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Social Responsibility and Corporate Governance

Volume 2: Policy and Practice

Edited by

Matjaž Mulej · Grażyna O'Sullivan · Tjaša Štrukelj

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The fall-out from many high profile crises in governance and leadership in recent decades, from banking to healthcare, continues to be felt around the world. Major reports have questioned the values and behaviour, not just of individual organizations but of professionals, industries and political leadership. These reports raise questions about business corporations and also public service institutions. In response this new series aims to explore the broad principles of governance and leadership and how these are embodied in different contexts, opening up the possibility of developing new theories and approaches that are fuelled by interdisciplinary approaches. The purpose of the series is to highlight critical reflection and empirical research which can enable dialogue across sectors, focusing on theory, value and the practice of governance, leadership and responsibility.

Written from a global context, the series is unique in bringing leadership and governance together. The King III report connects these two fields by identifying leadership as one of the three principles of effective governance however most courses in business schools have traditionally treated these as separate subjects. Increasingly, and in particular with the case of executive education, business schools are recognizing the need to develop and produce responsible leaders. The series will therefore encourage critical exploration between these two areas and as such explore sociological and philosophical perspectives.

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Tjaša Štrukelj
Editors

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Foreword

To link both books, let us repeat the introductory thoughts from the book 1.

In 2008 the world experienced its new global socio-economic crisis. Over the next ten years the root of the crisis, i.e. the neoliberal global monopolization replacing the expected free market (Vitali et al. 2011) has proved to be a critical danger for humankind. Companies have decisive powers over governments (Perkins 2012). With documents passed by United Nations, such as Global Compact (UNO 2000), and by International Standard Organization, such as ISO 26000 (ISO 2010) the humankind responded to this crisis on its global level with a clear message: social responsibility must replace the reigning lack of decisive persons' and organizations'.

- Responsibility for their influences on humans and nature, i.e. society (rather than bosses' irresponsibility as the untouchable ones, and subordinates' irresponsibility as the non-influential ones);

- Ethics of interdependence (rather than bosses' ethics of independence as the untouchable ones, and subordinates' ethics of dependence as the non-influential ones);
- Holistic approach (rather than bosses' one-sidedness as the untouchable ones, and subordinates' one-sidedness as the non-influential ones; both groups are also narrowly specialized due to their usual education for single professions and they lack a holistic approach by interdisciplinary creative cooperation therefore).

Thus, the humankind acknowledged via its global bodies that

- The corporate social responsibility is the way out from the current blind alley of humankind; and
- The way out of this blind alley starts in corporations as the most influential units of the current global society.

Therefore socially responsible corporate governance offers the clue by application of the ISO 26000. Unfortunately, many do not use ISO 26000 in their research on social responsibility (see references in e.g. Hrast et al., editors, 15 conference proceedings on <http://www.irdo.si/>; Potočan and Nedelko 2015; Potočan et al. 2019a, b; Lebe and Mulej, editors 2014; Mulej and Dyck, editors 2014—four volumes; Mulej et al., editors 2016—three volumes in Slovene; Mulej, Merhar and Žakelj, editors 2019; Štrukelj and Gajšt 2019; Štrukelj and Sternad Zabukovšek 2019; Štrukelj, Mulej and Sternad Zabukovšek 2020; Štrukelj et al. 2020; Zore 2015).

Via ISO 26000, humankind requires a holistic approach that is based on interdependence; it comprises seven core subjects (ISO 2010, p. 4): (1) organizational governance, (2) human rights, (3) labour practices (employment), (4) the environment, (5) fair operating practices (ethical behaviour), (6) consumer issues (consumer rights), and (7) community involvement and development (see Fig. 1). The seven principles of ISO 26000 on corporate social responsibility belong to VCEN (i.e. values, culture, ethics, and norms) (ISO 2010, p. 7): (1) accountability, (2) transparency, (3) ethical behaviour, (4) respect for stakeholder interests, (5) respect for the rule of law, (6) respect for international norms

of behaviour, and (7) respect for human rights (see also ISO 2010, pp. 10–14).

Organizations that use these principles when dealing with these core subjects have serious human and economic advantages, because socially responsible behaviour prevents costs of e.g. strikes, under-used creativity and innovativeness of co-workers, losing good employees, suppliers and customers and replacing them, absenteeism and presentism, ruined natural environment and curing humans and environment etc., all way to global socio-economic crises, revolutions and wars, both local and global, refugees, etc. These and similar costs are prevented, hence one must discover results in opportunity cost and benefit analysis (which authors only point to, here).

This double-blind reviewed scientific monograph addresses all seven core subjects with contributions from central Europe, which is less frequently heard as the West:

- Chapters 1, 8 and 10 discuss organizational governance (p. 6.2 in Fig. 1);
- Chapter 2 discusses fair operating practices (ethical behaviour) (p. 6.6 in Fig. 1);
- Chapter 3 discusses consumer issues (consumer rights) (p. 6.7 in Fig. 1);
- Chapter 4 discusses community involvement and development (p. 6.8 in Fig. 1);
- Chapter 5 discusses human rights (p. 6.3 in Fig. 1);
- Chapter 6 discusses environment (p. 6.5 in Fig. 1);
- Chapter 7 discusses labour practices (p. 6.4 in Fig. 1);
- Chapter 9 discusses labour practices (p. 6.4 in Fig. 1).

In synergy, chapters are interdependent due to their differences, completing each other up; they hence make a step towards the holistic approach together (a fully holistic approach ought to consider totally all existing attributes, which reaches beyond human capacities even in an interdisciplinary team work; authors' limitation to a single profession and viewpoint/perspective causes a fictitiously holistic approach; therefore one should use a 'dialectical system' leading to a 'requisite holism')

by including into consideration all and only crucial viewpoints, relations and synergies (Mulej 1974, 1979; Mulej et al. 2013).

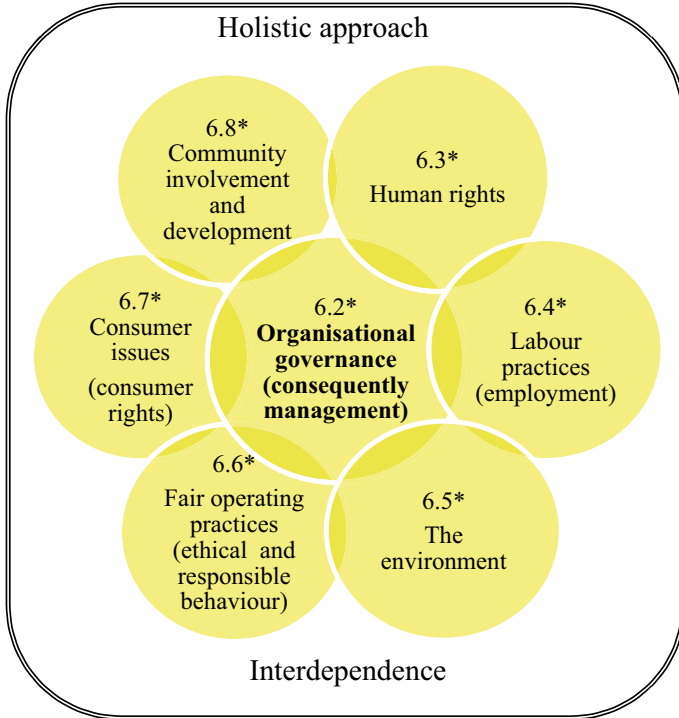


Fig. 1 7 core subjects and two linking categories of social responsibility according to ISO 26000 (Notes * The figures denote the clause numbers in ISO 26000. When an explanation is written in parentheses—addition Tjaša Štrukelj. Source ISO 2010, p. 4. Editors’ own presentation based on publicly available information)

Therefore, Corporate Social Responsibility (CSR) must be incorporated in Corporate Governance (CG) as a Twenty-First Century Challenge. CG’s lack of interdependence and holism has caused most problems of humankind; CSR can hence improve CG. Even though the area CSR is not new, neither is CG, the time we live in, makes both, academics and business people redefine the theory and practice of corporate social responsibility (CSR) and corporate governance (CG) to stop

their separation. The modern world practice is proving to tend to drift too much away from sustainable development and a deep understanding of interdependence, towards (world) wars, inequality and environmental destruction, which gives ground to extremism, nationalism and stimulates political, economic and military conflicts. Today, businesses are more powerful than ever and play a vital role in shaping our reality. However, this role is not always positive, depending on SR integration into CG causing well-being, or failure of it, including bad life.

This double-blind reviewed scientific monograph connects corporate social responsibility and corporate governance and describes tools for practice for their achievement. The fact that ISO 26000 on corporate social responsibility has been in global preparation for a decade and passed in 2010, only two years after the outbreak of the global socio-economic crisis in 2008, denotes that the practitioners and politicians of neoliberal economics times know that humankind needs a new way out of the crisis and finds it in social responsibility. But this can hardly become reality, unless the corporate governance integrates social responsibility. Scientific monograph offers nine viewpoints—tools for practice of social responsibility and corporate governance to make this concept more holistic, founded and applicable. The summary of each of them is presented in the continuation.

Tool for practice 1 (Chapter 1): *Global political efforts for social responsibility, such as conferences on sustainability, climate change, poverty and poverty elimination.* Results of them are not sufficiently influential, because corporations are poorly involved in making these efforts real practices, and because the legal bases are missing. The approach of governments and corporations is too one-sided for humankind to overcome the current global socio-economic crisis, even with a scientific basis, if it is not interdisciplinary, based on interdependence and aimed at requisite holism, as the necessary corporate governance tools.

Tool for practice 2 (Chapter 2): *Knowledge management.* It is also too one-sided; it needs requisite holism/wholeness, attainable with its interdependence with values management—into knowledge-cum-values management based on creativity-based well-being (rather than on values of lazy life). If practising requisite holism, as the necessary corporate

governance tool, the key stockholders' knowledge-cum-values management supports modern, i.e. requisitely holistic, knowledge and values in innovation-driven business policy-making. It results in creativity-based well-being. Knowledge-cum-values management and creativity-based well-being are easier to attain with the integral management approach, e.g. the MER model of integral management, and the application of systemic behaviour, e.g. the Dialectical Systems Theory, via social responsibility principles. No similar concept is offered in the available literature.

Tool for practice 3 (Chapter 3): *Information*. The 'Big Data Age' is replacing the 'Industrialization Age'. It would be misleading to attribute any kind of entrepreneurial 'social activity' to the array of Corporate Social Responsibility. With several experiences one may come to the conclusion that certain shifts in the economy lead—in some digitization industries—to withering away of forms of the classical corporation, being successively replaced by a new formation of which we cannot see clear, elusive contours. Is humankind moving towards revived arbitrary systems of socio-charitable controls or can one foster a model, which leans towards inherent publicness, as the necessary corporate governance tool?

Tool for practice 4 (Chapter 4): *Educational and Economic Network*. Authors are presenting the assumptions and structure of this tool in the Wielkopolska Region (EENWR), as the necessary corporate governance tool. It is an example of Corporate Social Responsibility in the area of information management about the required social competences. The results of the research work cover a period of 48 months and include information obtained from more than 1200 employers and 25,000 potential employees. System and tool solutions that are proposed in the framework of EENWR increase the effectiveness of the transformation of entities and their competitiveness.

Tool for practice 5 (Chapter 5): *Socially responsible banking operations*. With them humans consider banks' influence on society, interdependence and holistic approach, as the necessary corporate governance tools, have become vitally important in the recent decade for long-term business operations, not only for banks themselves, but the entire economy. It is reflected in many ways. Specifically, the bank should

achieve its profitability recognizing social interests, which in the long run leads to a stable banking system relying on a healthy real economy. Unfortunately, e.g. banks in the Republic of Croatia focused on short-term profit targets and did not contribute to an increased economic wealth of the country.

Tool for practice 6 (Chapter 6): *Quality of life of the human population*. The case presents aspects of this tool, which is one of the goals of sustainable development and corporate social responsibility, including the qualitative postulates, as the necessary corporate governance tools. On the basis of the analysis of sustainable development indicators, quality of life of humans was proposed to be supplemented with new indicators concerning the well-being of the human somatic sphere.

Tool for practice 7 (Chapter 7): *Local governance and its socially responsible behaviour, interconnection and specifics in public sector*. It defines the governance in the public sector and its specifics at the local level, relationship between governance and socially responsible behaviour from the theoretical point of view. Then, authors present the selected examples of activities in local municipalities in e.g. the Slovak Republic that describe the socially responsible behaviour as a part of Local Governance. They include a case study in the form of empirical research results on socially responsible behaviour in a city district and description of good examples from other municipalities in the Slovak Republic that positively develop the relationships with their stakeholders and are a part of socially responsible behaviour of local municipality (participatory budgeting, participative planning, and community organizing, as the necessary corporate governance tools).

Tool for practice 8 (Chapter 8): *Transparency and disclosure*. Using a sample of the public joint stock companies in e.g. Slovenia, authors investigated the transparency and disclosure practices, as the necessary corporate governance tools, in the under-investigated context of transition economies. The methodology was applied on company and national levels as well as on international level by comparing the results among participating transition countries (i.e., Croatia and Slovenia). Research results show that the transparency and disclosure practice is of first-class and good quality in more than 80% of Slovenian prime and standard market companies, listed on the Ljubljana Stock Exchange. Even though

the transparency and disclosure practice is of better quality in Slovenian than in Croatian companies, improvements are required in several areas.

Tool for practice 9 (Chapter 9): *Employers' corporate social responsibility*: examines the positive impact of employer's corporate social responsibility (CSR) on employee performance and explores the conditions of CSR effects on employee performance, especially internal motivation. Specifically, the relationship between CSR perceptions and employee performance is proposed to be stronger for the employees who place high importance on organizational CSR activities. The results indicate positive relations between CSR and employee performance, suggesting that employees in socially responsible companies generate better operating performance than their peers in less socially responsible companies.

Tool for practice 10 (Chapter 10): *E-government*. E-government is closely related with organizational governance by digital simplification of the mutual information flows and services, which citizens and organization need from the governing bodies and provide to them. The study presented in this chapter reveals the rapid development of the e-government tool and its practice of social responsibility and its contribution to the latter.

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About the Editors

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1

Social Responsibility: An Application of and Support to Systemic Behaviour

Matjaž Mulej and Rado Bohinc

1.1 Introduction: The Need for Social Responsibility—A Consequence of the One-Sidedness of the Globally Influential Humans and Organizations

The present book on *Corporate Social Responsibility and Corporate Governance—Policy and Practice* is an answer to the twenty-first Century Challenge, which results from the experience that the global politicians tend to arrange global conferences, e.g. on the very crucial topics such as sustainability, climate change, poverty and poverty

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elimination, while they poorly link these topics with the corporate social responsibility, i.e. responsibility for one's influences on society, and related corporate governance. The global political bodies made a crucial progress after the year 2000 by passing the ISO 26000 on social responsibility (ISO 2010) and related documents by UNO (e.g. Global Compact, established in 2000),¹ European Union (2011), and some world-top corporate associations (e.g. WBCSD).² The Google websites on social responsibility and corporate social responsibility are very full—they contain many millions of contributions.

But these global political bodies and these authors were, and are, unable to make ISO 26000 *obligatory* for humans and their organizations, especially the most influential—big corporations—and the most numerous—SMEs (i.e. small and medium-sized enterprises), as well as individuals and governments. It seems obvious that a number of reasons on the part of businesses caused this lack of promotion of social responsibility. These reasons might include the (powerful) corporations':

- Oversight of several benefits for them that are briefed in ISO 26000 (ISO 2010) and in EU's document supportive of social responsibility (will full right for economic reasons);
- Preference for their short-term benefits over the long-term ones;
- Preference for their narrow-minded criteria of benefit over the broader ones, such as taking in account shareholders only rather than all stakeholders and society at large;
- Imagination that they, i.e. their bosses, are no parts of the entire society and cannot be victims of anybody's one-sided rather than systemic behavior;
- Subordination of national governments as well as the international and supra-national bodies such as EU, to corporations monopolizing the

¹The Global Compact provides a list of its 12,000+ participant organizations, composed of roughly 8000 businesses and 4000 non-business entities on its website. Wikipedia, visited on 23 January 2018.

²The **World Business Council for Sustainable Development (WBCSD)** is a CEO-led, global advocacy association of some 200 international companies dealing exclusively with business and sustainable development. Its origins date back to the Rio de Janeiro Earth Summit of 1992. See Wikipedia, visited on 23 January 2018.

global economy rather than working on a free and equal-footed market place;

- Forgetting that these attributes of their business style tend to cause crucial detriments to humankind and consequently to corporation, such as crucial cost resulting from strikes, poor health and therefore costly big need for medical care rather than prevention of health troubles, disequilibrium in nature, destroyed natural environment, end of natural resources, war-caused destruction (all these cause higher taxes and enemies); etc.

Therefore, the current dilemma of humankind reads: *either the end of humankind as a species on the planet Earth or social responsibility as a basic attribute of the corporate governance.*

1.2 Humankind's Need for a Model of Life After the Neoliberal Monopolies

Data are clear (see e.g.³ Mulej et al. 2013; Mulej and Dyck, ed. 2014 (four books); Mulej et al., ed. 2016 (Mulej and Hrast 2016; Mulej and Čagran 2016; Mulej et al. 2016); Lebe and Mulej, guest ed. 2014; Mulej et al., guest ed. 2014; Mulej et al., guest ed. 2014): 80% of the global business is under control of less than 750 out of 30 million investigated organizations. This is happening under the label of free market, but it is killing the free market as a place of equal-footed economy. Besides, this neoliberal capitalism is killing the liberal capitalism in which the invisible hand directs businesses and consumers into long-term relations of mutual trust and reliability. In addition, the neoliberal capitalism no longer faces the dilemma 'either guns or butter', but uses the extremely extensive production of weapons to assure butter, but only to the single percent of the richest persons and their few employees, while

³These publications contain contributions from more than one hundred authors from more than thirty countries from all continents. Besides, Hrast et al. edited twelve yearly conferences, also on social responsibility, mostly international and with bilingual proceedings, in 2006–2017, with several hundred contributions; see www.irdo.si. IRDO published several more books, recently e.g. by Šarotar Žižek et al. (2015a, b, c, d).

causing more than ten current wars and more than one hundred million displaced persons. Those wars, of course, are far away from the countries that are the permanent members of the United Nations Security Council and produce and sell the predominant quantities of weapons globally (USA alone sell one third of the entire huge production of weapons).

The conclusion 1: the neoliberal capitalism is not capitalism in its original definition (free market, permanent innovation, consideration of the triple concept—freedom, equality, brotherhood, make-it-do and do-without), but a new kind of feudal and slave-owning society under a new label.

The conclusion 2: the neoliberal capitalism is at the end of its blind alley and humankind needs to replace it—in a third world war or without it (war is a much more dangerous and costly solution)—by a socially responsible society.

1.3 Social Responsibility—The Alternative Model of Life After the Neoliberal Monopolies

On the global level, humankind discovered the alternative to the dangerous neoliberal monopolies and their permanent crises, including world wars. Under the umbrella of UNO and ISO humankind called the alternative—the social responsibility. The name is somehow misleading; it should better be “humans’ and their organizations’ responsibility toward the society, i.e. humans/humankind and the natural environment”. Social responsibility is supposed to reach beyond law, but no way to replace law. It should change law to attain unconditional support to socially responsible behavior of humans as persons and as members, especially the influential members of organizations, be them enterprises, families, NGOs, countries and their parts and supranational unions, such as EU. This applies also to unions that have legally become countries over time, such as USA, Canada, Mexico, Brazil, Argentina, India, China, South Africa, Japan, Pakistan, Indonesia, Australia, UK, Germany, Italy, France, Spain, etc.

The three critical concepts, summarized briefly and clearly in ISO 26000, namely are:

- Responsibility for one's influences over society, i.e. humans and other nature;
- Interdependence;
- Holistic approach.

The three principles oppose monopolies. Namely, monopolies have always in human history tended to generate **irresponsibility**:

- Bosses had/have no one to control them, including adaptation of law to their interests.
- Subordinates had/have no rights except the right of irresponsibility, e.g. by limitation of their effort to the bosses' orders without any own initiative, except the one opposing the bosses.

Monopolies have always in human history tended to generate the **ethic of dependence and independence** rather than the only natural consequence of specialization per natural attributes and professions, i.e. **interdependence and ethics of interdependence**:

- Bosses felt/feel their independence from their subordinates and other nature; this generated their feeling of their right of irresponsibility, because they tended to find their power a source of special rights rather than special duties covering the needs of other people and other nature.
- Subordinates felt/feel their dependence on bosses and other nature; this generated their feeling of their right of irresponsibility, because they tended to find their lack of power a source of no rights and only many imposed duties covering the needs of other people and other nature, limited to their bosses.

Monopolies have always in human history tended to generate the ethic of **one-sidedness rather than a holistic approach**.

- Bosses used/use the principle ‘divide and impera’, i.e. divide and master, in order to enjoy special rights rather than to accept and realize duties resulting from their power- holding and therefore influential positions.
- Subordinates learn/ed to be narrow specialists with no knowledge on interdisciplinary creative cooperation, but to be divided and mastered, rather than contributing as much as possible.

Monopolies are the current global economic reality, again, causing the current crisis. It is a crisis of affluence.

1.4 Development Economics’ View: Social Responsibility Offers the Way Out from the Current Crisis of Affluence

There were in history **four phases of development of the basis of competitiveness**:

- Owning the natural resources (causing war and colonies always in history, including today);
- Investing into the use of natural resources (causing the power of capital owners);
- Innovation for a better use of natural resources (causing the affluence of the innovative ones and power holders at the detriment of others);
- Affluence is no longer a good base for competitiveness, because it kills ambition to have more, once one has everything one needs, and hence gives up the hard work rather than free time and leisure (therefore tourism flourishes now like never before, and so does the illegal drugs abuse, because the free time has a poor content).
- **A fifth phase is necessary.** This is why the global humankind’s bodies proclaimed social responsibility and briefed it in ISO 26000. This need is a consequence of the decisive persons’ and organizations’ oversimplification in their monitoring and considering of reality, which has led to oversights and resulted in mistakes, all way to world wars and other similar processes.

We briefed these statements in more detail in other books, proceedings, and guest-edited journal editions cited above.

1.5 The Humankind's Way of Thinking and Evaluation to Be Overcome; from the Analytical to the Systemic Behavior

In Mulej et al. (2013) we wrote: The events of the previous centuries clearly show the power of analytical consciousness, which separated the world into many countries, beliefs, wars..., separating it in fear. We need only to think of the twentieth century, of wars that were caused by separation and analytical consciousness. The First World War was caused by vested and conflicting interest among decision makers inside ambitions and selfish elites (Elohim 1999). The same economic reductionism, consciousness of winning and losing ruled in the next and in the subsequent wars. All these wars and conflicts had something in common: leaders as elites, who started them and had not seen the world as a whole, which belongs to the universe; they have only seen their separate shares of this world. Their consciousness was strictly analytical and paired with a reductionism, which made its owners/users "micro-smart" (good at thinking through component parts) but also micro-dumb, since they were not good at looking at the whole world from the astronaut's point of view (Mulej et al. 2013). Education included no holism, i.e. no systemic behavior.

When one becomes aware of analytical and systemic facts of education, one can move forward in the evolution of consciousness. Educational processes in the past were treated, taught and understood in the analytical direction. This analysis brought separation, a framed point of view, which doesn't bring us humans to understanding and deeper meaning of the reality, and its stresses, situations, and challenges. One (student or teacher or practitioner) is satisfied when one gets a reward, good grade or prize and thinks of the fact that one deserved the award. The same happens with threat or catastrophe, but when it comes to the

event, one tends to think that one actually deserved the threat. This is the limitation of analytical thinking. It is too simple to solve the complexities of the world. So: if we follow Bertalanffy's (1950) thought about complexity, we are forced to deal with systems and wholes in all fields of knowledge, which implies a basic reorientation in scientific thinking, which leads to the reorientation in educational and real-life thinking and behavior.

System thinking implies that science, technology and all their institutions must serve man, not cause man to serve them. It shows a broader perspective, which is connected to events, patterns and finally to the structure. Events (seeing only what is visible) mostly lead us to a trap of myopia. Patterns are trends, or changes in events over time (Anderson and Johnson 1997). Naturally, one sees a pattern of events—for example a history teacher will tend to stick his definitions on history and tend to be rude to a curious and talkative student, who has different explanation of history; or whenever there would be strong rain, university building would stay without electricity etc.—one gets closer to grasping the systemic structure driving that pattern. Structure tends to answers the questions “why is this pattern happening or what’s causing this event”. Thinking at the structural level means thinking in terms of causal connections. It is the structural level that holds the key to lasting, high-levered change. Actions taken at this level are creative, because they help us to shape the future that we want. Actions make behavior from thinking. What lies there behind the good actions?

1.6 Bertalanffy, Wiener—The Essence of Systemic Behavior: Fight the Human One-Sidedness by Creative Interdisciplinary Cooperation Supportive of Requisite Holism

Further we wrote (Mulej et al. 2013): Good half a century ago, right after the end of the “World War I & World Economic Crisis & World War II (1914–1945)” period, scientists, e.g. L. von Bertalanffy, N. Wiener and

their colleagues (from several disciplines and in cooperation) found a new response to the terrible consequences of one-sidedness visible in events of this period, again: holistic rather than fragmented thinking, decision-making and action. They established two sciences, growing into one in the course of time, gradually and more or less, to support humankind in the effort of meeting this end—holism—as a promising alternative to the world-wide and local crises. These are (General) Systems Theory and Cybernetics, of course. With full right they are called the science of synthesis (Hammond 2003). System was and is the word entitled to represent the whole. We may never forget this definition of the system. There are many contents of the word system in the daily colloquial usage, unfortunately. There are 15 groups of definition of its contents in vocabulary (Webster 1978). One fights one-sidedness in order to survive, nothing less, with systemic behavior.

Ludwig von Bertalanffy wrote very clearly (1968, edition 1979: VII):

Systems science ... is predominantly a development in engineering sciences in the broad sense, necessitated by the complexity of 'systems' in modern technology Systems theory, in this sense, is pre-eminently a mathematical field, offering partly novel and highly sophisticated techniques ... and essentially determined by the requirement to cope with a new sort of problem that has been appearing.

*What may be obscured in these developments—important as they are—is the fact that **systems theory is a broad view which far transcends technological problems and demands, a reorientation that has become necessary in science in general and in the gamut of disciplines ... It ... heralds a new world view of considerable impact.** The student in 'systems science' receives a technical training which makes systems theory—**originally intended to overcome current over-specialization** (exposure of these words by bolding is ours, M. Mulej) into another of the hundreds of academic specialties... (Bertalanffy 1979: VII). It presents a novel 'paradigm' in scientific thinking ... the concept of system can be defined and developed in different ways as required by the objective of research, and as reflecting different aspects of the central notion. (Ibid: XVII)... General systems theory, then, is scientific exploration of '**wholes**' and '**wholeness**' which, not so long ago, were considered to be metaphysical notions transcending the boundaries of science... 'Systems' problems are problems of*

interrelations of a great number of 'variables'..., models, conceptualizations and principles—as, for example, the concept of information, feedback, control, stability, circuit theory, etc. by far transcend specialist boundaries, were of an **interdisciplinary** nature (ibid: XX)

In the parallel efforts **Norbert Wiener** worked on a very practical problem (anti-aircraft guns) leading to creation of cybernetics. To solve it his mathematical geniality was not enough—he gained cooperation of biologists and engineering specialists, who were—obviously by nature—capable of **interdisciplinary creative cooperation**. Wiener was (like Bertalanffy, who was a philosopher, art historian and theoretical biologist) also an interdisciplinary personality; beside mathematics (with a Harvard doctorate at the age of 17) he was a philosopher (teaching philosophy at Harvard for a while); he spoke several languages, and studied also zoology (Wikipedia, visited on 5 October 2017).

François (2004) showed that despite these original and crucial concepts there are very many specific systems theories. Some of them are obviously forgetting about the fights of Bertalanffy's General Systems Theory against over-specialization and about Wiener's practice of interdisciplinary creative cooperation; they approach reality from various viewpoints.

This supports our understanding of the term system (Mulej 1979: 10): **Systems are mental pictures of real or abstract entities as objects of human thinking; they are concepts that represent something existing from and inside limits of a selected perspective / viewpoint / aspect.** Thus: *In mathematical formal terms, a system is a round-off entity consisting of elements and relations, which makes it (seem) holistic. In terms of contents, a system depends on its authors' selected viewpoint; hence, it does not comprise all attributes of the object under consideration, but only the selected part of them. This fact makes a system both holistic (formally, with no contents, or inside the selected viewpoint only, i.e. fictitiously holistic) and one-sided (due to the unavoidable selection of a viewpoint by the specialized person or team trying to practice systemic behavior).*

Namely: Objects exist, and humans watch and manipulate them with different levels of holism. Total holism includes all existing attributes of the object under observation; thus, it makes the object and the system

as someone's mental picture of the object totally equal, but it reaches beyond human natural capacity. This is why humans are specialized and limited to single viewpoints causing humans' limitation of consideration of any object to a **one-viewpoint system**. By cooperation, normally by an inter-disciplinary one that includes several essential professions in a synergetic effort, a team can attain more holism—by a dialectical system (a synergetic network of the essential viewpoints/specialties). Both a system and a dialectical system exist inside the human mental world, in human thinking and feeling; they can be expressed in models for other humans and other living beings to receive information about humans' thinking and feeling. The essence of the concept of the dialectical system and related law of requisite holism/realism and wholeness is well expressed by Wilby (2005: 388), although she leaves open the question of viewpoints selected and thereby determining the boundaries of study: "The goal of holistic study is not to look at 'everything'. Instead it is to make a decision about what is relevant to the study and what is not and to know and understand why those choices were made. The biases and interests affect the choice of what is likely to be included and excluded (i.e., what is in the system as opposed to what is relegated in the environment of the system)." What Wilby calls holistic, we call requisitely holistic, to be precise and clear, if all crucial viewpoint are considered in synergy, in the Dialectical Systems Theory (Mulej 1974, 1979; Mulej with co-authors 2013; etc.).

Albert Einstein put it well: 'Let us simplify as much as possible, but no more'. This is what the Dialectical System Theory is about, methodologically, as one version of several that are called systems theories (see for details Mulej 1979; Mulej with coauthors 2013, and several publications between them). Like, later on, social responsibility, it is aimed to help people overcome serious bad experiences.

1.7 Dialectical Systems Theory (DST)

In our book (Mulej et al. 2013) we wrote: [Monopolies, oligopolies and the modern] Competition keeps causing lower cost, including a lack of care for natural environment, if short-term and one-sided views prevail. A necessity results [from the short-term and one-sided behavior] for

costly eco-remediation, health care, organizational, managerial, business and technological innovation concerning e.g., emissions in air and water and their prevention under ISO 14000 standards family. Concretely, we can find: too one-sided considerations in past times caused the oversight of the fact that the (technological) progress causes, along with beneficial, also detrimental consequences. One-sided estimations often fail to see side-effects, which are essential in their long-term consequences.

Data say, among others, that the growth of richness of the West over the recent good half a century, at least, has been much bigger in the one-sided book-keeping than in long-term economics. Namely, the West has been only postponing rather than covering the cost of saving humankind's natural environment etc., which makes these cost accumulate to sums showing that the growth of richness is fictitious (Božičnik 2007). Economic consequences of such short-term abuse of the law of external economics are calculated as enormous (Stern, interview: Stein 2007: 14–15): if humankind does not tackle the climate change very quickly and radically, it will cause humankind's cost as high as 5500 (five thousand five hundred) billion Euros, which is more than the cost of both World Wars combined. Without measures to reduce greenhouse gases the world-wide GDP will fall for 5%, possibly for 20%. Sustainable enterprises are needed and must develop to socially responsible ones for the current civilization of humankind to survive; the [neoliberal] industrial VCEN [values, culture, ethics, and norms] must be replaced."—This case describes the terrible consequences of the current global influence of the one-sidedly rather than systemically, i.e. requisitely holistically behaving humans and their organizations. So is the picture from newer data (see for references: Mulej and Dyck 2014; Mulej et al. 2016).

The selected challenge therefore reads: what can we do to attain a bigger, or even the requisite, holism of human behavior without losing the unavoidable specialization and without letting the specialization become over-specialization, which makes humans incapable of interdisciplinary creative cooperation because of hiding behind their single selected viewpoint? Social responsibility might be able to provide an answer by its three basic notions:

1. One's responsibility for one's influences on society;
2. Interdependence; and
3. Holistic approach.

BRIEFING OF ISO 26000: See the chapter by Tjaša Štrukelj et al. for it.

1.8 Briefing of Corporate Lawyers' Suggestions on Support to Social Responsibility

In Bohinc (2017) income- and wealth-related global inequalities are presented, followed by socially responsible mechanisms through which income inequalities could be gradually reduced (economic democracy [ED], social economy [SE], and corporate social responsibility [CSR], as follows in this subchapter).

New social responsibility is a theoretical approach to societal and corporate governance, aiming to implement the widely supported, however never realized, concept of “economic growth for all” and to gradually overcome income and social inequalities in contemporary societies. **Economic growth is not an end in itself, it must be in the function of overall prosperity and social welfare**, rather than infinite concentration of profits in the hands of a handful of rich people at the expense of low wages and low social welfare. Social responsibility is thus as a cause-effect chain connected with income inequalities with all their and its real causes.

Social responsibility is the concept to be followed at the state level (societal, state social responsibility) as well as on the corporate level (corporate social responsibility). Social responsibility at societal level, also referred to as **country social responsibility**, is the ability of an individual country's legislation to ensure a high level of social wellbeing, economic and environmental sustainability, without further deepening income inequalities and violating the human (economic and social)

rights. Out of the three pillars of sustainability—economic, environmental, and social, it refers solely to social sustainability, considering it as equally important as the environmental one.

Social responsibility at corporate level is the attitude, a specific business approach (culture) of corporate leaders and owners, whereby companies integrate social and environmental concerns into their business operations.

There is a variety of **socially responsible mechanisms** through which income inequalities could be gradually smaller. The most important are those, empowering people, to enjoy the right to the fruits of their labor. Here we are in the vast fields of economic democracy (ED), social economy (SE), and corporate social responsibility (CSR).⁴

The Global Inequalities (Income And Wealth)

Wealth and income (consequently social) inequality in the global society have been increasing in the last decades. It is especially visible at the last centile of income distribution. Income inequality is even nowadays far **greater than at any time in the past**. It is also **affecting equality of opportunities**: education, access to modern technologies, health, culture, employment opportunities (welfare)—is constantly increasing.

Precarious employment and massive violation of labor legislation is becoming more and more evidently the accompanying social phenomenon of the modern capitalism. The unequal distribution of the benefits of economic growth proves that more and more income goes to capital in the form of rent, while wages stagnate, and poverty is increasing.

Profit rates are higher than those of salaries or in other words: capital income is rising faster or more than incomes from work. Respectively, the “formula” for more accurate and proper assessment must include different income groups. Taxation system and social rights system can slightly mitigate the existing inequality, but cannot prevent it.

The promise of **digital technology**, responsible for huge developments of knowledge and skill, is undermined by those foundations.

⁴On the concept of social responsibility see the scientific monograph: Bohinc, Rado (2016): *Social responsibility*. Ljubljana: Založba FDV (in Slovenian).

Instead of offering a breakthrough, the uncritical adoption of existing ownership arrangements surrounding these technologies generates the problem of economic inequality (Brynjolfsson and McAfee 2016).

Income inequality in OECD countries is at its highest level for the past half century. **Here are some numbers:**

- Global wealth inequalities are extreme: the lower half of the global population collectively owns less than 1% of global wealth, by contrast the richest 10% owns half of all global assets; top 1% accounts for almost half of all the assets in the world (Credit Suisse 2014).
- Income inequality is rising. A quarter of a century ago, the average disposable income of the richest 10% in OECD countries was around seven times higher than that of the poorest 10%; today, it's around 9½ times higher (in Chile and Mexico more than 25 times) (OECD 2015).
- Income inequalities in OECD countries differ from Mexico with 0459 to Finland with 0256 Gini coefficient (OECD 2015). Average wages (gross per year) in OECD countries are four times higher in the country with the highest wages (Luxemburg 62,580 USD) compared to the country with the lowest average wages (Mexico 15,230 USD). In the EU, Luxemburg is the highest, followed by the Netherlands (52,719 USD), while the lowest is Hungary (20,667 USD), followed by Latvia (21,113 USD) (OECD 2015).

The eight richest people have assets that are equal in value to the remaining half of humanity (3.6 billion people) (Oxfam 2017). The richest 10% in OECD countries own half of all households, while the lower 40% owns only 3%. The top 1% owns 19%.

Theory on Income Inequality

Stiglitz (2012) states that we are paying a high price for our inequality—an economic system that is less stable and less efficient, with less growth, and less democracy. Unemployment—the inability of the market to generate jobs for so many citizens—is the worst failure of the market, the greatest source of inefficiency, and a major cause of inequality. As of March 2012, some 24 million Americans who would have liked a full-time job couldn't get one. 'In the United States, we

are throwing millions out of their homes. We have empty homes and homeless people.'

Piketty (2014) shows, that the main driver of inequality is the tendency of returns on capital to exceed the rate of economic growth. Today this tendency, according to him, threatens to generate extreme inequalities that stir discontent and undermine democratic values.

Galbraith (2012) notes, that in a deep sense inequality was at the heart of the financial crisis, claiming that the inequality statistic has shortcomings: it measures inequality in earnings (but not property incomes).

Atkinson (2014) claims that, to reduce inequality, we have to go beyond placing new taxes on the wealthy; new policies, including the sharing of capital are needed.

Rawls (2001), seeking ways to overcome injustice, caused by income inequalities, underlines the need to disperse the ownership of wealth and capital, and thus to prevent a small part of society from controlling the economy, and indirectly, political life as well. By contrast, welfare-state capitalism permits a small class to have a near monopoly of the means of production.

Socially Responsible Concept of Economic Growth for All

Socially responsible concept of economic growth for all means that **welfare/wellbeing of the people should be an equally important factor to shareholder's value added**. Namely, the employee share in national income has, according to OECD, steadily declined over the last 30 years. The ownership capital is highly concentrated in Europe and so is the income (Lowitzsch and Hashi 2014). More **equitable distribution supports social cohesion** in the EU (Lowitzsch and Hashi 2014), which is no more a part of social policy, but a part of enterprise and labor policy.

Therefore, instead of the present situation where **effects of increased economic growth are directed mainly to the capital holders as distributed profits** and less or nothing to labor income, the mechanisms of ED, SE and CSR **can substantially contribute to overcoming this trend**.

However, research on that topic in the last 50 and more years has **not been primarily focused on income inequalities**, but rather mainly to

issues of **agency problem, efficiency, productivity and competitiveness, identification** with company (Blasi et al. 2003), **job satisfaction and motivation, recruitment, absenteeism, income after retirement, business succession, employment risk, wage flexibility, economic resilience, business succession, managerial drawbacks** (Blasi et al. 2013).

Social Responsibility on State Level—A Huge Gap Between Normative and Real

Legislation on the fields of ED, SE and CSR is crucial to overcome income inequalities and to reach a high level of social responsibility on state level. However, there are **enormous differences among countries** in the world, referring to the question, how the legislation on this fields is designed and implemented. This is one of important reasons for huge differences in income distribution among the states. And there are deeper, ideological reasons for socially irresponsible behavior and performance on a state level. They have to do with relationship between capital and labor in the context of appropriation of profits and of governance rights.

The world's seemingly permanent cyclical economic crises, political instability, social inequalities, existential distress and uncontrolled migrations, massive violations of human rights, call for a thorough conceptual rethinking of how to reshape the existing global, capital-based societal and corporate governance bases, which have basically unchanged dominated over the last decades and centuries. In a modern society, significant for huge developments of knowledge and technologies, both capital gain and human/social objectives should form the framework for democratic life and social welfare. New information & communications channels therefore increasingly require higher skills and qualifications; they will more and more affect the balance between capital and labor.

Despite the fact that financial capital in the market power of an enterprise does not necessarily any more present a dominant production factor and added value, and despite that, on the contrary, contribution of human workforce (labor) to added value has been increasing substantially, the merely **capital based appropriation and governance principle remains unchanged for centuries**. The crucial, most prominent and decisive feature of the globally prevailing socio-economic system,

derived from that principle is the fundamental division of people to those who are owners (employers) and those who are workers (employees).

The world faces a huge gap between normative and real, between political and legal acts stipulating the individuals' guarantees, freedoms and rights on one hand **and the actual situation in real life on the other**, especially between the normative scope of human rights law and the effective power of property rights. In the industrialized democracies, self-governance is touted as a fundamental human right in the overall political sphere while 'work' is not even *in theory* organized on the basis of democratic self-governance. Legal and economic levers do not work in a way supporting each other, but against each other, which creates tensions in the humanity that result in cyclical economic crises, social outbursts, unstoppable migrations, and global terrorism.

In a globalized (cross-border, multi-national) economy, at the corporate level, legislation has difficulties in keeping up to such complexity of economic processes (founded on the interests and legitimacy of capital) between the developed and under-developed parts of the world. Lower standards of human (mainly economic and social) rights protection in countries with low GDP per capita, the predominant interests of capital and its legal strong protection against weak labor is causing massive human rights violations. Interests protected by property rights (corporate) legislation are much stronger than the interests protected by international human rights legislation.

The non-binding recommendations of international organizations (UN, ILO, OECD, EU) concerning respect for economic and social rights as well as corporate social responsibility, appear as too weak legal tools that could sufficiently confront the comprehensive and very powerful legal tools of the international capital. Simultaneously, the protection against violations of human rights, and inherent responsibilities is neither properly, nor sufficiently, regulated in the countries, where violations occur nor where the business takes place.

The scientific response to the above challenges and to preventing further deepening of income inequalities, are steps to move

- **Towards empowering people and**
- **Overcoming the gap between the owners and employees**

- **By developing new enterprise and cooperative forms and governance and appropriation concepts,**
- **By increasing employee ownership and other economic democracy approaches in enterprises, which in turn will impact, in a natural way, the concept of social responsibility on societal and corporate levels.**

Employee financial participation (EFP)

Employee financial participation (EFP) includes individual ESO (employee stock ownership), ESPPs (employee stock purchase plans) and PS (profit sharing). EFP has been a feature in the EU for over 50 years, supported in some EU member states through tax incentives and legislation; there is a wide divergence in approaches in different countries. Few EU member states have extended employee ownership significantly, some of them less or nothing. UK and France are positive examples, granting generous incentives to EFP schemes. Still, 68% of EU companies have provided no form of EFP. EU systematically follows EFP since 1991 (PEPPER Report I/91, PEPPER Report II/97, PEPPER Report III/2006, PEPPER Report IV/2009).

According to the Fifth European Working Conditions Survey (2010); on Comparative human resource management, International Executive report (2011) and European Company Survey (2013), all schemes have been increasing in last years (2009–2014), most of them PS; however only 31.7% of all private companies in EU countries offer some form of ESO or PS schemes. Several studies show advantages of employee share ownership (ESO) as a stabilizing factor at stock market, long-term shareholders' commitment, reducing the impact of short-term focus of managers and shareholders.

Since there are many angles to this issue (for instance taxation, social security and labor law), the EU Commission found it important to analyze this subject in more detail (**Action Plan European company law and corporate governance—a modern legal framework for more engaged shareholders and sustainable companies** /* COM/2012/0740 final */. The EU Commission believes that employees' involvement in the affairs of a company may take the form of financial involvement, particularly to employees becoming shareholders.

The Commission is committed to identify and investigate potential obstacles and to, subsequently, take appropriate action to encourage employee share ownership throughout Europe. **Employee buyouts** are considered also as possible solution for **SME succession problem** in EU countries.

There are different approaches in EU countries referring to EFP for example: UK Companies Act of 2006 was amended in favor of ESP and in 2014 tax incentives were imposed for **indirect ownership of employee shares** (EOT). ESP were introduced in UK in 1950, while profit sharing appeared at the end of the nineteenth century. According to European Working Conditions Survey, 5% of British employees took part in employee share plans and 12% in profit sharing schemes in 2010. There are 4 main tax advantage plans: SIP (share incentive plan, 820 companies) and 3 share option plans, SRSU (Service Related Share Option Schemes, known as Saye schemes, 420 companies) for all employees, and SCOP (Company Share Option Plan, 1110 companies) and EMI (Enterprise Management Incentive, 8590 companies) for selected employees (executives).

French “FCPE de reprise” (employee buyout mutual fund) is very similar to US-UK ESOP. Both are ownership schemes via trust as intermediary, using borrowed funds on a leveraged basis, aiming to create employee ownership.

Hungarian ESOPs are US patterned, based on the Law on ESOPs of 1992, as privatization instruments, amended in 1995. The number of ESOPs then decreased from 300 to one fourth of that in the last 20 years.

Austrian Income Tax Law developed **Employee Participation Foundation** to hold and purchase shares, exercise shareholder's rights and transfer returns to the employees. The beneficiaries of leveraged plans that can enjoy tax incentives are, in addition to employees, also retired employees and employee's relatives.

Economic Democracy (Codetermination, Industrial Democracy)

New social responsibility also deals with different approaches and forms (legal frameworks) of labor participation in governance (**structural participation, referred also as industrial democracy**) and the diverse

results across the EU. Different forms of the so called structural participation (industrial democracy) can contribute substantially to empowering people to overcome income inequality. The concept of workers' participation in management is based on human relations approach to management, which brought about a new set of values in relation between employers and workers.

There are **several ways and forms** of industrial democracy, like: collective bargaining, works councils, joint management councils and committees, board representation.

There are **several levels** of workers' participation as for example: information participation, consultative participation, associative participation, administrative participation and decisive participation.

The degree of **workers' participation**, also known as **labor participation** or **employee participation**, or **co-determination** (Germany) or **self-management** (in former Yugoslavia) in the EU member states differs substantially. In Germany, Slovenia and some other countries companies are required to have employee's representatives in boards while, for example, in the UK there is no requirements whatsoever.

For the European Company, worker participation is decided upon by negotiations between employees and management. Theory (Müller-Jentsch 2008) claims that codetermination can contribute to achieving a positive balance of efficiency and interests since it has the potential to create trust, loyalty and motivation among employees instead of distrust, mobbing and quit-stay. It seems advisable to anchor the legitimacy of co-determination in the normative framework of social market economy.

Social Economy

A significant proportion of Europe's economy is intended to make profits for people other than investors or owners (**social economy, SE**), accordingly, **aiming at developing mechanisms to reduce income inequalities**. SE includes cooperatives, mutual societies, non-profit associations, foundations, charities, and social enterprises.

A **cooperative** is an autonomous association of persons united to meet common economic, social, and cultural goals. They achieve their objectives through a jointly-owned and democratically controlled enterprise. **EU economy**—there are 250,000 cooperatives in the EU, owned by 163

million citizens (one third of EU population) and employing 5.4 million people.

Mutuals are enterprises providing life and non-life insurance services, complementary social security schemes, and small value services of social nature, to satisfy common needs while not making profits or providing a return on capital. They are managed according to solidarity principles between members.

Associations and **Foundations** are another type of social economy enterprises in Europe. Associations typically promote the trade or professional interests of their members, whereas foundations spend their funds on projects or activities that benefit the public.

A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market and uses its profits primarily to achieve social objectives. Its management involves employees, consumers and stakeholders, affected by its commercial activities. Social entrepreneurship (SE) has risen dramatically since the millennium. Implementation of SE at higher level would significantly contribute to SR.

All these forms of social economy operate a very broad number of commercial activities, provide a wide range of products and services across the European single market and generate millions of jobs. Social enterprises are also the engine for social innovation.

There are 2 million social economy enterprises in Europe, representing 10% of all businesses in the EU. More than 11 million people—about 6% of the EU's employees—work for social economy enterprises. They have different legal forms and various objectives ranging from agriculture and banking to provision of employment and sheltered workshops.

The primary objective of the traditional social economy enterprises is to serve their members and not to obtain a return on investment as the traditional mainstream capital companies do. The members act in accordance with the principle of solidarity and mutuality, and manage their enterprise on the basis of “one man one vote” principle.

Social Responsibility on Corporate Level—Theory and Policy Disagreements over Corporate Social Responsibility (CSR)

There is a wide divergence in approaches in different countries. Few EU member states have extended employee ownership significantly, some of them less or nothing. The degree of **worker's participation** also known as **labor participation** or **employee participation**, or **co-determination** (Germany) or **self-management** (in former Yugoslavia) in the EU member states differs substantially. The primary objective of the traditional social economy enterprises is to serve the members and not to obtain a return on investment as the traditional mainstream capital companies do. The members act in accordance with the principle of solidarity and mutuality, and manage their enterprise on the basis of “one man one vote” principle.

CSR in a broader sense is meaning the observance of income inequality, human rights, ethical labor, and employment practices; it is a specific business approach (culture) whereby companies integrate social and environmental concerns into their business operations. Guidelines and Principles that the EU Commission's CSR strategy is built upon are: United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000 Guidance Standard on Social Responsibility, International Labor Organization Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy, OECD Guidelines for Multinational Enterprises.

CSR as an economic concept: CSR is a concept about which **there is much disagreement and controversy**. Levitt (1958) asserts that social concerns and the general **welfare are not the responsibility of business**, but of government; the business's job is to “take care of the more material aspects of welfare so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”. Carroll (2008) holds that the economic responsibility of business is to **produce goods and services that the society desires and to sell them at a profit**.

