BUSINESS LEGITIMACY AND CORPORATE SOCIAL RESPONSIBILITY IN THE RUSSIAN CONTEXT

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Abstract: In Russia big business has failed to acquire the status of legitimacy and respectability with the vast strata of the society. The crisis of confidence may have serious consequences, including increasing interventionism by the state. Using legitimacy theories and social contract theories as a framework, this article considers the appropriateness of corporate social responsibility as a pragmatic response by firms seeking to increase their 'legitimacy' with the state and the society in order to safeguard some space of action in the pursuit of greater efficiency. The study is based on the survey of 129 firms in Russia.

Key words: business legitimacy, corporate social responsibility, privatization, Russia

Introduction

Legitimacy of business has received substantial treatment in managerial literature over the past quarter of a century (DiMaggio and Powel, 1991; Rowlinson at al, 2006; Suchman, 1995; Tornikoski and Newbert, 2007; Warren, 1999, 2003). As a rule, the data in practically all of available studies have been from the USA and Western Europe. No major empirical work on transition economies has appeared so far. The likely reasons are lack of primary data and the sensitive nature of the issues involved, which makes it difficult to collect these data in the precarious conditions of post-communist transition. This situation makes it tempting to extrapolate findings obtained in the West to transition economies like Russia. But would such extrapolation be justifiable? Some Russian companies, in particular those seeking an international status, make a genuine effort to replicate the behavioral patterns of big western companies or at least to imitate them.[1] However, this is a rather small group of super large firms, operating in oil extraction and other lucrative

[1] See, for example, the report on Russian Aluminium (Rusal): Kramer A.E. "Breaking out of Siberia, oligarchs seek profit and legitimacy," *International Herald Tribune* 21.08.2006.

industries. They are in the limelight of public attention, but can hardly be seen as representative of the majority of Russian firms. In fact, most firms in Russia are medium to large enterprises, employing between 300 and 5,000 workers. Although they are the key element of the national economy very little is known about the attitude of their managers towards legitimacy.

In this article we attempt to fill the existing gap in analysis and investigate the views held by the executives of a sample of medium and large Russian companies. In terms of size, sector affiliation and methods of privatization this sample, compiled on our behalf by the Russian Economic Barometer, an independent research centre located in Moscow, is reasonably representative of the whole population of Russian medium to large-size industrial firms (see Table 1). We dispatched 500 questionnaires and received 129 replies, securing the response rate of 26 percent, which is above average for this type of survey (De Pelsmacker and Janssens, 2007; Dillman, 2000).

*** Table 1 about here***

As an inspiration for our questions we used the modern legitimacy literature. Our objective was to probe whether the responses of Russian managers would be in line with expectations grounded in western theoretical constructs, in particular the concept of corporate social responsibility (CSR) as a proxy for business legitimacy. In the event, our survey provided evidence of a discrepancy between predicted and actual attitudes. This led us to consider a range of economic, social and political factors in the search for an explanation for the discrepancy.

Understanding legitimacy

The concept of legitimacy suggests the existence of an implicit social contract in which business is accountable to society's expectations or demands. Legitimacy may be described as a generalized perception that the actions of the firm are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions (Suchman, 1995).

Legitimacy is a somewhat fleeting construct. There is no independent and settled external standard of legitimacy. Instead the basis for legitimacy is individual judgment (Scanlon, 1998). This makes it very difficult if not impossible to measure legitimacy because of a strong element of subjectivity that it contains. As a consequence, researchers who deal with legitimacy often choose to introduce proxies. Thus, public opinion polls often use as a proxy the level of trust that the members of society have in business leaders or individual corporations (Zalka et al, 1998). Yet legitimacy of business may take different forms depending on historical, cultural and economic situation in the society. Many authors believe that in the present social climate the strive for legitimacy on the part of business presents itself most consistently in the form of corporate social responsibility (CSR) (Gutherie and Parker, 1989; Mitchell, 1989; Warren, 1999; Woodward, Edwards and Birkin, 2001; Deegan, Rankin and Tobin, 2002; Warren, 2004; Branco and Rodrigues, 2006; Kuznetsov and Kuznetsova, 2006; McWilliams, Siegel and Wright, 2006). In this context CSR occurs as an act of legitimation.

