Competition authorities; Laws on, *e.g.*, property rights, bankruptcy and insolvency procedures, and rules regulating enforcement; Exchange rules (stock exchange); Accounting standards, auditing and disclosure principles; Reputational agents (financial analysts, accountants, and the like); Institutional organizations like Central Banks, OECD, World Bank, EBRD.
Informal	Firm specific norms and values; Managerial ethos; Codes of conduct	Self-regulation in a sector; Reputation (trust); Societal norms and values.

Source: Adapted to Postma, Hermes, 2002, p. 5.

The external control refers to regulating agencies (e.g. government, regulatory agencies), reputational agents (such as accountants and financial analysts), and markets that function as a disciplining tool for top management, such as financial markets (banks, stock exchanges), the market for corporate control, labor markets for top management; etc. Relationships between the internal and external control mechanisms reflect the interaction between internal institutions and external forces (notably policy, legal, regulatory, and market forces). Next to the abovementioned control relationships, which are generally more formal in character, there could be also informal institutions that play a role in c. g. Such informal institutions may be firm specific norms and values, management ethos and codes of conduct in business, as well as more general norms and values existing in society at large, self-regulation within a certain industry, and the reputation of a firm in its relations with its competitors, suppliers and customers. In other words, the c. g. institutions are aimed at supplementing formal contracts between different stakeholders.

Institutional players outside the corporation can have a significant impact on corporations. M. Roe (2004, p. 16) explains the manner in which outsides can hinder through political institutions, in cases when corporate arrangements are formulated in an unfair manner. Political institutions may prohibit certain arrangements, increase the costs of others, and provide subsidies for the third group. As indicated by Roe, Once they do so, they can have a significant impact on the c. g. institutions.

C. g. operates objectively in the external institutional environment that consists of social and global governance. In this respect, it is interesting to look into the research by R. Apreda (2008), who provided a unified and integrated approach to governance. He identified seven mutually related dimensions that he considered to be the very core of corporate, public and global governance, as follows:

- A founding constitution,
- A system of rights and duties,
- Mechanisms for accountability and transparency,
- Monitoring and performance measures,
- Stakeholder rights,
- Good governance standards, and
- Independent gatekeepers.

In most of these elements one can identify institutional aspects of c. g., understood in their primary meaning, as rules, regulators, coordinators and limits to human behavior. The problem of separating ownership authority from managerial functions, issues of membership in boards of directors, corporate control, bankruptcy and other elements and mechanism of c. g. are all regulated through a set of rules, norms and standards defined by the state authorities and regulatory agencies, judicial authorities and business associations. A set of all these rules, regulations and standards correspond to an institutional foundation (framework) of the c. g. system. In this set, one can recognize the following main elements:

– Norms and rules regarding status (company law, law on securities, law on protection of rights of shareholders, investment related legislation, bankruptcy law, tax legislation, case law and court proceedings),
– Contracts (formal and informal) in case of voluntarily accepted standards of corporate behavior and internal acts for their implementation at the company level (requests to introduce corporate securities, codes and recommendations regarding c. g.), and
– Generally accepted practice and business culture.

Non-governmental institutions also have an important role to play in the developed economies. They have an effect on the development of culture of c. g., scheming the system for its implementation and defining rules of behavior. Numerous chambers for the protection of rights of shareholders, various centers and institutes have participated in the development of corporate relations. The general institutional environment may include aspects such as the government institutions at large, the general regulatory environment, the existing rule of law and (absence of) corruption. The development and strength of internal and external c. g. institutions is dependent on the quality and strength of the general institutional environment. In other words, the quality of the general institutional environment enables the development of internal and external c. g. institutions. For instance, when a country is characterized by 'weak' governments, weak legislation and high corruption, c. g. institutions (internal as well as external) may not be strongly developed and even if they are developed, they will not be very effective.

The problems of weak institutions become visible specially in emerging market economies like those of the Central and Eastern Europe. Weak institutions may causeless well-functioning goods markets, labor markets and markets of corporate control. In this way top management of large dominant firms (which often are the result of mass privatization programs) could be established. This situation on the market may prevent new entry on markets and entrepreneurship may be strongly discouraged (World Bank, 1999, p. 14). Accordingly, weak institutions and thus weakly developed internal and external corporate governance institutions may hinder the process of economic transition of these countries.