The **doctrine of profit maximization** belongs to the classical economic view led by the Friedman where “**there is one and only one social responsibility of business – to use its resources and engage in**

activities designed to increase its profits". On the other hand, opponents explain that the classical economic view fails to appreciate the **long-term negative effects** of the application of the maximization principle. In contrast, the opposite view applies the maximization principle for long-term benefits (Barnett 2007).

CSR as a legal concept. There is also disagreement in theory regarding the nature and scope of CSR as legal obligation. With respect to the scope of the legal responsibilities, there are claims for further expansion of regulation: **more regulation is necessary for the implementation of CSR.**

De Schutter (2008) argues that CSR 'cannot be simply assumed, but should be affirmatively created by a regulatory framework for CSR'. Theory mostly deals with the so called **business case** rather than identifying the components of a **regulatory framework for CSR**. However, the so-called 'business case' for CSR is not strong enough; the forces of market will not suffice to encourage companies to behave responsibly, over and above their obligation to comply with their legal obligations. The two opposing camps continue to present their arguments to justify the need for the expansion or the contraction of the legal requirements imposed on business. Advocates of regulation question the ability of the free market mechanism to support CSR activities (e.g. Valor 2008).

The fundamental thesis—that **corporations are responsible toward a number of constituents**—continues to intrigue, challenge, and divide scholars and practitioners alike (Ghobadian et al. 2015). The concept of corporate responsibility has moved a long way over the past six decades, since Bowen's book titled *Social Responsibilities of the Businessman* (Bowen 1953) in the early fifties starting a modern era of research put the question: **What responsibilities to society can businessmen reasonably be expected to assume?** Following Bowen, the discussion focused on economic responsibilities M. Friedman (1962); Hayek (1944), responsibilities toward society (Davis 1973; McGuire 1963), concerns for ethical issues.

With respect to the nature of the legal obligations, there are views that the legal responsibility of business **constitutes binding obligations, sanctioned by damage liability and even by penal sanctions.** On the

other hand, there are views that the legal framework of CSR should not be binding, but merely a soft law as recommendations or code of ethic.

CSR research and practice rest on a basic paradox between a liberal notion of voluntary engagement and a contrary implication of socially binding responsibilities. Institutional theory examines CSR as a mode of economic governance, beyond CSR as **the voluntary behavior** of companies; it explores how the boundaries between business and society are constructed in different ways, and improves our understanding of the effectiveness of CSR within the wider institutional field of economic governance (Brammer et al. 2012). According to EC definition CSR is a **specific business approach** (culture) whereby companies integrate social and environmental concerns into their business operations, and into their interactions with their stakeholders on a voluntary basis. CSR in this broader sense means the observance of **human rights, ethical labor, and employment practices**, the consideration of environmental issues, and the combating of bribery and corruption (EU 2011). Implementation of CSR in real life could have thus contributed substantially to **higher social sustainability of human society**, and still has.

1.9 Conclusions

Corporations, be they multinationals or local SMEs or any ones between the two extremes need social responsibility for their long-term survival, because social responsibility supports systemic instead of the one-sided behavior. In order to innovate their corporate governance, they need several non-technological innovations, at least an innovation of their most influential stakeholders' internal motivation (Pink 2011) and their external motivation based on innovation of the legal framework in which they work, and the one in which their employees work. The legal framework creates an essential external motivation.

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2

Knowledge Management Strategy for Achieving Innovation-Driven Knowledge-Cum-Values Behaviour

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2.1 Introduction

In current global business-monopolies, i.e. neo-liberal capitalism, managers are as crucial as the owners because of their knowledge and power; their interest in the enterprise differs from that of the owners, who are not managers but stockholders, by being more creativity-and-future oriented and hired, but influential professionals (Mulej and Dyck,

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editors 2014). Therefore, this paper does not focus on enterprise owners and their social framework—the neoliberal one-sidedness (see Starovič 2013), the agency theory and shareholder view. This paper advocates the stakeholder view (see e.g. Zyglidopoulos and Phillips 1999).

Nowadays, enterprises address knowledge management, which is one of the key success factors (Delaney and Huselid 1996; Kusluvan et al. 2010), but which can hardly lead towards requisite holism/wholeness and creativity-based well-being (Šarotar Žižek et al. 2014). The main goal of this chapter is, therefore, to show that for a successful innovation-driven work, knowledge management should become knowledge-cum¹-values management. For this purpose, we investigate the following research idea: Business should be based on knowledge-cum-values management and the interdependence-based approach to the enterprise² governance and resulting business policy³ and knowledge-cum-values management, supported with social responsibility as informal systemic behaviour. We applied the Dialectical Systems Theory and its Law of requisite holism (Mulej 1974, 2007; Mulej et al. 2013) to provide a new non-technological innovation tool to manage knowledge with employees' creativity and innovation potential.

Thus, the main hypothesis reads: *Through strategic management, a socially responsible enterprise's governance and the resulting business policy influences human resource management to support knowledge-cum-values management to generate employee's creativity-based well-being, which*

¹The term 'knowledge-cum-values' denotes the interdependence of knowledge and values. To our knowledge, article is the 3rd on knowledge-cum-values-management ever (see Šarotar Žižek et al. 2014; Zlatanović and Mulej 2015).

²In this paper, the word enterprise is understood and used in its broader sense: it includes all types of organisations, both for-profit and non-profit ones.

³According to the MER model of integral management which we use as our basis (later: the MER-model), enterprise governance is resulting in business policy and contains enterprises' mission, purpose and basic goals (Belak, Ja. and Duh 2012, p. 13).

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enhances requisitely holistic enterprise governance and the resulting business policy and improves/innovates enterprise performance. We took into consideration the duality of values in knowledge that should be considered during business policy planning. The hypothesis is presented in our conceptual model as shown in Fig. 2.1.

Figure 2.1 shows that social responsibility should be taken as a frame for responsible enterprise governance and the resulting business policy development/innovation (Dankova et al. 2015; Ženko and Šardi 2014). Social responsibility is a contemporary version of informal systemic behaviour designed to attain requisite holism of behaviour of influential persons and enterprises (Mulej and Dyck, editors 2014) in order to achieve subjective and objective welfare and well-being (Šarotar Žižek and Mulej 2013). It includes human responsibility for the consequences of their actions towards the society, i.e. towards people and nature (EU 2011). An enterprise needs proper enterprise governance and the resulting business policy to develop human resource management (HRM), which changes knowledge management into knowledge-cum-values management. It results in employees' creativity-based well-being and, consequently, in their innovation, and effects enterprise governance and the resulting business policy, which is influenced by enterprise's

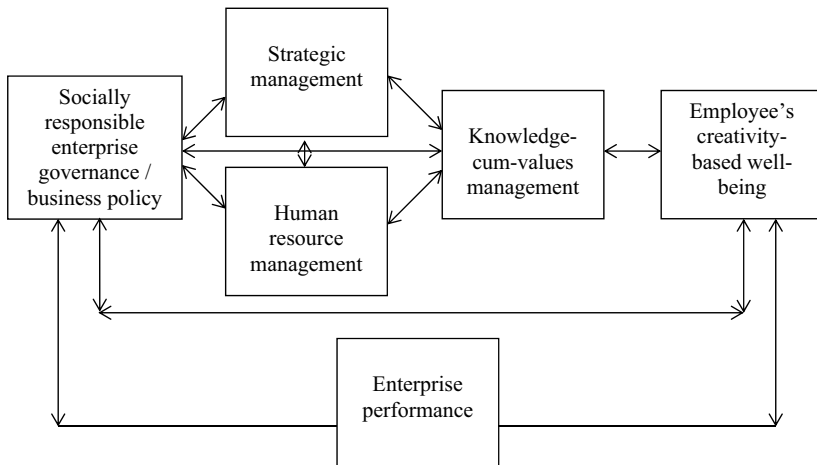


Fig. 2.1 Research conceptual model (Source Own research)

(key stockholders') knowledge-cum-values management which determines enterprise's management to enable innovation-driven business. Enterprises should apply a more socially responsible enterprise governance and the resulting business policy, management and practice, and should be more aware of their need for high-quality environmental, economic and social improvements (Hacking and Guthrie 2008; Štrukelj and Šuligoj 2014) for humans to survive (Mulej et al. 2013, 2014) and experience creativity-based well-being (Šarotar Žižek and Mulej 2013; Šarotar Žižek et al. 2014). With creativity-based well-being, governors, managers and employees can be innovative and can innovate enterprises' performance (Kavčič et al. 2015; Zlatanović and Mulej 2015).

We found our study on the European MER model of integral management (Belak, Ja. 2002, 2010; Belak, Ja. and Duh 2012; Belak, Ja. et al. 2014; Duh and Belak, Je., editors 2014) and on the Dialectical Systems Theory methodology (Mulej 1974, 2007; Mulej et al. 2013) with its Law of requisite holism (Mulej and Kajzer 1998) and its Law of hierarchy of succession and interdependence, counteracting to the Law of entropy.

Therefore, this chapter begins by the presentation of the suitability of soft systems theory used, i.e. the Dialectical Systems Theory, as a methodological approach (Sect. 2.2). Based on this, we then discuss enterprise governance and the resulting business policy, knowledge management and values management in interdependence (Sect. 2.3), knowledge management and HRM interdependence (Sect. 2.4), and innovation process and knowledge management in interdependence (Sect. 2.5). Based on this theoretical research, we suggest some practical recommendations (Sect. 2.6) and concluding remarks with further research recommendations (Sect. 2.7).

2.2 Application of Dialectical Systems Theory as a Methodology

Systems theory can be a worldview and/or a methodology aimed at requisite holism/realism of human thinking, decisions and action (Mulej 2007). In this section, we point to the way in which systems

theories, part of which are also soft systems theories and methodologies, e.g. Mulej's Dialectical Systems Theory (Mulej 1974, 2007; Mulej et al. 2013), clearly support knowledge-cum-values management (Šarotar Žižek et al. 2014; Zlatanović and Mulej 2015) and social responsibility (Štrukelj and Šuligoj 2014; Ženko and Šardi 2014), including enterprise governance and the resulting business policy, management and practice (Dankova et al. 2015) as the ways to creativity-based well-being that can be used for solving socio-economic crises (Šarotar Žižek and Mulej 2013). Why is this necessary?

Persons in charge of enterprise governance and the resulting business policy are normally not educated as multi-disciplinary experts. Although their background is relevant to the enterprise, they may succumb to one-sidedness and resulting oversights with dangerous consequences. The other extreme would be total holism of insight without oversights, but this reaches beyond natural human capabilities. A mid-way is needed which would cover all and only crucial viewpoints and related synergies of resulting insights; this concept is called the 'dialectical system' because the viewpoints are interdependent due to their differences that might cause complementarity. This research used the selected version of systems theory (supporting requisitely holistic behaviour) which is based on the 'dialectical system', i.e. our selected/used theory is called the 'Dialectical Systems Theory' (see Mulej et al. 2013).

The application of the Dialectical Systems Theory used in this article results in innovation process (see Sect. 2.3) needed for enterprise governance, management and practice innovation towards innovation-driven work as discussed here.

2.3 Enterprise Governance and the Resulting Business Policy, Values Management and Knowledge Management in Interdependence

We begin our research from the process aspect of enterprise governance and the resulting business policy and management innovation by taking the MER model of integral management (the MER-model) as our

methodological background (Belak, Ja. 2002, 2010; Belak, Ja. and Duh 2012; Belak, Ja. et al. 2014; Duh and Belak, Je., editors 2014). According to the MER-model, every enterprise defines its basic, general and long-term characteristics in its business policy. Enterprise governance and the resulting business policy cover important management instruments influencing the development and the operation of that enterprise (Belak, Ja. 2010, p. 79). The enterprise needs proper enterprise governance and the resulting business policy to direct it towards knowledge management, making this direction one of the possible paths towards its social responsibility. To achieve this, the enterprise's (key stockholders' and stakeholders') interests matter. Therefore, their values (inclined towards more or less responsibility) on which their interests are based belong to important preconditions necessary for social responsibility (Dankova et al. 2015; Mulej and Dyck, editors 2014; Štrukelj 2015) and knowledge management (Johannessen and Olsen 2003; Letonja and Duh 2016; Zheng et al. 2010).

Enterprise values work as internalized criteria for defining and assessing enterprises' desired behaviour and can, therefore, serve to judge the correctness of this behaviour and the resulting creativity-based well-being (e.g. what is right/socially responsible/ethical/desirable/important, etc.). Enterprise values can also serve to judge the influential members' personal responsibility (i.e. concerning themselves) and social responsibility (Šarotar Žižek 2012). When we rank enterprises' values in terms of their intensity, we obtain the enterprises' value system and the compatibility of the key stockholders' and other crucial stakeholders' values system (see e.g. Stackman et al. 2006) with the enterprises' values system (see e.g. Ulrich 1990, p. 53). Enterprise's values underlie and endure the core 'principles' that guide enterprise governance and the resulting business policy, management and practice and define the way in which the enterprise should operate (compare Lencioni 2002, pp. 113–117). Therefore, values management is needed for the desired, i.e. requisitely holistic, enterprise governance and the resulting business policy. Arising from values innovations, the enterprise's general definitions of its business policy depend on interest innovations of its important stockholders and other stakeholders. All of them should rethink their long-term interests (benefits/consequences) and their willingness/ability to innovate them

towards their responsible, requisitely holistic behaviour concerning all other humans (families, co-workers, other citizens and planet Earth residents—with predominating long-term interests concerning all of them) (Štrukelj and Šuligoj 2014) if the human race is to survive (Mulej and Hrast 2014).

Key values (of the decisive) enterprise stakeholders define the ‘reach/range’ of business policy (Belak, Ja. 2002, p. 115). Ulrich (1990, p. 53, in Belak, Ja. 2002, p. 116) proposes the analysis of the following factors/values⁴: profits for dividends, profits for reinvesting, risk relation, market share growth, quality of the sold products/services, geographical extension, ownership relation, innovation directions, relation to countries/governments, social goals consideration, co-workers goals consideration, and management style. Nowadays, the awareness of the importance of society and our planet beside profit is growing (Hacking and Guthrie 2008; Mulej and Dyck, editors 2014) as is the awareness of their interdependence. This is why we propose to include the following factors for a more requisite holistic and modern approach: ethical, ecological and culture depending goals consideration (Dankova et al. 2015), internal enterprise behaviour (Letonja and Duh 2016; Štrukelj and Šuligoj 2014), external enterprise behaviour (Kock et al. 2012), and the care for responsible short- and long-term goals definition and attainment (Belak, Je. et al. 2010; Duh and Štrukelj 2011). All of these factors interdependently influence enterprise’s (key stakeholders’) values, interests, social responsibility preparedness, human resources’ knowledge (knowledge-cum-values) management realization. Mulej’s Dialectical Systems Theory should as a methodology support the requisite holism/realism of humans’ behaviour for this aim/practice (Sect. 2.4), including human creativity-based well-being achieving (Šarotar Žižek and Mulej 2013; Šarotar Žižek et al. 2014). We expose the relations between effective HRM and effective knowledge-cum-values management, because they significantly influence each other.

⁴NB: These factors/values should be analysed in order to identify the influence of enterprises’ values on the ‘reach/range’ of business policy.

2.4 Human Resource Management and Knowledge-Cum-Values Management in Interdependence

Requisitely holistic creative and innovative work of employees' and their creativity-based well-being depend crucially on their requisitely holistic behaviour. Human resource management (HRM) is crucial at least for employees' requisite personal holism, creativity-based well-being, social responsibility, effectiveness of knowledge-cum-values management, and effectiveness and performance in enterprises. It impacts the competitiveness of enterprises and is very important (Ployhart and Moliterno 2011; Treven 1998, p. 16).

But HRM is not easy to define, because it is used in two different ways (Torrington et al. 2008, p. 6; Beardwell and Claydon 2009, p. 5):

- generically, to describe the body of management activities covered; and
- widely, to denote a particular approach to the management of people, clearly distinct from personnel management.

HRM is the term commonly used to describe all those enterprise's activities concerned with recruiting and selecting, designing work for, training and developing, appraising and rewarding, directing, motivating and controlling workers (Wilton 2011, p. 3). Wilton (ibid.) summarized that HRM refers to the framework of philosophies, policies, procedures and practices for the management of the relationship that exists between an employer and a worker. HRM can be defined also as the process of acquiring, training, appraising, and compensating employees, and of attending to their labour relations, health and safety, and fairness concerns (Dessler 2009, p. 2). This research advocates, that HRM is more holistic and hence more successful if it applies knowledge-cum-values management; values define what knowledge is used for, and knowledge helps humans define which values dominate (honesty or dishonesty, requisite holism or one-sidedness, short-term or long-term orientation, etc.). HRM, directly or indirectly, effectively supports knowledge-cum-values management, based on HRM-related knowledge-cum-values (see e.g. Treven 1998). Treven (1998, p. 26, adapted and

supplemented) defines HRM as the combination of various activities which contribute to the awareness of and the appropriate response to the challenges in the business environment and hence the acquisition of its competitive advantage and better performance. Among such activities, which are shown in Fig. 2.2, are: governance (resulted as business policy and strategic management guidelines consideration), management of external and internal business environment, work and its results evaluation, the proper acquisition, development and rewarding of the employees in the enterprise, and the maintenance of effective relationships. Basic activities of HRM in enterprises are presented in Fig. 2.2.

HRM activities/practices implement HRM strategic directions. Enterprises' HRM strategic directions importantly influence enterprises' knowledge management (Brewer and Brewer 2010, p. 331). If HRM strategic directions are integrated with an effective knowledge-cum-values management in strategic directions, they also add to the impact of HRM activities/practices on knowledge-cum-values management. This is important because the "interdependence of HRM, human thinking and human survival is arising, putting new requirements on HRM by demanding it to be requisitely holistic/systemic and innovative" (Treven and Mulej 2003, p. 184). In order to develop appropriate HRM strategic directions, an appropriate, requisitely holistic HRM research on different levels of analysis is needed.

HRM research (Wright and Boswell 2002, p. 249) explored the practice concerning individuals and focused on groups and the entire enterprise. These studies treat multiple HR practices as a system,⁵ whether referred to as a high performance work system (HPWS) (Huselid 1995) or as an HR practice configuration (Lepak and Snell 1999). Wright's and Boswell's (2002, p. 250) approach (Table 2.1) tends to assume that individual practices can complement, substitute, or even conflict with other practices, and thus to truly examine the impact of HRM practices. These two dimensions cause the typology as shown in Table 2.1. The content of the Table 2.1 can be an important tool for the enterprise's focus on the

⁵Here, a system means a complex entity (and not a mental picture of it) from a selected viewpoint (as in Mulej et al. 2013). The viewpoint of selection of attributes is often defined tacitly.

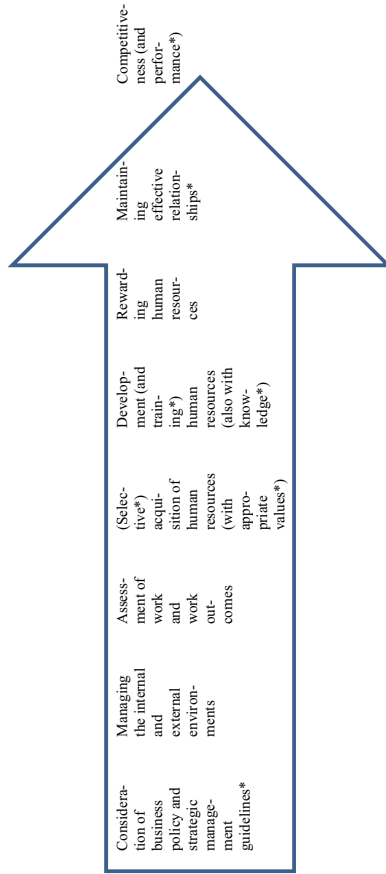


Fig. 2.2 Basic activities of human resource management in enterprises (Note *Authors' addition. Source Treven [1998, p. 26], adapted and supplemented)

Table 2.1 A typology of human resource management research

Levels of analysis	Number of human resource management practices	
	Multiple	Single
Enterprise level of analysis	Strategic HRM Industrial relations High performance work systems Taking into account the need to link HRM with knowledge management, values management and knowledge-cum-values management*	Isolated functions (i.e. research aimed at demonstrating a relationship between a particular functional area and enterprise performance)
Society level of analysis*	The field to be researched*	The field to be researched*
Individual level of analysis	Psychological contract Employment relationship Values system* Well-being*	Traditional/functional HRM Industrial/enterprises' psychology

Note *Authors' addition

Source Wright and Boswell (2002, p. 249); supplemented

needed viewpoints of HRM research that should be taken into consideration to achieve innovation-driven knowledge-cum-values behaviour. The upper left-hand quadrant presents the research examining the systems of human resource practices at the enterprise level of analysis. Wright and Boswell (2002, p. 249) mention that one tends to see the studies from the industrial relations and strategic HRM fields falling in this category.

“The lower right-hand quadrant reveals the area of HRM research focusing on single HR practices and their impact on individuals. This is traditionally the domain of industrial/enterprises' psychology” (Wright and Boswell 2002, p. 249). Wright and Boswell (ibid.), on the other hand, argue that the lower left quadrant focuses on the research exploring multiple practices at the individual level of analyses, which can be illustrated by psychological-contract research, particularly the one focusing on how the HRM practices influence individual perceptions of the psychological contract. The upper right quadrant examines individual practices at the enterprises' level of analysis. HRM activities are exposed because they are very important for knowledge management; HRM is involved in assuring the acquisition and transfer of knowledge

(Brewer and Brewer 2010, p. 330) and also fostering knowledge-sharing behaviour. The explained practices influence the broader society too; therefore, this chapter recommends that research into this dimension is carried out as well. Further research of the third, more macro level of analysis, is needed, because HRM practice depends also on a society in which enterprise conducts its practice. Table 2.1 is thus supplemented with the viewpoints considered in this research, also from the knowledge-cum-values perspective.

2.5 Discussion

Innovation process includes human activity and is interdependent with knowledge-cum-values management; they both form the basis for innovation-driven business/life. Enterprise governance and the resulting business policy, management and practice process innovations belong to the basic types of innovations. Based on Štrukelj (2015) authors distinguish 52 basic types of inventions, suggestions, potential innovations and innovations with three criteria: (1) *Content of inventions, suggestions, potential innovations, and innovations*, (2) *Consequences of innovations, either radical or incremental*, and (3) *On-the-job-duty to create inventions, suggestions, potential innovations, and innovations that either exists or does not exist*. Criteria (2) and (3) matter for all types of contents that are as follows:

1. Business programme items (added to the current ones with success)
2. Technology (products, work processes, changed with success)
3. Organization (changed with success to be process-based rather than subordination-based)
4. Managerial style (changed with success to co-operation rather than one-way commanding)
5. Methods of leading, working and co-working (changed with success to supportive of co-operation)
6. Business style (changed with success to co-operation with business partners)

7. Governance and management process (changed with success to supportive of co-operation)
8. VCEN (changed with success to values, culture, ethics and norms supportive of co-operation and reflecting interdependence)
9. Our habits (changed with success to realizing contemporary VCEN in our practice)
10. Habits of others (changed with success to realizing contemporary VCEN in their practice)
11. Considered, not considered and unknown environment development (changed with success to clear distinguishing of them)
12. Requisite personal holism of stakeholders, especially stockholders, managers and employees, including their skills and abilities (e.g. knowledge, experiences, values, personal mission, emotions, psycho-physical condition, etc., changed with success)
13. Creativity and consideration of requisite holism for enterprise's excellence achieving (changed with success to systemic viewpoint of innovation mastering).

Enterprise's basic, i.e. policy-implementation/realization process depends on enterprise governance and the resulting business policy directions (Belak, Ja. and Duh 2012; Belak, Ja. et al. 2014). The key intangible factors to be innovated in order to achieve suitable enterprise governance and the resulting business policy include several soft determinants and values (Štrukelj and Šuligoj 2014, p. 400). Enterprise values (Sect. 2.3) influence the enterprise's governance and the resulting business policy and thus strategic directions and strategies which are the starting points for knowledge-cum-values management and HRM and, therefore, for human activity, including innovation process (Fig. 2.4), and employees' creativity-based well-being (Šarotar Žižek and Mulej 2013; Šarotar Žižek et al. 2014).

Let us add short comments to the contents that Štrukelj (2015) found the most neglected in the available literature.

The considered, the not considered and the unknown environment development (11) determine the opportunities and threats (Demirdjian 2008) which enterprises cannot influence, although they influence their

own working/development, including innovations. Therefore, enterprises need proper governance (Bradley et al. 2011), management and practice (Kock et al. 2012) in order to manage this, which is best done with proper knowledge-cum-values. Due to these enterprises' governance and their resulting business policies, the inventions, suggestions, potential innovations and innovations concerning the environment influence enterprises' performance (Wagner 2007; Zheng et al. 2010).

The requisite personal holism of stakeholders (12), especially (the influential) stockholders, managers and employees (including their skills and abilities) influences their capacity to avoid oversights and resulting failures. Since the human being is (in synergy) a physical, professional, mental, social and spiritual entity who is implementing devotedly his/her different life roles, he/she should be requisitely holistic—by considering everything important to the highest possible level. All persons differ and are not holistic to the same extent. Thus, personal (requisite) holism should be established by several techniques, enabling physical balance, life art, personality development, professional, and working development (Šarotar Žižek 2012).

Creativity and the consideration of requisite holism for the achievement of excellence (13) include the systemic viewpoint of innovation mastering and creativity-based techniques for innovation-driven work. This type/content is needed because the deliberate encouragement of creativity, lateral thinking, requisite holistic behaviour, etc., helps increase the number of inventions, suggestions, potential innovations and innovations.

All the elements added may be important for enterprises' innovations, to develop the most important, unique, inimitable and valuable resources that are central to competitive advantage (Barney 1991; Prahalad and Hamel 1990; Wernerfelt 1984); they include enterprises' knowledge (Letonja and Duh 2016; Meihami and Meihami 2014). It is, therefore, important that enterprises know how they use their knowledge (Ghannay and Mamlouk 2012). Knowledge is often defined as internalized information (Ingwersen 1992) and understood as a blend of explicit and tacit elements (Nonaka 1994). It must be managed to work; values are critical, but not mentioned, both for definition and realization of objectives of management (Mulej et al. 2013).

Enterprises manage knowledge by using knowledge management. It covers knowledge creation, validation, presentation, distribution, and application (Dorasamy et al. 2011), also knowledge supplementation and knowledge deepening. Knowledge management can be defined as performing the activities involved in discovering, capturing, sharing, and applying knowledge so as to enhance, in a cost-effective fashion, the impact of knowledge on the achievement of an enterprise's goal (Meihami and Meihami 2014, p. 82). One has to take into consideration the synergy of all crucial viewpoints of knowledge management, including the values and the irrational human attributes that crucially impact it. Employees cannot create, validate, present, distribute and implement knowledge well enough unless they experience personal requisite holism, enabling creativity-based well-being. They should neither be too narrow nor create over-specialists with no values/ethics of interdependence enabling their requisitely holistic approach (Šarotar Žižek et al. 2014; Mulej et al. 2013).

Figure 2.3 shows that knowledge management relies on five main knowledge management processes (adapted from Ghannay and Mamlouk 2012, p. 27 and Meihami and Meihami 2014, p. 82; based on Nonaka 1994). The first two processes include knowledge discovery and capturing. Knowledge sharing and application make the third and fourth processes. We added the fifth process which includes innovation of knowledge-cum-values management and reversely influences the first two processes (discovery, capturing). The fifth process is a logical consequence of the application that influences our knowledge and values; innovated knowledge and values cause that our discovery and capture are innovated, too (knowledge-cum-values management innovation reversely influences them). Four knowledge management processes were originally supported by seven knowledge management sub-processes. This research expands the original model with additional knowledge management sub-processes. Figure 2.3 shows that one sub-process, i.e. socialization, originally supports two originally included knowledge management processes (discovery and sharing) (Meihami and Meihami 2014, p. 82). This research includes socialization also in the added fifth process, i.e. knowledge-cum-values management innovation, all of which is clearly shown in Fig. 2.3.

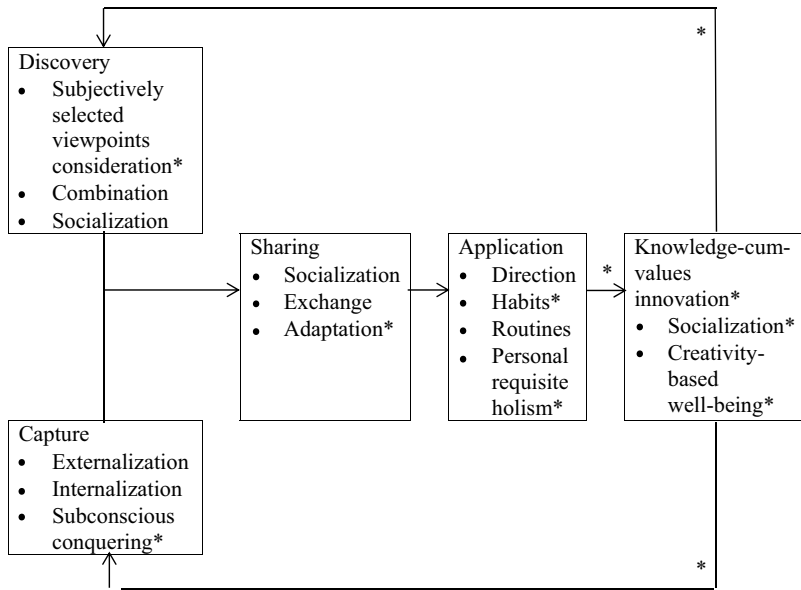


Fig. 2.3 Knowledge-cum-values management processes (Note *Authors' addition. Source Ghannay and Mamlouk [2012, p. 27]; supplemented)

Ghannay and Mamlouk (2012, p. 28) researched the main benefits and challenges of knowledge management. In this research they were adapted and supplemented with some subjectively selected important benefits and challenges of knowledge management. Table 2.2.

Once accepted by values of the decisive persons, knowledge management is very important for improving enterprises' competitiveness, ethics, social responsibility and performance by applying knowledge management to enterprises' operational management (e.g. production, marketing, research and development, personnel, financing, structuring etc.), because this enhances employees' creativity-based well-being. Hence, knowledge-cum-values management generates the basis for creating, improving or maintaining enterprises' sustainable and sustained competitive advantages powers and its performance (Johannessen and Olsen 2003; Zlatanović and Mulej 2015; Wang et al. 2016). Therefore, knowledge management manages knowledge assets within an enterprise

Table 2.2 Benefits and challenges of knowledge management

Benefits of knowledge management	Challenges of knowledge management
Fosters innovations	Achievement of knowledge management and values management interdependence (knowledge-cum-values management)*
Improves efficiency (also performance, ethics and social responsibility*)	Implementation of knowledge-cum-values management in enterprises' basic realization process*
Improves coordination and efforts (also networking*)	Recognition of knowledge-cum-values management benefits in human activity, including in innovation process*
Enhances customers and employee (actually all stakeholders'*) satisfaction	Recognition of knowledge-cum-values management benefits for HRM vice versa*
Improves the response time	Requires full employee participation
Rewards employees (also managers and owners/stockholders*)	Requires constant updating (and innovating*)
Improves market time	Must sort useful knowledge from useless information
Is responsive to market changes (and improves competitiveness*)	Knowledge management projects are not always successful (in short-term*) in terms of increased profit margins and reduced costs
Reduces costs	Requires (psychical and physical) healthy employees
Encourages free flow of ideas (also creativity*)	Positioning relative to 'visible part' of enterprises' activities—production and/or services*
Connects geographically dispersed people (e.g. customers, employees, suppliers, and consultants)	Establishment of networking and knowledge management enforcement*
Fosters collaboration (and team-work*)	Covering the initial costs (e.g. for education)*
Improves information access	Enterprise values and culture innovation (towards team knowledge)*
Expertise localization	Team work fostering*
Impact on employee's (and broader societies*) creativity-based* well-being	Enterprise computerization for information access improving*

(continued)

Table 2.2 (continued)

Benefits of knowledge management	Challenges of knowledge management
Foster personal and social responsibility*	Unifying the dispersed enterprises' knowledge*
Foster employee's loyalty*	Reflective practice (instead of unreflective) achieving*
Improves talent management*	Networked innovation knowledge managing*
Improves career development*	
Improves employee's empowerment*	
Foster job-related attitudes (job satisfaction, job involvement, and commitment)*	

Note *Authors' addition

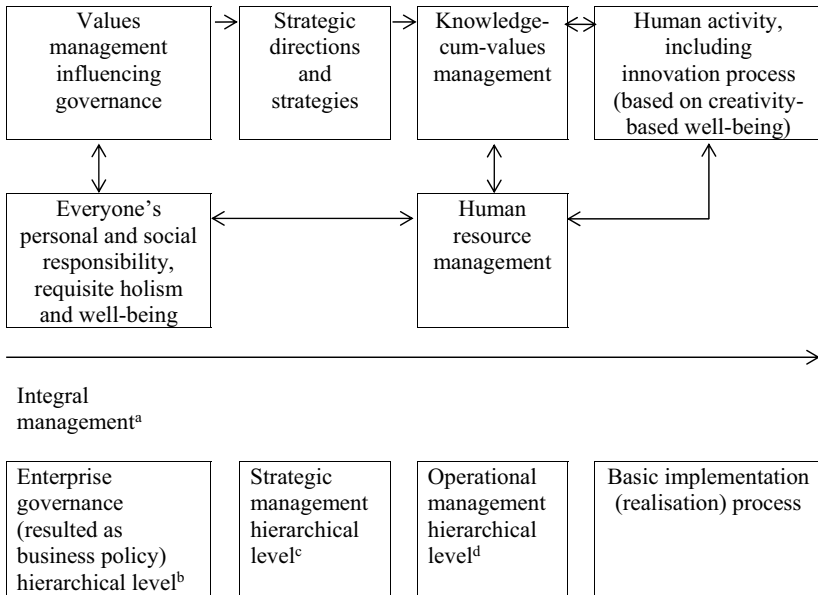
Source Ghannay and Mamlouk (2012, p. 28); adapted and supplemented

to enhance competitive power by steering production, leadership, operational excellence, customer intimacy (Ghannay and Mamlouk 2012, p. 24) and causes employee's creativity-based well-being (Šarotar Žižek et al. 2014).

Taking the above findings into consideration, this research qualitatively developed a model for innovation-driven work (see Fig. 2.4), which connects the above conceptual backgrounds and classifies this by using the MER-model into the enterprises' business process.

The viewpoints proposed in Fig. 2.4 generate a possible model of practice if enterprises are able to innovate their enterprise governance and resulting business policy towards their requisitely holistically defined, not merely desired, enterprises' governance, management, and practice (see also Sect. 2.3) and the ways to manage employees and their creativity-based well-being.

Taking all the researched findings into consideration, proposed practical implementations are introduced in Sect. 2.6 and further research directions with some concluding remarks are introduced in Sect. 2.7.



Source: Own research.

Fig. 2.4 The requisitely holistic selected interdependent viewpoints model for innovation-driven work (*Notes* ^aLevels of integral management according to the MER model of integral management: governance/business policy, strategic management, operational management [Belak, Ja. 2010; Belak, Ja. and Duh 2012; Belak, Ja. et al. 2014; Duh and Belak, Je., editors 2014]. ^bTasks: Enterprise vision and business policy [mission, purpose and basic goals] determination. ^cTasks: Search for strategic opportunities and enterprise strategies determination. ^dTasks: Ensuring and optimal allocating of resources [enterprises' structuring]; operational scheduling of the implementation tasks determination. *Source* Own research)

2.6 Practical Recommendations

This research introduces the application of theoretical concepts to real-world situations and requisitely holistically selected interdependent viewpoints for the achievement of innovation-driven enterprises management, which enhances employees' creativity-based well-being (Fig. 2.4). This is then reflected in employees' greater creativity and innovation,

contributing to the enterprise's performance. Proposed model was developed with the aim to include employees' social responsibility and support creativity-based well-being and their personal requisite holism, innovation-driven behaviour and, therefore, creativity-based well-being of the whole society: the promotion of knowledge-cum-values management and innovativeness is a part of the enterprise's social responsibility towards employees and society. Practitioners should use knowledge-cum-values management and social responsibility to replace their usual one-sidedness resulting from their usual over-specialization. This new non-technological innovation results in more innovative employees and bigger enterprise's success.

Other practical recommendations contain the need for the awareness that enterprises should, in addition to their everyday business operation, focus their attention also on their development. They should implement a modern, more advanced integral management model (Duh and Štrukelj 2011) such as the MER-model to be prepared to cope with difficult economic conditions. Enterprises and humans should use the Dialectical Systems Theory to achieve their desired results (to be defined and realized with requisite holism).

Country policy-makers should support the innovation-driven and knowledge-cum-values management for entrepreneurship incentives. Via stimulated and satisfied individuals (Šarotar Žižek et al. 2014), this would stimulate innovativeness and strengthen enterprises' and national competitiveness (Štrukelj and Šuligoj 2014; Zheng et al. 2010). Through their single and/or multiple HRM practices (Sect. 2.4, especially Table 2.1) in accordance with their values (Sect. 2.3) and by using the benefits of knowledge management (Sect. 2.5, especially Table 2.2), the individuals, enterprises and societies would in this way achieve knowledge-cum-values innovation in their knowledge-cum-values management process (also Sect. 2.5, especially Fig. 2.3) and thus achieve beneficial by users recognised novelties—innovations in practice (also Sect. 2.5).

2.7 Conclusions

Through qualitative desk research based on the Dialectical Systems Theory's Law of requisite holism the hypothesis is confirmed that the socially responsible enterprise governance and the resulting business policy influences HRM through strategic management, and that HRM supports knowledge-cum-values management. It generates the employees' creativity-based well-being which affects enterprise governance and the resulting business policy and the resulting enterprise management, practice and performance. Enterprise governance and the resulting business policy are becoming innovative and they enhance enterprise performance. Therefore, business should be based on knowledge-cum-values management and the interdependence-based approach to the enterprise governance and resulting business policy and knowledge-cum-values management, supported with social responsibility as an informal systemic behaviour. This research provided a qualitative new non-technological innovation tool to manage knowledge with employees' creativity and innovation potential. It took into consideration the duality of values and knowledge that should be considered when planning enterprise governance and the resulting business policy.

Innovation process is a human activity leading to 52 types of innovation. Human activity depends on knowledge management that depends on enterprise's (stockholders' and other crucial stakeholders') values management. Values management enjoys the support from social responsibility that receives support from HRM, which stimulates and practices social responsibility. To achieve better results, enterprises should combine knowledge management with values management in synergy. Thus one can speak about knowledge-cum-values management. All of the stated items (knowledge management, values management, knowledge-cum-values management, social responsibility and HRM) should enjoy the support from integral management approach such as the MER-model, and the application of soft systems theories such as the Dialectical Systems Theory. Although the qualitative methodological desk/informal field research approach can be seen as a limitation of this study, it has an experience-based empirical background. Quantitative methodological approach application should follow in further research.

Under new circumstances a new typology of HRM research is added—‘Society level of analysis’ (Table 2.1); it can show the single/multiple HRM practice(s)’ impact on a broader society. This matches the needed prevailing social responsibility values/knowledge/practice (Dankova et al. 2015; Štrukelj and Šuligoj 2014; Ženko and Šardi 2014) for a better world (Mulej 2007; Mulej and Dyck, editors 2014; Plešnar 2014; etc.).

This research requisitely holistically selected interdependent crucial viewpoints for a non-technological innovation/innovation-driven model development. It puts forward the recommendations that can build a strong connection between requisitely holistic enterprise governance/management focused on HRM; it results from values management and knowledge management towards knowledge-cum-values management, all based on employees’ creativity-based well-being (Sect. 2.5, especially Fig. 2.4). At the enterprise’s governance and the resulting business policy level of integral management, values management influences governance with everyone’s personal and social responsibility, requisite holism and well-being. To realise business policy at the strategic management level of integral management in strategic directions and strategies, the basis for knowledge-cum-values management as an important part of HRM at the operational management level of integral management is justified. As a part of the basic implementation (realisation) process, human activity, including innovation process (based on creativity-based well-being) is consequently occurring. So, the loop for innovation-driven knowledge-cum-values management behaviour achievement is completed. This can be used as practical implementation guidelines and as a starting point for further research.

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Note^a Author reports about research published by MIT, which predicts the quickly approaching end of the current civilization due to unequal distribution of wealth and exploitation of natural resources.



3

The Comedy of Big Data or: Corporate Social Responsibility Today, While Corporations Wither Away?

Peter Herrmann

3.1 Introduction

Corporate Social Responsibility is more or less close to an oxymoron: the social in its proper sense is more or less closely linked to some form of public: While the exact profile may vary, the social is inherently a matter of relationality, going beyond pure interaction between two or more individuals that are independent from each other. On the other hand, a corporation is, at its very core, nothing else than an individual entity, a legal body that acts, by and large, in a comparable way as a natural entity and interacts with other legal or natural entities. On the one hand, CSR is very much the continuation of the old pattern of the patron taking care of the workforce, not least as means of integrating some of the workforce—this concerned securing specific qualification

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and establishing some degree of attachment to the company. As far as one accepts this, it means accepting as well a twofold limitation:

- We see an introverted system, directed to measures for the employees—we see already a reduced understanding of social, interpreted as due diligence of the employer towards the individual employees. What sometimes is interpreted as early form of CSR (see e.g. Carroll 2008), is in the actual fact more the form of a hierarchical and somewhat paternalistic relationship, entirely based on a top-down approach to governing and guiding.
- Another aspect has to be seen in the fact of a differentiated approach—any “social action”—in the widest meaning understood here as a benevolent one—was a more or less clearly defined measure, undertaken by one, namely the entrepreneur, directed to many, namely a selected number of individuals.

Such characterisation is meaningful, as it allows one to mark in a nutshell the corporate social responsibility as a structurally different concept:

- While labour-force-oriented policies surely continue to play a role, the substance of the activities changed and they are also complemented by an external orientation;
- While sometimes classified as PR,¹ CSR is now defined by establishing a multiple relationship between three participants: the corporation as principal, the worker as main executive actor, and society at large as an additional point of reference—in today’s parlance one may speak of stakeholders.

Importantly, the main executive actor is now not only seen as part of a closed productive system, but also as a social being. This means in the given context that his or her productivity depends on how he or she is socially embedded. Finally, outcome remains of course measured

¹An issue that will not be discussed here—which means as well that it remains uncontested as a principally valid interpretation.

in return on investment, the latter meaning that the definition of social responsibility remains tied to generating profit.²

Nowadays we may speak about a move from CSR as multiple relationship to a complex relationality—however, there are at least two trends, which will be guiding the following. The one may be called arbitrary responsibility as replacing statutory order; the other an emergence of a new responsibility mix.

3.2 New Trends in CSR or New Conditions of Production?—Some Reflections on the Foundations of Shifts in Management Strategies

It may seem like a paradox that CSR is at least in Europe a more or less recent topic on the main agenda of entrepreneurial development, while we witness at the very same time already a shift away from the known patterns of CSR establishing new forms, or to be more precise: a new and double-edged approach to social activities. In the following this will be briefly explored. Not least, it is seen (a) as consequence of a major shift of the structure of wealth and (b) as matter of a change of the role of the corporation itself.—It has to be emphasised that this is a hugely relevant trend, while at the very same time it should not be misinterpreted as dominant in the understanding of replacing the still prevailing entrepreneurial patterns. At the centre of the following reflections, the new digital and so-called sharing- and gig-economies can be found.

(a) The New Rich

While there seems to be some bewilderment when we read today reports about the new rich, two aspects are frequently overlooked. First,

²In reality this is often a highly complex issue as it involves—to mention two issues—personal preferences and even hobbies of relevant managers, or issues that are linked especially to taxation, allowing some seemingly costly activities as most effective measures of depreciation and the development of a ‘Trojan Horse of financialization’ via occupational pensions (see e.g. Natali 2018).

such surges are recurrent, part of long waves of economic development. Speaking of long waves, one is not directly referring to the Kondratieff analysis of long cycles of development (e.g. Kondratiev 1926; Šmihula 2011). A more general perspective is suggested, not least one that is closely linked to a generational shift. The reader is reminded of Kenneth Lamott's work from 1969, looking at *The Moneymakers or the Great Big New Rich in America* (Lamott 1969) as one example for a large number of publications dealing during those years not only in the USA with a "new generation of business leaders". This is linked to the second factor, namely that we also find a new generation of enterprise, or better said: enterprising spirit.—Such statement needs to be qualified: those changes are complex and at the same time very simple. They are complex as different factors are involved: simple generational detachments and conflicts including psychological factors, national patterns and economic and technological aspects, to name but a few. Still, the major aspect is the redefinition of the conditions under which profit is generated. Again, this is also a complex field in itself, determined amongst others by the point in the business cycle and individually available resources. Turning this economically, we are looking in particular at the position of entrepreneurial activities in the tension between over-accumulation and devaluation (see Boccaro 2013, 2015), being dealt with by individuals depending on personality and available assets.

Looking at the latter, we see effectively a debasement of economic activities. As correct as it is to speak of financialisation, as important is it to emphasise that financialisation is not simply an expression of a monetary surplus. In the actual fact financialisation is—at least at its "developed stage"—a way of debasing finance even from monetary forms (see Sassen 2014, 2016). *Taking the words from Saskia Sassen's book 'Expulsion', we learn about finance as a capability, though one with variable valence; Finance needs to be distinguished from traditional banking. Traditional banks sell money in their possession. Financial firms sell something they do not have, and therein lies the push to be far more innovative and invasive than traditional banking. In this regard, finance can be thought of as a capability to securitize just about everything in an economy and, in doing so, subordinate economies and governments to its own criteria for measuring success* (Sassen 2014, p. 118).

To briefly mention, it aims to highlight that today's wealth is to a large extent not real, not linked to traditional processes of material production. The actual over-production of material goods and the fact that the calculation of GDP includes societal 'bads' (as for instance negative environmental effects of production and the need to 'repair') are, in this light, only the tip of the iceberg. Leaving this aside, we are witnessing an increasing meaning of immaterial production (see e.g. Lévy and Jouyet 2006), making the determination of value and accounting extremely difficult, in particular requiring a reformulation of the labour theory of value. This is due to the fact that we are now dealing in several areas with labour processes that are in different ways socialised:

- On the one hand we find them more or less extremely individualised, often also modularised and miniaturised;
- On the other hand, however, the connection and dependency between the single acts is much closer, going beyond the coordination and re-assembly of traditional patterns of division of labour—as networked processes dependencies are seemingly technically determined, while they are actually defined by specific business strategies and market power.

Furthermore, it is also more difficult to determine a social average of the time needed for the production. This applies to all work that is highly networked, and depends to a large degree on creativity.

In addition, we see in connection with these developments a re-foundation of processes of generating value. In concrete terms, the development of time, and even more so location, gain a new meaning: the reverse of delimitation (see e.g. the contributions in *Industrielle Beziehungen* 2016) is the extension of control, reaching out and encapsulating in the extreme case the entire life and living. Another factor is the so-called prosumer-work and life culture, which will be addressed in more detail at a later stage.

An important aspect is, in consequence, that the traditional firm with its socio-economic function (Coase 1937) loses in this form its position and undergoes even a process of dissolution.

(b) The Corporation as Market

As far as we are dealing with major industries in the making,³ we can speak of a treble-I-complex: information, informalisation, and immaterialisation.⁴ This is closely linked to another dimension, which is here presented as treble-M-process, reflecting modularisation, miniaturisation, and further marketisation.⁵ Nevertheless, what appears to be a set of factors resulting in the dissolution of the previously existing unities is in reality a major push of socialisation. This is not least due to the fact that the 3-I/3-M-development is inherently characterised by a complete loss of meaning in isolated individual acts. At first glance, there is some parallel to the process of traditional industrialisation, which had also been characterised by establishing and increasing direct dependency in form of division of labour: a specific task had been assigned to every worker, and it had to be executed at a specific time and in a specific location. Today, these specifications are in several jobs obsolete, the final product is about an outcome of not arbitrary but at least variable combinations of activities and includes the combination across times and spaces. This requires—and bears as consequence—that many of the products are, in actual fact, not clearly defined. Instead, they are a matter of functions (“mobility instead of cars”), frequently offering “spaces for unfolding life” and “lifestyles”⁶ which are at least on the level of appearance dominant, degrading the actual products to a seemingly secondary issue.—In several respects, the new generation of Apple Stores are an outstanding example for this. The introduction of the new concept actually looks quite exciting—a short depiction suggesting:

³It is suggested that many of the current phenomena of gig-, sharing- and data-sectors are by and large still underdeveloped as far as the future contours are concerned.

⁴The latter point makes us easily overlook that even the immaterial products and services depend on a material complement. In simple terms: any software needs a device on which it can be used.

⁵This is similar to what Rosa Luxemburg, taking up e.g. on Adam Smith and Karl Marx, characterised as ongoing process, writing “[f]orce, fraud, oppression, looting are openly displayed without any attempt at concealment, and it requires an effort to discover within this tangle of political violence and contests of power the stern laws of the economic process” (Luxemburg 1913, ed. 2003, p. 432).

⁶see e.g. Graeme Newell (n.d.).