The concepts of legitimacy and CSR have an obvious common foundation in acknowledging that in return for the ability to function business is subjected to social expectations and constraints that under certain circumstances may encourage it to go beyond statutory norms. According to Carroll (1993), legitimacy is a condition that prevails when there is congruence between the organization's activities and society's expectations. Although the conception of legitimacy comes from political science (Habermas, 1993; Rawls, 1999[1971]), it is notable that some of the popular explanations of CSR, seemingly arising strictly from a business and economic perspective, are in essence not too different from the legitimacy approach or incorporate some of its elements. One example is the stakeholder theory of CSR which links the success of companies with their ability to maintain trustful and mutually respectful relations with such constituents as customers, suppliers, employees, the general public and the government. Inevitably, relations with some of them are regulated by informal, morally defined norms rather than proper contracts. In other words, in its interpretation of the interrelationship between business and society the stakeholder theory comes very close to the key assumptions as proposed by the legitimacy theory.

Legitimacy is rooted in public presumption and emerges out of the interaction of the public and organization. As a result, in Carroll's words (1993:505), 'legitimacy is constantly subject to ratification.' This makes legitimacy an elusive quality, but this does not mean that firms cannot take steps that generate legitimacy. For a firm the most tangible form of legitimacy probably comes in the form of direct support from its stakeholders. Therefore measures that generate this support (such as good performance, credibility, reputation, trust and integrity) increase legitimacy. As a result more and more firms see strategic value in developing and projecting a caring image that is critical to building up an organization's reputation (Burke and Logson, 1996; Key and Popkin, 1998; McWilliams, Siegel and Wright, 2006). This is normally accomplished by embracing CSR as a strategic function tied to more general organizational goals such as increasing profit or strengthening intangible assets (reputation, brand, etc).

Enlightened Self-Interest

CSR may be seen as a combination of actions by which businesses seek to negotiate their role in society. Legitimacy theory assumes that firms will make a rational and pragmatic strategic response to the public expectations in order to maintain some sort of social compact with society (Zalka et al, 1998). Such a response is motivated by the realization that compliance with societal expectations is necessary to safeguard some space for the freedom of action of business in the pursuit of profit. As it is been noted, when under pressure big companies "ask their critics to judge them by CSR criteria" (*The Economist* 20/01/2005). This implies that although it is not impossible for firms to engage in CSR on largely moral or ethical grounds, normally they do so to enhance corporate profit or shareholder gain. This "enlightened self-interest" thesis is well developed in the literature (Mitchell, 1989; Jones 1995, Mahoney 1997; Lawrence, Weber and Post, 2005). According to Heal (2004), the contribution of CSR to economic performance is that it helps the market to align corporate profits and social costs. This contribution may come about in a number of ways, two of which, we believe, are especially relevant to the situation in post-communist countries. These are the projection of the positive image of corporations and, in particular, removing a strain in relations between corporations and their stakeholders that, in countries like Russia, is rooted in mass privatization of mid-1990s.