Table 2: Institutional environment for corporate governance

<table>
<tr><td rowspan="3">Institutional environment
Set of fundamental rules (legal, economic, social, political and other) that define a frame for human behavior</td><td>➔</td><td>Meta-constitutional rules
The most general and hard to apply informal rules that have deep historic roots in the lives of different nations; they are closely related to behavioral stereotypes</td></tr>
<tr><td>➔</td><td>Constitutional rules
Define hierarchical structure of the state, rules for decision-making on the establishment of state authorities, as well as forms of and rules for state control</td></tr>
<tr><td>➔</td><td>Economic rules
Rules that directly determine forms of organization of economic activity, within which economic agents formulate institutional arrangements and decide on the use of resources</td></tr>
<tr><td></td><td></td><td>↓</td></tr>
<tr><td></td><td></td><td>Property rights
Rules prescribing individual approach to the use of scarce resources.</td></tr>
</table>

It is clear that external institutional environment consists of factors that could be applied in the private sector, in the field of legislation, then various stakeholders, legal acts, various standards, agents that affect the reputation of the company, financial sector, a range of types of market and control of activity of corporations. Table 2 presents a general structure of institutional environment for corporate governance.

6. Importance of CSR

It is very probable that the solution to the relations between economy and environment will determine the faith of the mankind. It is considered for a long time that the issue of CSR represents an essential part for sustainability of corporations, the state and the society as a whole. Sustainable economic development became directly rely on a greater balance between the business, society and the natural environment. Institutionalization of the issue of CSR is very important because of the negative externalities inflicted on the economy as a whole by failures in socially responsible business behavior. Numerous scholar emphasize ethical aspects of c. g. actually, the previous literature suggests that the objective of corporations is not only to provide profit for their owners, but to meet a wider CSR, primarily to protect the natural environment as a precondition for sustainable development. Today, the CSR "handbook" enlarges to the human rights, workplace practices, globalization practices, corporate power, environmental impact, corruption, community affairs and effective stakeholder dialogue.

The current prevailing definition of CSR advocates that the firm should engage with stakeholders for long-term value foundation. This does not mean that shareholders are not important, or that profitability is not vital to business success. Actually, in order to assure firm survival and profitability it must engage with a range of stakeholders whose opinions about the company's success may vary significantly. The process of engagement creates a dynamic context of interaction, mutual respect, dialogue and change, which will allow socially responsible business to achieve lower costs, higher revenues, improved reputations, lower risks and ultimately benefit shareholder value. Recent published studies suggest that government may play a role to encourage and promote the CSR of business. As Table 3 shows, the World Bank has identified four principal public sector roles in relation to CSR that are mandating, facilitating, partnering and endorsing roles.

Table 3: Public sector roles in CSR

	'Command and control' legislation	*Regulators and inspectorates*	*Legal and fiscal penalties and rewards*
Mandating	'Enabling' legislation	Creating incentives	Capacity building
Facilitating	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

Source: Adapted to Fox, Ward, Howard, 2002.

Given that the origins of industrial capitalism corporations have struggled with the dilemma of whether their sole purpose is to generate wealth (narrowly defined as financial profit) or whether corporations have broader obligations to the communities in which they are situated, and from which they derive not only their fundamental resources, but their license to operate. To better clarify the different approaches of CSR, Garriga and Mele (2008) proposea classification of the main theories and related approaches into four groups:

– Instrumental theories, in which the corporation is seen as simply an instrument for wealth creation, and its social activities are only a means to achieve economic results,

- Political theories, concerned with the power of corporations in society and the responsible use of this power in the political arena,
- Integrative theories, concerned with the corporation's responsibility to meet social demands, and
- Ethical theories, based on ethical responsibilities of corporations to society.

These theories represent four dimensions of corporate activity related to profits, political performance, social demands and ethical values. The question is: How to incorporate these four dimensions remains an essential issue in resolving the relationship of business and society.

CSR represents one of important forms of communication between the corporation and its target audience, which contributes to the creation of a positive image of the corporation. As it operates in the institutional environment, c. g. must observe all of its aspects and adapt to it to the extent possible, irrespective of the degree of its mandatory character. Institutional environment should reduce negative impact of the limited rationality and opportunistic behavior of corporations. To that end, it is logical to believe that necessary institutional changes will take place.Therefore, introducing new exogenous regulating limits for c. g. It is very likely that, as the environmental problems become more serious, institutional solutions regarding c. g. will shift from their voluntary character today towards greater compulsory character in the future.