In 100 of its biggest stores, like the San Francisco flagship, Apple's "hardware" update means new screens and spaces for meetings and classes. The Genius Bar, now lined with trees, becomes the Genius Grove., there's a several- dimensions approach to the Genius: new staffers specialized in music and photography called "Creative Pros". (CBS News 2017; see as well Kuchler 2016)

In particular, four points are virulent:

- The presentation is about space and life style, not products: one may say Apple is suggesting itself as community opening its doors, providing a space that allows other communities to develop—in other words, Apple wants to be seen as "super-community" and facilitator of community development.
- Though "usability" is of course also a matter that has something to do with an utilitarian business orientation, on the level of appearance it is about play and fail and hail, being always open to welcoming something new—the focus is the making, interestingly enough keeping the business-option separate, as a kind of premium service.
- The latter point is of some general interest, as the new, and supposedly low, price economy (see e.g. Anderson 2009; Friedman 2005) is not least one that is hugely differentiated (Freeland 2012) and works with "hidden costs" and externalities.
- While the presentation is explicitly international and global, there is a reverse parallel: software instead of hardware, open global communities instead of defending national properties is what we see; what we get looks different: global exploitation of the hardware producers, off-shoring, gig- und sharing economies going hand in hand with precarity and impoverishment as the irresponsible business part.

While this has obviously repercussions on the level of individual activities—and the activities of individuals—as the bottom layer of the process of generating value, it has as well consequences for the organisation of this process, i.e. the understanding of the firm and enterprise respectively. With this re-foundation and re-location of processes of generating value, we are witnessing a redefinition of major players that turn into

quasi-independent actors in a value-and-poverty network. The term value-network is used as variation and extension of the term value-chain. As such, it offers an understanding of a complex field of relations, and its imbalances: the different strengths of the individual connecting lines and knots, the varying amount of dependencies, and the finally bearing strings. Actually, it means as well that such value-nets allow including conceptually poverty chains (see on the latter Selwyn 2016, 2017). Perhaps more appropriate would it be to speak of value and poverty networks as multilayer settings:

- The first layer is concerned with the different investments;
- A second layer is presenting the gains;
- Third we find a layer that allows balancing investment and gains;
- A fourth layer, finally, aims at comparing the ratios, thus allowing us to determine the value-and-poverty-chains of the entire process, i.e. the relative and absolute losers.

In part due to this analysis, we can see a generational shift in form of the emergence of a new generation, to be more precise: The New Money-makers. And, to be even more precise, it is about The New Croupiers. Some data for the United States of America provide an impression:

In fact, scholars estimate that these younger Americans stand to inherit more than \$40 trillion in wealth and create trillions more in their lifetimes. Much of that will be designated for charitable giving, according to nextgendonors.org. With the potential for unprecedented resources and more diverse ways than ever to engage in charitable giving, many expect the next generation of major philanthropists – those who fit into “Gen X” (born 1964–1980) or “Gen Y” (born 1981–2000) – to transform the charitable giving itself. (Northwestern MutualVoice 2014)

Against the earlier background, we do not address primarily an inconceivable amount of money, approaching dimensions of some surreal appearance and surely surmounting many state budgets. At least equally important is the fact that it is often enough difficult to find its real origin clearly: the resources seem to be there—undeserved and unearned.

We see two socio-psychological dimensions behind the move to charitability. The one is about the search for some form of “staying in business”. With all qualifications, necessary because of the generalisation, members of this generation are representing “new” attitudes and lifestyles as much as they are caught in the traditions of some socio-paternalism of the Judaeo-Christian understanding of the world we are living in. This merges—potentially—with the fundamental requirement of capitalist business that money has to take some “productive form”, even if it is that of contributing to the social good.⁷

The other dimension is linked to, perhaps even derived from, it: as much as we are concerned with the search for meaning in a world of excessive affluence, we see a merger with “visionary attitudes” that are presenting themselves as merger of personalised—and personalist—power, technological producibility and an emerging paradigm of solutionism:

The focus is the term activity and the numerous linked dynamics of erosion between work and life, personal and professional knowledge, serious and playful activity. (Nachtwey and Seidl 2017, p. 14)

This “blend of libertarianism and technological determinism” (ibid.: 22) is “not interested in what is, but in what is possible” (ibid., p. 24), accepting the price of failure (see in this context also Morozov 2013). In this way, it is surely also about retrieving some critical attitudes-makers of the youth movements of the seventies and eighties.

Here—as in the cases of the bottom end of this new formation: the precariously employed, “gig workers”, “sharing-providers” etc.—we find also blurring borders between business and non-business, labour and leisure, dependency and self-determination. In other words, we are witnessing very much of the interlocking of a change of accumulation

⁷The term ‘common wheel’ is for good reasons not used., of course, a clear attribution is difficult: taxation issues play a role as do individual preferences of relevant managers etc., all against the background that the amount invested is often relatively small, the system of taxation often downsizing the ‘loss’, the different forms of positive externalities indirectly turning into profit, which may simply be the benefit of reputation.

regime, living regime, mode of regulation and mode of life, as they are defined in Table 3.1.

These four dimensions are actually very much—indirectly or directly—points of reference for CSR-activities.

Having already said that all this is a matter of socialisation, can now be specified: the network is characterised by a huge ambiguity: on the one hand, distinct from the guard net, it is a net that provides different options, is even contingent, and depending in its contingency on the choice of the actor[s]. In this sense, such net is a security field, subject to variable design. On the other hand, such net has strong and weak crossings and strong and weak nodes. Arbitrariness and contingency are in this way not only relative but depending on specifically defined power positions and the available access points—in this way this pattern is strongly contradicting the more technician and neutralist view presented by Manuel Castells (see e.g. Castells 2010).

Table 3.1 Theory of regulation

<p><i>Accumulation regime</i> ‘stabilization over a long period of the allocation of the net product between consumption and accumulation’, which ‘implies some correspondence between the transformation of both the conditions of production and the conditions of the reproduction of wage earners’^a</p>	<p><i>Living regime</i> conditions of the reproduction of wage earners as over time stabilised relationship between subordination under systemic requirements and the wish for self-realisation</p>
<p><i>Mode of life</i> personal ‘life style’ as adaptation to, combination of and interpretation of different requirements and options which includes the established and establishing of explicit relationships</p>	<p><i>Mode of regulation</i> ‘a materialization of the regime of accumulation taking the form of norms, habits, laws, regulating networks and so on that ensure the unity of the process, i.e. the approximate consistency of individual behaviours with the schema of reproduction’^b</p>

Source Own research

^aLipietz (1986, p. 19)

^bIbid.

3.3 New Patterns ...

The foregoing is necessary to understand CSR today in a new way, and getting aware of the actual meaning of the changes we witness—including the surge of philanthropic benevolence, even elevated as issue for global investment, shareholders and the political agenda (see e.g. Sorkin 2018; Fink 2018; Rosenstein and Sheehan 2018; Kosoff 2017). Thus, there is much hype, while point of departure is not a positive definition of what such responsibility is about—leaving aside that Fink speaks of the need for a long-term orientation. Instead we find a negative definition, based on the fact of (1) in part criticised excessive resources, (2) the obvious fragile reputation and (3) a shift of the products themselves towards inherently socio-public goods.—We may and many do contest the good of the goods and see them as evil—there is increasing pressure and internal critique; investors beginning to “Press Apple to Act on Children’s Use”; we find “a creator of the iPhone [who] called the device ‘addictive’”; while “An early Facebook investor raised questions about the social network’s impact on children’s brain” (Gelles 2018). However, there is little doubt that large parts of the tech-industries can be characterised as public utilities and providers of public utilities respectively, paradoxically controlling larger resources than states, more powerful in a global system in which democratic government is replaced by stakeholder⁸ governance, aloof from any national or sectoral limitation. However, they are still caught in the contradiction of the treble-I (information, informalisation, and immaterialisation) and treble-M (modularisation, miniaturisation, and increasing marketisation) patterns of re-production. This is a setting where politicians claim to be “manager and carer”,⁹ while CSO present themselves openly as politicians and political activists respectively.

The debate on Corporate Social Responsibility gains a completely new dimension, now actually being a disguise for what Milton Friedman

⁸The term stakeholder deserves some attention: the claimed neutrality, suggesting that everybody who is interested and in some way effected has an equal say, overlooks the fact that the strength of the voice one has is determined by the amount and weight of stakes one has.

⁹Soeder (2018).

famously presented as ultimate social responsibility of the corporation, contending

[t]he view has been gaining widespread acceptance that corporate officials and labor leaders have a “social responsibility” that goes beyond serving the interest of their stockholders or their members. This view shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud. Similarly, the “social responsibility” of labor leaders is to serve the interests of the members of their unions. It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his own interest (Friedman 1962, p. 133)

What we see is a highly open, emancipative and integrative culture, even playful and seemingly non-utilitarian: “everything is about the way, moving on”.¹⁰ Referring to this impression, we face a shift of the economic and the legal pillars of societies:

- Economically we are witnessing a new stage of prosumerism—originally Alvin Toffler introduced this interpretation in the 1980s, contending that “[i]n short, whether we look at self-help movements, do-it-yourself trends, or new production technologies, we find the same shift toward a much closer involvement of the consumer in production. In such a world, conventional distinctions between producer and consumer vanish. The ‘outsider’ becomes an ‘insider,’ and even more production is shifted from Sector B of the economy to Sector A where the pro-sumer reigns”¹¹ (Toffler 1980, p. 292). The more recent development is, at least for the industries in question,

¹⁰Of course, one feels reminded of Eduard Bernstein’s words, saying “that what is usually termed final goal of socialism is nothing to me, the movement is everything” (Bernstein 1899, p. 190).

¹¹“In Sector A, people produced for their own use. In Sector B, they produced for trade or exchange” (ibid., p. 38).

characterised by another shift: while we see initially two departments—department I, producing means of production, and department II, producing means for consumption. We witness now a further development, with the emergence of department III—finances—and department IV—‘independent’ services (see e.g. Herrmann 2014a, b; Herrmann and Frangakis 2014, in: Dymarski, Frangakis, Leaman, 2014).

– *What sociologists call patchwork biography, is consequence and cause of a sector of modularised economic activities.*

- Legally we are witnessing a massive surge of socialisation, however by and large caught in the fetters of private appropriation. Part of the economic-legal problem is the network effect, which is legally better understood as centralisation: this term is suggested to capture a process of clustering control that reached an immediate penetration of public spaces. Thus socialisation as we see today is not only marked by its major “quantitative surge”, for instance indicated by the fact that everything is just a mouse-click away. It is also characterised by a qualitative move: moving directly in public spaces, generating and extracting data for the immediate or later¹² use, allows as well a more complex dependency on and access of publicness. Complexity is understood as a qualitative matter, i.e. a hugely increased variability.

The other way around, we see the loss of clearly defined and definable formal frameworks within which relations can be regulated and controlled, simply due to the fact private actors are occupying public spaces. In particular, we are facing:

- The withering away of the firm in its traditional understanding
- The diffusion and contraction of production, marketisation and consumption in one public space
- The diffusion and contraction of production, marketisation and consumption in global value and poverty networks (“loss of national sovereignty” and “loss of state sovereignty”)
- The tendency towards prosumption

¹²Retention of data is a somewhat different topic.

- As accumulation by dispossession
- As development of creative spaces.

Centralisation means as well that we face a more or less expanded network of small independent workers, freelancers and the like for whom the term flexicurity has little relevance,¹³ being substituted by riskpon- sibility, i.e. the risk and responsibility for the results, to be taken by the individual actors.

The issue of occupying public spaces is a multiple one as such—it emerges as problem if (a) the private actors are (quasi-) monopolists, and (b) if they are with this (quasi-) monopolist power determining the use of such public spaces in their private interest. – *What sociologists call post-modernisms, can now be interpreted in legal terms as paradox of private regulation of the public realm.*

Revisiting Milton Friedman’s argument, we are now at a point that where we see some kind of ‘one-sided merger’. As presented, he points to three dimensions:

- The responsibility of business ... to increase its profits
- The “social responsibility” of labour leaders ... to serve the interests of the members of their unions
- The responsibility of the rest of us to establish a framework of law.

The problem for CSR is that Friedman’s proclamation is overturned by the reality insofar “business”, “labour leaders” and “the rest of us” merged on “market places of presumption”. Decisively this happens under the terms and conditions of business, namely of the big business of big data comptrollers. As much as this is a matter of some key players, the actual feature is a quite different one. It can be understood as penetration of society by specifically defined algorithms, guided by solutionism as a supposedly value-neutral paradigm.

This is a world where massive amounts of data and applied mathematics replace every other tool that might be brought to bear. Out with every

¹³Independent of the question if it ever did have relevance in reality.

theory of human behavior, from linguistics to sociology. Forget taxonomy, ontology, and psychology. Who knows why people do what they do? The point is they do it, and we can track and measure it with unprecedented fidelity. With enough data, the numbers speak for themselves.

The big target here isn't advertising, though. It's science. (Anderson 2008)

The interwoven treble-I and treble-M patterns are suggesting a well-informed, small-scale frame of and for direct interaction with the world. The fact is the opposite: the uncontrolled control of public spaces and their redefinition in private interests that fundamentally change the terms and conditions of existing social contracts (Berners-Lee 2018).¹⁴

Returning to the supposedly neutral solutionism, some questions remain to be asked, allowing us to better understand the problematique of CSR today. Leaning meaningfully against the title of Lisa Gitelman's book which suggests that "Raw Data" is an Oxymoron (Gitelman 2013), the present concluding statement is that Raw Public Space is an Oxymoron. While the traditional CSR has been and is by and large a—welcomed or criticised—supplement and claimed complement of business and statutory politics and policies, CSR is today a clandestine redefinition of business, suggesting to re-humanise technical solutionism. Instead of fulfilling statutory duties, reducing the burden on public budgets and pursuing own values and goals, CSR is now taking over statutory functions, directly defining the entire public sphere and politics—business leaders play a role but it is corporations and the corporate-solutionist spirit that escapes in algorithmic wafts of mist. In this light, the freedom of "one-person-enterprises", "entrepreneurial freelancers of Schumpeterian spirit", the supposed custom tailoring by zero-hour-contracts and so forth are of special importance—actors also moving on the public stage of big data, while accessibility and control are limited by certain allowances. They may be comparable with gig-artists and groupies that populated the music scene of the 1960s. In other words, parts of a still emerging new economy are performing in spaces and ways that in fact undermine the conditions for CSR. Instead

¹⁴Of course, as much as this implies that these new forms are political threats, undermining democracy, one may also ask if and in which way democracy did exist earlier.

of searching for ways to develop CSR as part of a “mixed welfare system”, concatenating certain elements with securitised rights, it establishes itself in two ways:

- (i) The one is the penetration of public spaces as agenda-setter, and in many cases actually undermining the public within the public. Filter Bubbles (see Pariser 2011) are not limited on closing political spaces and discourses. It is equally a mechanism that serves as foundation and frame for a certain living regime:
 - That of solutionism and a neo-feudalist vista on the meaning of social responsibility.
 - Being aware of major challenges and problems, this new generation did not develop a sense for the origin of money as means of making a living; thus it is difficult for them to understand that money is not simply a means to cover existential and luxurious needs but also a means of basing oneself in a money-led society.
 - This is a mirror of a disembodied economy that had been mentioned earlier: capital is not simply money, and in the course of a globally developed economy today, finance is not about money or capital—instead it is an abstract operand.
 - Social issues are defined in a similar way: life and living, and social relationships as part of it, are defined as a kind of abstract operand. The latter is the framework that establishes itself as rule of many activities we undertake, although we claim that they contradict our personal attitudes.
 - Of course, we have to ask ourselves if this is only a technology-bound reformulation of an issue that seems to be a general problem of humankind.
 - This is what we may conclude when remembering the passage from Seneca’s reflections on Saving Time:

Furthermore, if you will pay close heed to the problem, you will find that the largest portion of our life passes while we are doing ill, a goodly share while we are doing nothing, and whole while we are doing that which is not to the purpose. (Seneca, Lucius Annaeus, ca 65 AD, p. 3)

- (ii) To some extent we find another way, reminding us of the dualism that Adam Smith established by positioning the *Wealth of Nations* and the *Moral Sentiments* as two paradigms side by side, without sufficiently analysing the inherent objective link.

3.4 ... Failing to Meet the Challenges?

There are different issues involved, the most obvious is that CSR today has to emphasise, more than ever, that it is a matter of shaping public spaces, going even as far as to represent publicness. The era of pure distribution and redistribution, if it has ever existed, cannot play a further role. “Individual measures”—even if systematically bundled as “CSR-strategy”—fall short of reflecting two major moves that had been explored (see Ritzer 2014, p. 15):

- The emergence of corporations as markets, and
- The beginning implosion of the means of production and means of consumption.

One major challenge is in the view of the present author the failure to acknowledge that a very central issue of social responsibility—first going beyond corporate social responsibility—is the mode of socialisation itself. While there are many facets under which this can be discussed, the central points are around the positioning and relating of work, labour and public life. It is a widely discussed field in all genres of social science. It was already widely discussed in ancient Greece as issue of social science in general understanding, concerned with the distinction between chrematistike and oikonomia, using these poles not least for determining what freedom and thus a good life is (see for instance Dierksmeier and Michel 2009). For instance in the middle of the nineteenth century the topic was an issue in the light of the history of law, leading Henry Sumner Maine to supposing “that the movement of the progressive societies has hitherto been a movement from Status to Contract” (Maine 1861). Later Karl Polanyi brought discussion of the topic closer to the

agenda of economics. He referred to distribution, reciprocity, and house-holding/management as principles guiding production and provision and symmetry, centricity and autarky as regulatory mechanisms. At the core of the then historically new stage we find according to his analysis that

[t]he market pattern, on the other hand, being related to a peculiar motive of its own, the motive of truck or barter, is capable of creating a specific institution, namely, the market. Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once, the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society. (Polanyi 1944, p. 57)

Decisive is, however, that he also emphasises a “double movement”. In this respect, Mark Blyth states:

After all, if disembedding the market led to a double movement where labour demanded protection through an institutional reembedding, then was it not reasonable to expect, in turn, another reaction against those ‘embedding’ institutions by those most affected, namely capitalists? In fact, the political struggle between disembedding and reembedding the market continues today The contemporary neoliberal economic order can be seen as merely the latest iteration of Polanyi’s double movement. It is an attempt once again to disembed the market from society, to roll back the institutions of social protection and replace them with a more market-confirming institutional order. (Blyth 2002, p. 4)

This gains particular relevance under today’s circumstances that are—as pointed out throughout this elaboration—dissolving and redefining the traditional “roles and functions”, at present of specific interest to

the “firm”, which in many cases is itself a market, though it remains ill-defined. With this we stand at a crossing of two drifts: the one is between work and labour, the other between soci[et]al and public and private.

Hannah Arendt’s work on *The Human Condition* (Arendt 1958) is also analysing societal development along these lines, importantly linking these debates to questions of private and public realms. Later again, this was discussed as matter of the crisis of the industrial and employment society (e.g. Matthes 1983; Gorz 1983) and finds another orientation today not least with adding the perspective of cooperatives (e.g. Graceffa 2017; recent: Standing 2018). These debates are essentially delivering a background for discussions about social responsibility in general and corporate social responsibility specifically. Merging these two issues—“economy and society” as one topic, “private and public” as the other topic, we are indeed facing those issues that had been raised by Milton Friedman, though this does not predetermine the conclusion. The following looks at some individual matters in question:

3.4.1 Can Institutions Have Responsibility?

As much as institutions have responsibility, it is defined by two pillars:

- The general normative system, or formation that establishes the reference for any action;
- The owners for whom the institution is only an organisational and logistic means—pursuing “business” as defined by the (group of) owners.

Seen in this light, they are responsible on the one hand for making profit—as far as this is the defined goal. It is somewhat surprising that Friedman is often criticised for clearly stating the nature of capitalism. Indeed, the capitalist enterprise as institution will only be “socially responsible”, as far as activities that are not of immediate meaning in the process of production and/or service provision nevertheless promote profitability. On the other hand, we are concerned with the challenge that the entire process of production and service provision is increasingly

happening directly in and as part of public life: it depends on and vice versa shapes publicness.

The effect of any trickle-down effect is extremely questionable as it actually not only lacks any foundation for deriving rights. More important is the lack of des-embedding or disjunction. In other words, at stake is not the lack of responsibility, but the lack of economic action, defined as a social action. This is the reverse of what had been said before: responsibility is defined by the business-interest, a means to pursue it—be it directly or indirectly, be it part of a short-term calculation or any kind of a long-term business plan. Anything else is benevolence, which should not be confused with responsibility.

3.4.2 Can Responsibility Be Reduced on Moral and Ethical Attitudes and Normative Definitions?

We have to think of some ethical dimensions when it comes to responsibility. However, we are immediately again looking for an argument in the same vein: terminologically we are dealing with somebody being answerable, a matter responding to a question. In former times, when the term came in use, it was very much about being answerable according to the biblical quest

Love the Lord your God with all your heart and with all your soul and with all your mind and with all your strength.’ The second is this: ‘Love your neighbor as yourself’. (Mark 12: 30–31)

Historically this changed. Protestantism defined it as responsibility towards oneself, this way serving God—the understanding of “life that pleases God”; later then, with secularisation, only responsibility towards oneself remained. But, this decisively gained meaning as much as it reflected the new economic patterns as they had been presented by Karl Polanyi, namely the de-socialisation of economic practice, including the final stage of de-socialising work. Hence, we find the establishment of

Table 3.2 Retrieving publicness of production

		Withholding of contributing to production		Possibility of segmenting/modularising production	
		High	Low	High	Low
Subtractability of use	High				
	Low				
Difficulty of excluding potential beneficiaries	High				
	Low				

Source Own research

Obviously not least inspired by Ostrom (2010, p. 645); Stable URL: <http://www.jstor.org/stable/27871226> [Accessed 23 June 2015] 09:18; adapted from Ostrom (2005, p. 24)

labour, defined by the value of labour power and experienced as alienated. There is wide debate on this topic and in particular the question to which extent the problem at stake is a centrally one of division of work or one of the separation of the worker from the means of production. The result is in any case similar: the worker loses control (i) over the process, (ii) over the results and (iii) the context. It must remain questionable if any progress can be made as long as relevant actors remain caught in double-bind situations, actually quite common in court decisions, dealing with the indefinable relationship of “rightfulness” and “legality”. An interesting detail is that we find as one of the synonyms for “rightfulness” the term “impartiality”, and other synonyms are “fairness” and “legitimacy”. This clearly highlights the need for defining clear criteria of the determining context and overall goal—for this reason the excursus on “adequate” and “inadequate” forms of property is of special meaning.

Looking at CSR, we are dealing with a set of incompatible levels of regulation—this is presented in the following Table 3.2, presuming that “regulating the social” in the present sense can only be seen as statutory task.¹⁵

¹⁵Of course this is a simplification and in particular Elinor Ostrom presented the complexity of regulating the commons—see for instance (Ostrom 2005).

This allows us to scrutinise economic processes not only as challenge for “socially responsible re-distribution”, but as matter of production. CSR is then—if not anyway part of the business-strategy—by definition an “add-on”, which resists regulation, or it may be seen as resistance, aiming at maintaining the fundamentals of the given capitalist formation while integrating at least parts of those conditions of formational change contradict the existing standard at the given time.—Two examples can illustrate this: in the one case, it is about opening the work organisation, promoting more flexible and employee-controlled processes. While this means losing some control, it also allows introducing another control mechanism. Today it is a well-known issue that the “opening” translates in many cases into the permanent availability. A second example can be taken from some digitisation industries. Technical means and needs that push towards socialisation are taken up. They are presented as new ways of self-determination, while they are in fact used as means of subordination and “privatised socialisation” and as privatisation of the socio-public. Public data are not only privately used, but the respective enterprises occupy them and even public spaces without being justifiably in a position to do so too.—For instance, the normative aspect of CSR arises in this light as challenge to secure that private criteria are not used to regulate public utilities. In particular, the array of data protection emerges as centrally effected by such change: While traditional requirements of protecting privacy persistently remain important, the new challenge is the protection of public spaces against infringement. CSR could play a role by increasing opportunities of emancipating infrastructures, not least allowing public access to and control of algorithms. This has to acknowledge a completely different localisation of the different actor-perspectives and even—at least in part—the redefinition of the difference of their characteristics as tentatively presented in Table 3.3. However, looking again at Corporate Social Responsibility, one may ask in which way we can still speak of corporations and their responsibility at all, in those cases, which are characterised by private undertakings within public spaces.

Table 3.3 Redefining producers, products and environments

	Producer	Consumer	Production-consumption-relation	Relation to the environment
'Industrial Age'	Concentrated in factories, cooperating 'by dictate' of the machine	Isolated from each other—individualist, utility-driven	Separated from each other—the value 'determination' following in the one case the cost-price principle, following on the other hand the principle/mechanism of demand and supply	Seen as external force, approached in the Christian tradition, laid out in 1. Genesis 28: "Be fruitful and multiply and fill the earth and subdue it, and have dominion ..."
'Big Data Age'	Dispersed in location, cooperating by possibilities given by the 3Vs ^a and emerging as market places	Isolated to some extent, but integrated also, based in the mechanism of depending on communication = interaction	Increasingly blurring borders between production and consumption, but also the definition of benefit and cost is in some areas losing clarity and unambiguousness	Excessive interpretation of this principle, countered by the increasing awareness of (i) 'responsible management' or (ii) an understanding of "co-existence in one world"

Source Own research

^aUnderstood by Christophe Degryse as follows *The three characteristics of Big Data are summed up in what had been called the 3Vs: Volume, Velocity (speed at which the data are created), Variety (Degryse 2016, p. 11)*

3.5 The Real Meaning of Digitisation—From the Deathbed of the National Welfare State to the Crèche of a Global Social Quality State

Corporate Social Responsibility is as problematic as it is ill-defined and varied. One point in question is that motives differ from case to case—this means not least that we find also some industry and sector specific patterns. This means that much of what is developed in the present reflections is concerned in particular with new industries that emerge in the context of digital technologies. The part that is of interest for the present reflections is characterised by the following aspects:

- Actors are not traditional enterprises but quasi-markets;
- Products and services are changing their character, leaving in some respect the individual worker/provider more isolated, however establishing also a tight network of socialised work and being.

Earlier this was already stated, emphasising that we witness a crossing of two drifts: the one is between work and labour, the other between soci[et]al and public and private. In reality we find a certain paradox, namely that at least the dominant, i.e. capital- and politically-strong new industries are moving in the public realm, actually even claim “being the public”, while private criteria and the claim of private gains lead their activity. This should not make us overlook that there surely is in several cases some benevolence behind it—as elaborated earlier (see *Introduction*), we are also concerned with a generational shift: a new enterprising spirit, not least influenced by the “protest of the post-war generation”.

In recent times, we find frequent salutations of the end of capitalism and equally frequent are the apocalyptic sentiment of another second phase of what occurs to be an eternal circle, the loop of raise and fall of empires and cultures. This may occur as a fear of the end of humankind, at least civilisation or as a somewhat milder form as *The battle for digital supremacy*—so the title in *The Economist* in March 2018 (*The Battle 2018*). Speaking of a loop can be justified by the fact

that the existing solution is one that may be grasped under the one version of the title of the present reflections, namely the acceptance of *The Comedy of Big Data Industries*, i.e. the acceptance of fact that we are dealing with inherently public spaces. This alludes to the work by Carol M. Rose, who argues against Garrett Hardy's thesis of the *Tragedy of the Commons* (Hardin 1968). Rose elaborates historically the existence of certain natural commons (see Rose 1986, 1994).—Although she was not—and hardly could be—concerned with the current advanced process of digital industries, she captures exactly the conditions that can today apply to this sector.

In a sense, this is the reverse of the “tragedy of the commons”: it is a “comedy of the commons,” as is so felicitously expressed in the phrase, “the more the merrier.” Indeed, the real danger is that individuals may “underinvest” in such activities, particularly at the outset. No one, after all, wants to be the first on the dance floor, and in general, individuals engaging in such activities cannot capture for themselves the full value that their participation brings to the entire group. Here indefinite numbers and expandability take on a special flavor, relating not to negotiation costs, but to what I call “interactive” activities, where increasing participation enhances the value of the activity rather than diminishing it. (Rose 1986, p. 768)

There are many different approaches that can be confectioned to such orientation: the accessibility and electability of alternative algorithms, a procedure of selling data instead of buying or at least opting out of the big-business-big-data-use. Cooperatives are in this respect widely underexplored as genuine forms of corporate social responsibility. Seen in a conceptual light, they are working as quasi-public organisations, defined as multiple-goal entities with different points of reference. Important is to see them not as stakeholders, but as part of a citizenry of the organisation (see on citizenry of organisations Herrmann 2007).

3.6 Appendix—Far from Appendicitis—As Conclusions

There is a more general issue behind these questions, standing at the core of economics and being concerned with enterprising in a context of the hegemony of certain worldviews and ideas of men. Leaving the two antagonistic poles of materialism and idealism aside, we may see another set, spanning between solutionism as “limitless feasibility of everything” (“everything is possible”) on the one hand and a managerialist piecemeal view in line with Karl Raimund Popper’s evolutionism and the postulate of falsifiability with its implication of limiting action on piecemeal perspectives. While this seems to be at first glance indeed a wide spanning arch, we can also interpret this in a different light, suggesting that it is just a matter of discursiveness by which different roles in the public are taken. Philosophically we find on the one hand the suggestion that *The Singularity is Near* (Kurzweil 2005)—though frequently being staged as ultimate progression towards a breakthrough of artificial intelligence, it ultimately translates into a takeover of public realms by the singularity of profitability as the only objective (Dickey 2013). This is going hand in hand with centralisation, openly admitted by Peter Thiel, co-founder of paypal contending that “[i]t’s one big transgressive idea, and you’re not allowed to talk about it. That’s a clue that it’s an under-explored idea. There are questions on what point is it good or bad for societies. From society’s perspective, it’s complicated. But from the inside, I always want to have a monopoly” (Cook 2015).

But this is not a rampant personal affectation. Looking at Uber, the “car-ride company”, it shows the deeper, structural dimension:

Uber’s objective was not to eliminate aspects of government oversight that no longer improved taxi service, but to eliminate the idea that taxis were a part of transport infrastructure that governments had any right to exercise oversight over. Uber’s objective was not to maximize competition subject to “level playing field” rules, but to seize control of the entire playing field and to eliminate meaningful competition. ... If urban car service could be transformed from urban transport infrastructure into a purely discretionary consumer good, like theaters and restaurants, then

governments could not rationally object if the entire industry became the private property of Uber's Silicon Valley investors, or impose regulations designed to ensure that service was safe, affordable, and required to serve all citizens equally. (Horan 2017, p. 67f.)

While Ray Kurzweil's reversed Big-Bang-Theory is surely at first glance fascinating, the analysis of reality—for instance in the works of Albert Einstein and Stephen Hawking—points more into the direction of inflation and no-boundary extensions. Let us consider the qualitative aspect connected with such processes of inflation and extension, and use this in a metaphorical way. Then we can realistically see two directions: the one is about the ongoing replication of business as usual, permanently expanding in new areas, the other is about the increasing integration by way of developing complexities.—The latter, looking at economic actors as enterprises, would in particular mean a “re-establishment” of economic activities as one part of soci(et)al re-production. As such, it goes beyond production of goods and re-socialises individuals, too. This somewhat extreme, formulation is deliberately chosen as it allows for escaping a strategy that is limited to redistributive activities. Talking about extension in a qualitative perspective means rejecting any monistic or dualist perspective on redistribution and/or recognition—two central concerns of social justice; thus, two central matters' reflections on social responsibility have to tackle strategy. The juxtaposition of a monistic and dualist perspective is elaborated in the book presented by Nancy Fraser and Axel Honneth:

One of us, Axel Honneth, conceives recognition as the fundamental, overarching moral category, while treating distribution as derivative. Thus, he reinterprets the socialist ideal of redistribution as a subvariety of the struggle for recognition. The other one, Nancy Fraser, denies that distribution can be subsumed under recognition. Thus, she proposes a “perspectival dualist” analysis that casts the two categories as co-fundamental and mutually irreducible dimensions of justice. (Fraser and Honneth 2003, p. 2f.)

It remains surprising why an integrated perspective is not taken into account, namely the recognition of different ways of societal reproduction, and thus different forms of re-distribution as forms of life.

A radical approach to Corporate Social Responsibility has to consider this seemingly very abstract perspective: it is now possible to clearly distinguish between four main forms of socialisation, all of them presenting different forms of social responsibility:

- Subsistence socio-economy where the different facets of life are interwoven and defined within the societal context—such definition may be supporting or limiting the different activities.
- The patriarchal firm where social responsibility is limited to calculating the contribution of some non-market-oriented activities to the core economic tasks—this includes development of enterprise welfare, risk management and philanthropic activities that increase reputation and the calculation of tax gains and other immediate material gains for the enterprise/cooperation.
- The modern non-firm undertaking that internalises “non-market-oriented” activities in a way that enlarges the array of action, not simply by dispossession but by orienting on rent and arbitrage as increasingly replacing profit as economic motive—it may be said that in many cases especially gains from arbitrage are very close to unfair competition while presenting respective measures as increasing flexibility, enhancing mobility, openness towards new creative business models and the like (see in this context Khan 2017, in particular p. 780ff.).
- A revived perspective on cooperatives, a cooperative sector and other forms of the solidarity economy that leans by its very nature towards what had been explored earlier—with reference to Carol M. Rose—under the heading of inherent public property.

There are always at least three major dangers of CSR:

- Discharging the state, problematic as it opens doors towards arbitrariness and undermines the definition of social rights and entitlements;

- Abusing financial and legal mechanism to undertake profitably investment with high reputation¹⁶;
- Defining and occupying public spaces and utilising public resources while maintaining and enhancing private appropriation.

While we surely find some pressure executed on big corporations that push towards some circumspect business strategies (e.g. Sorkin 2018; Gelles 2018; Jana Partners & CALSTRA 2018), the example of ‘Apple, Capitalizing on New Tax Law’ (Wakabayashi and Chen 2018) clearly shows the true orientation. In general, the profit-orientation was clearly outlined:

Capital is said by a Quarterly Reviewer to fly turbulence and strife, and to be timid, which is very true; but this is very incompletely stating the question. Capital eschews no profit, or very small profit, just as Nature was formerly said to abhor a vacuum. With adequate profit, capital is very bold. A certain 10 per cent will ensure its employment anywhere; 20 per cent certain will produce eagerness; 50 per cent positive audacity; 100 per cent will make it ready to trample on all human laws; 300 per cent, and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged. If turbulence and strife will bring a profit, it will freely encourage both. Smuggling and the slave-trade have amply proved all that is here stated. (Dunning 1996)

It remains open, though highly questionable, if today’s rent-seeking capital is moving into a radically different direction, recognising that social responsibility is not about doing something good but about acknowledging the processes of socialisation and recognising that Corporate Social Responsibility needs to be concerned with helping to set up a legally binding framework—nationally, regionally and globally. This challenge will not be addressed as long as change managers aim only on one-sided adaptability like for instance Michael E. Porter and Mark R. Kramer suggest:

¹⁶In particular, the legal definition of Foundations in the USA is paramount, nearly allowing to see foundations as form of money laundering.

Companies must take the lead in bringing business and society back together. The recognition is there among sophisticated business and thought leaders, and promising elements of a new model are emerging. Yet we still lack an overall framework for guiding these efforts, and most companies remain stuck in a “social responsibility” mind-set in which societal issues are at the periphery, not the core. The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. (Porter and Kramer 2011, p. 64)

As long as society and the social are not the point of departure, it will hardly be possible to arrive at a radical Social Responsibility as framework of a wider public policy in which corporations play a role, but not even of a prior inter pares—such claim may only arise from undertakings that are truly public. Such statement is even more relevant, if we are dealing with undertakings that are moving in spaces of inherent public property.

We may well conclude—borrowing the format from the before quoted reviewer: For adequate profit, capital may calm down. A certain 10% may stabilise slightly employment, especially in the country of the main market. A 20% certainly will evoke some social initiatives. With 50%, a strategy is pronounced. A 100% enable it to reach out to communities. With 300%, it will systematically present itself as provider of public utilities, working for the common weal and it will even risk that the actual process of socialisation finds adequate public control and legal regulation.—Though one thing can be taken for granted: as much as money matters, as sure is that there is a need for strict, legally binding, regulations.

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4

Information Management About Social Competences in a Network Economy for the Needs of the Development of Corporate Social Responsibility

Magdalena Graczyk-Kucharska, Marek Goliński,
and Maciej Szafranski

4.1 Introduction

For centuries, information has been the most desirable value that, acquired at the right time, with the right content allowed for the acquisition of material and non-material goods in all areas of life. It was the basis for making all decisions influencing the further development directions of enterprises, their generated costs, time and energy.

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Access to information and the speed of its processing is constantly accelerating which is associated with problems such as overload, information monopoly, information pollution, etc. (Xu et al. 2016). The Technological Revolution of the twentieth century connected with the Industrial Revolution has led to times when information has become relatively easy to access. New technologies, internet development, as well as the „Internet of Things”, Cloud Computing, communication between people and machines, Cyber-Physical Systems (CPS) (Lee et al. 2015) currently have a key impact on communication, information flow and consequently on the management and operation of companies on market (Brettel et al. 2014; Papińska-Kacperek 2008, p. 19), including CSR (Morsing and Schultz 2006).

Classical Management is a conscious and continuous formation of organizations, among which there are people responsible for directing activities aimed at achieving the organization's goals. Management is effective when we have information about both the organization and its environment. Information in management has a direct impact on decisions. It reduces the vagueness, which in the end allows you to make the best decision (Sroka and Kisielnicki 2005).

Information Management is absolutely related to the information process, understood as the process of creating and interpreting information, performing at least one of the following functions: information generation, gathering (gathering) information, storing (remembering, storing, archiving) information, transmitting (transmitting) information, processing (transformation, transformation, translation) of information, sharing (dissemination) information, interpretation (translation into the user's language) of information, use (use) of information. Information Management refers to minimizing the time required by people to find relevant data in order to make business decisions (Sherlock 2011).

Assuming that the business goal of the company is to provide sufficient resources including human resources to achieve the goals and company development, it is necessary to take actions in the area of information management regarding demand and access to competences involving companies in sharing knowledge and experience as a social cooperation Business Responsibility in the area of education.

4.2 Corporate Social Responsibility in the Area of Education

Business organizations are increasingly engaging in corporate social responsibility (CSR) initiatives, and thereby exhibiting the potential to exert positive social change (Aguilera et al. 2007). CSR dictates how a company plans its course of action with respect to society. “The Social Responsibility of business includes the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll 1979).

Although it is difficult to measure (Lee 2008; McWilliams et al. 2006), among the benefits that the company brings, as part of corporate social responsibility can be mentioned, among others: building a good reputation in the eyes of customers, local communities, media or employees, gaining the trust of the community, local governments, clients, employees of the company, perceiving the company as an attractive employer or increasing motivation among employees (Tabor 2004, p. 335; Khurshid et al. 2013). Corporate Social Responsibility also affects employees employed in companies as well as future employees currently being students or students. CSR activities focused on this group of people mainly concern shaping a positive image of the employer in activities and activities in the area of broadly understood education.

The area of education in the area of CSR are real actions supporting education both in the field of tangible (material) support and intangible for entities from the education industry or in the education process of the educating people. Substantive (material) support can be defined as financial support for institutions operating in the field of education, including through: financing of education-related activities, including co-financing for apprenticeship and internship laboratories, delegating employees to further students and students, or making fixed assets available for the needs of the education and training process required in the labor market. On the other hand, intangible support is the disclosure of property rights by the unit, suitable for economic use, as well as competences and skills offered by the company, understood as an intangible resource required to produce goods or services on the market.

Information on both current and future needs with competences in the labor market influences the possibility of planning employment. The ability to analyze these needs by educational institutions, enterprises and other entities involved in competence education also play an educational role. Access to information on competences in the labor market also improves the response of enterprises to concurrent market processes: dynamically changing customer expectations and continuous technology development (Graczyk-Kucharska et al. 2018).

Many businesses make donations are involved in various ways (Seifert et al. 2004). To appreciate the importance of the corporate philanthropy movement, one needs to acknowledge its scope. Corporate philanthropy is not limited to monetary donations made by corporations. Many forms of collaboration (Caroll and Shabana 2010), for example, networks of cooperating enterprises.

4.3 Corporate Social Responsibility in the Area of Education Implemented in a Network of Cooperating Enterprises

The concept of network was formulated on the basis of general systems theory, which was the genesis for the development of network interaction issues (Piekarczyk and Zimniewicz 2010, p. 35). At the same time, the concept of economic networks includes the achievements of sociology, and at the level of organizations, including enterprises, also management sciences. The issue of widely understood social networks has developed, among others, due to the publication of M. Castells (2011). He had his precursors—such philosophers and sociologists as Max Weber—creator of, among others, the theory of social action (Weber 1978), or Talcott Parsons—creator of functional-structuralist theory of social systems (Parsons 1951).

Generalized connectedness of business relationships implies existence of an aggregated structure, a form of organization that we have chosen to qualify as a network (Snehota and Hakansson 1995). One of the types of business networks are those that learn from each other (Johanson and

Vahlne 2003). The transfer of knowledge between the various entities in the network creates opportunities for mutual learning and inter-institutional cooperation, which stimulates the creation of new knowledge, while contributing to the ability and innovation of organizational units (Tsai 2001).

As indicated by Wyrwicka and Werner (2011), the activity of enterprises within the network is conditioned by the perceived benefits of belonging to it, such as: ensuring survival and strengthening the market position through multilateral cooperation/cooperation relations, or also allowing focusing on key skills that are activated and used in a coordinated way, allowing the collective use of network resources and the potential of knowledge. Other examples of benefits include the acceleration of knowledge diffusion between entities in the network, in particular the classified one, or the increase of innovation indicated by La Rocca and Snehota (2014, p. 443). The involvement of economic entities within the CSR network of cooperating entities can bring benefits not only to the enterprise but also to the society, which is directly related to the improvement of the quality of life and the stability of the environment in which it operates. The effect of these activities from the point of view of companies may be far-reaching and profitable, therefore they should treat their actions as an investment in the future (Korpus 2006).

The benefits of cooperation between various entities involved in the field of education in the network of cooperating institutions can be considered in several areas, including the coverage area (Fig. 4.1). The CSR values in the area of education in the network of cooperating entities can be considered on the scale of:

- values for physical entities—understood as benefits for individuals in a given organization; these can be, for example, training, participation in industry meetings or other benefits resulting from the employment relationship of an entity belonging to the network;
- values for organizations—which in the area of CSR may relate to, among others to the Employer Branding area, i.e. presenting and creating the company's brand as an "Employer of Choice";

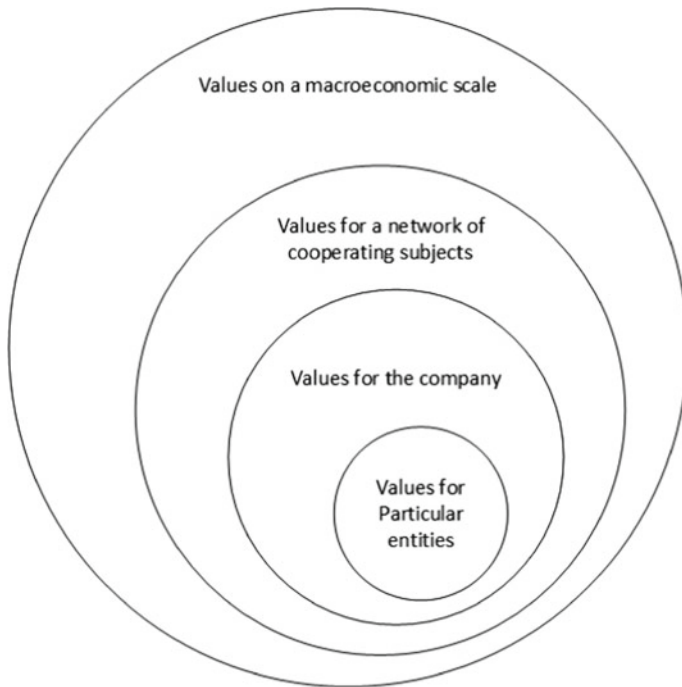


Fig. 4.1 Areas of values resulting from cooperation of entities within a socially responsible network of cooperating entities (*Source* Own results based on conducted study)

- the value for the network of entities cooperating in it—focused primarily in the area of information management about the competences and skills required on the market and in the network, as well as the exchange of knowledge, experience and good practices relating to CSR in the area of education;
- values on the macroeconomic scale—concerning the management and adjustment of the education system to the needs of the labor market based on information generated within the network of cooperating entities, as a consequence also increasing the efficiency of public funds spent and faster economic growth.

One of the values for the network of cooperating entities in the area of CSR education is the management of information on the competences and skills required in the labor market and the need to share the resource which is the skill and competence for the future development of enterprises.

4.4 Information Management in the Area of Corporate Social Responsibility on the Example of the Educational and Economic Network of the Wielkopolska Region

The management of information concerns the comprehensive information service of decision-making processes related to the creation and strategy of the organization, e.g. networks of cooperating entities. It is a set of rules, techniques, systems and devices that define the information and communication structure of entities cooperating in the network, which is the basis for decision-making processes.

Access to information and its exchange in the network increases the efficiency of organization management, which is largely associated with the management of current and future employees, and as a result their competences. In order for employees' competences expressed by employees' skills and knowledge to be an effective resource to achieve their goals, they must be managed in a flexible way. Exchange of knowledge between enterprises allows minimizing costs, increases the flexibility of information management including competences, and at the same time the ability to respond quickly to market needs. In order to have this ability, the company should have support in competency management. An example of such a solution can be innovative, systemic cooperation within the framework of the Educational and Economic Network of the Wielkopolska Region (EENWR).

The main tasks related to information management in the area of CSR of the education of the Educational and Economic Network of the Wielkopolska Region can be based on the basic management functions

such as: planning, organizing, coordinating, conducting and controlling (Fig. 4.2).

In the area of CSR of the EENWR education, information management also refers to issues related to information exchange in the scope of competency needs of the labor market. This goal is implemented, among others by: defining the network information strategy, controlling information flow, ensuring the expected quality and information security, providing adequate resources to implement the EENWR education CSR objectives, defining tasks and powers and responsibilities between

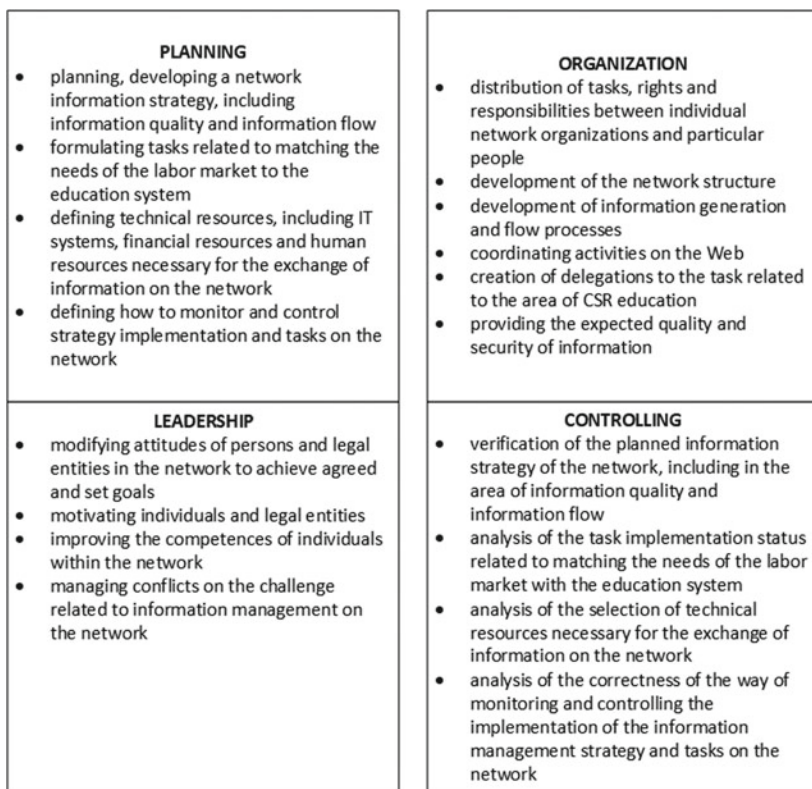


Fig. 4.2 Main tasks related to information management in the area of CSR of the education based on the basic management functions (*Source* Own results based on conducted study)

physical and legal entities in the network, or coordinating resources and system activities information. All activities related to information management in the area of education serve to generate value for physical entities, organizations, networks of cooperating legal entities or values in the macroeconomic scale (Fig. 4.3).

Business researchers can aim to construct tools to help managers to understand their world, not tell them what decisions to take or what to do. Business researchers cannot predict the direction of development of a network, nor forecast the final effects of any network action. This is because of the large number of ways each participant can act and react (Håkansson and Ford 2002).

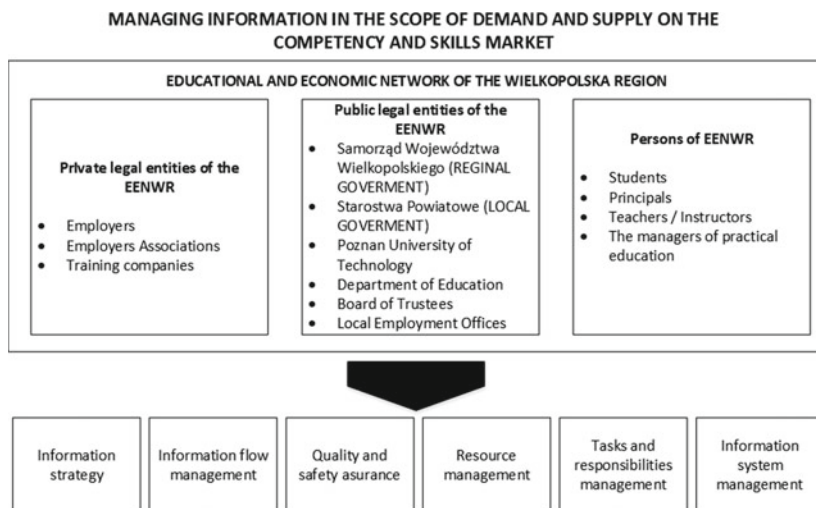


Fig. 4.3 Information management in the Educational and Economic Network of Weilkopolska Region (Source Own results based on conducted study)

4.5 Required Social Competences in Shaping the Attitudes of Corporate Social Responsibility Leaders

The implementation of corporate social responsibility (CSR) objectives within companies is often managed by a CSR leader or a small team of CSR leaders. The effectiveness of these CSR leaders depends to a large extent on their competencies (Osagie et al. 2017), that is why it is important to educate competences in the area of CSR (Mohammad et al. 2016), including social competences that are significantly dependent on them.