The Russian Perspective

According to the literature, even in countries with a long and uninterrupted tradition of democracy the privatization of once public assets creates unique legitimization requirements because it is usually accompanied with the provision of some concessions and privileges to the new owners at a cost to the public that require justification (Moran, 2001). In Russia privatization turned out to be profoundly controversial and still is widely regarded by many Russians as deeply unfair. During 1992-2003 over 141,500 enterprises were privatized, of which 31,200 became joint-stock companies. The ownership structure that originally emerged was far from equilibrium: the majority of shareholders are in possession of only an insignificant block of shares that has almost no value (Atanasov, 2002). The authors of privatization have sacrificed the need to prepare social acceptance of privatization to achieving the maximum speed and breadth of the destruction of state property. Ownership transformation coincided with a period of a profound economic crisis in the country. This had a long lasting impact on corporate governance as the market mechanism was substituted to a considerable degree with private networks and other informal arrangements. Such practices often pursued the goal of conspiring against outsiders and avoiding legal control over financial and other transactions. In the 1990s poor disclosures of information, price fixing, tax evasion, etc. were almost a norm of business behavior. Not surprisingly, the image of many corporations in Russia has become tainted with the stigma of fraud, corruption and other forms of antisocial behavior. This undermines their legitimacy with major sections of society. As late as July 2007 a poll by a respected independent research centre revealed that 37 percent of Russians thought that the activities of big business were detrimental to the interests of the country, 74 percent were in favor of a revision, full or partial, of the results of privatization (Levada-Centre, 2007). Consequently businesses in Russia are caught in a “legitimacy trap”: first, they have to overcome the unfavorable image they have in the eyes of the public because of what Timothy Fry calls “the original sin of privatization” (Frye, 2006); second, they have to protect themselves against the threat of increasing state intervention as the government seeks to respond to the public attitude to business.

Research Focus

In the context of the earlier discussion it is not difficult to see why the quest for legitimacy may be expected to encourage Russian firms to increase engagement in CSR. As has been demonstrated, CSR is probably the most visible manifestation of the process of business legitimation at the current stage of Russian business development. As a concept CSR mandates that the corporation has not only economic and legal obligations, but also certain responsibilities to the society that extend beyond these obligations (McGuire, 1963; Davis, 1973; Carroll, 1979; McWilliams and Siegel, 2001, Waldman et al, 2006). In other words, CSR implies the presence of an implicit social contract, according to which business is accountable to society’s expectations or demands.

Because CSR is closely linked to the legitimacy of business as a notion of socially accepted and expected behaviors, we have chosen it within the framework of this study as a proxy for legitimacy that allowed us to formulate propositions that could be tested out against the data from our survey. Specifically we sought to establish, first, whether the attitude towards and understanding of CSR by Russian managers was similar to that of their western counterparts. Second, we wanted to find out if the conditions of low generalized trust would stimulate Russian firms to develop CSR as a means of increasing their legitimacy with the stakeholders as is suggested in literature (see, for example, Frye, 2006, Kuznetsov and Kuznetsova, 2008). Firms could do this by sending out a signal through their “good works” that in their attitude to stakeholders they were moving from viewing them as subjects to be managed towards a more relational company - stakeholder engagement, where there was place for consideration of mutuality and interdependence (Andriof and Waddock, 2002). This change in interaction between the corporation and stakeholders could be expected to have a direct impact on one important component of legitimation, namely the belief that the interests of business encapsulated the interests of the stakeholder. Finally, we tried to ascertain whether Russian corporations regarded CSR as instrumental in achieving greater legitimacy with the state. This latter assumption reflected the position maintained by some authors (such as Gabarro, 1978) that the state could be expected to interpret socially responsible behavior as a sign of competence on the part of corporations, which could encourage it to reduce state supervision over business in favor of self-regulation.

The Study and Findings

A cross-sectional, non-experimental descriptive survey research design was used to collect data from the sample. Following Aupperle, Carroll & Hatfield (1985), Angelidis and Ibrahim (2004) the survey instrument adopts a forced choice format as especially functional in the corporate social responsibility research area because of its ability to limit a respondent's social desirability bias. The instrument was designed to collect information on managers' attitudes to CSR and the factors that determine this attitude. It consisted of 18 survey questions, including two requesting answers on five point Likert agreement scales (e.g., 1 to 5 = *very unimportant* to *very important*; *strongly agree* to *strongly disagree*), and three questions requesting information on the size and the legal form of the firm. To maintain anonymity of the respondents, they were not required to provide their name or their company's name.

The frequency analysis of the responses reveals the following picture:

a. A considerable number of respondents do not regard CSR as relevant in modern Russia. CSR performance is not seen as an important influence determining the public image of the firm; financial results are.

b. CSR for many firms is a slogan rather that a strategy: 66 percent of respondents supported the following statement: "In most cases declarations by firms that they adhere to the principles of corporate social responsibility are in fact purely public relation exercises," whilst only 15.65 percent disagreed.

c. Managers tend to include in CSR activities (like paying taxes, creating employment, abiding by the law) that contradict the recognized definition of CSR as "activity that goes beyond standard legal requirements and contracts." In Table 2 the views of respondents are ranged according to the frequency of opinions expressed.