7. Brakes of corporate governancein transition economies

According to the WEF's *Global Competitiveness Index* 2011-2012, which covers 142 economies of the world, all members of the former Yugoslavia take fairly low places(from 57-100). According to selected institutional indicators, related to c. g., the situation is also unfavorable. Basically they have in familiar the next problems: unstable and non-transparent institutional framework, insufficient knowledge, a high degree of ownership concentration, the possibility of expropriation of small shareholders, underdeveloped capital markets, short business practice, the agency problem between the majority owners (shareholders) and minority owners (shareholders), unprofessional management and the gap between formal regulations and substantive practical application of regulations and institutional arrangements.

In the majority of transition economies, there was no “creative destruction” in the part of economic institutions. Moreover, there was the inconsistent, non-transparent, interest-motivated quasi-monist improvisation. Those economic conditions have caused a lot of confusion and negative consequences. Some interest-oriented alibi-economists (alibi-reformers) rhetorically substitute institutions by quasi-institutions, replacing the thesis. Therefore, the retrograde transition processes and c. g. deficit is blamed by “*populists and nostalgic of the previous system*”. Looking for the causes of the crisis and the transition of c. g. out of institutional area does not make sense. Some individuals pay no attention to obvious difference between some real economic institutions and their quasi-substitutes (e. g. market and distorted market structure, competition and monopoly privileges, conditions for mass entrepreneurship and individual pseudo-entrepreneurship, mass unemployment and individual overwork, regular business and non-market wealth, freedom and captivity, and full-blooded market, c. g. and management of informal groups, etc).

The supposed commitment of some economists- reformer of neo-liberalism, is not in fulfillment with their non-market monopolistic preferences, anti-institutional arrangements and non-market acquired wealth. Transparency cover this sort of individualism bit it is highly interest-oriented and limited to a narrow layer of privileged individuals. Decline of the individual basis of social development has become a permanent and negative signal on the way into the present and future crisis. Institutionalized individualism of all (and not just the privileged) means freedom of choice for all. A function like this could be only a core for the healthy entrepreneurship development, c. g. and ownership efficiency. Practical situations have demonstrated that the annuity oriented behavior, the gray economy, “good players” and their “relationship” simply substitute the institutional and corporate behavior. It has been the way that shareholders lose their shares and dividends as an alternative of corporate governance. Contradictory and destructive institutional imitation and improvisation are directly affected on equality of conditions in the acquisition of private property, competition, distribution of wealth, etc.

Specific institutional braking mechanism can be described as a quasi-institutional monism. Market regulation (generated in neo-institutional economic policy) actually does not work even close to the real capacity, but in reduced different forms of substitution and deformed structures, which are under the direct influence of informal and alternative institutions. In such, a reducing macroeconomic condition is not possible to set up a favorable environment for microeconomic effects of c. g. Quasi-institutional have infertile principles proclaimed monism market (competition, efficient owners, private business as a mass categories, etc.) as well as innovation processes, knowledge, economic restructuring, etc. The result is guild capitalism (Berglöf and E. von Thadden, 1999) in which the usual private firms are favored by political figures.

This removes the possibility c. g formation. Subjective regulators disregard the institutional norms of behavior. Perverted and reduced individualism arises as a civilization and a social norm. All valid institutional concepts are barren and modified by diverse political decisions and by interests of the "reform creators". Accordingly they block c. g., the creation of competitive practices and competencies, economic growth and development. Quasi-neoliberal economics has revealed that ignoring c. g., through the creation and operation of strong connections between firms, banks and state-party authority, to giving selectively loans on very favorable terms and to privileged companies, giving a number of projects to the same individuals, expands business based on asymmetric information, the artificial devaluation of property, inflationary credit, market monopoly and corruption.

In the most countries of the former Yugoslavia C. g. has began to form in parallel with the privatization process what allowed the increase of property. All efforts to advance the business environment in order to improve c. g. have not led to satisfactory results. They have not followed the modernization of company legislature which aimed at strengthening the rights of shareholders. Why? Because in the real institutional framework, various forms of quasi-institutional, alternative and informal substitutes existed and functioned, which objectively significantly affected the compliance with the strict rules of the game and constrained the development of c. g. Therefore, in transition countries those efforts for c. g. should be based on four principles: fairness, transparency, management responsibility to the owners and responsibility of the company before the surroundings. Nevertheless, already at the first step, the ownership transformation led to the breach of mentioned principles. Privatization does not only stand for the transfer of property rights from the state to private investors, but also a change of control and management in enterprises, protection and specification of property rights, increase of enterprise efficiency etc. Obviously, the consistent application of the principles of c. g. requires a long process, in which the legislation will be changed, as well as business practices, business standards and ethics, etiquette, etc. The main problems of c. g. in the those countries are: abuse of shareholders' rights, non-transparent ownership structures, direct connection between control and property, inadequate and inexperienced corporate bodies and minimizing the value of the shares of minority shareholders.