Social competences are understood as those that are related to the quality of the tasks carried out, especially in contacts with people and affect the effectiveness of cooperation. These include: self-presentation, building relationships with others, communicativeness, openness to others, etc. (Szafranski et al. 2017). In the education process, educating the social competences required on the labor market, one should bear in mind the fact that they concern not only the emotional area of development, including building relationships, recognizing the definition of their emotions and feelings, but also in the area of social development, i.e. values commonly recognized by the local environment or identified with particular social groups.

Taking into account the insufficient information about Corporate Social Responsibility at the educational level (Burga et al. 2017; Kolb et al. 2017) and examining the needs of employers for employee competences (Szafranski and Golinski 2015), activities developing CSR as part of the Education and Economy Network of Wielkopolska Region has been launched. The analyzes show that special attention should be paid to the needs of employers in the field of social competences and the potential of these competences among future employees. System.zawodowcy.org is an IT tool available to users of the Education and Economy Network of Wielkopolska Region and supports the management of information on the needs for competences on the labor market and the competence potential of students and potential employees. The scope of information obtained from the tool is based on

a tree-based database of professional competences organized in a four-tiered structure, which identifies: occupations, qualifications common to all professions, qualifications common for areas of education, professional qualifications, and professional competences, skills common for all professions, skills common for areas of education and professional skills. The structure of competences in *system.zawodowcy.org* is based on the learning outcomes resulting from the “Core curriculum of vocational education” (Regulation of the Minister..., 2017). The information gathered in *system.zawodowcy.org* is analyzed in terms of quantity, quality and takes into account the dynamics of changes over time. On the basis of job offers, apprenticeships and internships included in *system.zawodowcy.org*, those that can influence the development of CSR in the enterprise have been identified. 160,000 different names of skills relating to all professions are available in the whole dictionary. Among them there are five groups of “common competences”—educated in all occupations and these “common competences” contain only 48 skills.

An analysis of all job offers, internships and apprenticeships from the period of 48 months has been made, distinguishing them with skills related to technical competences—concerning a specific profession and general—“common competences” that may affect the functioning of CSR in a company. Out of 99,000 all competences sought by employers, 16,000 were common competences, and among them, a minimum above half (51.1%) there were “personal and social” competences—which can be directly related to CSR activities in an enterprise (Fig. 4.4).

The results of the analysis of the structure of needs for competences included in job offers and numerous interviews with employers influenced the change of the basic dictionary, which defined the needs of employers and the potential of employees. In parallel with the extensive dictionary based on 160,000 skills, a new “proprietary” was introduced—based on research among employers (Szafranski et al. 2017; Graczyk-Kucharska et al. 2018).

The new structure of the vocabulary *system.zawodowcy.org* has reduced the number of all skills, and their description is based on the real needs of the labor market. The structure of the skills dictionary also takes into account the real needs of employers and changed the proportions between technical and social skills—increasing the emphasis on skills



Fig. 4.4 Personal and social competences—related to the CSR area—sought after by employers using system.zawodowcy.org (Source Own results based on conducted study)

that may also be important in CSR activities of the company. Thanks to such improvements, the IT tool used in a natural way can be a support for social and image-related activities carried out in the Wielkopolska Educational and Economic Network (Fig. 4.5).

The research results presented above and the resulting improvements in system.zawodowcy.org are broadly suited to the needs of system solutions that improve information management regarding both the needs of the labor market and the potential of vocational education. Improvement of activities in the area of CSR is currently associated not only

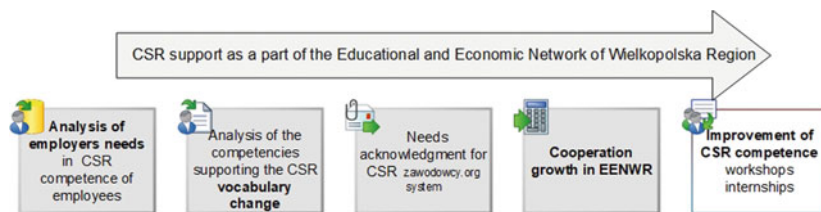


Fig. 4.5 The process of changes in the structure of the system.zawodowcy.org dictionary used to support CSR activities in the Wielkopolska Educational and Economic Network (Source Own results based on conducted study)

with the perception of external activities of the company, but is associated more and more with the analysis of job offers based on compilation of skills sought by employers. Making employers and employees aware of the need to manage information (including in the area of CSR) allows formulating the expectations of the employer regarding the expected scope of competence of a potential employee. Programming the use of tools such as system.zawodowcy.org, streamlines the process of managing information in the network and increases the amount of information useful for managing employee competences. These activities also have an efficiency aspect in the form of improving the recruitment process and education by educating the occupations and competences required by enterprises in the labor market.

4.6 Conclusions

The aim of the book chapter was to present the assumptions and activities related to information management carried out in the Educational and Economic Network of the Wielkopolska Region in the aspect of the development (implementation) of CSR. The presented IT tool system.zawodowcy.org and developed by WSEG aims to solve in a systemic and innovative way the problem of information management on the labor market and improvement of activities in the area of CSR. The assumptions and structure of the Educational and Economic Network of the Wielkopolska Region by filling the information gap on the competence needs, both technical and social, is an example of Corporate Social Responsibility. The development of clear and qualitative descriptions of qualifications facilitates the comparison of knowledge and skills acquired during formal education in vocational schools and better adaptation to the needs of the labor market. The use of the structure of the Educational and Economic Network of the Wielkopolska Region in the area of CSR is an example of information management regarding the competences of potential employees (competence profiles) and job offers (tasks carried out at the workplace).

Solutions implemented within the framework of the Educational and Economic Network of the Wielkopolska Region help to manage

information about the competences of students and employees, which increases the efficiency and effectiveness of the recruitment, employment and staff improvement process in a very practical way, enabling the implementation of tasks in the area of CSR.

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5

The Unsustainability of Banking Operations in the Republic of Croatia vis-à-vis Social (Ir-)Responsibility

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5.1 Introduction

Corporate governance is, classically perceived, a management model uniting the so-called managerial and proprietary approach, i.e. a model that secures returns on inputs to the management and owners, e.g. on work and invested capital.¹ Still, for authors, the corporate governance model goes beyond the mentioned concept; so they support the thesis that corporate governance should ensure a balance between the economic and social goals of the company, i.e. in the context of this chapter, of the banks. The significance of the corporate governance application in banks is of the paramount importance, because the success of bank's business performance is highly reflected in the real economy of the region, the country, and in the connection with financial flows,

¹Tipurić, D. (2008). *Corporate governance*. Synergy Publishing.

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even the entire world. Internal and external corporate governance mechanisms in the twenty-first century must ensure the fulfilment of the economic goals for internal stakeholders and public interests, which, given the specificity of banking activity, should to be seen in the function of ensuring the conditions for achieving the economic goals in the long run.² Therefore, socially responsible banking operations, i.e. considering their influence on society, interdependence and holistic approach (ISO 26,000, by ISO; 2010), have become vitally important in the recent decade for long-term business operations, not only for banks themselves, but the entire economy. ISO 26000 (ISO 2010), an international standard that provides guidance on social responsibility, is useful in all types of organizations, both in the public and private sectors, in developed and in developing countries, too. Its purpose is to help organizations in their efforts to operate in a socially responsible way, which the society increasingly requires. The concept is consisting of seven clauses as follows: plan range, topics, definitions and synonyms, understanding, principles and recognizing of social responsibility, attracting interest groups, guides of the main subjects of social responsibility including integration of the social responsibility into the whole organization, annex related to voluntary initiatives and tools of social responsibility as well as bibliography and index (specification).³ By adopting guidelines on the underlying principles of social responsibility, these core topics and issues pertaining to social responsibility are integrated into socially responsible behaviour, existing organizational strategies, systems, practices and procedures.

The so-called Keiretsu model from Japan, is an example of a positive practice of co-operation and harmonization of banks' and their stakeholder's goals.⁴ Not only owners, managers and employees, who are related to the supervisory and managerial structures of the bank

²Prohaska, Z., Peša, A., & Lukavac, M. (2017). Importance of internal and external corporate governance mechanisms for socially responsible and sustainable banking operations, *Anthology of Inter Cathedra Assembly in Rijeka*. Faculty of Economics, University of Rijeka.

³Lazibat, T., Samardžija, J., & Sutić, I. (2010). ISO 26000 SR—Social Responsibility. *Anthology of 10th Croatian conference of quality*, Zagreb [Pages 3–5].

⁴Grabowiecki, J. (2006). *Keiretsu groups: Their role in the Japanese economy and a reference point (or a paradigm) for other countries*. Institute of Developing Economies Japan, Japan External Trade Organization, available at: <http://www.ide.go.jp/library/English/Publish/Download/Vrf/pdf/413.pdf> [accessed: 1 October 2017] [Page 43].

are considered to be the bank's stakeholders; the stakeholders are the banking services users too, ranging from citizens to state/government, and regulatory bodies with the primary role of securing bank stability and protecting the public interest, which is missing occasionally, as in the case of the Republic of Croatia.⁵ Banking operations stakeholders constitute the bank's competitors and they should be observed as an external corporate governance instrument, because competition through its activities can have a positive impact on raising the level of responsibility and ethics of business affairs at the level of the entire banking system.

The Japanese view of the bank's role in the development of the economy, in the 50s of the last century, has moved away from the traditional neoliberal conception of the economy. Japanese capitalism is specific because of the strong role of the state in the economy. The financial system in Japan was in function of realizing the country's industrial policy.⁶ Japan is also still specific as to the highly segmented banking system. The segmented banking system is the result of including banks to increase financing into companies from a specific industry branch in the post-war period. The Keiretsu model until 1997, i.e., the crisis in Asia, was regularly implemented, but also often criticized by the neoliberal economic currents from the most developed Western countries in which the Keiretsu was unacceptable because it was partly based on monopolistic structures and prevented a free market game. It is certain that such a Keiretsu model has prevented the penetration of the foreign capital and commodities into the Japanese market. Keiretsu model, as well as generally the overall economy of Japan, till the crisis was based on solidarity. The member company of the Keiretsu group that would come into trouble would be supported by other companies, and the main bank would financially sustain the company and supervise its business. The state has also prevented bankruptcy of banks. In fact, as banks solved the business of the companies faced with problems, other banks were also required to help the bank's business in troubles. Banks thus

⁵Op. cit. Prohaska, Z., Peša, A., & Lukavac, M. (2017).

⁶Hoshi, T., & Kashyap, A. (2001). *Corporate financing and governance in Japan: The road to the future*. Cambridge: MIT Press.

expanded their influence and entered other Keiretsu groups, which ultimately resulted in financial integration, i.e. by consolidating the Keiretsu group. This model enabled Japan to develop and resist the penetration of foreign capital in the post-war period.

However, after the crisis in 1997, there have been changes in legislation in Japan. Banks are enabled to sell shares in companies which had bad strategies and unprofitable business. Bankruptcy of the companies became allowed, too. The capital market has flourished, resulting in debt and lower corporate exposure to banks. The Keiretsu model still assumes a horizontally or vertically-linked company and the main bank in the position of a strategic investor in those companies. The companies and the main bank are connected not only by common affairs but also by ownership and make the so-called Keiretsu group. Each member of the group holds 1–2% of the stake in the ownership structure of the other member of the group.⁷

This makes them interdependent, mutually (perhaps socially) responsible and quite holistic, unless they become monopolistic/oligopolistic.

Therefore, it is important to point out the results of research that has shown that disabling banks to acquire shares in non-financial corporations can negatively affect banks' stability. The above conclusion is important because the Keiretsu model is based on the ownership of the bank and companies within one economic sphere of interest.⁸ Business performance of a particular company and the main bank depends on the overall performance of the entire group.

Unlike in the twentieth century, the Keiretsu group is no longer a closed system, and the primary role of banks in Japan is no longer lending with regulated lending rates nor depreciating bad business decisions. Japanese banks today support Japanese companies in their presence in the international market and provide consulting services, especially in the domain of mergers and acquisitions.⁹

⁷Schaede, U. (2006). *The strategic logic of Japanese keiretsu, main banks and cross-shareholdings revisited* (Working Paper No. 24). Centre on Japanese Economy and Business, Columbia Business School. New York.

⁸Barth, J., R., Caprio, G. Jr., & Levine, R. (2001). *Banking systems around the globe: Do regulation and ownership affect performance and stability?* University of Chicago Press.

⁹Op. cit. Schaede, U. (2006).

All written statement suggests that the relationship of the bank to clients is partly conditioned by legal regulation, but it is particularly dependent on understanding and accepting certain economic theories as business forms. Japan's example showed that close co-operation between banks and non-financial corporations, which was prompted by mutual ownership interest, had a positive impact on the business development of the company, the Keiretsu group and, ultimately, the country. At the same time, socially responsible business of Japanese companies and banks, unlike the socially (ir-)responsible business of companies and banks, for example in the Republic of Croatia, explains why banking crises were characteristic of the banking system in the Republic of Croatia prior to privatization in the late 90s years of the last century.¹⁰

In contrast to the positive Japanese Keiretsu model, far more common is the one in which the banks are not primarily oriented to the needs of the clients. Banks often have a dominant position vis-à-vis clients, because they present the only stable source of funds for their clients; besides, the banking systems often have the characteristics of an oligopoly. In these situations, the market competition with other banks does not have a positive impact on the improvement of business processes, let alone customer relations and raising the level of banks' responsibilities. Even today, this is precisely the characteristic feature of the banking system in the Republic of Croatia.

5.2 Briefly About Banks in Croatia

A country's legislation and the operations of her central bank must enable banks to operate smoothly, but in accordance with the interests of the bank and stakeholders. The stability both of the banking and financial system, and ultimately of the entire country, are important targets of the legislator and the central bank. However, when corporate governance principles are not implemented in banks' operations, when the financial system is bank centric, and the banking system is highly concentrated with features of the oligopoly, particular attention should be paid to

¹⁰Op. cit. Prohaska, Z., Peša, A., & Lukavac, M. (2017).

protection of the interests and rights of banking service users.¹¹ Unfortunately, the legislator and the Central bank in the Republic of Croatia (hereinafter: the CNB) failed every time to grasp its meaning.

If the banking operations in the Republic of Croatia were surveyed from her independence until now, the period could be divided into three stages.¹²

The first stage would concern the period from the acquisition of independence in 1991 to the privatization of the largest state-owned banks. It is a period in which both internal and external corporate governance mechanisms have not directed the activities of banks toward sustainable business operations, neither in the context of risk management, let alone in the context of social responsibility. In addition, significant political interferences in the economy and the functioning of banks contributed to the escalation of the so-called bad placements by banks that, along with illiquidity, were fatal to a large number of banks from that period. Unfortunately, this remained a particular feature of banks controlled by the state until today, as evidenced by the scandals related mostly to the business operations of Croatian Postal Bank and the Croatian Bank for Reconstruction and Development (HBOR).

The second stage would refer to the period from the banks privatization until the outbreak of the major crisis at the end of 2007. The same period relates to the so-called credit expansion that was not stopped by the measures of the CNB. In the period described above, banks were primarily short-term profit-oriented and aware of the fact that credit growth is far greater than GDP growth in the Republic of Croatia, i.e. that lending finances the spending and life above the standard. The section will highlight the issue of significant bank lending with a currency clause, especially in CHF, despite the fact that the banks in the Republic of Croatia did not have funds in CHF. Considering that the CNB does not hedge the exchange rate of the Croatian kuna against the CHF, banks deliberately exposed their clients to the currency risk. In addition, banks exposed clients to interest rate risk by lending at an

¹¹Op. cit. Prohaska, Z., Peša, A., & Lukavac, M. (2017).

¹²Lukavac, M. (2016). *Banking risks in the context of banking operations in the Republic of Croatia*. M. Sc. thesis. Department of Economics, University of Zadar.

administrative interest rate, variable by bank decisions. Many customers did not subsequently feel a drastic reduction in interest rates in the market, as banks adjusted or raised the credit risk premium for the client. In both cases, the legislator and the CNB did not react, but faced the fact that the banking system was extremely stable after a series of banking crises in the recent past and rehabilitation with the taxpayers' funds.

Finally, the third stage would refer to the period of the so-called credit crunch and non-crediting by banks during the crisis and the initial years of the fragile economic recovery of the Republic of Croatia. Only in this period the risks were realized to which bank clients were exposed during the second phase, i.e. credit expansion, to the outbreak of the crisis. In the same period, it turned out that banks were neither prepared to lend in times of uncertainty, nor ready to participate in solving financial problems of clients, even more of legal entities, through models that would help resolve financial difficulties resulting from the crisis. During the second and third stages, the internal corporate governance mechanisms, particularly in the context of foreign-owned banks' operations, focussed the operations of the same banks in the interests of the owners and no special conflicts were registered between the interests of owners and managers, i.e. agency problems. Equally, it is of the outmost importance to say that banking operations were not unlawful, but it is obvious that both internal and external corporate governance mechanisms have not focussed the banking operations on socially responsible business affairs as interpreted by authors in response to an increasing social gap resulting from the ultimate neoliberal concept of economy.

It is clear that banks have a dominant position in the Republic of Croatia and their business policies significantly determine the direction in which the economy of the Republic of Croatia is developing.

The purpose of the following section is to highlight the continuous disintegration of social interests and interests of banks through emphasis on basic features of bank operations in the Republic of Croatia through three stages.

5.3 Features of Banking Operations During the First Stage

The first stage refers to the period of the 1990s. The situation in the economy was extremely difficult, especially because of war events, market loss, financial flow closures and the privatization process being conducted. In such circumstances, banks, which were not stable and market-oriented, were even more fragile. Two significant banking crises occurred during the observed period, which resulted in more stringent legal regulations, collapse of some banks and privatization of large state banks.

5.3.1 The First Banking Crisis

The main issue of banks after the independence of the Republic of Croatia was related to the foreign currency deposits of depositors. Namely, in Yugoslavia, banks deferred all foreign currencies to the National Bank of Yugoslavia (NBY), whereas after the independence of the Republic of Croatia, the NBY did not cede foreign currency assets to the banks in the Republic of Croatia. Thus, banks had foreign currency liabilities in their liabilities, while they were holding in their assets a worthless claim to the NBY. The problem was solved by issuing state bonds to banks to cover the value of deposits, but also by blocking foreign currency depositors' deposits due to the lack of foreign exchange reserves of the Republic of Croatia at that time.¹³ Furthermore, a major problem for banks were bad placements with large state-owned companies. The government issued state bonds to recover these debts. Thereby the so-called "linear" rehabilitation of banks was completed. At this point, the banks have briefly become stable, but no action was taken to avoid bringing banks into the same trouble. The state banks were actually banks owned by large state-owned companies that founded them to provide a cheap money. Thus, the state banks were not market-oriented,

¹³Jankov, L. (2000). Banks' issues: Causes, ways of solving and consequences, *CNB*, <http://www.hnb.hr/publikac/pregledi/p-002.pdf> [accessed 10 February 2016] [Page 7].

but their only task was to ensure the liquidity of state-owned enterprises and their high employment. On the other hand, smaller, private banks were then established in large numbers. Somewhat unexpectedly, research results suggest that smaller, private banks were even more ineffective than state banks.¹⁴

The first banking crisis culminated in 1995 and 1996, when problems occurred and when four major state banks were rehabilitated, e.g. Privredna banka Zagreb, Splitska, Riječka and Slavonska banka (Zagreb Economy Bank, Bank of Split, Bank of Rijeka and Slavonian Bank). The underlying cause of their difficulties, along with high operating costs and low efficiency, were bad, i.e. uncollectable claims. The bank's debts were repaid with the taxpayer's money, but concrete measures were made to prevent the same banks from coming to a similar situation.

The process of individual state-funded remedies included¹⁵:

1. Transfer of a part of bad placements to the State Deposit Insurance and Bank Rehabilitation Agency and writing-off the remaining bad placements at the expense of the bank's capital;
2. Recapitalization of banks to the level satisfying the minimum capital adequacy requirements;
3. Annulment of old shares owned by state-owned companies, the Agency becoming new shareholder;
4. Change in the management of banks.

The total cost of the first banking crisis involving linear and individual bank rehabilitation was about \$ 4.7 billion, of which \$ 3.2 billion was the cost of covering old foreign currency savings, \$ 990 million was the cost of the so-called large bonds to recover bank claims to state-owned

¹⁴Kraft, E., Hoffer, R., & Payne, J. (2004). Privatization, foreign banks entry and efficiency in the Croatia: Analysis of the stochastic boundary of Fourier's cost function flexibility, *CNB Researches*, available at: <http://www.hnb.hr/publikac/istrazivanja/i-014.pdf> [accessed 8 February 2016] [Page 18].

¹⁵Op. cit. Jankov, L. (2000) [Page 8].

companies, and \$ 473 million is the cost of state-owned banks rehabilitation, excluding the cost of rehabilitation of Slavonska Banka (Bank of Slavonia).¹⁶

The fact is that the banks were very ineffective in the observed period, and the legal regulations, i.e. before the irregularities, were not adapted to the circumstances in which the country and the entire economic system found itself, including the financial system. There were no internal or adequate external control mechanisms of banking operations. The pronounced Banking and moral hazard in the management of banks ultimately led to lending to affiliated persons, i.e. in the case of the private banks and lending to shareholders, and excessive exposure of banks to individual entities.

5.3.2 The Second Banking Crisis

Smaller, private banks, in the period since independence, were relying on growth in deposits and placement of funds to the less liquid state banks. The individual rehabilitation of state banks made state banks cease to be an important client of the smaller, private banks. As a result of this, and due to the falling interest rates, smaller, private banks focussed on lending to risky companies. In 1997, credit growth was almost 48%.¹⁷ Most of these placements were later characterized as bad claims, and part of private banks, due to large losses, were recovered; some of them ended up in bankruptcy during the second banking crisis that has begun already in the next year 1998. Generally speaking, the low quality of bank assets is common when banks are experiencing high credit growth, when they have no clear credit policies and when the credit portfolio is not diversified.¹⁸ Also, a significant reason for the second banking crisis, with a smaller focus on private banks, was illiquidity. In part, the illiquidity was caused by the non-repayment of claims, but in the second banking

¹⁶Prga, I. (2006). The Croatian banking system stability—Are the bank crisis history? *Rifin*, pp. 141–156, http://staro.rifin.com/root/tekstovi/casopis_pdf/ek_ec_508.pdf [accessed 7 February 2016] [Page 4].

¹⁷Op. cit. Kraft, E., Hoffer, R., & Payne, J. (2004) [Page10].

¹⁸Op. cit. Prga, I. (2006) [Page7].

crisis a halt to the growth of deposits also occurred. Namely, the smaller, private banks have consistently achieved deposit growth in the previous period, i.e. new deposits, and not so much good business, to settle their liquidity needs.

5.3.3 Consequences of Banking Crises

The first and the second banking crisis had a negative impact on the budget of the Republic of Croatia and its complete economy. Although the first and the second banking crisis were substantially assisted by external factors, it is clear that the unclear policies and procedures and the weak staff not only contributed to the showing up of operational and strategic risks, but also led to the culmination of the agency problem and development of partnership in a capitalism-oriented lending. Such banking operations were neither sustainable nor socially responsible. The crisis resulted in collapse of some banks and the privatization of large state-owned banks. With the introduction of the foreign capital, large state banks become liquid, more robust, and more stable in the eyes of businesses in the economy. The fact is that foreign banks have had a good starting position for the development of their business affairs by taking over large domestic banks at a time when smaller private banks were financially weak. The arrival of the foreign banks was most certainly supported by the fact that the interest spread was high and that the credit potential, especially that of the citizens, was almost completely unused.¹⁹

The crisis prompted changes in the legal regulations, in the context of bank supervision. At the end of 1998, a new Banking Regulation Act²⁰ was passed. It drastically increased the amount of core capital needed to establish a bank. Also, the required capital adequacy rate increased from 8 to 10%. The same law obliged banks to conduct internal audits and to assess and measure their exposure to banking risks. The most important

¹⁹Lukavac, M. (2016). Issues of banks' social responsibility in the Republic of Croatia, *Oeconomicus num. 3*.

²⁰Official Gazette No. 161/98. (1998). *Banking Regulation Act*, available at: http://narodne-novine.nn.hr/clanci/sluzbeni/1998_12_161_1983.html [accessed 15 May 2016].

legal novelties were linked to the provisions on the supervision of banks operations by the CNB.

Furthermore, during 1999 and 2000, the CNB passed a series of bylaws related to²¹:

1. Capital and bank capital adequacy calculations;
2. Distribution of placements and off-balance risk items and determination of bank exposure;
3. Establishment of special reserves for securing potential bank losses;
4. Bank investment into tangible assets and ownership shares;
5. Notification of the CNB on the debit of an individual debtor at the bank in the amount greater than HRK 5 million;
6. Volume and content of the audit and reports on the performed bank audit;
7. Releasing permit for bank operations;
8. Performing supervision of bank operations.

Thus, the new Act and subordinate legislation regulated the banking system framework in the Republic of Croatia. The CNB became an important partner of banks, but it can be distinguished from the stipulated provisions that the sole aim of the legislator and the CNB was to create and secure the conditions for a stable financial system in the upcoming time. The aim was to reduce the possibility of future macroeconomic crises, particularly micro-factors. Neither the legislator nor the CNB did adopt acts in the context of rights and protection of clients, i.e. they neither understood the motives for foreign banks to enter into the Croatian market, nor foresaw risks that the upcoming credit expansion was facing.

²¹CNB Banks Bulletin, number 1 (2001) [Page 8].

5.4 Features of Banking Operations During the Second Stage

The second stage concerns the period since the privatization of the major state banks, i.e. 2000, until the end of 2008. During the period under review, the branch offices and ATM networks were expanded, but at the same time the number of banks operating in the Republic of Croatia decreased. The observed period is the period of rapid growth of credit, which resulted in higher consumption and GDP growth. Credit growth ranged annually around 20%. The development of the Republic of Croatia was based on debt, and most of the debt, in the observed period, was spent on the so-called consumption without economic sense. Economic growth occurred in the context of decreasing capital price, increased confidence in financial institutions, increased availability of financing sources, and increased collateral value.²² In the observed period, the Republic of Croatia deepened its current account deficit in the balance of payments, since the import was financed by loans. The Republic of Croatia settles the current account deficit by surplus of the capital account, i.e. the inflow of foreign currency through foreign investment or further borrowing abroad.

Table 5.1 shows the structure of placements, and it is clear that the value of loans, i.e. the indebtedness of the entities in the Croatian economy, increased by 6 times in 8 years.

Banks largely financed the population, and lower than average credit growth was realized in private sector financing. This can be explained by the fact that household loans are considered less risky than those given to companies, especially in countries like the Republic of Croatia where the labour market is less flexible.²³

In the structure of household loans (Fig. 5.1), consumer loans have a significant share, i.e. loans without long term economic significance. Given that the credit growth in the Republic of Croatia is in correlation

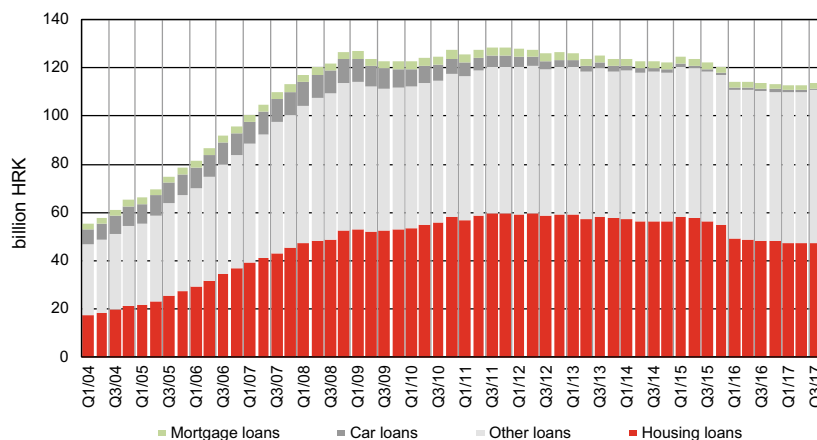
²²CBA-Croatian Banks Association Analysis. (2008). *Loans and economic growth: From theory to reality*, Number 9 [Page 4].

²³CBA Analysis. (2007). *Stability of the banking system in Croatia: Where is the risk hidden?* Number 8 [Page 11].

Table 5.1 Structure and growth of bank placements (million HRK) in the Republic of Croatia, second stage

Client structure	Year		Average annual growth (%)	Index
	2000.	2008.		
State institutions	4.057,2	21.495,2	23,2	529,8
Financial institutions	938,8	5.796,7	25,6	617,5
State owned companies	2.081,9	8.542,7	19,3	410,3
Other companies	22.053,9	85.526,0	18,5	387,8
Non-profit institutions	230,1	591,1	12,5	256,9
Population	18.207,4	122.733,8	26,9	674,1
Non-residents	483,1	1.919,1	18,8	397,2
TOTAL	48.052,4	246.604,6	22,7	513,2

Source Proper design according to the CNB Banks Bulletin, number 1 (2001), p. 43 and CNB Banks Bulletin, number 18 (2009) p. 38

**Fig. 5.1** Structure of household loans since 2004 (Source CNB, standard presentation format, 2017)

with GDP growth, and that the structure of the loans indicates a high share of consumer loans, it is clear that a “decent life” was secured by debt.

Strong credit growth was achieved by 2008. From then until nowadays, a period of mild denunciation occurred. Banks do not lend despite liquidity surplus, and non-economic growth economies are unable to

repay significantly their debts. This issue will be further discussed in the section below when describing the third stage.

5.4.1 Exposure of Clients to Price Risk

Banks, in order to keep their business stable, manage banking risks. Banks are particularly focussed on managing credit risk, currency and price risk and liquidity risk. In the Republic of Croatia, banks transferred the price risk to the clients when granting loans with the administrative interest rate. When they were approving CHF-related loans, they exposed their clients to currency risk.

Price risk is the risk arising from the change in interest rates in the market, and implies bank losses due to negative deviations from the planned cash flows. Therefore, the bank's exposure to interest rate, i.e. price risk, is due to the maturity and price mismatch of bank assets and liabilities.²⁴ With banks' exposure to interest rate risk, there is no significant impact on the difference between active and passive interest rates, i.e. no impact on interest spread.²⁵

The classical literature identifies two types of interest rates, fixed and variable. According to the theory, the fixed interest rates apply throughout the entire period used by the bank's product, and variable interest rates are usually changed over the period used by the bank's product, depending on the stipulated reference parameter. Still, during the credit expansion period, and later in the Republic of Croatia, banks often placed loans with the so-called administrative interest rates which were variable, but whose change did not depend on the reference parameter, but they shifted according to banks' decision. In this way, banks were able to transfer all the possible loss of interest rate changes to their clients. At the same banks avoided their obligation to correct the interest

²⁴Madura, J. (2002). *Financial markets and institutions* (6th ed.). Mason, OH, USA: Thomson South-Western [Pages 534–544].

²⁵Memmel, C. (2010). Banks' exposure to interest rate risk, their earnings from term transformation, and the dynamics of the term structure. *Journal of Banking and Finance* (07), available at: https://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Discussion_Paper_2/2010/2010_09_20_dkp_07.pdf?__blob=publicationFile [accessed 10 February 2016] [Page 22].

rate in favour of the clients.²⁶ Thus, it can be stated that the banks, by approving loans with an administrative interest rate, deliberately created contracts with harmful provisions for clients. The administrative interest rate was presented as a variable interest rate variety; but the literature did not recognize it. Hence, in this case, the banks used the ignorance of clients and the lack of clear legal regulations.

It is important to emphasize that the banks, while lending with the administrative interest rate, were able to change the premium at the client's risk during the period in which the client used the bank's product. Thus, in any case, the administrative interest rate, although perceived as a subordinate variable interest rate, did not consist of a strictly variable and fixed part. Due to the fact that banks frequently stipulated from their clients so-called administrative interest rates, many debtors, on their loan annuities, did not feel drastic reduction in interest rates after the banking system was stabilized following the end of financial crisis in 2008. Although the sources of funds were affordable, and the regulatory cost decreased, there was no significant reduction in active interest rates. Namely, banks increased risk premium as a result of increased share of partially recoverable and non-recoverable receivables.

5.4.2 Exposure of Clients to Currency Risk

Currency risk can be reviewed from two perspectives, i.e. in the context of the transactional and the economic risk.²⁷ Since the bank is a financial institution, so-called direct losses arising from transaction risk due to changes in exchange rates are noteworthy for its business operations. Other participants in the market consider more important the so-called indirect losses resulting from the economic risk of exchange rate fluctuations. Thus, foreign exchange risk, in the context of banking, presents

²⁶Lukavac, M. (2016). Issues of banks' social responsibility in the Republic of Croatia, *Oeconomicus* No. 3.

²⁷Papaioannou, M. G. (2006). Exchange rate risk measurement and management: Issues and approaches for firms. *South-Eastern Europe Journal of Economics*, 2, 129–146, available at: <https://www.imf.org/external/pubs/ft/wp/2006/wp06255.pdf> [accessed 7 February 2016] [Page 6].

the risk arising from fluctuations in the currency exchange rate and the open foreign currency position of the bank.

The banking system in the Republic of Croatia is characterized by the high share of foreign currency savings. Consequently, banks, in order to eliminate their foreign exchange risk, lend to clients by stipulating a currency clause. The majority of foreign currency savings refers to savings in euros, which makes banks extremely “short” in that currency. For this reason, banks tie in assets most of its placements to euro. In this way, the banks are remitting Croatian kuna to the client’s account, but they register placement in euros, thus reducing their open short-term foreign exchange position in euros. Therefore, banks by lending with currency clause in euros carry out a natural hedging currency risk dependent on euro exchange rate fluctuation, still transferring that risk to beneficiaries of those loans. Nevertheless, with regard to the CNB exchange rate policy, euro-denominated currency loans users have not achieved so far significant losses or gains from risk exposure criteria to changes in euro exchange rate.

However, the period of credit expansion was also marked by lending with the currency clause in CHF. Data from 2008 show that CHF’s share in foreign currency deposits was 7.2%, while at the same time on the active side, CHF accounted for 18% of foreign currency placements.²⁸ Since the value of total foreign currency liabilities and assets was the same, the banks were in this case “short” for the position in euros and “long” for the position of CHF. Thus, it is obvious that the banks, when approving the above-mentioned amount of currency-denominated loans in CHF, did not hedge against currency risk, because the banks did not have so much significant sources of funds deposited in CHF. Indeed, in this particular case, lending with a currency clause in CHF created a “long” open foreign exchange position in the balance sheet of banks. In this case, the general rule that the bank’s liabilities dictated its assets was neglected. However, it is possible that the ultimate purpose of banks in the Republic of Croatia, i.e. so-called bank subsidiaries, was to create assets in accordance with the liabilities of the so-called “mother

²⁸CNB Banks Bulletin, number 18 (2009) [Pages 13–18].

banks” abroad. Accordingly, there is a reasonable doubt that the stipulation of currency clause enabled foreign banks to use surplus deposited funds in CHF, from the highly developed markets, within the banking subsidiary business, to developing countries. If this was not the case, then the mother banks entering into derivative transactions with the bank subsidiaries gained extra profit based on the speculation, i.e. exposing the position risk. In any case, banks in the Republic of Croatia created placements with a currency clause in CHF, in far greater value than the real sources of funds. Banks abused the possibility of stipulating a currency clause and exposed their clients to currency risk. In addition, banks offered lower interest rates on CHF currency clauses than in Croatian kuna loans or those with a currency clause in euros. Thus, banks boosted the demand for so-called “toxic loans” and won over the clients, some of whom were rated as loan incompetent when applying for a loan in Croatian kuna or with a currency clause in euros, due to higher interest rates on these loans, i.e. ultimately higher initial annuities.

5.4.3 Activities of the CNB

During the observed period, the CNB was aware of the dangers of uncontrolled credit growth. For this reason, it strived to restrict credit growth by various measures and pointed to the detriment of uncontrollable credit growth. Banks then reacted negatively to the activities of the CNB, emphasizing that it would also negatively affect the entire economy. The banks, despite measures taken by the CNB continued to extend loans, because the benefits of the loans were still higher than the additional cost of regulation. Also, the IMF criticized the activities of the CNB. At the same time the ECB raised interest rates to restrain credit growth at 10% in the EU, and this resulted in substantial liquidity excess that banks shifted from the EU to Croatia and other countries of South Eastern Europe.²⁹ Thus, the EU countries GDP growth based on production was further encouraged, as well as artificial growth in the countries of South Eastern Europe based on consumption and loans.

²⁹LIDER Press. (2007). Rohatinski-interview: CNB will not desist from credit growth restriction measures.

The measures taken by the CNB to limit credit growth can be seen in Kukavčić (2009), according to the CNB. Figure shows compulsory CNB treasury bills, marginal reserve requirement (MRR), new decision on banks' adequacy, and compulsory CNB treasury bills—comparing to banks placements (annual growth rate) in percent.

Hence, in 2003, the CNB had an impact on the reduction in credit growth. The CNB achieved this result by deciding not to sanction the credit growth by up to 16%, to 4% quarterly and by the banks' obligation to enrol the CNB treasury bills due to exceeding a certain limit in the value of 200% of the overdraft at an interest rate of 0.5%.³⁰ The same measure was used by the CNB in 2007 when the credit growth was limited to 12% per annum and specifically to 1% per month. The penalty referred to the compulsory entry of the treasury bills in value of 175% of the limit, with an interest rate of 0.25%.

The listed measures provided only partial results, as they prompted large companies to borrow directly from mother banks abroad. Unsuccessful measures concerned the introduction of marginal reserve requirement and a new decision on capital adequacy. The marginal reserve requirement was supposed to halt credit growth by stopping inbound cash from abroad. Foreign banks in the Republic of Croatia were usually indebted to mother banks abroad, thus increasing foreign liabilities of banks and public debt of the Republic of Croatia. By the decision of the CNB in 2004, the banks that received funds in this way had to deposit 55% of the funds raised abroad royalty free at a special account of the CNB.³¹ The above mentioned measure provided only short-term results and ultimately did not produce a major impact on the reduction in credit growth, as banks through recapitalization gained money from abroad. For the same reason, the new decision on capital adequacy was also unsuccessful. Indeed, it contributed to the recapitalization of foreign-owned banks.

³⁰Official Gazette No. 36/201. (2003). Decision on compulsory entry of the Croatian National Bank treasury bills.

³¹Kukavčić, J. (2009). *Monetary policy measures to limit the growth of placements and external borrowing*, Zagreb Economy Faculty, available at: http://www.unizg.hr/rektorova/upload_2009/jasena_kukavcic_rektor_nag.pdf [accessed: 29 April 2016] [Page 10].

Finally, it can be stated that large foreign-owned banks have found a solution to continue lending. On the other hand, business affairs of the smaller, domestic banks, whose market share was declining and which were less competitive than the large foreign banks, were additionally complicated.

During the second stage, the CNB did not take active measures to de-institutionalize the banking system, while they would serve to ensure the preconditions for a more active monetary policy. In the context of the section, the point is that the CNB did not influence enough. For many, especially loan beneficiaries, CNB did nothing to protect the banking services users' facing a poor financial literacy and the situation where the negotiating power of banks is huge due to the financial market banking centrality in the Republic of Croatia.

5.5 Features of Banking Operations During the Third Stage

The third stage refers to the period of the credit crunch initiated at the end of 2008. The credit crunch is defined as banks' lending halt, i.e. it is described as a situation where there is a shortage of lending supply over demand for loans. Such a situation in the Republic of Croatia was recorded from the end of 2008 on. However, the banks alone observe the concept of a credit crunch from a different point of view. For banks, credit crunch is a situation where there is a shortage of supply in relation to healthy demand for loans.³² The banks estimated that the great loan demand in the Republic of Croatia at the time was not healthy; besides it was not excluded that the economy and the population lending halt was the result of increased lending to the state. In any case, the research confirms that already at the end of 2008, and especially in 2009, there

³²CBA Analysis. (2014). *Credit crunch identification issue: Do banks recognize healthy loan demand?* Number 49 [Page 3].

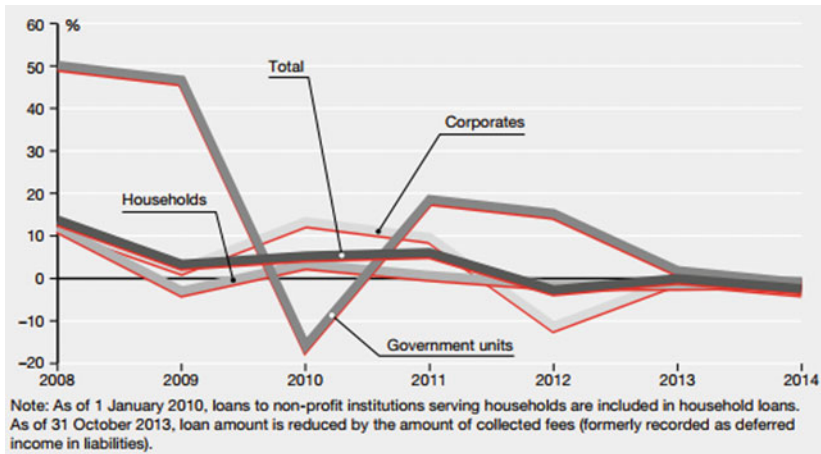


Fig. 5.2 Bank loans rates change (Source CNB Banks Bulletin, number 28 [2015])

was a shortage of loan supply over loan demand due to excessive demand for loans and alternatively, lower loan supply.³³

The Fig. 5.2 clearly indicates that credit growth was substantially reduced since 2008, i.e. banks were not inclined to lend in crisis. Banks then restricted their loans to households and private companies, and were prone to finance the state and public companies due to placements security. Hence, the private sector slowly begun to discharge debt within the limits of its capabilities, but the state and public institutions continued to borrow further trying to finance the deficit and continue inefficient business operations. Since the manifestation of credit crunch and the crisis, up to date, when there are signs of economic recovery, banks are the least likely to finance small and medium-sized enterprises, since the same segment holds the greatest share of bad loans and reservations.³⁴ Paradoxically, the problem of small and medium-sized enterprises is the lack

³³Čeh, A. M., Dumičić, M., & Krznar, I. (2011). Loan market imbalance model and the credit crunch period, *CNB Research*, <http://www.hnb.hr/publikac/istrzivanja/i-030.pdf> [accessed: 07 Feb. 2016] [Page 22].

³⁴CBA Analysis. (2014). *Financing of small and medium-sized enterprises in crisis: What we have learned and what can still be done?* Number 47 [Page 10].

of working capital, and they are expected to perform new investments in permanent working capital.

According to many, the banks' period of non-lending is not over, and the excess liquidity in the banking system supports it. Consequently, passive interest rates reached their minimum in 2017. Still, the recovery of loan demand both in the segment of natural persons and in the segment of legal entities is visible. However, in the domain of natural persons, lending was substantially limited by a small employment rate, and in the domain of legal entities it can be restricted by the tightening of lending terms due to the uncertain situation in the economy, regarding the events in Agrokor.

5.5.1 Reasons for Credit Crunch and Non-lending

The reason for the sudden lending halt in the Republic of Croatia can be explained by the global financial system crisis, which stopped the inflow and started the outflow of capital from developing countries in Europe, including the Republic of Croatia. However, according to the survey, household debt in the Republic of Croatia in 2008 accounted for 88% of the debt ceiling to which the financial institutions were willing to lend.³⁵ According to the same source and regardless of the world crisis, i.e. external shock, the credit crunch and the crisis in the Republic of Croatia would have occurred at the end of 2010. It is clear that the real reason for the situation in which the Republic of Croatia found itself for a number of years is of specific nature (idiosyncratic risk) and was only accelerated by the external, global movement of the economy (aggregate risk). In 2015, a slight growth of the economy was achieved. Unfortunately, in 2017, the growth is still significantly based on the spending of the robust public sector.

The third stage faces the growth of partially overwhelming and completely uncollectable placements. The result is the stagnation of the economy and the high level of indebtedness of business entities and citizens. The next chart shows that the share of problematic claims in 2014

³⁵Vidaković, N., & Vlahović, D. (2012). The rise and fall of lending to the population, *A Collection of the Business School Libertas*, Year 5 [Pages 7–22].

grew to a very high 17.1%. The banks encounter particular difficulties in collecting the placements given to the companies. See Fig. 5.3.

In the structure of problematic placements with companies, the leading role pertains to the companies from industrial branches: construction, trade and processing industry.

Thus, banks operating in the Republic of Croatia do not dare to credit, not because of the lack of funds, but because of the fear about the security of their placements, i.e. the prominent credit risk. A frequent motive of economic entities to raise loans is to refinance the existing loans or recover other due liabilities. Thereby, the value of collateral gets reduced and increasingly difficult to cash in, which further hampers lending. Besides, even the banks are now much more cautious when assessing credit risk. During the period of credit expansion, the risk was underestimated, which resulted during the crisis period in major difficulties in collecting placements. The share of partially collectable and completely uncollectable claims had exceeded a very high 15%. It should be noted, therefore, that the foreign currency loans in CHF had a significant item in that share. Many of these loans were repaid regularly after enabled

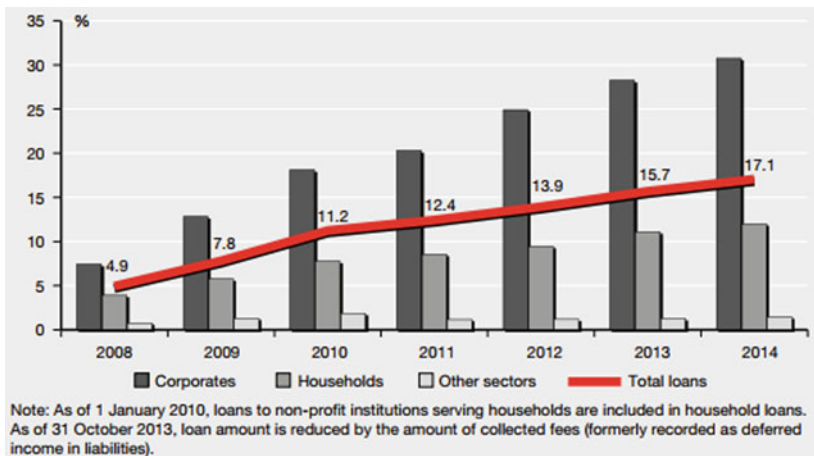


Fig. 5.3 Share of partially recoverable and fully irrecoverable bank loans, third stage (Source CNB Banks Bulletin, number 28 [2015], p. 30)

conversion. Also, part of the share was related to loans that the banks' management approved directly to target clients.

5.5.2 Activities of the CNB and the Legislator

It is important to emphasize that the reason for bank non-lending, during the crisis in the Republic of Croatia, should not be sought in insufficient liquidity of banks.

The Fig. 5.4 shows that the banking system over the years was usually liquid.

It is evident that the banks had liquidity problems only at the end of 2008 and during 2009. At that time, the CNB took concrete measures to keep the banking system stable and liquid. The minimum required rate of foreign currency receivables decreased from 32% in 2008 to 20% in 2009 (the obligation was steadily reduced since the 1990s) and by 2012 it was further reduced to 17%. Furthermore, the marginal reserve requirement was abolished and at the end of 2008, the compulsory

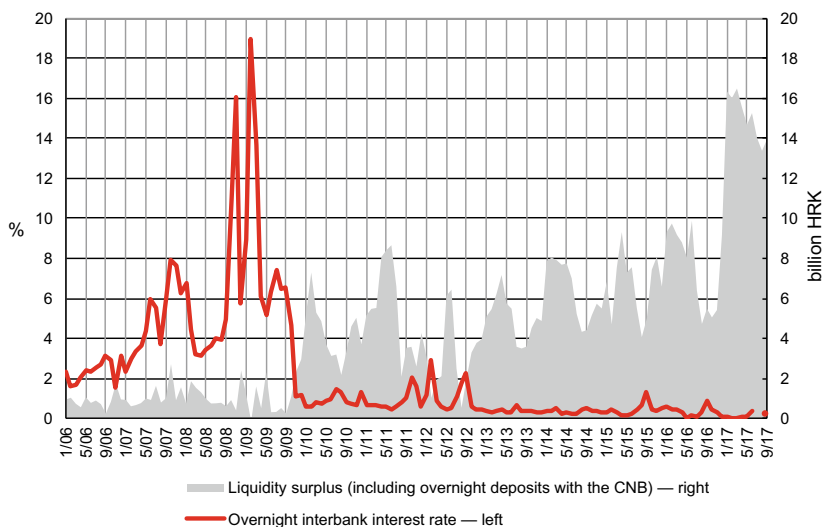


Fig. 5.4 Liquidity of the banking system in the Republic of Croatia (Source CNB, standard presentation format—regular publication, 2017)

reserve rate decreased from 17 to 14%.³⁶ Meanwhile, the reserve requirement rate was further reduced; it currently stands at 12%. Also, at the end of 2009, the provision on the entry of the CNB treasury bills in 2007 was abolished. In the period since 2010, the banking system was extremely liquid because of the lending halt and deposits growth and CNB measures adopted during the short-term uncertainty period.

Hence, CNB measures stabilized the banking system and created excess liquidity, but they did not stimulate the so much desired credit growth. In order to encourage lending to business entities in the Republic of Croatia, the CNB, although it had not affected the credit distribution, decided to print obligatory treasury bills at 50% amount of the increase in the total amount of loans given to business entities. Notwithstanding the above, the banks did not start lending significantly.

Regarding the issues raised with respect to the application of the administrative interest rates and the so-called “Toxic loans” linked to CHF, the reaction of the competent authorities finally arrived.

Under the Act on Amendments to the Consumer Credit Act of 2012, the legislator clearly stipulated that the variable interest rate is contained in a variable and fixed part.³⁷ The Act on Amendments to the Consumer Credit Law Act of 2013 defined a variable part depending on one of the following reference parameters: EURIBOR, LIBOR, NRS, Ministry of Finance Treasury Bills yield or the average interest rate on deposits of citizens in the relevant currency.³⁸ It should be emphasized that the amendments were regulated by the fixed part containing the margin of profit and risk premium. So the risk premium became a fixed parameter, and earlier, when banks independently adjusted the floating interest rates, the risk premium was a variable part.

³⁶Bokan, N., Grgurić, L., Krznar, I., & Lang, M. (2010). *Influence of the financial crisis and reaction of monetary policy in Croatia*. CNB Research, available at: <https://www.hnb.hr/documents/20182/121339/i-025.pdf/0cedb8e9-c523-4d60-8a1a-9a80daa56a2f> [accessed 2 May 2016] [Page 15].

³⁷Official Gazette No. 75/09. (2012). *Act on Amendments to the Consumer Credit Act*, available at: http://narodne-novine.nn.hr/clanci/sluzbeni/2012_10_112_2428.html [accessed 15 May 2016].

³⁸Official Gazette No. 75/09. (2013). *Act on Amendments to the Consumer Credit Act*, available at: http://narodne-novine.nn.hr/clanci/sluzbeni/2013_12_143_3066.html [accessed 15 May 2016].

With regard to CHF-related loans, the legislator has, after limiting the interest rates and temporary freezing of the Croatian kuna-CHF exchange rate, finally prescribed the conversion of the so-called “Toxic loans” (in CHF or with a currency clause in CHF) in euro-denominated loans or currency clauses in euros. The total cost of bank conversion is estimated at around 8 billion Croatian kuna, and the state’s cost is reviewed in recognizing tax reliefs to the banks in the form of profit tax payments. The conversion process and its decisions were made by the Act on Amendments to the Consumer Credit Law Act of 18 September, 2015.

Without the intervention of the state, the debtors would have paid 72% higher annuity from the initial rate due to changes in interest rates and appreciation of CHF. After the initial state measures, interest rates were limited and the exchange rate fixed. Then, on average, debtors paid 29% higher rate than planned, but at the same time, had the state not intervened, they would have paid 33% additional annuities. Ultimately, debtors with CHF-related loans aligned with euro-denominated borrowers. After conversion of loans indexed to the CHF in loans tied to the euro, debtors are paying around 18% higher rate than initially planned, and about 9.5% lower rate compared to the last instalment.

5.6 Business Operations Comparison and Future Perspectives

With respect to the period of the end of the credit expansion, during the third stage the profit of banks was substantially reduced. This is apparent from Table 5.2. The bank’s operating results for the last two years even deteriorated due to the unlocked lending cycle, i.e. the absence of interest income, and on the other hand, the effect of the cost of conversion and last, write-off of Agrokor’s claims and all other bad placements caused by the corporation hardships.

Also, from low profitability it can be concluded that the banks in the Republic of Croatia did not achieve a significant long-term profit position in the balance sheet due to the strengthening of CHF. This indicates that the banks hedged foreign exchange risk by derivatives and opening a

Table 5.2 Profitability of the banking system in the Republic of Croatia, the third stage

Item	Year		
	2008	2013	2014
Net profit (million HRK)	4.612,5	477,6	1.534,6
Capital (million HRK)	49.927,1	55.491,8	55.519,9
Assets (million HRK)	370.092,9	397.863,7	395.237,7
ROE	9,2%	0,9%	2,8%
ROA	1,2%	0,1%	0,4%

Source Proper design according to the CNB Banks Bulletin, number 18 (2009), 27 (2014), 28 (2015)

short position, but this measure did not exclude that the banks precisely had taken up a long position in derivative contracts. The case tied to CHF is not over yet, as the banks initiated arbitration proceedings. The basis for the arbitration proceedings is that it is evident that the banks' branches operating in the Republic of Croatia did not achieve additional earnings on foreign exchange differences due to the appreciation of the CHF exchange rate. Also, additional earnings by banks on the basis of higher interest rates income are constrained by the legislator. In the whole situation, the only doubt remains whether the mother banks ultimately made a profit on CHF appreciation or not. It is clear that mother banks were most often the other contracting parties in forward contracts. Banks in the Republic of Croatia gained on the so-called "spot contracts", i.e. in the lending process, but lost on forward contracts. It is clear that mother banks have made a profit on forward contracts. The main question remains to what extent the mother banks speculated on forward positions, and to what extent they hedged their currency risk arising from the sources of funds deposited in CHF, i.e. to what extent foreign banks adjusted the bank assets in the Republic of Croatia to the liabilities in the countries of origin. Still, this does not exclude the banks' initial responsibility for their incurred problem.

The fact is that the banking system remained stable and liquid in the crisis despite the reduction in the banks' lending activity, and thus they decreased interest income and significant provisions and write-offs pursuant to the so-called bad placements. Nevertheless, it is necessary

to make a distinction between the various banks forming the banking system in the Republic of Croatia. The fact is that the banking system in the Republic of Croatia is dominated by large foreign-owned banks. These banks remained the most stable during the crisis. The effect of the problematic claims rises and the lending halt affected even large foreign-owned banks, but not as nearly as smaller banks, especially those domestically owned. During the third stage, cases of Credo Banka, Centar Banka and NAVA Banka bankruptcy openings were recorded, and major difficulties were reported in Karlovačka banka (Bank of Karlovac) and Hrvatska poštanska banka (Croatian Postal Bank). It can be stated that small, domestic-owned banks lost market competition vis-à-vis foreign banks. Foreign banks, greater or smaller, are more efficient, have cheaper sources of financing, and inspire more confidence to the clients, despite their actual controversial role played in the development of the Republic of Croatia.

The privatization of the banking system attributed more stability and grounds for the economic growth of the Republic of Croatia. However, it is clear that investors in the banking business in the Republic of Croatia have invested to conquer as much of the market share and profit as possible, and not for the interest of the Republic of Croatia and its entities. The fact is that the banks' business operations in the Republic of Croatia were aimed at reaching short-term profit targets at the expense of the clients and the economy of the Republic of Croatia. By leveraging credit expansion and approving loans without economic sense, banks have contributed to the artificial growth of the economy based on consumption. For this reason, banks are partly responsible for the depth of the crisis that struck the Republic of Croatia. Furthermore, by approving loans with a currency clause in CHF and by crediting at administrative interest rates, banks abused the lack of legal regulation, inferiority of the regulatory body and ignorance of clients. It is clear that the banks in this way knowingly endangered the clients and proved to be socially irresponsible.

Nevertheless, the previously described banking activities were reflected in the long run in the profitability of the banks themselves and the confidence of clients, particularly the debtors to the bank. Underestimation of credit risk during the credit expansion period resulted in a high share

of bad placements during the crisis. Also, the legislator in the Republic of Croatia transferred to banks a part of the client's losses incurred due to the appreciation of CHF; the notion of variable interest rate is clearly defined by new legal provisions.

Ultimately, the question of the future of the banking system in the Republic of Croatia can be raised! Foreign banks already have sufficient inexpensive sources of funds, and banks, as well as any private company, strive to achieve a better business result. For this reason, it is unlikely that the future entry of the Republic of Croatia into EMU, by itself, will result in better lending conditions for entities in the Croatian economy. In the opinion of the authors, the banks will have to change their approach, above all, due to the distrust of clients in the bank and therefore the potential decline in the use of bank services in the future. The negotiating power of bank clients is still extremely low due to high customer indebtedness and because the banking system is concentrated, and the financial system is bank centric. However, the customer protection is now greater. Also, subjects in the economy today are financially much more experienced, and therefore more cautious. Most domestic market participants became aware of the expensive loans burden, which in the future would result in more cautious entry into loan arrangements. Until now, banks operating in the Republic of Croatia have not pondered that their long-term viability is possible only with a stable and profitable economic system. Banks did not portray themselves as socially responsible, not only because of everything so far described, but also because of the fact that they did not start solving problems, nor have they made their contribution so far in the context of economic recovery of the country. If the banks want to be profitable and have more stable business conditions in a long-term, they will have to become partners of their clients and stop being just financial services vendors. Otherwise, neither the economy will have long-term interest in cooperating with banks. Thus, it is the last moment for banks to change their relationship with their clients and align their goals with the community, i.e. to become the socially responsible businesses, especially in the domain of business ethics, a pattern that the bank's management structures will follow in order to secure stable, prospective and profitable bank's business, i.e. sustainable in the long run.

5.7 Conclusions

The conventional wisdom says that the banks are companies to which profit and self-interests should not be the primary goal, but even the banks are companies owned by shareholders who are investors like everyone else. Practice shows that the primary goal of each investor is to achieve the highest possible return. For this reason, the management of banks, which is responsible to shareholders, is striving to maximize profit and minimize risk. It is true that banks lend in their own interest to fulfil their plans, taking account of banking risks. However, given that the banking business is based on trust between banks and clients, which points to the importance of the relationship and not so much the offer itself, when establishing cooperation, banking operations must inevitably be based on equity and partnership with clients. That is why the socially responsible business is the model that the bank's management structures should pursue in order for the bank's business to be stable, prospective and profitable, i.e. sustainable in the long term.

Considering the current banking operations in the Republic of Croatia, the chapter demonstrates that it cannot be truly considered as ethical and essentially socially responsible. It reveals that the banks were continually focussed on profitability or the particular interests of a part of the stakeholders and that in a socially responsible business they have failed to find a way to longevity, i.e. the sustainability of their business affairs.

Banks in the Republic of Croatia will need to, if they want to be profitable and have more stable business conditions, become partners of their clients and cease being just financial services vendors. Banks must become focussed on needs and interests of the clients, and quit manipulating their clients, developing benefits and modelling their conduct in accordance with their own business goals.

Social responsibility needs to be developed as a platform that will prevent through pooling of all stakeholders into a homogenous mass of subjects and individuals, linked through a business and life co-operation model, and thus a utility model for all environmental factors, excluding profitable competition. The allocation of ownership, responsibility, and

risk, through the implementation of interest positions, leads to such relationships that will confirm the balance through relationships with the environment, business results and human potentials. Contrary to this is a neoliberal globalization concept that involves, but also excludes, many participants from sustainability, causing damage to the macroeconomic formation of relationships. The most common outcome of excessive neoliberalism is the emergence of oligopolistic systems that in the long run acquire monopolistic characteristics and can thus directly be considered viable in a short term, but not socially responsible.

The necessity for the ISO 26000: 2010 standard, from the review of the authors, confirms global awareness how generally, business goal of the company is often only profit and short-term focus. There is a particular focus on the finance sector, where many issues are opened such as: trading on the stock exchange, which becomes to a large extent of speculative rather than a long-term investment characteristics, the role of banks in such operations, the stimulation of the creation of financial bubble and the most recent, background of the development of the crypto value. Likewise, the fact that the ISO 26000 standard does not contain requirements, but guidelines, shows how much, unfortunately, social responsibility is still an elusive goal.

Ultimately, it can be concluded that the concentration of capital, both on the banking system and on the external entity sides, has led to a “stalemate” position where the parties are polarized into their own zones; tacitly, they permanently form remote alliances in a short-term viable manner, or metaphorically speaking they behave “like trade unions” and seek changes, but without compromising their complete execution, which would render their own persistence questionable.³⁹ Sustainability has thus become a trend involving socially responsible conduct as a variable to achieve profitable goals, as previously mentioned, only in the function of marketing.

³⁹Op.cit. Prohaska, Z., Peša, A., & Lukavac, M. (2017).

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6

Quality of Life, Sustainable Development and Social Responsibility of Business in the Qualitological Aspect

Ewa Więcek-Janka and Dorota Jaźwińska

6.1 Introduction

Qualitology is a science of quality whose general goal is to create a scientific basis for qualitative cognition and qualitative shaping by man of his surrounding reality (Mantura 2010, pp. 21, 38). Sustainable development is an idea,¹ the fulfillment of principles (guidelines) of which should lead to an increased quality of life. This is due to the equivalent implementation of economic, social and environmental goals. Assumptions of the concept of sustainable development are concerned with the

¹In reference to *sustainable development* the following terms are used: concept, strategy.

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rational use of resources, in particular natural resources, prevention of environmental pollution and with equalization of development opportunities for various social groups, as well as decent living conditions. Sustainable development should become a key aspect of business entities. The aim of the chapter is to present the criteria of qualitology in the concept of balanced and sustainable development and to propose indicators of quality of life (health care).

6.2 Qualitology—The Science of Quality

Qualitology as an interdisciplinary field of knowledge, dealing with all issues related to quality (Kolman 2009, p. 31); it contains its own subsystems covering specific concepts, hypotheses, assertions, methodological actions and bibliographic descriptions (Kolman 2009, p. 48). The term *qualitology* comes from the Latin word *qualitas* meaning quality and the Greek word *logos*—science (Kolman 2009, p. 48).

Quality categories are a material in the creation of information images of any elements of reality. At the same time, they serve to explain images (Hamrol and Mantura 2002, p. 53). Hence, new possibilities appear before qualitology, different from the current, fragmentary applications seeking to be mainly used as utilitarian applications (Hamrol and Mantura 2002, p. 53). The overriding function of qualitology is the informational function. It involves the creation and appropriate allocation of informational image models to individual components of reality. These models are created in cognitive processes taking into account the available information (informational cognitive function) as well as during the creation of new processes and objects (creative function) (Hamrol and Mantura 2002, p. 54).

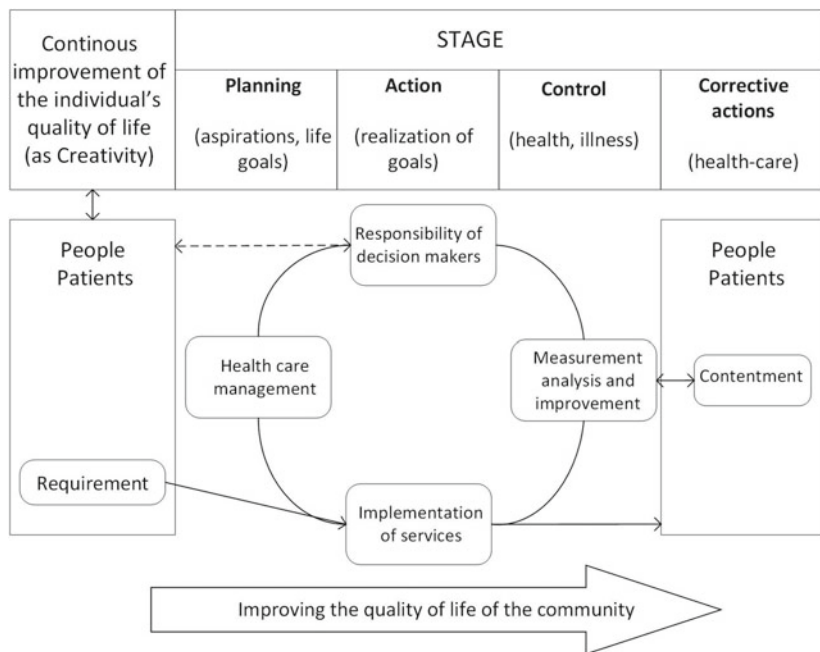
One of the aspects of qualitology is human life, described as “*a set of constant qualitative changes*” (Kolman 2009, p. 141). The quality of life is defined by Kolman as the functioning of the living human body, the degree of satisfaction of the individual’s life needs (material and spiritual) and of the whole society. The quality of life can be interpreted as a degree of meeting the requirements for improving society (Kolman 2009, p. 142). Whereas according to Mantura, the quality of human

life is described by a set of features belonging to the process of the existence of a person or a set of persons (Mantura 2010, p. 166). Skrzypek complements the above features with elements related to creativity (2001, p. 1).

Kolman distinguishes six spheres (he recognizes them as components) of the quality of life: mental, somatic, habitat, family, functional and environmental (Kolman 2013, p. 154). Among the factors shaping the quality of somatic life, the effects of constructive and destructive qualitative changes are distinguished. Amongst the former ones Kolman lists good health, no ailments and allergies, very good eyesight, physical condition (an athletic man). Destructive factors include annoying diseases, allergies, ailments (e.g. gastric complaints), use of glasses, lack of physical fitness (a frail man). The state of human health significantly affects the quality of his/her life. The distinguished basic life needs for the sphere of somatic life include proper nutrition, clothing, shelter, safety, resources (upkeep), care for good health, development, knowledge, relaxation, communication (telephone), visual and acoustic experiences (Kolman 2013, p. 163).

The quality of life can be presented taking into account the somatic aspects according to the model of quality management system included in the PN-EN ISO 9000 standard (cf. Fig. 6.1). This model is used to shape the reality and collect information about its state, in order to further improve the relationship between humans and the environment in which they play a significant role. According to Mantura, shaping the quality of management manifests itself in the appropriate project quality of management, followed by effective implementation and permanent improvement (Mantura 2010, p. 169). Mantura emphasizes that the category of quality of life is of great importance as a general frame of reference for considering everything related to the human being (Mantura 2010, p. 168). Hence the formulation of the paradigm of the supremacy of the quality of life in all human activity is easily justified and refers to the cognition and deliberate modelling of the environment in the process of satisfying human needs (Mantura 2010, p. 168).

According to the presented model, the individual's health should contribute to the increase in the quality of life (its improvement), apart



Notations:

- Activities with added value
- - - - - Flow of information

Fig. 6.1 Model of the quality of life management system—somatic aspects (Source Own elaboration, based on Kolman [2009, p. 191])

from other factors affecting its quality. Self-improvement of the individual and, if necessary, corrective actions concerning health (medical care) influence, as can be inferred, the quality of life of the community, as illustrated in Fig. 6.1. Mantura mentions that management (of an organization) is a complex entity, the quality of which should be designed, implemented, researched, diagnosed, analyzed, controlled, evaluated, verified and improved (Mantura 2010, p. 168).

6.3 Increase in the Quality of Life

6.3.1 Sustainable Development and Increase in the Quality of Life

The premise for creating the principles of sustainable development was the deteriorating condition of the natural environment, depletion of natural resources and uneven development of societies (Bartkowiak 2008, p. 13). In 1972 (UN Conference in Stockholm), the concept of sustainable development was used. According to Piontek, the essence of sustainable development is to ensure long-term improvement of the quality of life of the present and future generations. This goal is achieved through appropriate proportions between economic, natural and human capital. Sustainable development is based on appropriately shaped structures; one of its elements is the natural environment, while the integrating criterion is the quality of life (Piontek 2002, p. 27). In 1992, the Declaration on Environment and Development was adopted at the UN Global Conference in Rio de Janeiro. The declaration contains 27 principles; one of them proclaims: “Human beings are at the center of attention in the course of sustainable development. They are entitled to healthy and efficient living in harmony with nature” and “in order to achieve sustainable development and high quality of life for all people, states should reduce and eliminate unsustainable structures of production and consumption and promote a proper demographic policy” (Bartkowiak 2008, pp. 27, 28). The first mentioned principle coincides with the considerations of Mantura, who points to the role of human as the subject of cognition and the perpetrator of changes in the reality in whose structure *homo sapiens* occupies a central position—anthropocentric approach. In addition, as Mantura concludes, “the position of humans results from their phenomenal qualities”, which are, among others, features such as: perception, memory, imagination, thinking, creativity, intelligence and predictive ability. Mantura adds that “in terms of process, human quality is determined by the quality of life” (Mantura 2010, p. 32).

The next document from 2010, the economic strategy for Europe (Europe 2020), puts forward the need for the so-called intelligent development, or activities leading to the increase of the role of knowledge and innovation, which in the future are to be the driving force of the development. These activities consist in improving the quality of education, intensifying research activities, fostering the diffusion of innovation and knowledge in the EU Member States and the rational use of information and communication technologies (Janasz and Koziół-Nadolna 2011, p. 18). Mantura formulated the thesis, according to which the progress of civilization and the increase in the quality of human life is determined by qualitative progress, and this depends on the development of quality (Mantura 2010, p. 18).

One of the manifestations of the implementation of the idea of sustainable development in the social aspect is the implementation of the *Corporate Social Responsibility* (CSR) concept by enterprises, which consists of a set of activities that protect and strengthen the societies in which they operate (Matejun 2011, p. 263). Many CSR definitions are available, which relate to several dimensions: stakeholders, economics, environment, social, voluntariness (Dahlsrud 2008, p. 7—This is before ISO 26000 by ISO, 2010). According to Dahlsrud, the definitions of CSR describe the phenomenon, but they do not provide any guidance on how to manage this concept. The challenge for companies is therefore not to define CSR, but to define how to develop a company according to the specificity of the concept (Dahlsrud 2008, p. 7). Carroll explains that it is important to define the types of duties and business management, which creates a framework for understanding the company's developmental character in the economic, social, legal, ethical, and charitable aspects. The company should be obliged to comply with the law, be ethical and a good citizen (Carroll 1991, pp. 47–48). The CSR concept in this context can be successfully implemented both in the family and in its business activities, creating added value thanks to the synergy effect. Porter and Kramer (2011) in their concept of *Creating Shared Value* (CSV) pointed out the need to combine the success of the company with social progress. Shared value (of the business and community) is a new way to achieve economic success (Porter and Kramer 2011, p. 4).

Companies create economic value while creating social value. There are three different ways to achieve this goal: transforming products and markets, redefining performance in the value chain, creating local clusters. Each of these goals is a part of creating shared value. Improvement of value in one place causes the possibility of growth in others (Porter and Kramer 2011, p. 7). The consequence of Porter and Kramer's postulate to redefine the priceless paradigm and the concept of value management associated with it is to redefine the basic goal of the enterprise in order to create common value. As a consequence, the concept of value management evolves towards the concept of sustainable value based management. It boils down to several theses: value management, the concept of social responsibility and the concept of sustainable development (Jaki 2016, p. 14). In 2016, the authors of the chapter carried out a diagnosis of the state of implementation of sustainable development postulates in Polish enterprises, taking into account the differences in declarations between men and women. The research sample included 151 enterprises (sample selection—quota sampling with retaining shares of the size, age and geographic location of the enterprise). See Fig. 6.2.

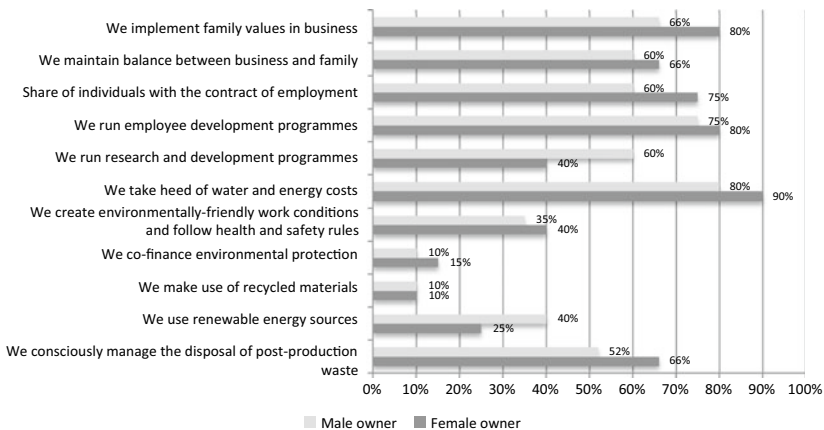


Fig. 6.2 Results of family business owners' declarations relating to behavior connected with sustainable development ($n = 151$) (Source Więcek-Janka et al. [2017])

Analysis of the conclusions enabled identification of differences in the declarations of business owners by gender, as illustrated in Fig. 6.2. The data indicates a part of behavioral patterns consistent with the principles of sustainable development regardless of gender, e.g. the use of raw materials from recycling, financing environmental protection activities, caring for the development of employees and the use of work measures consistent with health and safety rules. There were also differences, which are summarized in Table 6.1, indicating the predominant answers (containing differences in indications above 5%).

Social development can be considered taking into account the hierarchy of needs of Maslow, who lists, as the basic ones, the needs of the first order: physiological and security, and second-order needs: belongingness, respect and self-fulfillment (Daft 2014, p. 231). The main aspect that gives humans the opportunity to meet specific needs are finances. Financial resources *per capita* and their appropriate allocation should contribute to ensuring an increase in the quality of life. In this respect, economic education (managing financial resources—investing in tangible and intangible resources), ecological education (preventing degradation of the natural environment, healthy lifestyle), and social education (shaping social relations, professed values) become helpful. The acquired income should allow humans not only to meet physiological needs, but also those related to the sense of security, which is, if necessary, medical help understood by the authors of the chapter, as access to medical specialists, medicines and the effectiveness of treatment.

Table 6.1 Differences identified in the implementation of sustainable development postulates among family business male and female owners ($n = 151$)

Female owners	Male owners
Transfer family values into business	Conduct research and development activity
Introduce balance between business and family	Make use of renewable energy sources
Offer a contract of employment	
Manage energy generation costs	
Effect a conscious disposal of waste	

Source Więcek-Janka et al. (2017)

As rightly noted by Piontek, the concept of quality of life is related to its level, the determination of which consists in measuring the quality of life—prosperity. On the other hand, prosperity is understood in the material and consumption dimension (Piontek 2002, pp. 87–88); it is a pursuit of quantity and, according to the authors of the chapter, a great simplification of the concept of quality of life. Hence the importance of *qualitology* from the point of view of various elements of human reality appears to be essential. According to Mantura, the general purpose of applying a qualitative approach is to improve all human relations with reality, which should lead to a more complete knowledge of it and deliberate, effective changes (Mantura 2010, p. 104). It may be added (drawing on Mantura) that the quality effects are first of all the result of management processes and then production, hence the role of decision-makers who bear responsibility for quality and quantitative results becomes important (Mantura 2010, pp. 16–17) in every sphere of action.

Measuring the quality of life is a multifaceted problem requiring the integration of many fields directly related to the lives of individuals and communities. The category of quality of life includes basically two dimensions—the entirety of objective conditions and subjective prosperity. The first one includes material living conditions, health, education, economic activity, free time and social relations, economic and physical security, the quality of the state and its ability to provide people with basic rights and the quality of infrastructure and the natural environment. The subjective prosperity means the perceived quality of life, i.e. the satisfaction flowing from various aspects of life as a whole, as well as the elements related to the emotional states and the system of values directly experienced by members of society.

6.3.2 Corporate Social Responsibility and Increase in the Quality of Life

Creating quality of life is associated with responsibility for the effects of activities that should serve groups of stakeholders, not only owners or shareholders of enterprises interested in the operation of a given

economic entity. In the 1950s in the United States, the concept of *Corporate Social Responsibility* (CSR) appeared in the literature referring to activities that are desirable in terms of creating value for society. According to Jewett and Ennis (Jaźwińska 2017, p. 102) the ecological integration is a valuable orientation in the decision making process, based on the assumption that each individual is a unique entity seeking personal integration in a changing environment and has an impact on maintaining the biological and sociological balance. The features that distinguish the ecological approach (Jaźwińska 2017, p. 102) are: (1) personal search for meaning; (2) the assumption that personal meaning can be achieved by integrating social and natural environments; (3) a commitment to keep balance between individual and social needs; and (4) orientation for future events. In addition to the ecological area, the elements included in the CSR concept include the social, economic and ethical area and human rights. They concerns into business operations and core strategy in close collaboration with stakeholders. The definition emphasizes the importance of core business strategy, the creation of shared value, and explicit recognition of human rights and ethical considerations, in parallel with environmental and consumer considerations, but especially the welfare of the key stakeholders in the business, particularly employees (Macassa et al. 2017, p. 1). According to the ISO 26000 standard (*Guidance on Social Responsibility*; ISO 26000:2010) social responsibility is understood as the responsibility of the organization for the effects of decisions and actions taken towards society and the environment. ISO 26000 says about recent trends in social responsibility: “The global nature of some environmental and health issues, recognition of worldwide responsibility for combating poverty, growing financial and economic interdependence and more geographically dispersed value chains mean that matters relevant to an organization may extend well beyond those existing in the immediate area in which the organization is located. It is important that organizations address social responsibility irrespective of social or economic circumstances. Instruments such as the Rio Declaration on Environment and Development” (ISO 26000: 2010, p. 5). ISO 26000 ISO draws attention to the principles that should be followed in CSR practices regarding consumer needs. It includes seven legitimate needs: safety, being informed, making choices, being heard,

redness, education and healthy environment (ISO 26000:2010, p. 53). Responsibility is realized by ethical behaviors that contribute, among others, to sustainable development, health and social prosperity (Hąbek 2009, p. 72; Hinson et al. 2017, p. 2). According to Roche (2016, p. 15) CSR is the way a business truly operates, e.x. how a company rewards people and the decisions it makes on the type of products and services it acquires or produces. It also the business partners and suppliers it chooses to work with, the way it manufactures, packages, transports and markets products and services, relationships with local authorities, neighbours and local communities, in all of these decisions responsible business practice needs to be at the core. CSR is of increasing importance for multinational pharmaceutical firms yet understanding of the array of CSR strategies employed and their effects is nascent. Droppert and Bennett's study points to the need to develop clearer and more standardized definitions of CSR in global health, strengthen indices to track CSR strategies and their public health effects in developing countries and undertake more country level studies that investigate how CSR engages with national health systems (Droppert and Bennett 2015, p. 1). CSR. The effect of the implementation of both the concept of social responsibility and the concept of sustainable development should be an increase in the quality of life in social and individual dimensions (Jaźwińska 2016, p. 157). Figure 6.3 shows the synergy effect obtained by effective implementation of the CSR and SD concepts in relation to the quality of life (somatic sphere).

By controlling the impact on the environment (environment) and taking responsible decisions, including consideration of interdependence

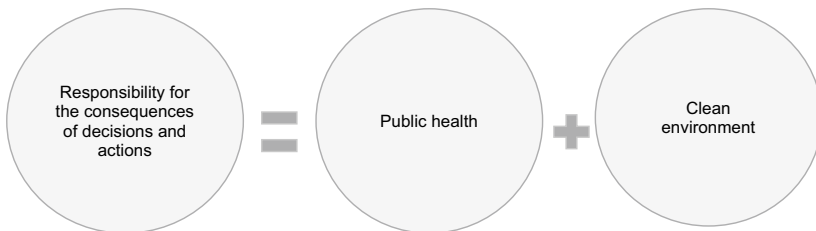


Fig. 6.3 Quality of life in the context of the concept of corporate social responsibility (CSR) and sustainable development (SD) (Source Own elaboration)

and holistic approach, decision-makers (organizations) contribute to maintaining balance in ecosystems, which is also important for human health of the population.

6.4 Work-Life Balance as a Response to the Postulates of Sustainable Development and Corporate Social Responsibility

The survival and development of an enterprise is one of the over-reaching goals. In a utilitarian perspective, it boils down to maintaining, through the appropriate shaping of relations, the state of balance on the organization-environment line (Przychodzeń 2013, p. 16). Partial equilibria are important: functional, material-technical, and social. Maximizing the added value is associated with obtaining by the company social acceptance of the carried-out activities. The problem concerns the acceptance of the way the company functions by the social external environment of the company as well as the internal one (employees). It is connected with satisfying the expectations and aspirations of both groups of stakeholders (Przychodzeń 2013, p. 16). Factors that stimulate employees to engage in work are related to, among others, necessary information, competences and methods of action (Skrzypek 2001, p. 3). Skrzypek (2001, pp. 3–4) also lists factors illustrating dissatisfaction with work:

- Material working conditions;
- Threat to health or even life;
- The pace of work that is not adjusted to the employee's ability;
- Inadequate workplace atmosphere;
- Inadequate communication;
- Lack of participative management.

Quality of life defines the chain of dependencies: idea-information-analysis of the possibilities-action-checking of results. An important

factor is to access and manage information. Quality is also a set of features that directly affect the satisfaction of needs—a definition put forward by the American Society for Quality Control (Skrzypek 2001, p. 4). The needs of the employer and employees, although often different in an individual sense, may or rather should coincide with the goals of a given enterprise (organization). The key element is information about mutual needs, preferences and possibilities to meet them.

When discussing the balance related to the company, it is impossible to ignore issues related to work-life balance. According to C. Kirchmeyer, work-life balance means an even distribution of time, energy and involvement in various areas of life in such a way as to derive satisfaction from it (Robak 2016, p. 185). The balance understood in this way means that professional work does not affect private life and vice versa, non-professional life does not happen at the expense of work (Robak 2016, p. 184). The search for balance between private and professional life refers to the employees having an impact on the amount of time they devote to their professional and personal life. Robak indicates that this type of autonomy concerns the issue of quality of life and the promotion of quality and working conditions. In relation to the employer, this means social responsibility towards employees (Robak 2016, p. 185). These are socially responsible activities embedded within the framework of the idea of sustainable development. The application of good practices in the case of work-life balance should lead to satisfaction of both stakeholders: employees and employers (Robak 2016, p. 185). From the point of view of quality of life, work-life balance makes it possible to meet basic needs for the somatic sphere (health). The employee has the opportunity to regenerate his/her strength by resting, relaxing, organizing the mind, rational sleep, maintaining physical fitness (gymnastics, sports), and rest (the way and time of rest) (Kolman 2009, pp. 163–166). It can be concluded that the implementation of these activities leads to the maintenance of vitality in good condition, which in effect should translate into professional efficiency, and as a result meet the postulate of quality of life.

6.5 Indicators of Quality of Life— Somatic Functions

In the considerations regarding sustainable development, it is impossible to omit indicators that are as important for the quality of life as those that concern health. Interest in the problem of health in relation to the quality of life can be seen in numerous publications, e.g. Calman (1984), Gill and Ferstein (1994), Schwimmer et al. (2003), Skevington et al. (2004), Fayers and Machin (2007), Topór-Mądry (2011), and Klos (2014).

In the list of sustainable development indicators for Poland, in the social order, public health indicators have been listed: the expected life expectancy of people aged 65 in good health; standardized mortality rates for cardiovascular diseases, malignant tumors, chronic lower respiratory tract diseases and diabetes; Euro Health Consumer Index EHCI; exposure of urban population to the excessive impact of PM10 dust; and exposure of urban population to air contaminated by ozone (Żurek 2015, p. 54).

In relation to the sphere of somatic life, an important aspect is the protection of health and assistance in the health conditions that are unfavorable for man (Campbell et al. 2002). In the analyzed indicators of sustainable development there is a lack of those, according to the authors, which, while describing the quality of life, would take into account the state of health care and access to medical assistance. The publication proposes to include indicators that will supplement the knowledge about the quality of medical services in the aspect of increasing the quality of life. At the same time, they should be used to skillfully shape the reality in which a person functions and which should be friendly to every social unit, especially when it is influenced by humans (decision-making, investment and preventive processes)—a creative function. This process has been accentuated in Fig. 6.1.

The authors suggest taking into account quantitative indicators regarding health protection in the discussed aspect of the quality of life, e.g.:

- Access to medical specialists understood as the time of waiting for medical consultation;

- Quality of services with particular emphasis on material resources, equipment in consulting rooms, medical practices, hospitals;
- Access to medicines and especially their prices *versus* financial resources of various social groups (working people, the unemployed, pensioners);
- Health care understood as the number of medical staff (remuneration, number of patients per physician, e.g. GP).

With regard to postulated conditions, data on the above aspects should be the answer to whether the increase in the quality of life in this respect is realized. According to the authors of the chapter, it is difficult to talk about sustainable development and, consequently, high quality of life, when the waiting time for the help of a medical specialist is several months.

As it has been shown above, it is important to include indicators illustrating the state of health, which is more and more often reported by global organizations. An example illustrating the implementation of the first of the postulated indicators is data of Watch Health Care Foundation included in the 2017 Barometer (on changes in the availability of guaranteed health services). They indicate how much time Polish patients, both adults and children, need to devote in order to take advantage of the advice of a specialist. The average waiting time for health services in Poland is 3 months.

Specialists and scientists point to the dangers of this state of affairs. Dr. Paweł Grzesiowski (pediatrician in the Center for Preventive Medicine and Rehabilitation in Warsaw), commented on the Watch Health Care Foundation report in the following way: “The limited access to neonatology and specialist services in the field of neurology, ophthalmology and cardiology is a particularly unfavorable phenomenon. Several-month waiting for a specialist consultation in these areas may lead to irreversible changes in the infant’s body, especially in the premature baby’s body” (WHC 2017). A similar opinion was expressed by Tomasz Pęcherz—President of the Watch Health Care Foundation, who explained that “such a long waiting time for specialist help is proven to be harmful to health and delays in obtaining access by children to health care can have all the more serious consequences because of their development”

(WHC 2017). The extended waiting time for children and infants for medical treatment and consultations destabilizes the functioning of not only the child and parents but also the whole family (and in turn adults' jobs), which involves energy and time to speed up the child's treatment, because all adult attention is directed at minimizing the damage caused by the disease.

The negative trend in the access to health services has been maintained since the beginning of the monitoring of queues by the WHC in 2012. Polish patients encounter long queues both in the case of a visit to a specialist, basic diagnostic test or specialist procedure. Table 6.2 shows the waiting times for consultations and specialist treatment.

The postulate concerning quality in health care includes the effective organization of medical, personnel, infrastructure and financial resources. This means actions aimed at satisfying social needs in the field of prevention, health promotion, diagnostics, treatment and rehabilitation, and guaranteeing that this care meets the requirements of safety, efficiency and reliability.

Table 6.2 The waiting time for consultations and treatment in public health care units in Poland

Consultations/Procedures	Waiting time in months
Paediatric cardiology	3
Paediatric urology	2.9
Paediatric neurology	2.5
Paediatric surgery	1.4
Paediatrics	1.4
Neonatology	0.3
Orthopaedics	11.2
Geriatrics	7.1
Angiology	9
Rheumatology	7
Dentistry	7
Endocrinology	9.4
Orthodontics	9.4
Hepatology	5.7
Knee replacement surgery	42.9
Cataract removal surgery	22.4

Source WHC Barometer, from 3 April 2017

Issues related to quality in health care in Poland are included, *inter alia*, in laws, regulations and ordinances. Depending on the issues, these will include, in particular: regulations on medical activities (including detailed requirements that should be met by facilities and equipment of the entity performing medical activities), on health care services financed from public funds (including guaranteed benefits), on reimbursement of medicines, foodstuffs for special nutritional purposes, and medical products, and the State Emergency Medical Services. The quality of health care services provided includes in particular:

- Standards regarding the premises (building) conditions, i.e. the minimum standards that must be met by rooms in order to be able to provide services in a given area;
- Standards of medical equipment and apparatus in relation to the type of services provided—these are the requirements applicable to entities applying for a contract for providing health care services with the National Health Fund and required for the provision of guaranteed services;
- Standards for medical personnel relating to the minimum qualifications of staff and employment norms.

The issue of quality in health care is regulated by the provisions of the Act on Accreditation in Health Care, which entered into force on June 5, 2009.²

One of the aspects of quality assurance in health care is care for a high level of qualifications and professional competence. Employees of the Polish health service, despite high qualifications, earn much less than their colleagues in the European Union. This is all the more worrying that one physician in Poland is available per 454 inhabitants, while in

²It defines the rules and procedure for granting accreditation, which is to confirm whether the entity providing health services meets the standards for proper provision of health care and functioning of this entity. The accreditation review concerns the entity as a whole—the entire spectrum of its activity is assessed. In the case of a hospital, both clinical aspects of its operation as well as management and administration are verified. In Poland, accreditation standards are voluntary. The entity providing medical services decides whether it will meet the accreditation requirements. The Minister of Health grants accreditation for 3 years, based on the recommendation of the Accreditation Council.

Greece per 159 residents (OECD data). In addition, there are currently differences in the remuneration of specialist doctors: in the Netherlands, for example, specialist doctors earn 200,000 Euro each year, 160,000 in Belgium, around 130,000 in Great Britain, and in Poland their salary is around 15,000 Euro.

Remuneration in health care in accordance with the Act on the method of determining the lowest basic salary of employees pursuing medical professions (*Journal of Laws* 2017, item 1473) assumes an increase in wages of 10–20% and determines remuneration for 2021 as a target on the levels presented in Table 6.3.

When considering quality monitoring issues using indicators according to the classic theory of Donabedian (1980), quality should be perceived and measured in three dimensions: structure, process and outcome. The dimensional components are included in Table 6.4.

Structure quality indicators mean in practice the quality of staff education (specializations), access to a specific type of medical equipment, the number of personnel per patient, the number of medical procedures performed annually by a doctor, etc. Structure quality indicators illustrate structural elements of medical centers, which are considered necessary in achieving high results of the quality of care. They indicate the potential of the facility, but not necessarily the effectiveness of its use. Process quality indicators are created on the basis of standards, guidelines for good practices resulting from events, phenomena and activities separated from elements that make up the diagnostic or therapeutic process. They are elements distinguished as part of activities carried out in medical processes and having a very big impact on the effect of health care. The essence of the process quality indicators is to identify the elements and desired actions to be taken in relation to patients with specific health problems.

The resulting quality indicators refer directly to the effects of therapy and are used to measure the success or failure of the applied therapeutic methods. Measurement of the results of activities indicates the level of quality of the services provided. In constructing the result quality indicators, it is necessary to establish the so-called end-point of therapy. A positive example of the end-point may be 5-year survival in cancer therapy, and negative one—death caused by nosocomial infection.

Table 6.3 The average monthly minimum wage in the medical care sector in Poland presented in the national currency and the euro in 2017 and planned in 2021

Positions in the public health service	Min. gross wage (PLN 2017)	Min. net wage (PLN 2017)	Min. net wage (euro 2017)	Min. gross wage (PLN 2021)	Min. net wage (PLN 2021)	Min. net wage (euro 2021)
Specialist doctors	4500	3200	762	6400	4500	1071
Doctors with the 1st degree of specialty	3900	2800	667	5900	4100	1000
Doctors without specialty	3800	2700	643	5300	3700	881
Trainees	2700	2000	476	3700	2600	619
Physiotherapists, pharmacists with a higher education degree	2700	2000	476	3700	2600	619
Nurses with a Master's degree and specialization	3500	2500	595	5300	3700	881
Nurses without a Master's degree with specialization	2800	2000	476	3700	2600	619
Nurses without a Master's degree and without specialization	2400	1800	429	3200	2300	548
Physiotherapists and other employees with secondary education	2500	1800	429	3200	2300	548
Paramedics	2400	1800	429	3200	2300	548

Source Study based on data: Pulanecki 2016, gazetapraca.pl [December 29, 2017] and OJ. 2017, Item 1473; NBP [December 29, 2017]; Ministry of Health in Poland; Medlines.org

Most of the indicators discussed are quantitative, which allows for their objective measurement (Donahue 1995). Unfortunately, there is no homogeneous system of their testing on a European scale, which significantly impedes the comparison of indicators not only of the sphere of somatic quality of life in EU countries. The authors also note that at the

Table 6.4 Quality indicators in health care

Structure indicators	Process indicators	Result indicators
Premises	Nosocomial infections	Time of hospitalization
Medical equipment	Postoperative complications	Disability
Personnel	Rehospitalization	Mortality after treatment
Medicinal products	Responding to health and life risks	5-year survival after cancer therapy
Medical materials	Antibiotic protection	Death caused by nosocomial infections

Source Based on data source available at <http://www.cmj.org.pl/index.php>

national level, these studies are carried out sporadically and often constitute a description of the state. The study of the quality of life within each of the countries with the division into regions, provinces and countries could contribute to a faster development of those who care about the quality of life of their inhabitants.

6.6 Conclusions

Human activity, in which qualatology is applied, can be divided into two spheres of activity: the cognitive sphere, which consists in permanent acquisition of information about reality and development of knowledge about it; and the creative and causative sphere consisting in conceptualizing reality and transforming it—practical activity (Mantura 2013, p. 26). According to Mantura, this division shows the presence of qualitative issues in all spheres of human activity—from theoretical through practical, social and individual, design, manufacturing, cultural, ecological and economic (Mantura 2013, p. 26). The aim of the qualitative approach is to improve the relationship between the human and the reality, which should ensure a more comprehensive knowledge of it and a deliberate, effective change (Mantura 2010, p. 104). Therefore, it is possible to improve the processes used to change the methods of health protection as well as its “repair”. Creating a vision and developing the quality of life requires the knowledge and imagination that Bąbiński expresses according to the equation depicting creativity (Mantura 1994, p. 24):

**Creator = talent + imagination + intelligence + knowledge +
wisdom + experience**

The above equation, although in its original version related to the production system, perfectly defines the way of creating the quality of life. Also in this aspect, you can encounter, among others, resource limitations (e.g. material resources, financial resources, time) as well as requirements and conditions of operation of other elements subject to creation (Mantura 1994, p. 24).

The adduced considerations expressed in pragmatic and axiological terms perfectly fit into the criteria of sustainable development. Creating quality of life by individuals for the community should certainly include elements of quality. Quality postulated *in praxis* can ensure the satisfaction of users of all designed elements, in particular those that affect the quality of life. The balance of work and life is important in sustainable development, which is reflected in respect for workers' rights and meeting the expectations of internal and external stakeholders of an organization. With the increase of interest in the concept of sustainable development, the interest in quality should increase, mainly due to its significant contribution to the implementation of the principles of this concept. The indicators related to human health aspects proposed in the study should help to identify sources of failures affecting the quality of life.

Therefore, there is a need for further considerations and research in the aspect of setting the sustainable development indicators that will help in a significant way to answer the question of whether sustainable development proceeds in the right direction in terms of the human somatic sphere. Humans are and will be the main decision-makers; in reality they have the power to impact. It is important that this is a constructive impact.

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7

Governance and Socially Responsible Behavior in the Local Municipality

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7.1 Introduction

The issues of governance and socially responsible behavior belong to the hot topics in private sector as well as in the public sector. There exist a lot of examples that declare that these modern trends are implemented at all levels of public administration and can be characterized by specific features. Public Governance is a new approach to management in the public sector based on participation and cooperation that is also implemented in the current program and strategic documents of the European Union for the period 2014–2020 (5th Report on Economic, Social and

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Territorial Cohesion, 2020, Territorial Agenda of the European Union 2020) and is supported at all levels of the EU, in particular by the Congress of Local and Regional Authorities and the Committee of the Regions (Council of European Local Municipalities and Regions, 2013).

The chapter defines the relationship between the governance and socially responsible behavior at the local level. Subsequently, we demonstrate the theoretical interconnection of governance and socially responsible behavior by the selected examples of activities in local municipalities in the Slovak Republic. It includes the results of empirical research realized in the form of questionnaire survey in a city district of Bratislava—Rača as a case study. It will be completed by the description of good examples from other municipalities in the Slovak Republic that positively develop relationships with their stakeholders in the municipalities and support the socially responsible behavior of local municipality (participatory budgeting, planning, and community organizing).

In the conclusions, we summarize the main features and links between governance and socially responsible behavior, and provide the key marks reflecting the selected good examples and research results how to strengthen mutually the socially responsible behavior and transparent and reasonable governance at the local level.

7.2 Local Governance and Socially Responsible Behavior

Governance can be defined as implementation of new management tools and measurements; equal sharing of consensual decision-making by representatives of the public, private and non-profit sectors; strengthening citizen participation through new forms (Plüss 2013). Public Governance has developed as an alternative management approach to the New Public Management, which takes into account more appropriately the specificities of public sector organizations (Kickert et al. 1997). The key role belongs to a public authority that creates conditions for the functioning of the governance. It forms a network of governmental, non-governmental and other institutions, mechanisms, processes through which public goods are distributed to entities, and by

which parties can express their needs. It also includes mechanism for building consensus between public and private interests; as well as those that allow the exercising of rights and obligations of all stakeholders in municipalities (Pierre and Peters 2000; UNDP 2009).

With the local level (towns, cities & municipalities) is associated the term—Local Governance. The Local Governance principles are defined by OECD (1999, 2004), World Bank (1991), European Commission (White Paper on Governance, 2001) and UNO (1996) as follows: transparency, efficiency, effectiveness, participation of stakeholders and equality of their needs and interests, sustainability, and safety.

The tools and processes that are preferred by the Local Governance concept are integrated forms of negotiation, communication and creativity within the legal framework and standards that refer to the individualization and flexibility of provided public goods (Peters 2003). Thanks to the governance, the relationship among stakeholders and especially with citizens is no longer seen as a passive transaction. The main features of relationships are partnership and participation that have a direct link with the use of communication, negotiating or marketing tools to develop the relationships to the loyal long-term partnership with stakeholders. The modern local municipality implementing Local Governance should be open, efficient, research the needs, encourage active participation of stakeholders in decision-making bodies of public affairs, and involve them in local community life and in the administration of public affairs.