8. Conclusion

C. g. market itself is influenced by conflicting institutional and corporate impacts. In the future, it is necessary to find an appropriate model that will satisfy the interests of both institutional and corporate factors in order to enhance sustainable development. A new model of economic growth and sustainable development, in addition to forcing intellectual (high-tech and innovation) and environmental (clean technology, new energy sources) components must be founded on institutional pluralism as a universal development framework and advanced c. g., which includes a networked partnership cooperation and consistent application of all its fundamental principles in business. The synergy of these components is a rational response to the challenges of the economic crisis.

Too many institutional factors (ownership, control, institutional investors, laws, standards, instruments of economic policy, etc.) are concerned in the activities of the corporations for such important and propulsive field such as institutional conditions, which comprise the institutional environment, to be left to the principle of voluntarism. Since the growth of environmental and economic problems increasingly emphasizes the issue of sustainable development, it is obvious that the output should be seen in the application of mandatory limiters which are called the institutions.

C. g. as a way of managing the corporations has not yet been acknowledged in many transition economies. In underdeveloped and / or insufficiently developed institutional environment that exists in most of the transition countries the considerable development of c. g. present an essential element for building the microeconomic environment. Without it, further development is not possible. Additionally, under institutional protection of business and knowledge, the protection of shareholders and investors, which should be offered by c. g., is not achievable. The basic institutional fundamentals of c. g. (state, market and ownership regulation) in transition states are not yet suitable. They broke under the weight of many social –pathological changes. Setting up these foundations is a main requirement for the improvement of effective c. g. and sustainable economic and social development.

Specificity of particular models of c. g. and suitable CSR are principally conditioned by the character of links between the two environments - corporate (voluntary, based on market laws) and institutional (binding, based on the regulations and standards). It can be assumed that in the future all models of CSR that favor sustainable development will be increasingly exit the first zone and acknowledge the rules of another environment. Our examination has supported the initial hypothesis that CSR progressively changes, but its position is still related tothe relation between rhetoric and willingness. Actually, it is far from institutional obligation. Having as objective to shift CSR from zone of voluntarism to the zone of obligation, it is required to institutionally define and attain equilibrium between economic, environmental and social imperatives. If this in reality occurs, then Toffler's “adaptive corporations” will certainly have to change and adjust in order to archive sustainable development.

Too many institutional elements (ownership, control, institutional investors, laws, standards, instruments of economic policy, etc.) are concerned in the activities of the corporations for such important and propulsive area such as institutional conditions. Those elements present the institutional environment that should move above to the principle of voluntary principals. Since the growth of environmental and economic problems significantly underlines the issue of sustainable development, it is obvious that the output should be considered in the application of mandatory limiters which are called the institutions.

Demands for superior corporate responsibility come from many stakeholders. They gain the strength with the increase of various scandals and fraud. With a range of negative consequences caused by socially irresponsible behavior of firms, there is an emergent awareness that social responsibility is beneficial and that there is a positive influence of CSR on consumers. The leading companies in the world are expected to establish a new paradigm of responsible behavior. It would be based on the knowledge that this is a new chance to develop new ideas, demonstrate new technologies, new ways to supply the market and meet the needs that had not existed earlier. In this sense, the whole process becomes profitable for the company and for the community. Accordingly, many companies recognize and apply the so-called “threefold essence” formula which is related to the combined application of the principles of financial, social and environmental effects.

The discussion induces few relevant questions: Does the new development present paradigm or rhetorical facade at the scene that will be easily ‘smeared’ by corporations? Is it achievable to establish a balance between “moral capitalism” and the concept of “sustainable development”, which is intended to be obligatory on corporations? Is there a possibility to 'adjust' the concept of CSR to the phenomenology of global markets and the challenges of a global civilization in the 21st century? All preceding issues may be synthesized in one essential question: Who in fact needs and can control a modern corporation? The answer was proposed by H. Mintzberg (1984, pp. 98-100) in the form of "conceptual horseshoe" with eight key demands: "*Trust it! Nationalize it! Restore it! Democratize it! Regulate it! Pressure it! Induce it! Ignore it*". Most of these elements are still present.

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