Like in Local Governance, influencing the relationships with municipal stakeholders is also a main idea of socially responsible behavior implemented by the local municipality, but it is oriented specifically on increasing quality of stakeholders' life. The socially responsible behavior is a part of the corporate social responsibility (CSR) that was introduced by Bowen in 1953. It is an essential part of the management strategy because it has an impact on all areas of the organizational activities, mainly the internal environment, quality and needs of the employees as well as on building the relationships with all subjects of the external environment. Among the key stakeholders of CSR belong the employees of the organization that are responsible for realization of socially responsible activities. These responsible activities include proper employment

policy, employee health care and safety, employee training and certifying, or care about the marginalized groups in the work force. Furthermore, there belong the stakeholders from the organization's environment, especially the community and the local government where an organization is located.

When applying the socially responsible behavior, any institution should rely on valid standards, rules or guidelines for such behavior that are in accordance with the generally accepted and recognized principles of behavior. At present the main standard that regulates the issue of socially responsible behavior in the Slovak Republic is STN ISO 26000. However, it is not legally binding and its use is voluntary. The basic characteristic of social responsibility is the organization's willingness to implement environmental and social aspects into its decision-making, to be responsible for the impact of its decisions and activities on society and the environment. This approach includes ethical and transparent behavior; while contributing to sustainable development, it complies with valid legislation and international standards of behavior. According to the standard the term organization is not only a business, but any organization, non-governmental organizations included.

The standard STN ISO 26000 (2011) sets out seven principles of corporate responsibility, which are:

1. Corporate responsibility for waste and the environment;
2. Corporate transparency in its decisions and activities;
3. The principle of ethical behavior suggests the organization to behave ethically under any circumstances;
4. The principle of all stake-holders suggests the organization to respect and accept all the interests of stakeholders;
5. The rule of law or respecting the legal state and its legislative;
6. The principle of international standards and behavior norms;
7. The principle of human rights, which suggest the organization to accept universality and importance of the human rights.

The main objective of socially responsible behavior of public administration is to assist in areas that nowadays help and support, such as environment, minority groups, people with disabilities, employees, etc.

Promoting social responsibility in organizations creates new and better relationships in the business community, state authorities, local government organizations, non-governmental organizations, representatives of citizens and citizens themselves.

The application of the principles of socially responsible behavior in local municipality can be considered as a form of politeness promoted in public affairs, since some responsibility for the overall country and community development is provided by local government bodies as set out in the legislation. However, it is only the minimum level that one must increase in line with the needs of all stakeholders.

In the municipal environment, the concept of socially responsible behavior of self-government is perceived as a “new approach to improving the management of self-government” (Jařudřová 2011, p. 14). Municipality requires from its services credibility, openness, accountability, transparency, courage to make decisions for the public good, to work with everyone inside and outside the organization, to improve the services provided and, last but not least, to get as close as possible to the citizen. The goal of responsible behavior is meeting these requirements.

The definition of CSR in the local municipality, as well as definition of stakeholders intertwines with the theory of Local Governance. Both theories implement the same principles, such as credibility, openness, accountability, transparency, effectiveness, public participation etc., which are met through developing relationships with the stakeholders, mainly with citizens, own employees, local companies, members of the local parliament. The local government (mayor) is a main implementer of the Local Governance and CSR. We can understand the Local Governance as a concept of public management, which includes CSR.

The philosophy of the social responsibility concept in the environment of public administration and municipality is based on the assumption that no office exists in economic context only, but affects the whole environment, the community, the social situation of employees, civil servants and citizens so called stakeholders. The relationship is mutual, as stakeholders influence the success of the office (Jařudřová 2011).

The concept of social responsibility stands on three main pillars identified by the triple-bottom-line method, which describes the activities and functioning of socially responsible organizations in the economic,

social and environmental spheres. The concept of triple-bottom line is often referred to as „3P“:—Profit, which represents the economic area; People—representing the social sphere; Planet as the environmental area (Pavlík and Belcík 2010; Kuldová 2010; Čierna 2008).

In the case of efficient management, all three areas must form an integrated unit. The economic area includes mainly activities supporting the principle of good governance, the principle of transparency, the quality and safety of products and services, product innovation and sustainability, good relations with customers, investors, suppliers and customers. In other words, e.g. anti-corruption measures, complaint handling, citizen satisfaction assessment, debt-free management, transparent procedures, code of ethics, quality management, etc. The social sphere of CSR “gives precedence to the balance of economic power in society. The purpose of the activities in the social sphere is to increase the quality of life for stakeholders, according to the principles of sustainable development” (Čierna 2008). The most important activities in the social sphere include health and safety of their employees, high-quality employment policy, education and retraining, employing people with a deteriorated position on the labor market, accepting the principle of equal opportunities and diversity at the workplace. Philanthropy and volunteering are specific activities of the organizations within the social sphere. It is mainly a responsible approach of the organization to its employees, investing in human resources, health, safety at work, but also to the local community with the effort to actively contribute to solving social problems, to involve it in decision-making, implementing of projects etc.

The last area is the environmental area that is key to a healthy environment and sustainable development. In the environmental sphere, a socially responsible organization should primarily monitor the activities for the introduction of an ecological culture, i.e. internal measures and implementing external measures in relation to the external environment. Other organizational activities in this area are aimed at reducing negative environmental and community impacts, ecological production, environmentally friendly products and services, and monitoring the environmental impact of the organization. In local municipality we can include, for example, waste sorting, recycling, environmental awareness,

protection of green areas, environmentally friendly public transport, alternative energy sources, etc.

The acceptance of the concept of social responsibility in any organization is primarily a long-term investment in the overall development of the organization. Organizations that have adopted the principles and applied the principles of corporate social responsibility in their management, contribute to the creation of new positive trends, new opportunities for innovations, and generally influence their environment credibly.

7.3 Examples of Socially Responsible Behavior in Local Municipalities

Although, there is still a lack of data for identification of the level of social responsibility implementation (Blam et al. 2016), the third subchapter is devoted to the practical demonstration of the governance and socially responsible behavior on examples of the selected local municipalities in the Slovak Republic. The first subchapter presents the results of empirical research on the socially responsible behavior in municipality Rača—one of the Bratislava city district, in the Slovak Republic. Then we describe the examples of participatory activities realized in the local municipalities in the Slovak Republic that positively influence the relationships with the stakeholders and can be defined as tools of Local Governance as well as socially responsible behavior (participatory budgeting, planning, and community organizing).

7.3.1 Socially Responsible Behavior of the Bratislava City District Rača

Rača is a city district of the capital of the Slovak Republic, Bratislava. Rača lies at an altitude of 174 m above sea level, at the boundary of the territory of the Small Carpathians and the Danube Lowlands on an area of 23.6 ha, with 20 068 inhabitants on the 31 December 2012. Rača is known especially for its rich viniculture traditions, dating back

to the Roman legions. The Bratislava—Rača district is a part of the third Bratislava district and 8 km from the center of Bratislava. Before becoming one of the city districts of Bratislava (1946), it was a separate municipality, known as Račičsdorf. It consists of three localities: the original Rača, the East, and one of the oldest suburbs in Bratislava—Krasňany. Thanks to its excellent location, beautiful surroundings and good transport connections with the center of Bratislava, Rača is one of the most popular city districts in Bratislava. It is a safe place for families with children and offers several opportunities for relaxation, cultural activities or active leisure time. There are two swimming pools, a lot of playgrounds, sport grounds, multifunctional playgrounds, a biker area, a hockey ground, a table tennis hall, and a football stadium. The beautiful surrounding countryside is ideal for hiking and relaxation. There are a number of associations in Rača, which seek to preserve, maintain and develop traditions. In 2014 and 2015, we conducted a research in this city district which was focused on identifying the current state of its socially responsible behavior. The survey was carried out in the form of primary data collection—with a questionnaire for the citizens of the city district and a structured interview with city representatives. The form of secondary data collection—with an analysis of the documents of the city district, in particular the Plan of Economic and Social Development of Bratislava—Rača 2008–2013 and the Community Social Services Plan of Bratislava—Rača, 2014–2016. Even though the city district does not have strategic documents specifically for socially responsible behavior, its activities are natural parts of it. Though, the degree of fulfilment of individual areas of social responsibility is different.

By the questionnaire research among Rača citizens we identified and also evaluated the items of all areas of CSR that are implemented in the local municipality. Moreover, we evaluated and processed them in the form of SWOT analysis. We divided the results of our research according to the areas of socially responsible behavior and presented them in the next three tables. Table 7.1 shows the SWOT analysis of socially responsible behavior in the economic area.

In the area of socially responsible behavior, the significant weakness can include the absence of strategic document, insufficient material and

Table 7.1 SWOT analysis in economic sphere of Municipality Office Rača

Strengths	Weaknesses
<ul style="list-style-type: none"> • Cooperation with partner cities • Cooperation with local business subjects • Active approach of the self-government to the overall development • Providing quality services and information for citizens • Surveys of satisfaction with services carried out • Updated and clear internet websites 	<ul style="list-style-type: none"> • Absence of strategic document in the area of socially responsible behavior • Insufficient material—technical basis for complex management of the socially responsible behavior • Absence of code of ethics of employees • Negative evaluation of the transparency of Municipality Office • Holding no STN EN ISO 9001:2009—System of quality management certificate • Holding no EFQM certificate • Relatively low participation of the public in surveys and strategic documents processing • Municipality Office Rača does not provide regular survey of employees' satisfaction • Municipality Office Rača does not provide evaluation of suppliers • Municipality Office Rača does not provide training of officials • Municipality Office Rača has no anti-corruption politics • Insufficient conditions for investors and employment support
Opportunities	Threats
<ul style="list-style-type: none"> • Increase of awareness and communication on socially responsible activities • Potential of attractiveness of new citizens moving in • Creation and strengthening of partner relations with stakeholders • Obtaining information from other self-government bodies/units that have already implemented the socially responsible behavior concept • Using Socially responsible behavior for improvement of goodwill and economic results of Municipality Office 	<ul style="list-style-type: none"> • Wrong understanding of socially responsible behavior concept and wrong support from the Municipality Office • Higher investments in connection with implementation of socially responsible behavior concept • Coming of the citizens without relations with the city • Decreasing investment potential • Limited possibilities of obtaining resources from structural funds • Coming of citizens without relation with the city and gradual downfall of traditions

Source Own creation, 2015

technical basis within the comprehensive management of socially responsible behavior, poor assessment of the transparency of local government by citizens, the absence of anti-corruption policy and of the code of ethics of local authority staff, since the local authority does not have any ethical principles and standards of behavior that citizens expect from their elected representatives. Another significant weakness of the local authority is that it holds no certificates of providing quality services and self-government performance, according to STN EN ISO 9001: 2009 or EFQM quality management certificate (European Quality Management Foundation).

Opportunities for improving the situation can be in the potential immigration of new residents, since the city district is attractive especially for young families. From the point of view of social responsibility, the most important opportunity is to create and strengthen partnerships with all stakeholders, particularly with citizens, their initiatives, non-profit organizations, other local governments and investors. A great opportunity is acquiring the information from other local authorities that have successfully implemented the concept of socially responsible behavior in their management. The threat may be the arrival of the inhabitants without relation to the town and the city district, and the consequent disappearance of the traditions connected with the city district of Rača. We see the next threat in the decreasing investment potential in almost all areas of socially responsible behavior, especially due to the economic crisis.

The social area of social responsibility of the local authority in Rača was evaluated in Table 7.2.

A significant strength in social aspect is the rich cultural and social life and organizing of the cultural events, as well as the preservation of wine traditions and the rich history of Rača. We consider organizing of various types of benefits, non-monetary donations and relatively well-developed cooperation with non-governmental organizations as the strength. Serious weakness includes the lack of citizens' confidence in the local office and its staff that is caused mainly by poor opinion about the transparency, the management and disclosure of financial and non-financial information. Consequently, the citizens lose interest in the traditions and cultural activities in the city. Another weak point of the

Table 7.2 SWOT analysis in the social area, local authority Rača

Strengths	Weaknesses
<ul style="list-style-type: none"> • Rich cultural and social life and organizing of cultural events • Keeping winery traditions and rich history of Rača • Cooperation with non-governmental organizations • Providing benefits and non-financial gifts • Keeping flexibility at workplace (employing mothers and ethnical minorities) • Orientation on citizens in the area of sharing information • Relatively wide net of social facilities 	<ul style="list-style-type: none"> • Citizens' mistrust towards the local authority and its staff in terms of transparency • Low motivation of citizens to participate in public affairs • Absence of employees' motivation (e.g. social benefits) • Absence of trainings for employees (e-learning, training, courses) • Gender equality in the workplace is not followed (74% are women) • Low interest of citizens and youngsters in traditions and culture in Rača • Low support of/to charitable, philanthropic activities
Opportunities	Threats
<ul style="list-style-type: none"> • Place for tourism development • More intense cooperation with local community • Interest of citizens in traditions of Rača • Increasing activities for solving problems and community complaints of citizens • Supporting non-governmental organizations in the area of social care • Delivery of retrained employees 	<ul style="list-style-type: none"> • Decreasing investment potential • Extinction of traditions • Citizens without connection to the city and local life

Source Own creation, 2015

local authority is a low motivation of its employees as well as a low motivation of citizens to participate in the solution and decision-making on public affairs. Opportunities in this area include the development of tourism and the inhabitants' interest in traditions of Rača. One of the important opportunities of the local authority is to increase support by activities providing solutions for citizens' complaints, and thus being more open towards them.

In the environmental sphere, internal ecological measures such as recycling, waste sorting, materials and energy saving, protection and creation of green areas, playgrounds and cycle paths (Table 7.3) are the dominant strengths of the city district Rača.

One of the goals of Local government is to create a pleasant place, nice, clean and healthy environment for living. The most striking weakness in the environmental field is an absence of a comprehensive environmental policy at the local authority Rača. The Local government has no systemic approach to environmental protection, for example, in the form of training of its employees in the environmental field or conducting events to support environmental projects.

It also does not address black waste dumps, pollution of water streams and air.

Table 7.3 SWOT analysis in environmental area of Municipality Office (MO) of Rača

Strengths	Weaknesses
<ul style="list-style-type: none"> • Close and reachable nature • Internal ecological measures (recycling, waste separation, material and energy saving) • Protection and building green areas, playgrounds, cycle paths • A well implemented waste management 	<ul style="list-style-type: none"> • Absence of environmental policy of Municipality Office Rača • Lack of education in environmental area, and lack of environmental awareness • Absence of events supporting environmental projects • High noise pollution, air pollution, and intense dust • Dumps in the forests and gardens, river and air pollution
Opportunities	Threats
<ul style="list-style-type: none"> • Using of natural potential • Bigger support to environmental awareness and environmental events • Using parks and relaxation zones for passive and active relaxation of citizens • Support to non-motorized traffic in the city and developing the cycle paths 	<ul style="list-style-type: none"> • Increasing absence of parking places • Insufficient motivation of citizens to provide waste sorting • Endangering the overall quality of the environment by polluted air, water, and soil

Source Own creation, 2015

The research results enabled the mapping of the situation and identifying the level of implementation of the concept of socially responsible behavior in the Bratislava city district—Rača. Local self-government carries out some activities of socially responsible behavior, but it lacks its systemic solutions in certain strategic document. Identified weaknesses need to be addressed through the use of available opportunities and the promotion of strengths, but one also needs to be prepared for the potential threats that may endanger from the external environment the functioning of self-government. However, we can state that the progress of local self-government activities is now desirable not only in terms of new trends, but also in terms of satisfaction and building good relationships with stakeholders of self-government that is a key area of Local Governance.

7.3.2 Participatory Activities in the Local Municipalities

In this subchapter, we present the selected examples demonstrating the implementation of CSR as well as Local Governance principles. All are based on the stakeholders' participation and their involving into the decision-making process. They directly influence all spheres of CSR—economic, social and environmental.

7.3.2.1 Participatory Budgeting in Banská Bystrica

The first example presents the initiative of participatory budgeting in Banská Bystrica, in Slovakia. Participative budgeting is a tool of civic participation moving the responsibility in decision making process about budget to citizens that are influenced by it (Allegretti 2006). It creates the place for open discussion about the strategic priorities and investments of local municipality. It contributes to the transparency and open dialogue between the public administration and citizens, and generally it strengthens the loyalty to the local government and democratic culture. In practice, the participative budgeting means a decision making of citizens about the allocation of public budget as an output of personal

meetings, public discussion or other relevant forms to reach consensus (Wood 2004). It opens the opportunity to be directly involved into the decisions about implementation of public services, such as housing, transport, public spaces etc. (Murray Svidronová et al. 2016).

The first ideas to establish the participatory budgeting appeared in 2013 by a group of activists from the non-profit sector. The idea was supported by the local government and the first public funds in sum 19.713 € were allocated to this aim in 2014, next year it was 19.455 € and 19.343 € in 2016. Annually, one settled the project priorities that have to be followed by the submitted projects (e.g. community life, culture, health environment, and work with youth). The participatory budgeting in Banská Bystrica can be compared with competition of projects that contribute to improve the life of citizens from the public funds proposed by citizens. To the main principles of participatory budgeting belong:

- Only the projects within the strategic priorities are supported.
- The project has to be submitted in the prescribed template (description of the main project ideas, budget).
- The project has to be consulted before submitting with the representative of the organizational team and publicly presented at the discussion meeting.
- Average support to one project depends on the allocated public funds (in 2014 it was 4.000 €—4 supported projects, in 2015 it was 5.000 €—5 supported projects, in 2016 it was 5.000 €—4 supported projects).
- Election of the implemented projects is done by the public voting of citizens at the discussion meeting and at the reception of the municipal authority during 1 month after the public presentation of projects.

The participative budgeting strengthens the citizen awareness in public affairs and decision making, transparency of public spending, and loyalty of citizens. The whole process of participation budgeting till the period of voting was communicated to public by various means, e.g. website of city, website of participative budgeting, municipal newspapers, local newspapers, e-mailing, etc. What is surprising, the number

of submitted projects has decreased from year to year. In 2014, there were 31 projects, in 2015, 17 projects, and in 2016 only 12 projects (utopia.sk). However, the number of citizens that vote for the projects increased, 382 citizens in 2014, 470 citizens in 2015 and 674 citizens in 2016. It can be caused by some problem issues after each round of participative budgeting. We personally attended one discussion meeting in 2015. Citizens on this meeting complained on the form and way of voting, the public presentations of projects took too much time (the whole meeting took more than 4 h). Although the whole idea is very beneficial, the participatory budgeting can still improve it. The informing about the projects should use more integrated communication tools and better cover all stages of the process (from submitting the projects till the outputs of the realized projects).

Participative budgeting can be a very useful tool to promote the socially responsible behavior. Local government creates the opportunity to involve stakeholders into the municipal activities, to take responsibility for public fund spending. Furthermore, it is a measurement how to push the municipality to be more transparent and effective in fund spending.

7.3.2.2 Participative Planning—City Interventions

The second example presents the activities of international project—City interventions as a form of participative planning. It is an approach based on involving of stakeholders to the strategic planning process from the starting point to the final stage of reaching a consensus. The citizen participation in the planning process should contribute to informing, validating and legitimizing the plan. Throughout its implementation the community should be informed about the degree of plan implementation, and there are usually regular public sessions for strategic plan monitoring and evaluation. An ideal model of collaborative planning is one in which stakeholders representing the differing interests meet for face-to-face dialogue, and collectively work out a strategy to address a shared problem (Innes and Gruber 2008). It defines an important role for citizens, namely as actors contributing to planning argumentation

(Bäcklund 2010). The crucial is a communication in participative planning. It should be a two-way intercourse, equally oriented to all involved stakeholders. The dialogue should also be authentic, open, trusted by participants, sharing the information that can lead to consensus. The planners play multiple roles. As professionally trained spatial experts, planners can bridge the knowledge gap between professionals and lay persons, and foster creative thinking. They are able to contribute their knowledge to shape the participative procedure and to form a workable agenda (Lin and Wang 2015). To coordinate the actions of various stakeholders in decision making it is necessary to establish the institutional framework consisting of nonprofit, private and public entities.

The project City interventions started in 2008 and was aimed at collecting the creative ideas to improve the public spaces. It is open to all, who want to help in elimination of weaknesses in the cities. Firstly, the project was realized only in Bratislava, but later also in other cities in Slovakia and Czech Republic (Bratislava, Praha, Brno, Košice, Prešov, Ostrava, Kladno, Zlín, Trenčín, Nitra, Jablonec nad Nisou, Liptovský Mikuláš and Prievidza).

The main idea of the project is to collect ideas from public to improve the public space and its equipment. Participants can propose the specific solution of the identified problem. During the first year of the project in three cities 255 persons participated that presented projects in value of 187,000 €. They included architects but also ordinary citizens that see the problems in city and know how to solve them. The first activities were initiated by the architects, but later the cities were still more and more interested in the project activities and in want to be involved in them (Garaj 2011). Each annual call for project includes expensive projects, but also small projects, realization of which brings great benefits for the territory. All submitted projects should integrate the interests of various stakeholders in the territory and bring economic or social benefits for the community. The projects are offered directly to the municipalities, which can use them as a source of feedback—to identify the needs and interests of citizen as well as to design innovations for the weak places of the city. It is a decision of local municipality if they will be realized or not. The realization of the proposals from citizens is usually better

accepted by public, and the municipality declares its interest in citizen needs and claims.

The project 'City interventions' does not provide the budget for implementation. But lots of them can be realized by voluntaries and with the minimal costs. The main output of the City interventions are the publications describing the submitted proposals or their realization and their vernissages. The potential of City interventions is enormous, but they miss better presentation of the realized projects and achieved outputs as a motivation for the new creators of innovative ideas by organizer of City interventions and also by the local municipalities where the interventions were implemented.

Generally, the project City interventions is an opportunity for citizens, artists and architects to participate in problem issues addressing and improving the public spaces.

The principles of participative planning are similar to the participative budgeting. Moreover, it influences also the environment of the municipality. Often, it is used as a tool to restore the old damaged or abandoned buildings with implementation of more innovative and eco-friendly approaches. So this tool can boost the activities in all spheres of CSR and is a demonstration of Local Governance at the same time.

7.3.2.3 Community Organizing in City Banská Bystrica

Community organizing is a new, progressively developing form of participation in public policy and, in particular, in addressing public policy issues. Community organizing is mainly used in situations where the competent authority rejects a discussion with the public, which disagrees with it and responds in the form of a nonviolent conflict (Klimovský 2008). Typically, the stakeholders will choose a leader among themselves, followed by mass demonstrating activity, which may take the form of petitions, demonstrations, boycotts, and so on. A typical feature of community organization is the mobilization of volunteers. The role of organizers is simply to help volunteers become effective, helping them learn how to become leaders during the course of the action, helping to create such a mechanism that the group can represent itself

(Beckwith and Lopez 2010). Community organizing activities include meetings with representatives of local government, various institutions and bodies responsible for decisions or solutions to an acute problem; program creation and community organization strategies that seek to reflect community requirements. A tangible outcome of strong citizens' activation can be an establishment of a community center. Community center deals with various deficits on issues of community development and social integration, especially at the local level. They represent some community support in the area of community development and community building (https://www.ia.gov.sk/data/files/np_kc/Docs/Priloha_Prucky_c.6_Standardy_komunitnych_centier_NP_KC.pdf [cit. 12 August 2016]). In the Slovak Republic, community centers are set up "in order to create spatial and material conditions for community development, community rehabilitation, community and social work, provision of social services, and social-rights protection of children and social care for members of marginalized Roma communities as well as for mutual interaction and joint activities of members of marginalized Roma communities and other communities" (Government Office of the SR 2011, p. 3). Community centers are primarily designed to help socially excluded citizens, who have a problem with access to institutional assistance, employment and some services. From a broader perspective, community centers are designed for all citizens of the city where the community center operates. The frequent activities of these centers are the organization of leisure and educational courses and events for children of various ages, youths and adults, including special attention paid to seniors (Korpesio 2012).

The proactive approach of citizens was recognized by the municipality of Banská Bystrica that encourage and support local communities with establishment of two official community centers (Borseková et al. 2014, 2016). In Banská Bystrica, the first community center was established in 2011 in the city district Sásová. The second community center was set up in 2014 in the city district Fončorda. Community centers operate in their own premises, which are offered for the implementation of activities of the city's inhabitants; organizing various events, festivals, discussions, or public debates. We can claim that they are a part of socially responsible behavior of local municipality because the founder of the community

centers is Banská Bystrica as a city; they receive funding for operating from the city. They also get resources from smaller project activities, from sponsors and many activities they realize mainly through volunteers. Both centers have their own face-book pages. Selected information can be found on the city's website, but it is not regularly updated. Both community centers are very active and realize various kinds of activities. To the traditional ones belong Children Day or St. Nicolaus Day. There are organized also the neighboring market; collections of clothes, toys or other items for the people in social need, special vocational courses for the children, mothers at the maternity leave or older people.

In this example, the local government is in a role of creator of institutional framework. It is responsible for providing place with equipment. The local community is responsible for the activities implementation, but has to respect the rules of local government. By establishing community center the local government gives to public the opportunity to be more involved in the public affairs, decision-making, but also in implementation of suitable activities for local development. So the responsibility is divided between the local municipality and community, the funds should be used more transparently; all realized activities should be more accepted by public. So it refers to better governance and responsible behavior of local municipality.

7.4 Conclusions

Both researched issues—governance and socially responsible behavior in the public sector are nowadays discussed in the academic sphere, but also in practice. In the chapter, we explained from the theoretical point of view the relationships between them. Both theories are based on the same principles (e.g. responsibility, interdependence, holistic approach, openness, accountability, transparency, effectiveness, public participation). They are fulfilled by implementation of activities which build and develop the relationships with the local stakeholders. To the main stakeholders belong citizens, own employees, local companies, members of

local parliament. The role of local government is to be a main implementer of Local Governance and CSR, as well as CSR can be understood as a part of concept of public management—the Local Governance.

In the chapter, oriented at the examples from practice, we analyzed the socially responsible behavior in the city district Rača. The research results showed that the local government carries out some activities of socially responsible behavior, but lacks its systemic solutions in certain strategic document. It could help to systemize the activities and to be more effective. The second part of the chapter was devoted to three selected examples of activities that can be used as tools of Local Governance, but they also demonstrate the socially responsible behavior. Participative budgeting and planning present the opportunity, provided by local governance to citizens to be involved into public affairs, to take responsibility for public funds spending. But also to push local government to be more transparent and effective. These activities influence strongly all spheres of socially responsible behavior. The last selected example characterized the functioning of a community center. By its establishing the local government supports the community life, involving citizens into the public affairs and implementation of accepted solution of public policy agenda. All presented examples refer to a better governance and responsible behavior of local municipality.

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8

Transparency and Disclosure Regulations—A Valuable Component of Improving Corporate Governance Practice in Transition Economies

Mojca Duh and Danila Djokić

8.1 Introduction

The main purpose of disclosing corporate governance information is to reduce information asymmetry and agency costs resulting from separation between ownership and control, and to improve confidence of investors in the reported information on a firm (e.g., Bauwhede and Willekens 2008; Healy and Palepu 2001). Greater transparency and better providing of information enable stakeholders to be better informed about how a company is governed and managed (Patel and Dallas 2002), thereby being an important factor in recovering trust in capital markets (Bauwhede and Willekens 2008). For these reasons,

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transparency and disclosure practices are recognized as an important component of good corporate governance. Companies all over the world face information asymmetry and agency problems (Bauwhede and Willekens 2008), even though there are evidences that the type and severity of agency problems differs across companies due to the differences in ownership and control structures (Luo and Salterio 2014). Additionally, differences in variety of the factors that are inherent to the companies' environment importantly influence not only the extent of agency problems but also the type of governance mechanisms applied for controlling the potential self-interested behavior of managers (Aguilera et al. 2008; Larcker and Tayan 2011). Therefore, the main research question that we address in our research is to what extent transparency and disclosure practices are implemented in transition economies and what are their implications for corporate governance quality.

The motivations for our research are twofold. First, several studies investigated corporate governance quality and ways to improve transparency and disclosure practices, where the United States (US) institutional context has been among the most studied ones (e.g., Durisin and Puzone 2009; Larcker and Tayan 2011; Patel and Dallas 2002; Sheridan et al. 2006), consequently making it a "normative benchmark" (Filatotchev et al. 2013, p. 970). However, we are lacking research on these topics in transition countries (e.g., Zattoni and Van Ees 2012; Kumar and Zattoni 2015), where China and Russia have attracted more research attention than other former socialist countries (Grosman et al. 2016). Second, a considerable number of empirical corporate governance research "has begun to cast doubt on whether there is a direct and universal link between governance practices and a firm efficiency" (Aguilera et al. 2008, p. 478) and especially whether this association holds in different national settings. Therefore, special attention in our research is devoted to the particular institutional context of a transition economy that influences the corporate governance practices in such economy, thereby shading light on this under-investigated institutional context.

The main goal of our research is to broaden our understanding of transparency and disclosure practices in transition economies by researching the sample of joint stock companies listed on the stock

exchange in Slovenia. We limit our research on public joint stock companies since these enables us to explore mandatory as well as voluntary transparency and disclosure practices. We observed the effectiveness of disclosure and transparency practices in terms of improvements made in the period from 1990's when transition from socialist socio-economic system has started until today.

Since particular corporate governance practices are effective only in a certain combination (Aguilera et al. 2008), we investigated the transparency and disclosure practice within a broader range of corporate governance practices by applying the SEECGAN Index. The index and underlying methodology were developed to address the unique social, political and economic context of the South Eastern European transition economies (Djokić et al. 2014; Tipurić et al. 2015). The research results presented in this contribution are part of the on-going research that started in 2014 (Djokić et al. 2014). The SEECGAN Index enables not only an in-depth study of the transparency and disclosure in an individual company but as well as comparable analysis with the research findings of those countries where the same index has already been applied.

Until now, we have been able to conduct comparative analysis with the published research results for Croatia. Slovenia and Croatia are both transition economies that present a large sub-category of emerging economies (Hoskisson et al. 2013). As new European states founded in 1991, these two countries have been in the last decades under the transition process to an independent state, the reorientation from the former Yugoslavia to the Western developed markets and the transition to a market economy (Lahovnik 2004). Even though Grosman et al. (2016) claim that Slovenia and Croatia are no more transition countries, since they both joined the EU, several indicators show that economic transition from routine to innovative economy and society has not been finished yet (Bekö and Jagrič 2011; Bušega and Dachin 2015).

We build our research on agency theory that is main underlying theory in the corporate governance research (e.g., Aguilera et al. 2008; Durisin and Puzone 2009). We take into consideration new developments of this theory, especially its basic assumptions (Aguilera et al. 2016) and some critiques about the under-contextualized nature of the

agency theory (i.e., closed system approach). Therefore, we based our research on the open systems perspective and organizational approach to corporate governance as proposed by Aguilera et al. (2008) that considers the context of different organizational environments. The open systems approach “treats organizational features as being interdependent with the diversity, fluctuations, and uncertainties of their environment, and reject universalistic context-free propositions” (Aguilera et al. 2008, p. 479).

The effectiveness of corporate governance practices will depend on the stakeholders’ selection of the strategically most appropriate governance practices as response to threats and opportunities within a particular organizational environment. Additionally, we applied institutional theory that is recognized as a promising one for the development of the corporate governance theory (Filatotchev et al. 2013; Judge 2008; Zattoni and Van Ees 2012; Waring and Edwards 2008). An increasing number of studies demonstrate that variations in institutional environments play a crucial role in explaining cross-national differences in corporate governance mechanisms (Aguilera and Jackson 2010; Aguilera et al. 2016; Schiehl et al. 2014) and the nature of transparency practices may be affected by institutional environment (Bauwhede and Willekens 2008; Grosman et al. 2016). Especially in the case of transition economies that are characterized by the lack of governance tradition, we find the concept of institutional complementarities (Filatotchev et al. 2013; Schiehl et al. 2014; Waring and Edwards 2008) to be a useful lens for exploring the effectiveness of transparency and disclosure regulations and practices and their impact on the overall governance quality in the specific context of a transition economy.

We believe that our research results can be useful not only for companies, policy makers and scholars in Slovenia, but also for other countries with the similar context. We find our research results to be of special importance for other transition countries where we can observe on one hand similar historical backgrounds but on the other hand different development of corporate governance mechanisms (e.g., Grosman et al. 2016; Hoskisson et al. 2013; Tipurić et al. 2016). Our research contributes to global understanding of corporate governance (Zattoni and Van Ees 2012) by identifying crucial transparency and disclosure mechanisms and practices that contribute to the raise of

corporate governance quality in a non-common law country with the prevailing concentrated ownership structure in public companies.

This chapter is structured as follows. The second section highlights the theoretical background relevant for our research. In the third section we present our research. We start with the research methodology and presentation of the institutional framework and regulations on transparency in Slovenia. It is followed by the explanation of the sample and data collection, and discussion of research findings on transparency and disclosure. We end the chapter with conclusions and directions for future research.

8.2 Theoretical Background

8.2.1 Agency Problem and Transparency

Several corporate governance research studies are based on a universal model outlined by the principal-agent theory (Fama and Jensen 1983). Its central premise is that shareholders and managers have different interests, objectives and different access to the specific information on a firm. Managers who are agents of shareholders (i.e., principals) have the opportunity to act in a way that benefits themselves, while shareholders bear the costs of such actions—these are the so called agency costs (Aguilera et al. 2008; Larcker and Tayan 2011). However, it has been noted that in many countries not only managers are those who can expropriate minority shareholders and creditors but so do the controlling shareholders, too (La Porta et al. 2000; Morck et al. 2005; Renders and Gaeremynck 2012).

According to Martynova and Renneboog (2010), the basic agency problems should be distinguished; agency problems arise between management and shareholders, between majority and minority shareholders, and between creditors and shareholders. The first type of agency problems arise due to the conflicts of interests between management and shareholders in companies with a dispersed ownership structure. In such companies, small shareholders cannot effectively manage the

company and have to delegate the control over the company to professional managers. The separation of ownership and control leads to a divergence of interests between professional managers and shareholders.

The conflict of interests is less severe in companies with a concentrated ownership structure where the controlling shareholders have strong incentives to monitor managers. However, the presence of a controlling shareholder may induce another type of agency problem referring to the potential opportunistic behavior of the large block-holder towards minority shareholders.

The third type of agency problems arises due to the potential conflicts of interests between creditors and shareholders. Managers can maximize shareholder wealth by increasing the risk of the projects they invest in, and redistribute wealth from creditors to shareholders.

Several mechanisms are proposed to resolve principal-agent problems such as monitoring by boards of directors or large outside shareholders, equity-based managerial incentives or the market for corporate control (Aguilera et al. 2008; Filatotchev et al. 2013; Larcker and Tayan 2011). Enhancing corporate transparency and disclosure are recognized as one of the most important corporate governance strategies to mitigate managers' self-serving behavior, to reduce agency costs and information asymmetry between insiders (i.e., management and majority shareholders) and outsiders (i.e., minority shareholders, creditors, and other stakeholders) (e.g., Bauwhede and Willekens 2008; Healy and Palepu 2001; Nowland 2008; Martynova and Renneboog 2010). The transparency strategy seeks to eliminate conflicts of interests by enforcing strict disclosure requirements on corporate policies and contracts directly related to managers (Martynova and Renneboog 2010).

Greater transparency and better disclosure of information enable corporate stakeholders to be better informed about a company (Patel and Dallas 2002) and have positive effects on the capital markets functioning (e.g., Bauwhede and Willekens 2008; Healy and Palepu 2001; Patel and Dallas 2002). Research revealed that companies with higher governance and transparency rankings are valued higher in the stock markets; this is especially true in less investor-friendly countries (Durnev and Kim 2005).

Weaknesses in governance structure and transparency are associated with lower quality of financial reporting, earnings manipulation, and fraud (e.g., Bauwhede and Willekens 2008). In the opinion of several authors not only disclosure of governance practices such as code compliance-related information are important for solving agency problems but so do also disclosure practices in general. Especially disclosures of corporate strategies, operations and finance are important components of the corporate governance quality (e.g., Healy and Palepu 2001; Nowland 2008; Sheridan et al. 2006). Research evidences revealed that the nature of transparency and disclosure practices might be affected by the characteristics of the institutional environment (e.g., Bauwhede and Willekens 2008; Grosman et al. 2016). That is why in the next section we discuss the implications of different institutional environments for corporate transparency and disclosure practices.

8.2.2 Institutional Environment and Transparency

Researches revealed that there were substantial variations in institutional environments that shaped the nature of agency conflicts and the governance mechanisms effectiveness (Aguilera et al. 2016; Schiehl et al. 2014). Formal and informal institutions modify the basic principal-agent relationship by providing different sets of incentives or resources for monitoring, value and normative understanding about the nature of a company (Filatotchev et al. 2013) in ways that require specific contextualization.

According to the opinion of several authors (Filatotchev et al. 2013; Schiehl et al. 2014) the effectiveness of governance practices depends on broad sets of complementariness among institutions within the particular social and political environment that differs across countries. The concept of institutional complementarities describe interactions among institutions resulting in synergetic effects among their activities (Filatotchev et al. 2013; Schiehl et al. 2014; Waring and Edwards 2008) and influencing “the adoption and effectiveness of firm-level governance practices” (Filatotchev et al. 2013, p. 979).

Several attempts to distinguish and describe different institutional environments and corporate governance systems can be found in the corporate governance literature. Two types of corporate governance systems often distinguished in the literature are the Anglo-American and the Continental European corporate governance systems (Aguilera and Jackson 2010). Short-term equity finance, dispersed ownership, stronger shareholder rights, active market for capital control, and flexible labor market characterize the Anglo-American corporate governance system. The Continental European corporate governance system is characterized by long-term debt financing, concentrated block-holder ownership, weak shareholder rights, inactive markets for capital control and rigid labor markets.

According to Larcker and Tayan (2011) two perspectives should be considered based on the role of companies in the society when distinguishing corporate governance systems, and that are the shareholder perspective and the stakeholder perspective. Within the shareholder perspective, a primary obligation of a company is to maximize shareholder value and corporate governance system should protect shareholders from being expropriated by managers (Larcker and Tayan 2011; Martynova and Renneboog 2010). Such shareholder-based system is the prevailing governance system in the Anglo-Saxon countries (Larcker and Tayan 2011; Martynova and Renneboog 2010) where the law strongly protects shareholders (Weimer and Pape 1999). Companies in the Anglo-Saxon countries are relatively widely held. This is why on the one hand less mechanisms shareholders can use effectively to directly influence managerial decision-making (Martynova and Renneboog 2010); but on the other hand “interdependence among institutions may lead to substitution among functionally equivalent corporate governance mechanisms” (Filatotochev et al. 2013, p. 980). Examples are takeover markets in the US and the UK, where the takeover threat presents a mechanism for disciplining the managers (Filatotochev et al. 2013).

The stakeholder perspective and the stakeholder-based system prevail in the most European and Asian countries (Larcker and Tayan 2011; Martynova and Renneboog 2010). From the stakeholder perspective, a company has a societal obligation that goes beyond the obligation to increase shareholder value. Effective governance should “support policies

that produce stable and safe employment, provide acceptable standard of living for workers, mitigate risk for debt holders, and improve the community and environment” (Larcker and Tayan 2011, p. 9). In countries with the prevailing stakeholder-based system, we can observe a significantly higher ownership concentration than in the Anglo-Saxon countries (Renders and Gaeremynck 2012). Concentrated ownership may reduce agency problems stemming from the separation of ownership and control. However, it may create new conflicts arising between majority and minority shareholders. Therefore, the main function of corporate governance regulations is to minimize the agency problems between majority and minority shareholders and between shareholders and creditors (Martynova and Renneboog 2010).

In the transitions economies of the Central and Eastern Europe, we find the combination of the elements of the Continental European capitalism with large controlling shareholders and the elements of entrepreneurial or founders’ capitalism of the USA (Berglöf and Pajuste 2005). Many transition economies face especially the agency problems between majority and minority shareholders due to a relatively high level of ownership concentration. The concentration of ownership in the hands of a few or even one block-holder enables such shareholders to exert a significant control and direct influence on the nomination and control of management team. Therefore, such management cannot be expected to be independent (Berglöf and Pajuste 2005; Tipurić et al. 2012).

Legal system and tradition also have important influences on the corporate governance system Larcker and Tayan (2011). Regarding legal origins, common-law and non-common-law (i.e., civil law) countries can be distinguished (Larcker and Tayan 2011). Non-common-law countries (e.g., Germany, Scandinavia, and French countries) are characterized by poorer investor protection, smaller and narrower capital markets and less widely held companies. Common-law countries (e.g., UK) afford more rights to shareholders, and creditors are more protected than civil-law countries (La Porta et al. 1998). In the common-law countries, we can observe especially information asymmetry and agency problems between managers and (majority) shareholders, while in the

non-common-law countries, information asymmetry and agency problems between minority and majority shareholders are mainly present. The research conducted by Bauwhede and Willekens (2008) revealed that the level of corporate governance disclosures was significantly lower in non-common-law countries than in common-law countries. The results can be explained by greater pressure that shareholders can put on managers in comparison to the pressure minority shareholders can exert on majority shareholders.

The results of a comparative analysis of the corporate governance regimes in 30 European countries and the USA show dramatic and positive changes in transparency standards in all observed countries (comparison was made for time period from 1990 until 2005) (Martynova and Renneboog 2010). The highest transparency index, that was based on the quality of information about a company, its ownership structure, and management available to investors, was calculated in countries of the English legal origin (the UK; the USA, and Ireland), and countries of the French legal origin, followed by countries of the Scandinavian legal origin and the German legal origin. The former socialist countries that accessed EU in 2004 showed the lowest transparency index.

The research findings of Durnev and Kim (2005) show that the choice of disclosure practices in a company is positively influenced by growth opportunities, the need for external financing, and the concentration of cash flow rights. These positive relations are found to be stronger in countries with weaker legal frameworks. According to the authors “good investment opportunities provide more incentives to improve governance practices among firms in countries with weaker legal framework ... firms in poor legal environments can enjoy high valuation if they adopt high quality governance and disclosure practices” (Durnev and Kim 2005, pp. 1487–1488). Researches, conducted in transition economies suggest that closer ties to foreign multinational corporations lead to improvements in transparency and disclosures practices of companies in these countries (Braguinsky and Mityakov 2015; Grosman et al. 2016).

8.2.3 Mandatory and Voluntary Transparency and Disclosure Regulations and Mechanisms

Transparency and disclosure regulations “intends to improve the quality of information about company and management” (Martynova and Renneboog 2010, p. 14). Companies have considerable possibilities as to when and how much information they disclose (Nowland 2008), while some disclosures are mandatory. Mandatory transparency and disclosures are those that are required by legislation or requirements of the stock exchange listing. Even though legal systems have a strong impact on transparency and disclosure practices, voluntary transparency and disclosures are gaining more importance, especially voluntary corporate governance codes. While mandatory disclosures are normally consistent across companies in the same jurisdiction, there can be substantial variation in decisions on voluntary transparency and disclosure practices. Studies show that decisions on voluntary transparency and disclosure practices are endogenously determined by weighing the costs and benefits of the additional disclosure (Healy and Palepu 2001; Nowland 2008).

The compliance with corporate governance codes and disclosure on corporate governance systems and practices (i.e., the “comply or explain” approach) is largely voluntary in most EU member countries. In the contrast to the “comply or explain” approach, the legislated mandatory governance model (i.e., the “one size fits all” approach) of which the most well-known is the Sarbanes-Oxley Act of 2002 (SOX) in the USA, prescribes the same corporate governance practices for all types of companies (Bauwhede and Willekens 2008; Luo and Salterio 2014; Renders and Gaeremynck 2012). Even though such regulations result in a significant increase of the amount of information available to the public (Nowland 2008), several scholars questioned the “one size fits all” approach and its impact on improving corporate performance due to many variations of the institutional context (e.g., Aguilera et al. 2008; Larcker and Tayan 2011; Weimer and Pape 1999) discussed in the previous section.

The main idea of the “comply or explain” approach is that the fundamental determinants of the type and severity of agency costs are companies’ ownership and control structures, which differ across countries and

industries. Therefore, corporate governance practices should reflect such differences (Luo and Salterio 2014). Codes present a set of voluntary best governance practices and are a form of the soft regulations (i.e., soft law) (Aguilera and Cuervo-Cazurra 2009; Zattoni and Cuomo 2008). Codes “tend to be adapted to the country’s economic environment and address the country’s most salient governance problems” (Aguilera and Cuervo-Cazurra 2004, p. 436). However, there are some evidences (e.g., Aguilera and Cuervo-Cazurra 2009; Collier and Zaman 2005; Cromme 2005) that codes facilitate to certain degree the governance convergence across countries due to several external forces (e.g., globalization, market liberalization, and powerful foreign investors). According to Cromme (2005) the code’s key function is transparency as “there can be no better form of control than transparency, for open explanation of management decisions is a major plus point for company credibility” (p. 364).

The “comply or explain” mandatory disclosure requirement was adopted by most stock exchanges and requires that the listed firms explain their non-compliance with the governance code in their annual report (Aguilera and Cuervo-Cazurra 2004; Cromme 2005; Luo and Salterio 2014). This way the code “helps companies exercise greater self-responsibility in their dealings with the capital market” (Cromme 2005, p. 364); the quality of transparency is suggested to be more reliable when the law or the stock exchange regulations include the “comply or explain” principle (Martynova and Renneboog 2010). According to Luo and Salterio (2014) the disciplining power of this approach is “the required public disclosure of governance practices that allows market participants to evaluate the effectiveness of the firm’s governance system and to make informed assessments of whether noncompliance is justified in particular circumstances” (p. 460).

The research findings demonstrate that the introduction of corporate governance codes has an important effect on the level of disclosures. Sheridan et al. (2006) found that the introduction of reports and codes of good governance in the UK resulted in a significant increase in the number of news announcements. Findings of several research studies indicate that publicly traded companies tend to comply with codes recommendations (Luo and Salterio 2014; Renders and Gaeremynck 2012) which might be due “to the market forces and pressures to comply

with legitimating practices or ‘doing the right thing’” (Aguilera and Cuervo-Cazurra 2004, p. 419).

Public companies have also a strong incentive to provide a clear justification for non-adoption of certain codes recommendation, since the best governance practices are generally recognized as value enhancing (Renders and Gaeremynck 2012). However, the research results of Nowland (2008) show that the introduction of the voluntary codes does not necessarily improve disclosure practices. Only voluntary codes that have specific sections designated to improving disclosure or information transparency have been effective in improving company’s transparency and disclosure practices. Similarly, the research on the UK listed companies suggests that that better transparency of company’s activities may be a result of the introduction of governance codes with the best transparency practices included (Sheridan et al. 2006).

8.3 Empirical Research

8.3.1 Research Methodology

The combination of the context-specific and organization-specific view of transparency and disclosure was applied in our empirical research. In the opinion of several authors such approach provides a better understanding of organizational effectiveness resulting from the interaction among country-level and firm-level forces (Aguilera et al. 2008; Larcker and Tayan 2011; Schiehl et al. 2014). The context-specific part of our research is discussed in the next section.

The organizational level was explored by applying the SEECGAN Index methodology (Tipurić et al. 2014), which enables the calculation of the transparency and disclosure index as well. The study on disclosure and transparency of Slovenian public companies was conducted as a part of research where the corporate governance quality was evaluated by applying the SEECGAN Index methodology (Djokić et al. 2014). The members of the South East Europe Corporate Governance Academic Network created the SEECGAN Index in 2014 in order to make possible the comparative analyses of corporate governance in the

South Eastern European countries. Such analyses can provide more accurate cognitions than comparisons with the rest of the European countries due to numerous historical, cultural, political and economic similarities among these countries (Tipurić et al. 2015).

The SEECGAN Index methodology is based on the evaluation of seven broad governance categories (Tipurić et al. 2014, 2015): (1) Structure and Governance of Boards, (2) Transparency and Disclosure of Information, (3) Shareholders' Rights, (4) Corporate Social Responsibility, (5) Audit and Internal Control, (6) Corporate Risk Management, and (7) Compensation/Remuneration. These categories are evaluated by the assessment of 98 attributes. The index score is calculated for each category and as an overall/total index. The maximum index score is 10 indicating the best possible practice, and the minimum is zero indicating the worst possible practice.

According to the SEECGAN Index methodology (Tipurić et al. 2015) companies can be classified in four groups based on the calculated (total or per category) index score: first-class ($7.5 \leq \text{index} \leq 10$), good ($5.0 \leq \text{index} < 7.5$), unsatisfactory ($2.5 \leq \text{index} < 5.0$) and poor companies ($0 \leq \text{index} < 2.5$). The application of the SEECGAN Index methodology enables us to explore the importance of transparency and disclosure as one component of corporate governance by comparing it with other CG components assessed. The methodology enables us to study in-depth the transparency and disclosure practices themselves as well. Both can be done on company and national levels. Finally, the methodology can be applied on international level by comparing the results among participating transition countries. Our study focuses only on the second category (i.e., Transparency and Disclosure of Information) where we collected the non-financial information based on 17 questions (Table 8.1).

8.3.2 Institutional Framework and Regulations on Transparency and Disclosure in Slovenia

The beginnings of the corporate governance in Slovenia can be traced back in the 1990s when the transformation of companies' ownership took place, based on the provision of the law on

Table 8.1 Questions about transparency and disclosure practices

-
- Q1—Has the company developed and publicly disclosed its own Corporate Governance (CG) Code?
- Q2—Has the company adopted some official CG Code (CG Code of the Chamber of Commerce, CG Code of the Stock Exchange or similar)?
- Q3—Does the company disclose the Statute and/or Articles of Association (Incorporation) on its web page?
- Q4—Does the Company disclose the extent to which it is complying with its Corporate Governance Code (does it explain possible deviations from the Code)?
- Q5—Has the company adopted the Transparency Policy and the Information Disclosure Policy?
- Q6—Does the company disclose the Transparency Policy and the Information Disclosure Policy?
- Q7—Has the company adopted procedures for the disclosure of market sensitive information?
- Q8—Does the company disclose procedures for the disclosure of market sensitive information?
- Q9—Does the company website have all the information translated into English?
- Q10—Does the company disclose information on Related Party Transactions?
- Q11—Does the company disclose all periodic information (Annual, half-yearly and quarterly financial reports) in the legally binding period?
- Q12—Does the company disclose crucial strategy-related information relevant to its investors and stakeholders?
- Q13—Does the company publicly disclose information regarding the company's ownership structure on its website (top 10 shareholders, their names and % of shares as well as information on the number of other owners)?
- Q14—Does the company disclose information on other board memberships (when its board members sit on other corporate boards)?
- Q15—Does the company disclose a calendar of important events?
- Q16 – Does the company disclose information on special relationships (if any) between shareholders?
- Q17—Does the company have a special section on its web page dedicated to Corporate Governance or Investors Relations (where all interested parties and stakeholders can find financial data, ownership structure data, statute and articles of association, information on related party transactions, annual plans, CG Code etc.)?
-

Source Tipurić et al. (2015)

ownership transformation that came into force in 1992. Companies whose equity source was social capital were transformed into companies with equity capital in private ownership. Transitions economies are subgroup of emerging economies where different patterns of institutional

development, and infrastructure and factor market development can be observed. Hoskisson et al. (2013) explored different clusters of emerging economies using data of the Global Competitiveness Report.

Slovenia and Croatia were both in the cluster of mid-range emerging economies with low level of institutional development and high level of infrastructure and factor market development. Slovenia was classified among those countries where a substantial development of institutional, infrastructure and factor market dimension could be observed. For Croatia, the findings of Hoskisson et al. (2013) showed a lower level of institutional development in comparison to Slovenia. Regarding the level of infrastructure and factor market development Slovenia and Croatia were much closer, with Slovenia displaying a slightly higher score than Croatia.

Besides the national corporate governance legislation and regulations that were passed in the 1990s and early 2000s, the implementation of EU directives and regulations importantly influence the governance practice in Slovenia after joining the EU in 2004. The legal framework in Slovenia has improved significantly in the field of disclosure and transparency of public companies in the last ten years. Mandatory disclosure and transparency is based on the provisions of the relevant legislation for public (listed) stock companies. In Slovenia, this is primarily the Market of Financial Instruments Act (ZTFI 2007), that includes all relevant EU disclosure directives and the Companies Act (ZGD-1 2009). ZTFI regulate the disclosure of regulated and inside information. The companies have the obligation to disclose regulated information that must be published on a company's official website or in another manner that enables a quick access to this information on a non-discriminatory basis to the public across the entire EU territory. According to the ZTFI (2007, Article 106) and (LJSE Guidelines 2013) the regulated information is especially: the annual report and auditor's report, half-year report, interim management statements, any change in the share of voting rights, any change in a major holding, information on the amount of own shares, changes to the total number of shares with voting rights, changes in the content of rights from securities, information on new issues of debt securities and inside information.

Since it is not possible to give a unique definition of inside information and very difficult to estimate the potential influence of inside information on the price of security, it is primarily the company's responsibility to determine "which piece of information constitutes price sensitive information in a particular case" (LJSE Guidelines 2013, p. 27). It is management responsibility to draw and implement a corporate communication strategy and rules (i.e., a Corporate Communication Rulebook) in order to prevent the abuse of inside information (Slovenian CG Code 2009).

The voluntary disclosure and transparency is based on non-binding guidelines and recommendations. Ljubljana Stock Exchange has drawn Guidelines on Disclosure for Listed Companies of Ljubljana Stock Exchange considering "temporary legislation, Slovene and international business practices, and similar guidelines effective in other EU Member States" (LJSE Guidelines 2013, p. 4). The main purpose of these guidelines is to provide support to the listed companies to "increase the level of their business transparency, and underline their visibility and openness, thus preventing information asymmetry" (LJSE Guidelines 2013, p. 4). These guidelines are non-binding guidelines; however, some of them are binding for prime and standard market companies.

The companies listed on the Ljubljana Stock exchange (especially prime market and standard market companies) are expected to largely follow the Slovenian Corporate Governance Code that was jointly created and adopted by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia. It was introduced for the first time in 2004 and changed three times (in 2005, 2007 and 2009). The CG Code present an important step towards improving corporate governance practice in Slovenia (Djokić and Duh 2017). On December 2009, the version of the CG Code was introduced (i.e., Slovenian CG Code 2009) that was in power until the beginning of 2017 and was the valid code when our research was conducted.

The recommendations of the CG Code (2009) are divided in several broad areas of corporate governance: corporate governance framework, relations with shareholders, supervisory board, management board, independence and loyalty of members of supervisory board and management

board, audit and system of internal controls and transparency of operation. For many reasons, the year 2009 was an important pillar in the development of corporate governance in Slovenia. The Slovenian CG Code (2009) introduced the Corporate Governance Policy (CG Policy) and its content for the first time. The CG Policy is the governance framework drawn by a supervisory board and a management board wherein they commit and publicly disclose how they are going to supervise and run the company.

The Slovenian Companies Act (ZGD-1 2009) enacted the Corporate Governance Statement (in continuation: CG Statement) in the same year as well. Both the CG Code and the Companies Act brought important positive changes in the field of corporate governance in Slovenia (Djokić and Duh 2017). All the provisions of the Slovenian CG Code (2009) have the nature of recommendations, which are not legally binding. However, a public company must disclose any deviations from this code (or any other corporate governance code) in its CG Statement on annual basis and the reasons for them (i.e., comply or explain approach). This statement can be either a separate document or a part of an annual report (Djokić and Duh 2017). A new version of the CG Code was published at the beginning of 2017. However, we do not discuss this version of the CG Code in this contribution since its implementation in the companies' practice cannot be analyzed yet—the companies' annual reports have not been published yet (See more about the newest version of the CG Code in Duh 2017).

8.3.3 Sample and Data Collection

All companies listed on the Ljubljana Stock Exchange's prime and standard market were included in the sample. Namely, the Ljubljana Stock Exchange's equity market is divided into three segments (LJSE Markets 2015): (1) prime market, (2) standard market, and (3) entry market. Standard market is intended "for larger companies with a dispersed ownership structure, characterized by higher levels of transparency of their operations"; these companies meet the following disclosure standards: publication of quarterly statements, publication of declaration

of compliance with the corporate governance code, and compliance with the Ljubljana Stock Exchange's Guidelines on Disclosure for Listed Companies. Prime market is "a prestigious market intended for larger established companies renowned for their liquidity and transparency of operations". Prime market companies meet additional disclosure standards: reporting under International Financial Reporting Standards (IFRS), publication of quarterly statements, publication of declaration of compliance with the corporate governance code, reporting in English, and compliance with the Ljubljana Stock Exchange's Guidelines on Disclosure for Listed Companies.

We included in the sample all companies of the prime (nine companies) and standard market (13 companies), i.e. total 22 companies that were listed in June 2014. We decided to select these companies to be able to investigate mandatory and voluntary transparency and disclosure practices. We expected a higher companies' interest for voluntary transparency and disclosure due to many benefits including a reduced information asymmetry and agency costs that can lead to a lower cost of capital and higher firm value (e.g., Nowland 2008). The underlying SEECGAN Index methodology enables us to explore the quality of the transparency and disclosure practice. However, it does not enable a forensic identification of any disclosure that may be incorrect or fraudulent (e.g., Patel and Dallas 2002).

One of the primary sources of data were the annual reports that were identified in several rankings and indices as "the principal communication device available to companies" (Patel and Dallas 2002, p. 6). Annual reports are recognized as a good proxy for the level of voluntary disclosure provided by a company and are generally considered one of the most important sources of companies' information (Patel and Dallas 2002). Additional data and information were gathered from the companies' websites and other types of report and documents available on companies' websites.

8.3.4 Demographic Data on Companies in the Sample

Companies in our sample differ in their size measured by the numbers of employees. The majority of them can be classified as large corporations according to the criteria of the Companies Act—as a large company is defined the one with more than 250 employees as well as banks and insurance companies that are classified as large companies regardless of their number of employees. Since the majority of them exceed this criteria considerably, we defined other criteria at 1.000 employees (similar was done by Tipurić et al. 2015). There were 13 companies (59%) with more than 1.000 employees in the sample. The ownership structure of companies in the sample confirms some other observations on ownership concentration in Slovenian companies (e.g., LJSE Analysis 2015) and in transition economies in general (Berglöf and Pajuste 2005; Tipurić et al. 2012, 2016). Half of the companies in the sample had major shareholder with 30% or more shares; in seven companies (32%) the major shareholder has 50% or more shares. The primary activities of companies in the sample are diverse. The sample includes banks, insurance companies, production companies (in automobile, pharmaceutical and home appliance industry), trade companies, and publishing and newspaper companies.

8.3.5 Results with Discussion

The average value of the SEECCGAN Index of the listed companies in Slovenia is 5.49, indicating that the average public company can be classified as the company with good (but not first class) corporate governance in terms of the applied methodology. Half of the companies in the sample reached an average value of SEECCGAN Index greater than 5.25. The transparency and disclosure of information of companies in the sample is evaluated as good with the average category index being 6.62. This category is ranked as the second best corporate governance component; the category of corporate risk management is the best-evaluated

governance component (the average index 7.61). Even though the transparency and disclosure category is the best evaluated category in Croatia (Tipurić et al. 2015), the average index (4.91) for this category is lower in comparison to Slovenia.

Research results (Fig. 8.1; Table 8.2) show that the surveyed companies can be classified as first class (36.4%) and good (45.4%) in terms of transparency and disclosure practice. In less than one fifth of the surveyed companies, the transparency and disclosure practice is unsatisfactory. Transparency and disclosure practice in the Slovenian companies is of better quality than in the Croatian companies. Only 56.3% of the surveyed Croatian companies are first class and good in terms of transparency and disclosure; transparency and disclosure practiced can be described as poor for 12.5% of companies. However, the comparison should be made with caution, since the sample of Croatian companies consists of joint stock companies listed at the Zagreb stock exchange and

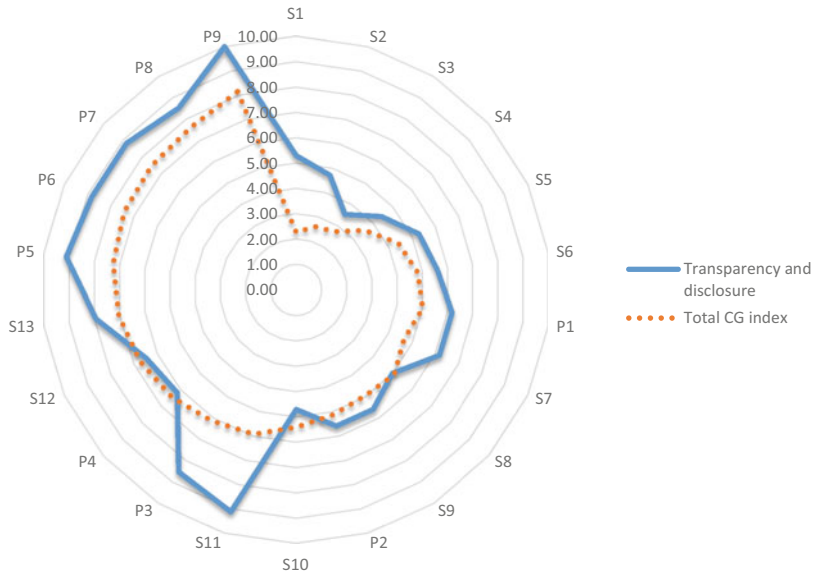


Fig. 8.1 Transparency and disclosure and the total index (Note P1–P_i—prime market companies [9 companies in total]; S1–S_j—standard market companies [13 companies in total]. Source Own)

Table 8.2 Transparency and disclosure SEEGAN Index for Slovenia and Croatia

SEEGAN index classification of companies	Slovenia—prime and standard market companies (in %)	Slovenia—only prime market companies (in %)	Slovenia—only standard market companies (in %)	Croatia ^a
First class	36.4	66.7	15.4	21.9
Good	45.4	33.3	53.8	34.4
Unsatisfactory	18.2	0.0	30.8	31.2
Poor	0.0	0.0	0.0	12.5
Total	100.0 (22 companies)	100.0 (9 companies)	100.0 (13 companies)	100.00 (32 companies)

Note ^aTipurić et al. (2015)

Source Own, supplemented with the findings of Tipurić et al. (2015)

does not include companies of the prime market (no company is listed). If we compare them with the Slovenian standard market companies, results for Slovenia are no more superior.

The research findings on the quality of transparency and disclosure measured by the SEECGAN Index methodology reveal the effects of both the mandatory regulations (e.g., legislation, stock exchange rules) and the voluntary recommendations (especially the code of good governance) on the governance practice in public joint stock companies. Especially in the case of the prime market companies (Fig. 8.1), we can observe the presence of high standards of transparency and disclosure introduced by various institutions supporting the relevance of the idea of “institutional complementarities” (Filatotchev et al. 2013; Waring and Edwards 2008). In continuation, we discuss the results for each surveyed attribute that are presented in Table 8.3.

According to the Slovenian CG Code’s (2009) recommendation on transparency a company should define the corporate communication strategy in its CG Policy dictating high quality standards with respect to the drawing up and preparation of accounting, financial and non-financial information. Research results show that only 59.1% of companies define Transparency and Information Disclosure Policy (Q5). This policy is defined in all prime market companies and only in 30.8% of the standard market companies. Even less companies disclose their policy (Q6)—only 36.4% of all companies in the sample; that is 61.5% of those, which defined such policy.

Similarly, the analysis of the Ljubljana Stock Exchange and the Slovenian Manager’s Association on the disclosure of the explanations of deviations from the Slovenian CG Code (2009) for the period 2011–2014 shows that among the most frequent deviations are deviations concerning the rules and communication strategy of a company (LJSE Analysis 2015). According to the ZTFI (2007, Article 106) and (LJSE Guidelines 2013) companies have the obligation to disclose the regulated information such as annual report and auditor’s report, half-year report, interim management statements. Research results show that all prime market companies and the majority of the standard market companies (84.6%) disclose annual, half-year and quarterly financial reports in the

Table 8.3 Results on transparency and disclosure for each surveyed attribute

Attribute/question	Share of companies displaying attribute (YES answer) in %			
	Slovenia			Croatia ^a
	Prime and standard market companies	Only prime market companies	Only standard market companies	
Q1	81.8	100.0	69.2	59.4
Q2	95.5	100.0	92.3	59.4
Q3	95.5	100.0	92.3	28.1
Q4	95.5	88.9	100.0	81.3
Q5	59.1	100.0	30.8	56.3
Q6	36.4	66.7	15.4	15.6
Q7	27.3	22.2	30.8	65.3
Q8	9.1	22.2	0.0	28.1
Q9	81.8	100.0	69.2	84.4
Q10	77.3	88.9	69.2	56.3
Q11	90.9	100.0	84.6	100.0
Q12	81.8	100.0	69.2	75.0
Q13	95.5	100.0	92.3	56.3
Q14	45.5	66.7	30.8	53.1
Q15	77.3	77.8	76.9	50.0
Q16	50.0	66.7	38.5	25.0
Q17	100.0	100.0	100.0	75.0
Total number of companies	22	9	13	32

Note ^aTipurić et al. (2015)

Source Own, supplemented with the findings of Tipurić et al. 2015

legally binding period (Q11). A special category of the regulated information are the inside information that has not yet been published. Only 27.3% of the surveyed companies (22.2% of prime and 30.8% of standard market companies) adopted procedures for disclosure of market sensitive information (Q7). Only some prime market companies disclose such procedures (Q8).

In comparison with the Slovenian companies, the Croatian companies are better regarding the analyzed attributes Q5, Q6 and Q11, when only Slovenian standard market companies are considered. Research findings indicate that in both countries a little more than half of the surveyed public joint stock companies and their key managerial and supervising

bodies are aware of the importance of defining and publishing transparency and disclosure policy. Regarding procedures for disclosure of market sensitive information and their disclosure (Q7 and Q8) the situation is much better in the Croatian companies than in the Slovenian ones. This situation implies that improvements are needed in this area, especially raising awareness of the importance of transparency and disclosure of information policy and its disclosure as well as educating managers and other key stakeholders on this topic (see also Tipurić et al. 2015, p. 175). Namely, the risk of the private internal information abuse can negatively influence the firm performance and value (Filatotchev et al. 2011).

Besides the mandatory regulations, the voluntary recommendations are of special importance for improving the quality of transparency and disclosure practice. Such recommendations are provided by the corporate governance codes. More than three quarters of the Slovenian companies in the sample disclose their corporate governance code (Q1). Most of them refer to one of the official codes (Q2). Almost all companies (88.9% of the prime and all standard market companies) disclose the compliance with the corporate governance code and/or explain the deviations from it (Q4). Even though disclosure of compliance with the chosen code is obligatory for the prime and standard market companies in Slovenia (ZGD-1 2009; LJSE Guidelines 2013), one of the surveyed prime market company does not disclose this compliance. Similarly, the research of the Ljubljana Stock Exchange and the Slovenian Manager's Association shows that the number of companies that use the Slovenian CG Code (2009) increased—from 63.8% in 2011 to 71.7% in 2014. The average compliance of a company (the average was calculated only for those companies that reported deviations) with the Slovenian CG Code (2009) was 89.8% in 2011, 90.6% in 2012, 89.9% in 2013 and 89.8% in 2014 (LJSE Analysis 2015). A smaller share of Croatian companies adopt and display the corporate governance code (59.4%) than the Slovenian companies (Q1 and Q2), even though more than 80% of these companies disclose compliance with the governance code (Q4).

The related-party transactions are recognized as one of the forms of expropriation of minority shareholders by the controlling shareholders in

contexts with concentrated ownership (Filatotchev et al. 2013). That is why the disclosures on transactions with associated persons are important components of companies' transparency in transition economies.

According to the ZTFI (2007, Article 10) and LJSE Guidelines (2013) a public company in Slovenia is obliged to disclose such transactions, even if this company is not a subject to prepare a consolidated annual report. Our research results show that more than three quarters of surveyed companies disclose information on related party transactions (Q10); that is the majority of prime market companies (88.9%) and more than half (69.2%) of standard market companies. The research results revealed better transparency practice in this area in the Slovenian than in the Croatian companies where only a little more than half of surveyed companies disclose such transactions. Improvements are needed in Croatia and Slovenia regarding transparency of third-party transactions in order to mitigate the primary agency problem between the minority and the controlling shareholders (e.g., related-party transactions) in the institutional context of the concentrated ownership (e.g., Filatotchev et al. 2013).

According to the Slovenian CG Code (2009), a public company should disclose in its annual report for "its members of the management board and the supervisory board their memberships on the managerial or supervisory bodies in non-related companies". The provisions of Companies Act (ZGD-1 2009) limit the number of memberships in boards—a person cannot become a member of a supervisory board if he/she has already been a member of a supervisory or a management board in three companies. Research results indicate that less than half of surveyed Slovenian companies disclose information on the board membership (66.7% of the prime and 30.8% of the standard market companies) (Q14). In Croatia, where the maximum number of memberships in supervisory boards is ten, more than half of public joint stock companies disclose membership in boards in other companies.

According to Tipurić et al. (2015) there are negative as well as positive aspects of membership in several boards. The negative aspect of several memberships is the potential lack of time for a high quality work on a board. The positive aspect can be in benefits that such memberships bring to relationships with companies' environment (e.g., in the case of

suppliers, better payment conditions) as well as new knowledge and skills that can be acquired by being a member of the other company's board.

An important channel of communication between a company and its stakeholders are company's official websites. According to the ZTFI (2007) companies must publish regulated information on their official websites or in another manner that enables a quick access to this information on a non-discriminatory basis. The CG Code (2009) recommends companies to use electronic media (e.g., a corporate website, the Ljubljana Stock Exchange Information dissemination system SEOnet) and to make their official websites as transparent as possible. Companies' websites should contain all the key information about the company and its activities. The research results show that with the exception of one standard market company all other surveyed companies disclose information regarding the company's ownership structure on their websites (i.e., top 10 shareholders, their names and percentage of shares as well as information on the number of other owners) (Q13). However, only half of them disclose information on special relationship between shareholders (e.g., family relationship, mutual ownership) (Q6). More than three quarters of surveyed companies (almost the same share of prime as well of standard market companies) disclose a calendar of important events (Q15).

Research results for Croatia show that public companies do not pay enough attention to disclosing information on their ownership structure (only 56.3% disclose such information) and on special relationship between shareholders (only 25% disclose such information). Half of Croatian public companies disclose a calendar of important events. Since the concentrated ownership structure is characteristic of the Slovenian and Croatian economy, transparency regarding the major block holders and special relationships between shareholders is an important input information in the decision making process of different groups of external stakeholders (e.g., capital providers), since it reveals major forces in companies functioning and development. Therefore, improvements are needed in this respect in public joint stock companies in Slovenia and Croatia.

According to the regulations and recommendations in Slovenia (i.e., ZTFI 2007; Slovenian CG Code 2009; LJSE Guidelines 2013) a

company's website should not be only a tool for distribution of information and for archiving data, but an interactive tool for communication with investors. For this reason, a company's website should include online presentations for investors. Research results show that all surveyed companies have a special section on their website dedicated to corporate governance and investor relationship; all interested groups of stakeholders can find financial data, ownership structure data, statute and articles of association, information on related party transactions, annual plans, corporate governance code and other useful information.

In Croatia three quarters of the surveyed public companies dispose with such section on their official website (Q17). Almost all Slovenian companies (all prime and 92.3% of standard market companies) disclose the statute and/or articles of association (incorporation) on their websites, whereas in Croatia only 28.1% of surveyed public companies (Q3).

In Slovenia public companies are recommended to clearly present their corporate strategies, as this will help to understand and evaluate correctly a company's activities such as investments, disinvestments, and capital increases (LJSE Guidelines 2013). According to Sheridan et al. (2006) the transparency of strategy and operations of a company importantly influence the accuracy of company's securities valuation. All prime market companies and 69.2% standard market companies in Slovenia disclose crucial strategy-related information relevant to its investors and stakeholders (Q12).

In Croatia three quarters of the public companies find it relevant to disclose such information. However, in the case of the Slovenian public companies an important question arises on whether formulated and disclosed strategies are in accordance with the basic purpose and goals, which should be defined in a company's statute. Such definition of goals and their disclosure in a statute is one of the Slovenian CG Code's recommendations. The results of the analyses (LJSE Analysis 2012, 2015) showed that non-compliance with this recommendation is one of the most frequent ones among companies listed on the Ljubljana Stock Exchange.

Capital markets are becoming increasingly global and institutional investors are looking to diversify by investing around the globe. Companies are seeking capital wherever the conditions are the most attractive.

LJSE Guidelines (2013) recommends the listed companies to inform the public in both Slovene and English languages and that this should be done simultaneously. Publications in the language of international finance ensure uniform informing of investors, widen the company's foreign investor base and increase transparency of operations. According to the LJSE Guidelines (2013), publishing in English (besides in Slovene language) is binding for prime market companies. Our research results show that all prime market companies and 69.2% of standard market companies have information on their websites translated in English (Q9). Similar results can be observed in the Croatian companies as well.

8.4 Conclusions

Research results show that the transparency and disclosure practice is of first-class and good quality in more than 80% of prime and standard market companies listed on the Ljubljana Stock Exchange. Especially the prime market companies in Slovenia put considerable efforts in fulfilling not only the mandatory but as well as the voluntary disclosure and transparency regulations and recommendations, thereby improving the overall quality of their governance practice. Our research results show that mandatory regulations are those that “force” companies to improve their transparency and disclosure practices, supporting the findings that “introducing (more strict) disclosure regulation is likely to affect the broader corporate governance systems because it reduces the private benefits of control of major block-holders and also helps investors to monitor the management better and at lower costs” (Martynova and Renneboog 2010, p. 20). Especially the regulation of stock exchanges are recognized in the literature as those that importantly influence the transparency and disclosure level. However, also voluntary recommendations play an important role in improving transparency and disclosure quality in Slovenian public companies. The findings of our research indicate that joint efforts and pressure in terms of legislation, regulations and recommendations of the government, the Stock Exchange, and directors' and managers' association affects governance practice in Slovenian

public joint stock companies thus supporting the concept of institutional complementarities (Filatotchev et al. 2013; Schiehl et al. 2014; Waring and Edwards 2008). This concept provides a useful framework for exploring the interactions among institutions that results in synergistic effects among their activities and influences the effectiveness of the firm-level governance practices.

At the same time, the forces from the companies' environment continuously and dynamically put considerable pressure on companies. Selected governance practices should enable an effective response to threats and opportunities within a particular organizational environment. Public joint stock companies that want to attract outside investors should disclose quality information on their governance system as well as on their strategies and operations. Companies should make sure that their transparency and disclosure practices go beyond mandatory requirements, and they should not depend on particular interest of the company's management, but should provide information to various groups of stakeholders in a way that enables equal informing. Complying with the mandatory requirements as well as with the voluntary recommendations that are based on the best transparency and disclosure practices help investors to make informed investment decisions, prevents information asymmetry and the possibility of insider dealing.

Our research revealed areas where improvements are needed, especially in companies with unsatisfactory transparency practice, and that are: the area of transparency policy and the information disclosure policy, the area of procedures for disclosing market sensitive information, the area of disclosing information on other board memberships, and the area of disclosing information on special relationship between shareholders (e.g., family relationship, mutual ownership).

However, that does not mean that there is no room for improving transparency and disclosure in companies that are classified as companies with first-class or good practice. Especially, the voluntary recommendation should be considered when taking measures for improving these practices in companies. An important measure that should be taken in this respect is raising awareness and educating the key stakeholders (especially top management) on the importance of enhancing transparency

and disclosure thus contributing to the overall quality of corporate governance. By increasing the level of companies' transparency and disclosure of information, the information asymmetry and agency costs can be reduced thereby leading to a lower cost of capital and higher company value. Making the company's governance system, goals, strategies, operations and managers' decisions (such as investments, disinvestments, acquisitions, capital increase) transparent improves company's credibility.

In this respect, we find important the monitoring of transparency and disclosure practices on a regular basis. Such monitoring can be done by the application of the governance index (e.g., the SEECGAN Index). It provides companies, stock exchange and policy makers with an important insight into the quality of particular corporate governance component and practices. On the level of the particular company, the results of an index indicate where the improvements are required. On the national level, such results can provide stock exchange and policy makers with the feedback information on how well the regulations work in practice. We find such monitoring to be of special importance in transition economies, where corporate governance as a professional and academic field is relatively young in comparison to Western European and the US.

The study has some limitations. One limitation refers to the sample: only prime and standard market companies were explored. In order to get broader insight into the transparency and disclosure practice in transition economies other categories of companies should be explored (e.g., entry market companies, non-listed companies). Another limitation is the problem of subjectivity in evaluating the attributes of companies in the sample that may not be completely eliminated. Although efforts were made for authors to be as objective as possible (also by additional comments to every attribute), it is possible that some errors occur (see also Mangena and Pike 2005).

Since detailed analyses of the surveyed companies show that differences in transparency and disclosure practices quality exist among companies, future research should address these differences, their causes and propose solutions for improving transparency and disclosure practices in the Slovenian public companies. In the future, one should compare the research results on transparency and disclosure among

South Eastern European countries that are involved in corporate governance research by applying the SEECGAN Index methodology. In our research we provide only preliminary comparison with transparency and disclosure index of the Croatian companies. Such comparative research would on one hand provide us with broader and deeper understanding of corporate governance practice in transition countries as well as provide us a basis for improving the transparency and disclosure practice, thereby also enhancing the overall corporate governance quality.

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9

Employee Performance and Corporate Social Responsibility

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9.1 Introduction

The organizational competitiveness in turbulent and global environments depends on the success of individuals and employees who, by implementing their skills and accumulated knowledge in the work process, ensure the achievement of the organizational goals and contribute to all stakeholders' satisfaction. Important factors in the organizational performance are financial and working assets, but the factor that separates the more successful from the less successful organizations are the employees, their knowledge, motivation and competence, which create the organizational long-term competitive advantage. It is precisely

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because of the great importance of employee performance management that this area and the methods of managing the organizational success and employees have attracted attention of both theoreticians and practitioners from the field of work psychology and the theory of motivation over several decades. If the employees and the organization are successful, all stakeholders win. Owners get better results because employees are oriented towards the realization of organizational goals and strategies; managers are more successful because their subordinates successfully carry out their tasks and, last but not least, employees are satisfied since they are more successful than earlier, their employment security is higher, they have greater career opportunities promotion and insofar as the organization has established an appropriate system, they are also better or additionally rewarded for their work results (Armstrong 2015; Ashdown 2014; Harvard Business Essentials 2006). The employees' individual work performance is closely related to the activities that the company implements in the field of CSR as the employees are essential parts of the organization and are highly influenced by the organizational CSR initiatives (Ho 2012). Researchers also suggested that CSR is an area of corporate concern that should not be left out (Galbreath 2006) and is essential to organizational overall strategy (Young and Thyl 2009).

Various CSR research tackles employees, but mostly focuses on how CSR benefits the organization by attracting potential employees. Research showed that CSR is positively related to organizational reputation and attractiveness as employers (Ho 2012). But there are rare evidence on the effect that CSR initiatives have on employees and how their perceptions affect their performance and their internal motivation (Zore 2015).

Here, we report on examination how the promotion of CSR values through an organizational culture influences the organization. The main purpose of our contribution is to explore the interdependence between CSR and employee performance management, and how one can influence the development and improvement of the individual and organizational success through the promotion of CSR. Therefore, the goal of the chapter is a better understanding of how employees' perceptions of CSR affect their performance.

In the chapter, we highlight the problem of individual performance based on the thesis that with internal measures in the field of CRS we can contribute to increasing and improving the individual performance of employees, as well as to increasing the effectiveness of achieving the goals of the organization and reducing the neurological response of the “battle or flight” (Rock et al. 2013). We are also discussing the correlation between the measures in the field of socially responsible behavior of the company and the internal motivation of employees, which is one of the key elements for improving the performance of employees.

The purpose of the chapter is to provide the basis for the above-mentioned conscious actions concerning social responsibility and aimed at positive influence on the individual employees’ performance and motivation.

For the introduction, we present the key theoretical starting point, the concept of managing the employees’ performance and connect it with HRM and with theories as the basis for managing the employees’ performance. Due to differences in performance management systems during the past years special chapter was dedicated to transition from traditional to new performance management system, because these changes are closely tackling the need aligned to CSR activities to employees.

The theory is followed by the definition of CSR and the link between the CSR and the performance management of employees. In the discussion and conclusion, as the final part of our chapter, we give key findings and guidelines including starting points for further research.

Based on theoretical starting points and research results of qualitative research, we will prove the following hypothesis:

H1: Promoting CSR measures positively influence the improvement of employees’ performance.

9.2 Methodology

The chapter focuses on a qualitative survey including the analysis and interpretation of the data obtained. We used methods of compilation,

analysis, comparison and synthesis of accessible professional and scientific literature. The method of compilation was used in the review and study of professional literature and summarizing of the observations, findings, views and conclusions of various authors. The analysis was used for understanding the data obtained, which we compared to each other and used the method of synthesis in the conclusion. We have systematically searched for the relevant literature in the databases dLib.si, ProQuest and Cobbis.si. In our search for scientific bases and theoretical starting points we used keywords: employee performance, corporate social responsibility, employee, motivation. We also expanded our search to literature on the theory of human resources management and management.

Dialectical system theory is also a qualitative method designed to raise awareness of all the essential and only essential aspects, their interactions and synergies, and the consideration of their interdependence (Mulej et al. 2013). We used it in the analysis and synthesis of research findings.

9.3 Theoretical Backgrounds

9.3.1 Employee Performance

The beginnings of managing the employees' performance in companies relate to performance evaluation systems (Performance Appraisal), which are still found in organizational managing the employees' performance. Nevertheless, in recent times, we can see that this concept in the organizational practice is already replacing the performance management system, where it no longer focuses on how we will evaluate employees' or organization's performance, but rather, how to ensure the process of continuous improvement of employee performance (Ashdown 2014).

In practice, employee performance management systems are often build on goal setting and management by objectives. Therefore, drawing attention to the important differentiation between the two concepts matters. Employee performance management is not management by objectives, as the performance management is not only about the goal setting, but about ways to achieve the expected results. Therefore,

employee performance management is a broader concept, being actually employee management by allowing employees to achieve the expected results (i.e. matching expectations, explaining the desired behavior, setting standards and goals). The responsibility for the realization of strategic and individual goals is not only with managers/organization; each individual must undertake it, striving to maximize one's own performance. The fact is, the realization of the individual goals is more successful, if he/she is involved in setting them. Otherwise, the goals are not motivational, and therefore there is less chance for employees to believe in them and strive for their realization (Armstrong 2015; Ashdown 2014).

The leading author in employee performance management is certainly Armstrong (2014), who says that effective employee performance management systems help to achieve changes in culture and are integrated with key HRM activities, particularly employees' talent management, training, development, and rewarding.

The selected definitions of the employee performance management concept are presented in Table 9.1.

In Table 9.1, the presented definitions define the employee performance management system as a system coordinating the organizational and individual goals and employee behavior for the realization of the set organization goals and achievement of its performance.

Some authors, however, are somewhat distant from the original definition of employee performance management system and associate management with employee affiliation and motivation for the realization of goals (VerWeire and Van Den Berghe 2004).

Shields (2007) links performance management with two strategic objectives. The first objective is to communicate organization's strategic objectives, which refers to the definition of expectations regarding employees IDUs. The second strategic objective covers construction of a relationship between employees and managers. Ones' involvement in the process of planning the performance and rewarding of both employees and managers improves dialogue between them and the provision and consolidation of mutual trust (ibid.).

Ensuring the success of the performance management system should not be based on control (this should be the exception rather than

Table 9.1 Definitions of employee performance management system

Author	Definition
Aguinis (2005)	Employee performance management is a continuous process of identifying, measuring and developing the individual work performance of employees and teams, and aligning employee performance with the strategic goals of the organization
Briscoe and Claus (2008)	Employee performance management is a system by which organizations determine the work objectives, define performance standards, determine and evaluate the work, develop and provide feedback on employees' performance, training program, development, and reward system
Pulakos (2009)	Managing employee performance is a key process that defines how organizations communicate their expectations and direct employees' behavior towards attaining the set organizational goals
Shields (2007)	Managing employee performance is the future-oriented participatory system
Armstrong (2009)	Performance management is a systematic process aimed at improving organizational performance by developing the individuals' and teams' performance. The essence of this definition is the link between individual and organizational goals, as a key task of employee performance management systems

Source Own presentation

the rule), but on development and growth of employees and relational relationships between employees, based on maximizing current and long-term benefits (summarized from Armstrong 2015).

The concept of performance management also includes the definition of activities and the setting of criteria (work results, behavior, and capabilities) of employee performance management; it covers all key factors that matter for the realization of the goals set and for achieving the long-term success of the individual. An integral part of the employees' performance management is also the monitoring of work performance, which can either be measured (measurable) or assessed (assessment, appraisal). One measures performance when the organization has criteria (unit of measure) and measurement tools; one evaluates when there

are no specific assessment tools, and the judgments are subjective. The biggest challenges include performance conceptualization, operationalization and measurement, since it influences decisions in the process of managerial quantification and comparison of the each employee's contribution, and the resources allocation (Luthans et al. 2007; Zupan et al. 2009).

Performance measures in manufacturing companies showed that they strongly influence human behavior; besides, the system of measuring performance enables organizations to develop a consistent pattern of individuals' behavior at work (Andrews-Hanna et al. 2007). An inappropriate performance measurement system causes inappropriate behavior; therefore, the design of a performance measurement system belongs to the core business activities (Veingerl Čič 2017).

Performance management criteria can cover input or output. The input criteria are behavior and abilities, while the output criteria are the results of the work. In fact, a successful combination of performance requires a combination of both, although in practice, too much focus is put on the output quantitative criteria (Oliver and Anderson 1995). Such a focus is narrow, since one cannot set objective measurable targets for all jobs; behaviors and abilities that are closely related to the innovative activity are much more important in individual jobs. The main obstacle to the behavioral criteria is the evaluators' subjectivity and regularity of the evaluation, especially when people do not perform multiple tasks I one job, but participate in different projects and teams (Armstrong 2014; Zupan et al. 2009).

9.3.2 Theories as the Basics of Performance Management Systems

Ashdown (2014) and Armstrong (2014) combine the company's performance management systems with three theories:

1. Goal theory,
2. Theory of expectations and
3. Control theory.

9.3.2.1 Goal Theory

The goal setting theory is based on a causal link between an individual's goals and behavior and the belief that individuals are more motivated to work, if they have set challenging goals. This is not enough; goals must be challenging to motivate individuals appropriately. Difficult and specific goals result in a higher level of performance than simple goals (Locke 1976). Therefore, the objectives must be realistic, objective and challenging for employees. Objectives that are difficult to realize can be more motivational, but they must be perceived as achievable, which leads to greater acceptance of the goal; if one feels that one cannot control goals, they pose stress and cause one's failure (Armstrong 2014).

The goal theory highlights four mechanisms linking the performance objectives and results: (1) focusing attention on priorities (which leads to persistence of tasks and the development of project strategies to achieve the goal); (2) stimulating effort; (3) ensuring the employees' knowledge and skills, increasing the chances of success; and (4) encouraging the use of individual's different skills, abilities and competencies.

This theory refers to performance management by defining and accepting goals. Studies showed that the employee needs both employer feedback and self-efficacy (belief in one's ability to achieve goals), to make setting goals effective (Armstrong 2014). Because the theory focuses only on setting goals, numerous studies showed that setting goals in tasks that require creativity and improvisation can have opposite effects (Staw and Boettger 1990, summarized by Armstrong 2014). Therefore, setting goals in some cases and in certain types of tasks is harmful. In creative and complex tasks that require the individuals' narrowed attention, setting goals can actually inhibit the mental process, as the goals require the use of cognitive resources. Similarly, when one learns a new task, the performance goals can be discouraged from the learning process, since it may be better to concentrate on managing the task rather than achieving a certain result (Mitchell and Daniels 2003). In addition, too many goals can become distracting and unproductive, especially if goals are opposed (Armstrong 2014).

9.3.2.2 The Theory of Expectations

Another theory is the theory of expectations, which arises from the assumption that individuals are more motivated to work, if achieving their success significantly impact achieving the desired rewards (summarized after Lunenburg 2011). The theory of expectations is based on the connection between achievements, success, and fair rewards. According to this theory, employees will work smarter and/or perform harder work, if they are convinced that their additional efforts will result in an appropriate prize (Lunenburg 2011).

The theory of expectations proved useful in shaping the reward system. If the awards are consistent, clear and honest, they mean a lot to employees. A prerequisite for motivation is that employees themselves determine the attractiveness of prize/s. In some cases, the prize may also be unattractive, if the condition for it is an increased workload, or a challenging journey, as a prerequisite for advancement, e.g., when individuals estimate that their private life is as important as their professional life. It is essential that the theory of expectations presupposes that employee satisfaction results from success, rather than cause success (Armstrong 2014).

9.3.2.3 Control Theory

Control theory focuses on feedback as a means of shaping behavior. When people get feedback on their behavior, they get information about the gap between their practice and organizational expectation. All this is the basis for taking remedial measures to overcome discrepancies. Therefore, feedback is a key part of the performance management process (Armstrong 2014).

Armstrong (2014) adds to these theories the social cognitive theory developed by Bandura (1986). It is based on the central concept that cognitive and learning processes, especially social learning, are influenced by the design, maintenance and changing behavior of individuals.

The individual's behavior results from the interaction between a person's characteristics (emotions, cognition, moves) and the situation

(Musek 1993). This means that what people believe they can or can not do is greatly affecting their performance. This theory offers an important concept of self-efficacy in explaining the level of employee motivation concerning job, tasks or goals. Employees with a high level of performance are convinced that their effort will most likely lead to success; therefore, their expectation of success prepares them for more efforts to achieve the goals. This is influenced by expectations, qualifications or past experiences (Musek 1993).

High expectations can lead to improved performance (Gomboc 2011). In fact, this is a self-fulfilling prophecy that was first presented by sociologist Merton (1948, summarized after Gomboc 2011), who defined it as a situation in which the expectations of one person (or group) about another person (or group) lead to the realization of these expectations. This phenomenon is known as the Pygmalion effect (White and Locke 2000; Sterling 2003), emphasizing the development of a (positive) individual's self-image based on encouraging expectations and the environment, trusting in an individual's ability. Positive expectations cause trust in the ability of target persons. On the basis of relations with him, an individual should build different images about himself. For example, the stimulating behavior and positive expectation of the superior to the subordinate, unconsciously influences the behavior of both the superior, and the subordinate, and consequently leads to better individual's results. On the other hand, low expectations can reduce self-efficacy. This effect is called the Great Impact, which happens when the achievements and abilities of a particular person (or group of individuals) deteriorate due to the negative expectations of others (Gomboc 2011).

For the successful realization of the goals one must develop the relations based on the long-term relationship between the individual and the organization, aim at maximizing the long-term and current benefits. Armstrong and Baron (2004) associate employee performance management systems with a focus on dialogue, common understanding, and commitment between the employee and the manager in terms of managing an individual's performance (Torrington et al. 2011, p. 269). Therefore, work performance is conceptualized as a multidimensional concept consisting of several forms of behavior.

The most important roles in managing the employees' performance (Armstrong and Baron 2004) are:

- Communicate a common vision of the purpose and values of the organization,
- Identify expectations on what must be achieved and how,
- Ensure that people are aware of what performance is and how it must be achieved,
- Increase the motivation, commitment and belonging of employees by providing the necessary resources and feedback,
- Enable employees to monitor their own performance,
- Encourage dialogue on what must be done for improvement.

Armstrong (2014) distinguishes traditional and modern employee performance systems. The traditional systems use a top-down approach: the attitude of a manager is hierarchical in terms of a relationship from a child-to-parent transactional analysis. In the modern systems performance management is a process of building a mutual understanding of what we want to achieve and how (ibid.). Below we will explain the difference between traditional approaches to IDU management and new approaches.

9.3.3 Transition from Traditional to New Performance Management System

From the 1950s, one used more or less similar approaches to measuring performance, with traditional approaches aimed primarily at assessing the past employees' performance. Traditional ways of regulating the of employees' performance rank and evaluate employees in comparison with his colleagues. They were ineffective and terminated as methods of balancing employee performance, demoralizing employees, creating hatred between them, and encouraging prospective and key employees (talents) to start looking for work elsewhere (Barry et al. 2013; Garr 2011).

On the other hand, today's business environment does not follow the annual development cycle (such as the evaluation of employee performance on the basis of annual interviews), but goals and strategies change during the year. Also, due to the diversification of work, individuals are involved in various projects, they rotate in different workplaces during the year and have various leaders. This additionally limits an individual's performance assessment in the course of annual interviews based on a manager's assessment. If there are more leaders, the question is who should competently assess and what goals are "right". The more successful companies assess implementation of their objectives more than once a year (Deloitte 2015).

This reflections should also include the findings of neuroscience, representing an important milestone in thinking and explaining the failure of traditional systems for managing the employees' success (Swart et al. 2015). Neuroscientists found that the marking or stigmatization of employees with a numerical rating can be ungrounded. The label is successful or unsuccessful, or its classification according to certain criteria creates a response that neuroscience calls "fight or flight" (Rock et al. 2013). This neuronal response usually occurs when there is a direct physical threat to an individual, which in many cases makes people react quickly to perceived dangers and rewards in the social environment in the same way and with the same intensity as responding to physical threats (e.g. the predator, pain) and awards (e.g. food, money) (Bossman 2012). (Rock 2008) explained this phenomenon by the so-called scarf model (eng. SCARF), which defines why the success of the rankings in the brain of employees triggers a "fight or flight" response. The model is based on the assumption that five organizational factors have a huge but often invisible influence on negative human reactions. These factors are: (1) status (perceiving whether we are better or worse than others), (2) certainty concerns ability to predict the future events, (3) autonomy (the perceived degree of individuals' control over their lives), (4) relatedness (a sense of safety with others—of friend rather than foe or to share goals with others) and (5) fairness (the feeling of being respected and treated equally like others). When the perceived level of these factors is low, people feel threatened and upset. Even if they do not express it,

there is a feeling, often weakening their productivity and belonging to the company.

If these thoughts are summarized, awareness of the change in existing performance management systems is necessary. McGregor (2013) suggests ways to modify existing performance management systems:

- The complete elimination of annual evaluation interviews and the introduction of real and more frequent feedback;
- Abolishing the rating scales that create competition between employees. Instead, employers rate employees on the basis of their personal goals;
- Transforming the system of bonuses and rewards into more personal rewarding of employees.

Employees' job performance received wide attention in literature and research due to its importance, since every organization aims at higher performance (Ojo 2009). Performance activities must always ensure effective and efficient goals achievement (McNamara 2005). Employees' performance covers the observable behaviors and actions which explain how a job is done, plus the results that are expected for satisfactory job performance (Albasu et al. 2016).

Performance Values—purpose of performance standards is to communicate expectations, and often behaviors determine whether performance is acceptable (Cardy and Selvarajan 2004). Employee's performance is a process for establishing a shared workforce's understanding about the necessary organization achievement.

Development of standards: employees are involved in the development of standards; performance standards should form the basis for performance evaluation that clearly states how employees would be recognized when expectations have been met, exceeded, or not met (Gruman and Saks 2010). Performance standards should be position oriented and not individualistic; they should be visible, with anchored indicators for success, which may be expressed in terms of quantity, quality, and within time frame (Armstrong 2006). In this case, standards are the criteria

against which performance is judged; these standards should be achievable, unique, monitored, purposeful, measurable, and stated in terms of quality, quantity and time.

9.3.4 Corporate Social Responsibility (CSR)

European Commission's definition of CSR (2018) says that CSR refers to companies' responsibility for their impact on society. The European Commission believes that CSR is important for the sustainability, competitiveness, and innovation of EU enterprises and the EU economy. It brings benefits for risk management, cost savings, access to capital, customer relationships, and human resource management.

CSR is a complex concept aimed at encouraging companies to be more aware of the impact of their business on the rest of society, including their own stakeholders and the environment (*Financial Times* 2018).

There are various aspects of how organizations can use CSR to influence and attract potential employees, include its employees in CSR activities from planning to realisation in order to increase their loyalty and engagement. In this chapter we will only focus on the CSR practices aimed directly to the employees, their wellbeing and satisfaction, which may result in their better performance.

CSR is the way in which organizations consider the financial, environmental and social impacts of their decisions and actions. It is an increasingly important issue in business, as managers, consumers, investors and employees have begun to understand how economic growth is linked to social and environmental well-being (Nyameh et al. 2014). CSR is a determinant factor for any organization desiring viable sustainability. CSR is a mostly voluntary concept, but there is increasing pressure on organizations to make a positive contribution to society, or at the least, reduce their negative impact. Organizations may not tend to measure the positive impact of their behavior on their performance; however, some organizations are likely to understand the negative impact the business decisions have on their employees. Business sustainability depends on organizational considering the social and environmental consequences of their decisions. Many businesses and managers in the past were

primarily concerned with increasing shareholders' value. Developing, understanding and implementing of CSR into one's business speedily helps business organization to outperform their competitors. CSR can be used as a gain over competitors and provide an opportunity to get benefits at higher range for business stakeholders (Perlman and Hughes 2008).

In today's competitive business world, managing employee turnover is considered an important task for any organization. Naturally, people want diversities in their everyday life. They seek new and challenging jobs and good working environment. To meet these requirements to the employees in an economic way is very difficult and cumbersome. But it is also crucial for any organization to retain its talented employees. Every organization wishes a high productivity, profitability and fewer turnovers. Managing turnover successfully is a must to achieve the goals (Franco and Suguna 2017).

The Green Paper on CSR (2001) promotes European guidelines for CSR; it deals with employees as important parts of internal dimension of CSR. Companies, able to satisfy the interests of their employees and through this, to engage optimally their entire creative potentials, are aware that employees (human capital) today undoubtedly are the main factor of organizational competitiveness. The conditions, enabling the release of employees' potential include their job satisfaction and relation to work. Therefore, the major challenge for organizations today still includes attracting and retaining skilled and ambitious workers. In this context, the company must take relevant measures including life-long learning, employee empowerment, better information throughout the company, better balance between work, family, and leisure, greater work force diversity, equal pay and career prospects for women, profit sharing and share-ownership schemes, and concern for employability and job security. The active follow-up and management of employees who are off the work due to disabilities or injuries can also result in firm's cost savings.

CSR to employees covers (Green Chapter 2001, pp. 3–4):

- Concern for education and career of employees,
- Provision of adequate working conditions and equal treatment of all employees,

- Programs of health care and retirement plans,
- Appropriate payment systems, reward programs and ownership,
- Organized childcare,
- Attitudes towards women, ethnic groups and people with disabilities in matters of employment, etc.

The company aiming to pursue the concept of CSR should lay the foundations in values, culture, ethics, norms, and climate of the company.

Employees must feel important and pursue their own professional development and career opportunities. If one wants to implement this concept, interpersonal relations and communications are crucial because in terms of CSR climate and culture in the organization, employees must be regularly and accurately informed, and familiar with the disclosure of information concerning them. These are information about employment, salaries and payments for social security, health and safety at work, working conditions and training, education, and trade union activities.

In terms of CSR, accurate information and regular, open communication is insufficient, though. Socially responsible company will offer its employees more benefits than it is obliged by legislation. Exceeding legal obligations is the core of all CSR aspects. Basic postulates for CSR towards employees are described in the Green Paper, but there are no limits upwards to what a company could offer to its main stakeholders. Thus, the organization will achieve a competitive advantage and differentiation from other companies.

Employees are the main carriers of knowledge and the most important primary stakeholder group of the companies, along with owners and managers. The company, which is aware of employees' influence, treats them socially responsibly, because managers know that every employee will contribute his or her added value to the company's success.

9.3.5 Corporate Social Responsibility and Employee Performance

Another stream of research works on relationship between CSR and employee-related outcomes, such as organizational justice, organization-based self-esteem, in role behavior, performance, and turnover. We will focus on relationship between CSR and employee performance.

Performance is a fundamental issue for companies in relation to competing on a global scale, therefore due to these circumstances companies must review and rethink their managerial practices and corporate structure in order to realize significant increases in business efficiency and performance. The factors, influence performance most are related to both organizational and human aspects. The degree of social cohesion can often affect business and employee performance, positively or negatively; trust, shared values and responsibility, transparency and confidence (Stainer 2006). The way in which companies conceive and implement CSR has undoubtedly implications for both employees and human resources managers (Voegtlin and Greenwood 2016). CSR can help, on the one hand, to motivate employees, favor commitment and organizational identification (Shen and Zhu 2011), and, on the other hand, to define goals for performance management that can be further connected with rewards for employees or even introduce standards for decent work (Mariappanadar and Kramar 2014). HRM impacts employee performance through its influence on employee attitudes, commitment and behaviors (Shen and Zhu 2011). CSR therefore involves the development of practices, policies and strategies that take into account the consequences of the organization's behavior on a variety of stakeholders to improve their social performance, gain organizational legitimacy and achieve long-term competitiveness (Newman et al. 2016). In this regard employees are central stakeholders of CSR (Fenwick and Bierema 2008); therefore one of the major dimensions of CSR targets policies and practices related to employees (Lechuga Sancho et al. 2018). CSR positively relates to employee attitudes and performance (Bashir et al. 2012). Thus, continuous training and development, communication and transparency, diversity and equal opportunities, reconciling work and family life and attention to employee performance can be an

added and differential value in the treatment (Lechuga Sancho et al. 2018).

HRM policies, many of which are now listed as I-CSR standards, can foster organizational performance and improved results (Cavazotte and Corteze Chang 2016). CSR initiatives focussing on individual employees are likely to boost human capital through three mechanisms: (a) attracting more qualified workers; (b) on-going expansion of employee skills; and (c) retention and engagement of the workforce (ibid.).

Lee and Peccei (2007) found supporting evidence that through positive feedback, employees develop a greater sense of organization-based self-esteem that after metaanalysis of the predictors and consequences of organization-based self-esteem has a positive relationship with job performance (Bowling et al. 2010). CSR positively influences identification and job performance (Carmeli and co-authors 2007). They found (ibid.) that organizations with CSR practices that match the desired ethical work climate of their employees, give employees greater satisfaction, greater organizational commitment and diminished turnover intentions than individuals who did not share the same ethics with the organization.

CSR is closely related to organizational citizenship behavior (OCB). OCB is defined as behaviors that are discretionary and not explicitly rewarded; but they can help improve organizational functioning and effectiveness. One suggested that OCB is largely driven by fairness perceptions. The outcome of performance was mentioned; whether the perceived justice had any influence on the resultant performance. Just as there are good outcomes from fairness, bad outcomes can result from unfairness. The first would be that of job withdrawal, mainly behaviors or behavioral intentions such as absenteeism, turnover and neglect. Next, the perceived unfairness leads to various negative reactions, such as employee theft and organizational retaliatory behaviors (Ho 2012).

Researchers suggested that internal social responsibility initiatives can favor the company's reputation and promote its positive image as an employer (Kim and Park 2011). This can be strategic for companies, since human capital acquisition risks pose threats to productivity, as well as turnover and replacement costs, particularly in industries

facing tougher competition to hire professionals and specialized technical workers (Brymer et al. 2014). CSR also becomes more critical as new generations enter the market with inflated expectations regarding work-life balance, personal development programs and career growth opportunities (Deal et al. 2010). CSR can also impact the performance of workers more directly, by promoting higher efficiency through learning and development of new skills. Research evidenced a positive relationship between the number of employees who received training and the companies' performance, especially in the services sector (Van de Wiele 2010).

Nowadays, providing on-going training for workers is no longer optional, but rather urgent, for company's competitiveness. Investment in training and education can foster immediate, non-financial gains such as greater product quality and increased operational efficiency, which over time should positively impact company results (Cegarra-Navarro et al. 2016).

9.4 Discussion

The successful Slovenian and foreign companies are aware that they are interdependent with their employees, business partners, environment, communities and good governance. More and more of them are aware of the importance of CSR as a responsibility for their impact on society, which considers interdependence and demonstrates efforts for holism and balanced business in all organizational key areas and functions. Due to the new European and Slovenian legal obligation that companies in the public interest with more than 500 employees should report on non-financial aspects of business as early as 2017, CSR, covering also the attitude towards employees, is increasingly important. In Slovenia it significantly affects the companies' reputation as employers and in relation to other stakeholders. Developing employees' capabilities and balancing their individual work performance are closely linked, as training and the development of employees' capabilities allow achieving the desired level of individual work performance and the desired organizational results (Aguinis et al. 2011). Multiple evidences

show how greater attention to CSR and especially greater concern to develop strategic human resource practices contribute to the appearance of everyday improvements such as better work environment (Beauregard and Henry 2009), higher feeling of job satisfaction (Valentine and Fleischman 2008), higher affective organizational commitment (Farooq et al. 2014) and greater competitive advantage with direct impact on performance, either by reducing the dropout rate and absenteeism rates or increasing the employees' productivity and therefore the their companies' financial performance (Mishra and Suar 2010). Organizations' commitment to CSR practices certainly has an emotional impact on the employees' feelings toward their company, remodeling their motivation, performance and intention for long-term staying in the company (Bashir et al. 2012).

CSR practices, including focus on employee education and development, were associated with positive organizational outcomes such as performance (Agan et al. 2016; Ferraz and Gallardo-Vazquez 2016). Investment in CSR may also encourage competent employees to stay with the company, enabling the retention of knowledge, relevant to the business and reducing turnover costs (Cavazotte and Corteze Chang 2016). Research unveiled a positive relationship between CSR and employee performance either through the strengthening of the emotional ties and values, or through an increased sense of duty and obligation to their companies (Eisenberg et al. 2001).

Other studies showed that when employees believe that the company which they work for is committed to them, guaranteeing their rights as workers, protecting their health and safety and investing in their professional development, their emotional ties and desire to remain in this company are positively influenced (Jones 2010). Theoretical research strongly supported the proposition that companies that make more substantial investments in employees are more likely to attract, engage and retain human capital, and therefore improve their performance (Aguinis and Glavas 2012).

The success management, based on the development of employees' capabilities, emphasizes continuous growth over a longer period of time, focusing on individuals' advantages, developmental areas and development needs, which can be realized through selected methods of

developing employees' capabilities, thus influencing meeting organizational goals (Aguinis 2013). It is critical for most organizations that the development of employee capabilities through interpersonal methods of development leads to anticipated action and improvements (Aguinis et al. 2011). A long-term approach to the development of employees' capabilities is crucial for achieving individual performance (Herb 2015). In order to effectively manage the desired growth of individuals, an interim evaluation (agile setting of goals) and on-line feedback (Aguinis 2013) should be established throughout the period of managing the performance and target orientation. The model of agile performance demands interpersonal methods to include development and establishment of development relations in the workplace. All of this is reflected in the optimal mutual relations, which positively influence the subjective emotional well-being, which we define as a positive evaluation of the individual's life, including positive emotions, work, and contentment with life (Diener and Seligman 2004).

In recent years, however, the annual performance appraisal process is no longer sufficient. Assessing the employees' performance, the result of which is a look back and not in the future, matches no longer the needs of employers who want to develop and promote better performance of their employees. Annual evaluation interviews, which can be called shortly the annual interviews, proved in practice to be too bureaucratic and complex; they often include evaluation of different performance factors (such as the extent and quality of work, knowledge, innovation, development, communication). The final performance assessment can be expressed by a number or rank (forced ranking). Often, in practice, systems of annual interviewing are simplified: managers can easily forward their forms to employees in advance, and then deliver the completed interview form, which they both sign. In practice, however, we found in many cases that there is often no personal interview at all, but the head and employee only sign the form; thus the annual interview is considered successfully completed. Probably no specific explanation is needed why one must radically change something in this area. The focus must be on the future and employees should not be passive objects in such interviews, but active individuals who can influence their development and realization of potentials. Managers must become

coaches of their employees, directing employees' behavior to help them to better realize their goals (Armstrong 2015). Annual interviews, which are carried out once a year from top to bottom, have become "the dishonest annual ritual" (Armstrong and Murlis 1994). Another problem with the annual interviews that must be exposed is that in the organization they are often treated as another requirement of the HRM service. Forms are fulfilled, but agreements are not implemented (Bazerman and Silverthorne 2009; Barry et al. 2013).

One must recognize that traditional systems of employee performance evaluation and management are simply not intended to improve the employees' performance and development. These systems are designed to be based on an assessment of the employee's past performance. Today's work of individuals consists of several developmental target cycles, e.g. once a month or a week, while traditional procedures for achieving goals and reviewing performance still apply a 12-month cycle. The traditional performance appraisal process also does not consider the groups' performance. Deloitte's study (2015) showed that managers estimate employees' performance once a year on average 28 hours. This is certainly far too much for an inefficient system.

When considering the future of traditional employee performance management systems, one must highlight the findings of neuroscience as these findings present an important milestone in thinking and explaining the failure of traditional employee performance management systems. With the help of the findings of neuroscience, one actually reduces the gap in employees' knowledge, skills and behavior by helping humans understand how the brain influences human behavior (Swart et al. 2015). The findings of neuroscience show that people are most motivated and successful when they use their natural and favorite patterns of behavior and are also rewarded for this.

The concept of intrinsic motivation requires individuals' intrinsic motivation, when feeling interest in an activity and perceiving the possibility of choosing the activity (Košir 2013). We must not, however, equate intrinsic motivation with internal control, since this means that one performs internally controlled behaviors because one feels inner pressure to achieving certain standards or outcomes, and such behavior rarely follows interest and perceived choice (ibid.).

If we transfer the concept of intrinsic motivation to the business environment, we could say that the development of employees, which is intrinsically motivated, is the one that leads to more lasting knowledge and better achievements and is more pleasant to the individual/employee. It is unrealistic to expect employees to be intrinsically motivated for all activities. In companies, often in performance management systems, the principle is used to use the bonus (bonus, higher salary) as key motivation for the greater performance, and a penalty (salary reduction, no involvement in training, etc.); hence, “the carrot and the stick” organizations often present environments that extensively promote extrinsic motivation. In order to improve the performance of organizational employees, one must develop and encourage employees with appropriate incentives and methods for trying to identify and realize the potentials and areas for which individual employees are intrinsically motivated. The key problem is the employees who are completely unmotivated (Herb 2015).

CSR can provide tools for capitalizing on many missed opportunities within HRM (Basil and Weber 2006). There is considerable empirical support for the argument that CSR motivates employees in their work in various ways. A respected survey (KPMG 2005) reinforces the argument that employee motivation belongs to the top business drivers of CSR. The major role of CSR is to foster the employee’s empowerment, which matters for better employee performance (The City of Edinburgh Council, the OneCity Trust 2005). In order to examine the details more deeply, we divide apparent motivation-related dimensions of CSR into McClelland’s three motivational causes: achievement, affiliation, and power. CSR develops an employee’s achievement-needs and hence motivates the employee to work. Achievement is related to an individual’s responsibility for matching expectations and pursuing efficiency. Various themes emerge in consideration of this area of thought: employees’ pursuit of pride, loyalty, fun and happiness, learning, and development.

Motivating employees to complete their job at a satisfactory or better level can be challenging. Employees show motivation when they are self-inspired to perform tasks and proud of their work. Employees with no

drive to succeed in the company adversely impact others in the workplace, which can directly affect the organizational success. Dissatisfaction in the work environment, leading to lack of self-motivation may cause negative consequences. If there is no motivation, it can be difficult to complete a task. Low productivity is a consequence of poor motivation; other employees may feel that they must work harder to compensate for unfinished work. Encouragement helps employees to know how they are appreciated. Poorly performing employees can consume owner's valuable time; dealing with late or unfinished projects can directly impact the earnings. When one employee lacks motivation, it can diminish the morale of the entire team. Dissatisfaction with their jobs can make employees quit. To avoid this scenario, motivating the employees brings changes in their behavior (Franco and Suguna 2017).

9.5 Conclusions

By performing employee-focused CSR, organizations are sending signals to their employees that they respect and care for them. With such positive feedback, employees can be expected to develop a greater sense of organization-based selfesteem (Ho 2012).

9.5.1 Theoretical Implications

Beyond the empirical contributions, we suggest three wider theoretical contributions arising from our research. First, our findings help to re-conceptualize the outcomes of CSR. Our findings support the mainstream literature view that CSR very likely positively impacts employee performance; they suggest that CSR's impact on employee motivation emerges when organizations 'evaluate' the results of CSR performance. We expect the links between CSR, employee performance and employee motivation to be of growing importance for the theoretical discussion on CSR for the future and we hope this chapter contributes to this debate.

9.5.2 Managerial Implications

When organizations perform CSR activities, their employees perceived them as good and fair corporate citizens, which also enhance the employees' self-esteem in the workplace. Therefore, it makes sense for organizations to invest in CSR practices, as CSR projects back a strong sense of fairness and boosts employee performance. Significant and positive relations between CSR and employee performance, include:

- Employees in socially responsible firms exhibit better operating performance in terms of sales per employee and net income per employee; and
- Socially responsible firms, on average, reward their employees with higher salaries.

A further interesting result of the study (Sun and Yu 2015) is that although socially responsible firms, on average, have higher employee cost (per employee) than peer firms, they experience better financial performance in terms of employee productivity.

CSR practices also enhance the organization's reputation, thereby attracting prospective employees, while keeping the current employees happy. However, while investing in CSR practices is important, the key point is that employees should perceive the CSR acts. This perception cannot be rushed, and needs to be reinforced over time. Therefore, organizations should embed CSR practices into their operations.

Additionally, organizations are recommended to harmonize their CSR efforts with the activities that their employees find important, and to actively involve them into CSR practices. There are some examples of good practices in this area, but additional research should take place to substantiate them.

The principal consequences of CSR initiatives are organizational trust and organizational identification, which in sequence affect competitive performance (Farooq et al. 2014). Both, HRM and CSR have an inbuilt capacity to induce social exchange processes between the organization and its employees as CSR may influence employees' commitment and behaviors through a social exchange process (Farooq et al. 2014).

Therefore employees' perceptions of their companies' CSR affect positively their loyalty to the organization, the disposition to work hard for the organization, the degree of goal settings and desire to remain with their organization, positively contributing performance toward its growth. CSR is also a bond between employees and their organization, supporting firms' competitive performance.

Companies which facilitate transparent promotions and selection criteria and a successful and stable career plan to their employees, get in turn satisfactory job performance and consequently a higher competitive advantage. When employees realize that their employer is genuinely interested in their success and their way of performing, they feel much more encouraged to strive for high performance levels (Garg and Rani 2014). In this area the proper internal communication is unavoidable.

High-performing employees give organizations a competitive advantage because they are productive, enthusiastic and fully engaged in their responsibilities. Firms should nowadays be aware of the importance of taking care of professional careers of their employees and their wellbeing and balance between work and personal life since it will generate staff's loyalty and practices that increase employees' retention, development and engagement. Finally, it will result in increased productivity and better financial results of the organization.

9.5.3 Implications for Practice

In order to benefit the most from CSR practices and to obtain long-term positive effects on organization's performance and competitiveness, organizations are recommended to plan, organize and execute CSR activities, closely interlinked with their employees. Employees should be involved in all phases of CSR, starting with deciding, which CSR practices are the most important and how the organization will implement them. CSR is the most powerful motivation, increasing the satisfaction and individual well-being and fostering innovation, hence boosting the operational performance in work processes.

9.5.4 Policy Implications

Successful organizations contribute more to the successful economy by benefiting the whole society. Therefore, policy makers should promote, support and disseminate good practices by providing legislative and social framework, which would accelerate implementation of best practices in as many organizations as possible.

9.5.5 Future Research

Our study's limitations can be seen as fruitful avenues for future CSR and employee attitudes/behaviors research that could determine which dependent variables are linked with the perceived CSR, such as actual employee turnover, productivity or absenteeism. The research on the impact of CSR practices can also be extended to other stakeholders, as they too form an integral part of the organizational environment. Through this study, others can have a clearer understanding of the employees' oriented CSR and be encouraged to delve into the CSR's dynamics and benefits.

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10

E-Government

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10.1 Introduction

The e-government research topic has been at the forefront within the business and management, social sciences and information technology fields, reflecting the multidimensional nature of the evolvement of e-government. Some authors see the e-government as a relatively new research area (Coursey and Norris 2008). According to Norris and Lloyd

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(2006), research articles on e-government, which are more than intellectual speculation and rumination and are based on data within empirical research (surveys, case studies etc.) instead, began to appear not earlier than in the year 1999. But after 1999, only in the journals indexed in Scopus database 2677 articles using key word e-government (in English) were identified; this shows a certain level of maturity of the research field.

Bibliometric studies of e-government, that may present the overview over this research field, are still seldom (Alcade et al. 2017); most of them are mainly limited to selected geographical areas (Dwivedi 2009; Jinghua 2011; Dias 2014; Madsen et al. 2014; Przeybilovicz et al. 2014) or to a certain area of e-government (Valle-Cruz and Sandoval-Almazan 2014). Jinghua (2011) analysed articles of e-government in China from 2000 to 2009 focusing on how they are distributed among journals, authorship, affiliation institutions, keywords indexed and sources of research funds employed. Dias (2014) revealed that e-government research in Portugal still had a substantial room for improvement and pointed out that only a small number of researchers and institutions were involved in e-government research. A body of literature focused on a particular time period was analysed, as well; the template analysis approach by Madsen et al. (2014) found that majority of papers were positivistic, but were becoming less technologically deterministic, slowly moving from infrastructure to the services and citizens.

E-government is undoubtedly considered as a very important topic in the government agendas, from different viewpoints: technological—as smart, innovative and efficient, from the sustainability viewpoint—as green approach, from the accountability—as responsibility approach. Although several studies have underpinned the e-government topic from different viewpoints, we stem from the fact that huge changes in the field of informatics, digitalization and information generated, that we are facing nowadays, are very likely effecting (and will even more effect in the future) the e-government field as well, from the academic and maybe even more from the professional point of view. In this chapter, e-government is understood as a special organisational governance policy. By defining e-government policy, management implements the organisation's chosen governance policy (Duh 2016, p. 141).

In this chapter the bibliometric and citation analysis were performed, with two main objectives: (1) to analyse the thematic dynamics of this research field over the time period from 2000 to 2018, and (2) to identify the thematic subfields in the past as well as future trends. The bibliometric analysis approach consists of several visualization techniques and is still considered a novel approach (Alcade et al. 2017); together with the citation analysis approach the in-depth insight to the scientific frontiers of the e-government field is established and presented in this chapter.

10.2 E-Government Complexities

E-government is supposed to bring several advantages and is assumed to be very easily adapted to changes. It is supposed to ease access to public sector information and to make interaction with government and public institutions more convenient through online transactions, thus, advancing public administration and transforming public service delivery. Moreover, by shifting the interaction focus from a provider to a user perspective, e-government shall extensively enhance public sector service-orientation. The concept embraces the idea of fostering internal efficiency, effectiveness, and productivity, and thus substantial e-government-related cost savings are expected. This thus brings also business ethics and social responsibility viewpoints in the foreground. Simply stated, e-government is the “use of technology to enhance the access to and delivery of government services to benefit citizens, business partners and employees” (Silcock 2001, p. 88). E-government refers to “[...] the use of information technology to enable and improve the efficiency with which government services are provided to citizens, employees, businesses and agencies” (Carter and Bélanger 2005, p. 5). E-governance refers to a technology-driven administration and control system of formal and informal arrangements to enhance governance structures and/or processes as well as to guide and confine collective activities (Bannister and Connolly 2012). Therefore, “[...] e-government constitutes only a subset (though a major one) of e-governance” (Saxena 2005, p. 3).

Accordingly, e-government constitutes a technology-enabled part of the effectiveness government or public sector governance model that allows unattended public stakeholder access to information and services, improves government-stakeholder interaction, fosters accountability, efficiency, and effectiveness, and forms the basis for e-democracy from a technological point of view. E-government, being a technology-enabled part of the government or public sector governance model, was quickly regarded as a powerful system that can provide manifold benefits. Furthermore, its' digital platform character for government-stakeholder interaction embellishes unity and standardization and thus reflects citizens' demands for more transparency and accountability (Wirtz and Daiser 2015). Technology-enabled part of the government or public sector governance model should be in line with non-technological integral management models cognitions (e.g. Belak 2010; Duh 2016; Wheelen et al. 2018); this includes necessary raising awareness of the social responsibility and other responsibilities needed, which must be a red thread during the development and business in the context of e-government.

The first issue of the e-government model is convergence and technology. Although all of these developments are crucial, this is the most significant one, since it covers the fundamental breakthrough of making e-government technologically possible. Here, convergence describes the approximation of underlying technologies, diminishing sector boundaries, networking of different public and non-public areas of value creation, and finally, an integration of sectors, business units, organizations, products, and services. Besides technological innovations one must be focused also on non-technological ones. This is in line with Dialectical Systems Theory (Mulej 1974 and onwards; Mulej et al. 2013), which advocates all important and only important viewpoints and their synergy, thus holistic approach and interdependence—linking viewpoints also in ISO 26000 on corporate social responsibility (ISO 2010). In the centre of ISO 26000 core subjects is placed organisational governance, thus e-governance as a partial integrated policy is placed also there. ISO 26000 advocates seven principles of social responsibility: accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour, and respect

for human rights (ISO 2010, p. 7). Organisations must integrate seven principles of ISO 26000 into organisational governance, thus also into e-governance. We can conclude that an organisation that meets ISO 26000 standards also directs its e-governance to more corporate social responsibility.

The second issue are state and politics. From this point of view, ongoing denationalization of countries, especially in EU as well as regional coalescence of markets and nations, requires adequate technological and non-technological preconditions for transnational cooperation on political and administrative level. These have to be created by the respective governments. E-government is a suitable answer to tackle this challenge since it is an internet-based solution and thus provides the possibility to quickly establish an online environment that allows government-user interaction on a global scale. But in order to implement e-government, we also need non-technological innovations, in particular innovations in values, culture, ethics and norms, and other factors that define organizational governance (Štrukelj and Šuligoj 2014).

The third issue is society and economy. Its key drivers include globalization, digital dividedness, demographic change, and urbanization. The high economic interconnectedness and international assimilation of lifestyles as parts of globalization require a stronger public sector focus on superregional and supranational demand aspects, as well as on cross-border cooperation of governments and public authorities. As mentioned before, e-government, which is based on internet technology and thus can be regarded as a global medium, is an adequate system to approach this situation. We have to plan it (Belak et al. 2010) and it has to be socially responsible (Štrukelj 2017).

The fourth issue of the e-government development is citizen empowerment. This change in the public environment mainly concerns the citizens themselves.

10.3 Methodology

10.3.1 Bibliometric Mapping of E-Government Research and Citation Analysis

With the purpose to graphically represent the complexity of the e-government as the research and professional topic, the bibliometric mapping of e-government research and citation analysis were made. Pritchard (1969) described bibliometrics as “the application of mathematical and statistical methods to books and other media of communication”. Later, Hawkins (2001) defined bibliometrics as “the quantitative analysis of the bibliographic features of a body of literature”. Within a bibliometric analysis, mainly books, monographs, reports, theses, and papers in serials and periodicals are analysed; however, papers which are published in journals seem to be the most suitable ones for bibliometric research studies (Glänzel 2003), since they are considered to be validated knowledge (Podsakoff et al. 2005). For analysing research literature production (to identify patterns in the literature) bibliometric analysis uses quantitative methods (De Bellis 2009). Moreover, Garfield (2006) is convinced that with bibliometric analysis, we can also examine the history and structure of a field, the flow of information into a field, the growth of the literature, the patterns of collaboration amongst scientists, the impact of journals, and the long-term citation impact of a work.

In this chapter bibliometric mapping is used with the purpose to visually present scientific publications based on bibliographic data. With bibliometric mapping different bibliometric maps are produced that provide an overview of the structure of the scientific publications in a specific research field. One of the most popular ways to use bibliometric mapping is to identify specific research areas within a selected science field, with the purpose of getting a view of the size of the field and relevant subfields, and how they relate to each other (van Eck 2011). In this way, we can understand the broader aspects of the particular research field (Börner et al. 2012); of e-government in our case.

Visualization of Similarities (VOS) is the novel mapping technique and has been used to create bibliometric maps in various studies (van Eck and Waltman 2007; van Eck et al. 2010; Waaijer et al. 2011). The VOS

mapping technique is conducted by the open-source software VOSviewer (Leiden University, Netherlands) (van Eck and Waltman 2013). The VOSviewer software has visualization capabilities, therefore bibliometric maps can be displayed in various ways and consequently emphasize different aspects of a map, identification of clusters of terms; it merges terms that may be closely related (van Eck 2011). According to van Eck, the proximity of the terms can be interpreted as an indication of their relatedness. VOSviewer Version 1.6.7 additionally enables the creation of maps in which terms are coloured according to the year of the term's appearance in the scientific literature, thus allowing the analysis of the thematic dynamics in the chosen time period.

The bibliometric analysis is combined with the citation analysis to identify influential papers that served to determine the main categories of the e-government research field and to form the classification of journal articles. Citation analysis approach serves to identify the most influential papers regarding e-government in the time period from 2000 to 2018 (Gundolf and Filser 2013) and allows the conclusions about interconnections between papers and conjunctions among different scientific concepts (Kraus et al. 2014). Citations of an individual publication indicate that it brings important scientific knowledge that is worth using as a foundation for further elaboration (Casillas and Acedo 2007). Therefore, following the approach adopted by Gundolf and Filser (2013), we identified articles in the four most prolific journals that were cited the most in the analysed period for the analysed research-field.

10.3.2 Data Set

To analyse publishing of e-government research, bibliographic data available in the Scopus database were used. Based on the databases indexing, we did the in-depth analysis of the publishing in the time period until 2018. To be able to identify all published documents connected with e-government, the Scopus database was searched using the keyword: "E-Government" in the title and in keywords of the documents.

Bibliometric analysis was performed to analyse and to visualize documents found on the bases of described search. The data set was limited

to the scientific articles in the English language. For each article, the author, nationality of the author's institutional affiliation, year of publication, number of citations, and abstract were compiled. In the in-depth bibliometric and citation analysis, the articles of the four most prolific journals regarding the e-government related topics were included.

The Scopus database was selected, because it suits the goal of our study; it is easy to use, and it also enables an easy transfer of data into the VOSviewer (Leiden University, the Netherlands) program for further data analysis (van Eck and Waltman 2013). For data analysis SPSS 21 and VOSviewer software support tools were used.

10.4 Results of Analysis

10.4.1 Distribution of Articles

In the period until 2018, 2677 journal articles were published in the researched field. The first article published and included into the Scopus data base is from the year 2000, by Rainey (2000). From 2000 to 2018 the number of articles in English in the field of e-government increased (analysis was performed in March 2018, therefore for 2018 only 3 months are included). Analysis of the articles published per countries revealed that the five top countries, where over 100 journal articles were published in this time period, are United States (558), United Kingdom (278), China (146), Greece (123), Australia (111) and Spain (103). See Fig. 10.1

The articles on e-government were published within various scientific fields—mostly from the fields of Social Sciences (64.8%), Computer Science (60.2%), Business, Management and Accounting (17.8%), Decision Sciences (10.2%), and/or Engineering (8.6%). Most of the articles were published by authors from Brunel University London (68), and further on by the authors from the institutions such as Delft University of Technology (33), University of Texas at San Antonio (31), Swansea University (30), National Technical University of Athens (29), National University of Singapore (29), etc. The most fruitful authors, with more

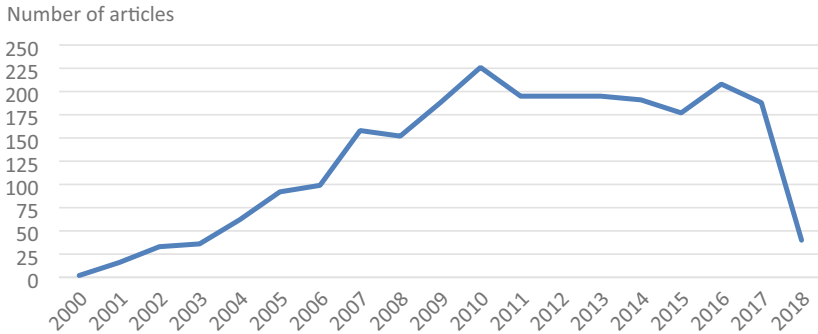


Fig. 10.1 Number of e-government articles over years (2000–2018) (Source Own research)

than 25 articles published in the time period analysed, were Weerakkody, V. (32), Dwivedi, Y. K. (29), Reddick, C. G. (28) and Janssen, M. (27).

10.4.2 The Most Prolific Journals in E-Government Field

The top four journals regarding the number of publications, with more than 100 articles in the e-government field, are *Electronic Government* (248 articles), *Government Information Quarterly* (244 articles), *International Journal of Electronic Government Research* (124 articles), and in *Transforming Government: People, Process and Policy* (105 articles). In these four journals altogether 721 articles on e-government were published.

For these four journals the mapping of clusters was performed. In the bibliometric analysis for the period up to 2018, 721 journal articles were relevant, leading to the 11,814 terms (words or phrases). Those terms that occurred at least 25 times in the titles and/or abstracts of the documents were identified (145 terms), and out of them, 60% of the most relevant terms were used in the analysis (87 terms); the map of terms is presented in Fig. 10.2

Words and phrases that are more interlinked and repeated present a cluster. Three main clusters, obtained by the VOSviewer (van Eck 2011)

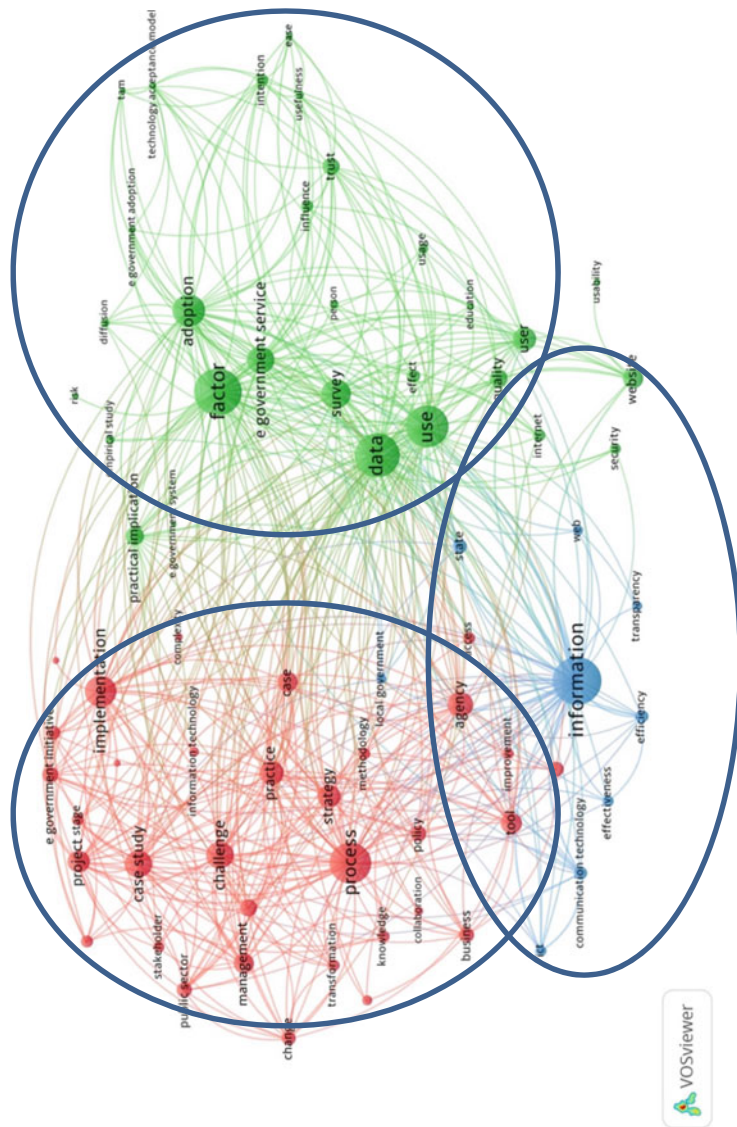


Fig. 10.2 Network visualization for e-government terms (2000–2018) (Source Own research)

are visually marked by colours and circles. Cluster 1 (red colour)—left upper circle—combines documents where terms implementation of e-government, process, project, case study and similar are most frequently used, thus this cluster is named as “e-government implementation”. Cluster 2 (green colour)—right circle—combines documents that are especially associated with different aspects of the e-government adoption and influencing factors, with terms services, citizens, quality, and data, thus we named it “e-government adoption and use”. Cluster 3 (blue colour)—low left circle—is to a greater extent oriented towards information and includes terms information, communication technology, website, efficiency, tools—we named it “e-government technology”. Bibliometric analysis leads to the conclusion that the field of e-government in the last two decades is associated with three main fields, which are reflected in the clusters explained above; these three main fields also form a very dense net of connections (within clusters, as well among them), clearly revealing the huge complexity of e-government as a research and professional topic.

Figure 10.3 shows the exploration of the areas of e-government across the time period analysed. The scale at the figure with the value zero (0) represents the year 2011. Figure 10.3 brings a very clear visualization of the distribution over time: in the period before 2011 (blue and dark green colour), the field of e-government was dealing to a greater extent with the information and information technology, implementation of e-government, strategies and processes. After 2011 (light green and yellow colour) the published research on e-government is more focused on how to adopt e-government, factors influencing adoption, on data, trust, risk, use and e-government services.

In-depth analysis of the areas of time period clusters with the bibliometric analysis is enriched in content by the citation analysis. Namely, in the next phase, the systematic search of the body of literature was conducted taking into account the citations of articles in these four journals. Analysis reveals the results presented in Table 10.1.

A citation analysis was conducted by the Scopus citation tool to identify the most influential publications within this period. The process resulted in a list of 86 journal articles that were cited 50 or more times. Categories that emerged from these most-cited publications, based on

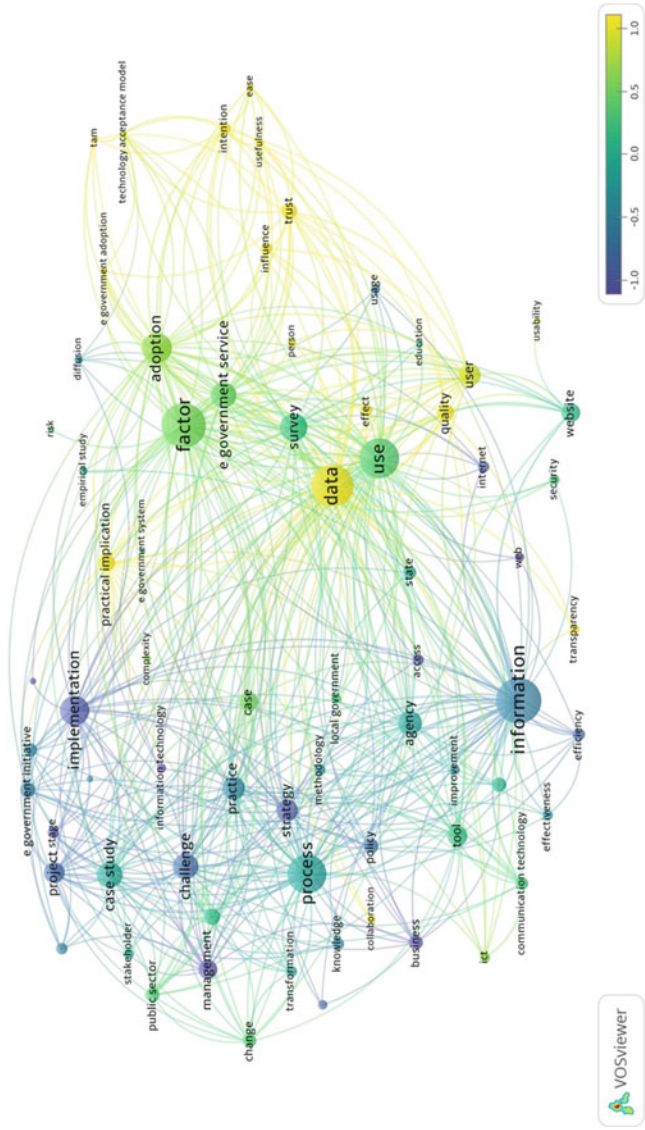


Fig. 10.3 The distribution of research topics within e-government field over time (2000–2018) (Source Own research)

Table 10.1 Clusters of articles, based on bibliometric and citation analysis, in the four most prolific journals^a, 2000–2018

Clusters and sub-clusters	Articles (the highest citations)
<i>E-government implementation</i>	
General	Layne and Lee (2001), Gupta and Jana (2003), and Reddick (2005)
Analysis of the past research	Heeks and Bailur (2007), Yildiz (2007), and Jaeger and Thompson (2003)
<i>E-government adoption and use</i>	
General	Hung et al. (2006), Verdegem and Verleye (2009), and Shareef et al. 2011
Social media	Bertot et al. (2010), Bonsón et al. (2012), Linders (2012), and Bertot et al. (2012a, b)
E-government technology	Andersen and Henriksen 2006, Guijarro (2007), and Weerakkody and Dhillon (2008)

^aGovernment Information Quarterly, Electronic Government, International Journal of Electronic Government Research and Transforming Government: People, Process and Policy
Source Own research

authors' keywords, were applied as the main topic areas being addressed in articles. Additionally, all abstracts were carefully examined and read to justify the main topic areas. This resulted in the identification of five clusters/sub-clusters, presented in Table 10.1, along with the three most cited articles for each of them.

While the results of the cluster analysis are confirmed by the citation analysis and are aligned with it as well, it is important to emphasize that the duality in recent trends, in the last eight to nine years, is noticeable. The citation analysis confirmed that the most cited articles may be in general divided into three clusters, corresponding to the three clusters identified by the bibliometric analysis, but the cluster “e-government adoption and use”, that mainly match with the research in the last eight to nine years, may be divided into two sub-clusters. We named sub-clusters as “e-government and adoption – general” sub cluster that is spreading over the whole period of last nine years, and “e-government and adoption – social media” sub cluster that is covering articles, published in the recent five years. Also, within the cluster “e-government implementation” the sub-cluster of the highly cited articles, focused on the analysis of the e-government past research, is identified.

After 2011 the published research on e-government is more focused on how to adopt e-government, factors influencing adoption, on data, trust, risk, use and e-government services.

10.5 E-Government and Digital Society

E-government is not just about digitizing existing bureaucratic processes. It should rather be seen as a transformation of e-business models in the public sector and in terms of how governments operate. Business models are an important topic in the management and business environment (Duh and Štrukelj 2011) and should take social responsibility into consideration (Dankova et al. 2015; Šuligoj and Štrukelj 2017). Transferred to the public sector, a business model represents the service system of a public sector organization and illustrates in a simplified, aggregate form, which resources are used and how these are transformed into the service offering of the public sector organization.

Business models are considered especially suitable for e-government endeavours since they assist and encourage the continuous adaption and re-engineering of organizational practices to new circumstances. These are key reasons why the business model concept is regarded as appealing and useful in the public sector and why governments worldwide are increasingly applying business models to enhance their e-government-related service delivery. A public business model is a simplified and aggregated representation of the relevant services, processes, and activities of a public sector organization that describes how information, products, and services that create additional value for society, are developed and managed, while also considering strategic and process aspects as well as user and public demand components to support sustainable public value creation for society and the public service remit, thus taking business ethics and social responsibility into consideration. Public business models in an e-government context can therefore be classified into four basic stand-alone business models (Wirtz and Daiser 2015):

- **Information:** The Information Business Model builds upon the strategy to provide users with information in a simple, convenient,

and appealing way. Thus, key processes of this business model are collecting, selecting, systemizing, structuring, compiling, and packaging information as well as presenting and providing the respective content on an online platform.

- **Communication:** The Communication Business Model follows the approach to provide the users with a comfortable online communication platform. For this reason, setting-up, maintaining, and developing of online communication exchange possibilities, which support and foster interaction between public administration and its stakeholders, are key activities.
- **Transaction:** The Transaction Business Model targets at the initiation, handling, and processing of administrative procedures through the e-government platform. The core aim of this business model is to complement, or partially or fully substitute, existing offline government services. Therefore, automation and data processing, service bundling, and service development are, for example, important core competencies that are required for realizing the e-government platform.
- **Integration:** The Integration Business Model aims at integrating public stakeholders directly into the value chain of the public sector organization as well as its administrative procedures. This means that the user has the possibility to influence governmental activities through participative and collaborative action.

Most e-government portals today are hybrid business models that apply a combination of the four basic stand-alone models.

E-government services have become an important instrument of public administration. The main drivers for their evolution during the past two decades have been the development of modern information and communication technologies and the public demand for more convenient public service provision. Their development has led to the advancement of existing e-government services and prepared the way for new innovative e-government information and service provision. Moreover, it triggers radical process changes in public administration organizations. For example, the introduction of electronic tax declarations, which significantly reduced transmission efforts and processing

times since direct electronic data processing substituted former workflows (e.g., mail delivery, digitization of information or documents) and electronic completion of forms drastically limited incorrectly filled out declarations.

E-government service evolution, however, was not a digital process that only required flipping the switch and all public service offers would automatically be available to the public stakeholders. It rather has been a long and cumbersome way of sequential service development and technology steps to reach the level of today's e-government service provision. Taking the technological development of modern information and communication technologies as well as the associated innovations in e-government service provision into consideration, mobile technology and social media have significantly expanded the possibilities of public multichannel management.

Mobile technology, which provides new service opportunities, can be applied within various fields of public service provision. These are mobile search, mobile information, mobile communication, mobile transaction, mobile payment, mobile advertising, and mobile participation. Social media can in general be expected to become more and more important for citizens' communication and interaction. Against this background, e-government-related social media adoption will constantly increase, making it a top priority on every e-government agenda.

Since local e-government portals are the main internet interfaces between the government and citizens, a further expansion and optimization of local online portals is required that clearly focuses on the users' needs as well as on increasing user-friendliness of the e-government services. This development needs to go hand in hand with broadening the full online e-government service range and increasing service depth. In addition, online communication with the users should be further intensified and the provision of participation and collaboration e-government services expanded.

10.6 Discussion and Conclusion

The thematic dynamics of the e-government research field and the thematic subfields in the past, over the time period from 2000 to 2018, as well as future trends were analysed, revealing that in the period before 2011 the e-government research was focused mainly to the information and information technology, implementation of e-government, strategies and processes. After 2011 it is more focused on how to adopt e-government, factors influencing adoption, on data, trust, risk, use and e-government services. The shift to the quality, data, trust and orientation to users is not coming as a surprise (see e.g. Sternad et al. 2011). Nowadays e-government is considered a very important topic in the government agendas, from different viewpoints: technological—as smart, innovative and efficient, from the sustainability viewpoint—as green approach, from the accountability—as responsibility approach. Although several studies have underpinned the e-government topic from different viewpoints, we stem from the fact that huge changes in the field of informatics, digitalization and information generated, that we are facing nowadays, are very likely effecting (and will even more effect in the future) the e-government field as well, from the academic and maybe even more from the professional point of view. In this chapter, e-government is understood as a special organisational governance policy. By defining e-government policy, management implements the organisation's chosen governance policy.

The digitalization of the every day's life and the high-velocity, high-variety and high-volume of data that is being produced all the time, triggered the rising awareness of the information hidden in the big-data bases that are characteristic for the e-government as well. Our analysis revealed that this is very likely to be among important topics of the research in the field of the e-government.

The bibliometric mapping identified three main clusters of terms, which are interlinked within the clusters: “e-government implementation”, “e-government adoption and use” and “e-government technology”. The citation analysis further revealed, that within the “e-government adoption and use” cluster, the sub-cluster focused on the social media may be identified. In general the first articles containing at least

some viewpoints regarding the incorporation of social media into e-government system, covered by Scopus, were published in 2010, with the most cited one from this group being the article of Bertot et al. (2010). Social media involvement that is characterized by the citizens' participation in e-government is a recent phenomenon where government is seeking more involvement of citizens through different platforms (Vakeel and Panigrahi 2018). The very recently disclosed activities and events (Solon 2018) revealed that the digital interfaces may have an important impact on the future of social media in e-government: through them the third parties can interact with and extract data from the social media platform that may lead to the use of people's data in political campaigns (for presidential campaigns, for important governmental decision like Brexit etc.). It is very likely that the e-government systems will be researched in the future from this viewpoint as well.

Such development is not surprising because e-government started to appear not more than two decades ago when official governmental websites delivering information and services began appearing. In a relatively short time period, development of e-government has progressed from e-government 2.0 (Meijer et al. 2012), to the smart e-government concept 3.0 (Vlahovic and Vracic 2015) and to the recent e-government 4.0 concept (Valle-Cruz and Sandoval-Almazan 2014). The importance of the field and its research attempts are growing fast and research implications challenge not only researchers themselves, but also other stakeholders, solutions providers and government representatives, as well as citizens.

Coursey and Norris (2008) developed five theories or models of e-government relative to its growth and developments published in previous published articles—four have been published in 2001, one was published in 2000. These models are partly descriptive, partly predictive and partly normative and they provide an accurate description of e-government in its early stages.

Publications that followed later, provided more in-depth understanding of e-government, included more empirical research regarding e-services use (Carter and Bélanger 2005) and also link e-government with some other relevant perspectives (Helbig et al. 2009). The latter

extended the research to new concepts as well, i.e. e-governance, e-democracy (Liden 2012), challenged the issue of measuring the value of e-government (Savoldelli et al. 2013) and benchmarked e-government capabilities (Cox 2014).

In the recent articles researchers mostly examined quality of public e-services, attitudes toward e-government and technology development of e-services, associated with users' trust and safety. The quality of public e-government services has been identified and measured in terms of management, information availability, service issues, safety challenges, organization and technical matters (Sá et al. 2016a, b). From a geographical perspective, researchers found significant differences between the rural and urban municipalities. One of important factor that distinguishes people in a rural municipality from those in an urban municipality is geographical closeness. Some researches proved that provincial government websites operate at an inefficient level (Seo and Bernsenb 2016; Wu and Guo 2015). Baqir and Iyer (2010) found that developed countries like United States and many European countries, have advanced information communication technology (ICT) infrastructures, but e-government services usage by citizens is still somehow limited. On the other hand, the developing countries are still struggling to develop and deploy basic ICT infrastructure, which limits people's ability to use e-government services that have already been developed.

E-government studies also show that more than half of e-government projects resulted in total or partial failures with regard to the initially grounded goals, scheduling or budgeting plans, while even more of projects fail to meet expectations of users (Anthopoulos et al. 2016; Aladwani 2016). Report of United Nations e-government survey also showed differences between countries regarding e-government development and use in 2014. At the top are listed South Korea, Australia, Singapore and France (UN 2014). Several newer studies of e-government are focused on diffusion of e-government, quality dimensions in e-government services, e-government adoption and acceptance etc. (Zhang et al. 2014; Yildiz 2007; Reece 2006; Titah and Barki 2006; Papadomichelaki et al. 2006).

Several researches were studying e-government from the technology view-point; many are utilizing the technology acceptance model (TAM)

when studying usefulness and adoption of e-government services (Al-Hujran et al. 2016; Chelliah et al. 2016; Rana and Dwivedi 2015; Sarrayih and Sriram 2015).

The research showed that e-government is moving towards more mature stages. During past years research areas are clearly defining building blocks of more sophisticated e-government systems which are beyond the early systems. Advanced technological solutions are emerging, which provide added value to all stakeholders—citizens, all levels of government stakeholders and other organizations involved. Comprehensive systems beyond local government borders are emerging and we can talk about e-government ecosystems. This is in line with the growing demands for ethical conduct and social responsibility of individuals, organisations, governments and society as a whole (Belak et al. 2010; Dankova et al. 2015; Štrukelj and Šuligoj 2014).

The results revealed that the analysis of the existing research results in the literature (like bibliometric and other related analyses, e.g. citation analysis) is topical and necessary, especially in such a rapidly changing field as the digitalization of all aspects of life and work, with which e-government is closely linked as well. The articles that bring the overview of research in the past and offer perspectives about the future paths, are highly cited, have an impact and co-shape future research topic within the e-government area (Heeks and Bailur 2007; Yildiz 2007; Jaeger and Thompson 2003). The research results, obtained by the bibliometric and citation analysis of the research in the field of e-government, are important for academics and for professionals, and for all stakeholders involved or influenced by the activities that take place within the e-government systems. It is therefore even more important that in researching this important field we emphasize its interdependence with the organisational governance (Belak 2010; Duh 2016; Duh and Štrukelj 2011) and draw attention to the need for its ethical and social responsibility (Belak et al. 2010; Dankova et al. 2015; Štrukelj 2017; Wheelen et al. 2018).

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