*** Table 2 about here ***

d. Respondents do not believe that active involvement in CSR will result in more freedom from state intervention: only 6.20 percent of the respondents think that socially responsible corporate performance will reduce regulatory oversight. However, 37.07 percent believe that it will contribute to better relations with central authorities and 62.93 percent – to relations with local authorities.

Discussion

Our findings highlight two results. First, Russian firms show less interest in engaging in CSR as a means of legitimation than suggested by accepted theory. Second, the interpretation of CSR by Russian managers differs noticeably from the Western conceptions of CSR. We see the origins of these discrepancies in the dissimilarity of the business environments that exist in mature market economies and transition economies.

The notion of CSR has emerged in developed capitalist countries, in which the rule of law and other formal and informal institutions, i.e., universal and explicit rules that allocate responsibility and set up behavioral boundaries (North, 1990), are firmly in place and provide the procedures and routines that allow for the resolution of economic conflict and thus offer a solid and cost-effective foundation for market transactions. In a modern society formal institutions operate in an impartial manner, providing for a transparent, stable and predictable economic setting (Rose, 1998). Under these circumstances a business has to operate according to accepted norms and this is not regarded as something worthy of special praise. Consequently, activities aimed at increasing legitimacy require proof of an extra effort on the part of the firm that goes beyond statutory requirements and demonstrates its recognition of and commitment to certain social expectations. From this point of view, for example, the popular choices of CSR activity by our respondents, such as paying taxes and abiding by the law, look distinctly out of line. They, however, fit well into the picture drawn in the literature that presents Russia as the country, in which laws are abused, rules are either feeble or not enforced, and institutions are incomplete, tendentious and corrupt (Blanchard and Kremer, 1997; Black, Kraakman & Tarasova, 1999; Buck, 2003; Kuznetsov and Kuznetsova, 2003, Woodruff, 2003). As Miller and Tenev (2007:568) aptly put it, in Russia "major reforms … were implemented in an environment of a weak state, which did not have the capacity to protect its ownership rights and coordinate reforms. As a result, privatization was a wasteful process associated with stealing of state assets and consequently with lack of legitimacy of newly established property rights.” In this context CSR is likely to acquire new dimensions compared to a standard Western interpretation. In fact, for many firms just abiding by the law may well become a manifestation of CSR in a context where non-compliance is a norm and statutory requirements are often little more then a pretence as the authorities are unable to credibly enforce them. In this situation, we believe, emphasis on the condition that the firm should go beyond the immediate legal requirements as a criterion of CSR calls for modification. The more appropriate formulation should refer to enforceable laws. The other two parameters, deliberateness and contribution to some social good, maintain their validity.

The survey failed to support our assumptions regarding the perceived relationship between CSR activity and the legitimization of business. Respondents did not see CSR as a significant contributing factor to either increasing the prestige of the firm in the eyes of the public or achieving greater freedom of action in relations to the state. When managers were asked which performance variables they believed would have the greatest impact on the public perception of the firm, financial results were most widely rated as having the highest impact with the mean of 4.26 out of possible 5. Activities related to CSR received only moderate ranking with environmental protection achieving the mean of 3.25, philanthropy and charitable activities – 3.26. When managers were asked to evaluate the impact of “showing responsibility to society at large,” the mean score of responses was 3.16 (see Figure 1). What distinguishes this question was a very flat distribution curve of responses, indicating that either respondents were unsure about the meaning of the question or there was no prevailing view on the issue, or both. In any case, the configuration of the curve specifies that the managers did not regard CSR as a priority.

*** Figure 1 about here ***

Respondents demonstrated a remarkable unanimity in rejecting the proposition that greater involvement in CSR would produce more freedom from state interference. Although many assets and businesses were privatized in the 1990s, the signs are that government interference in strategic assets and large corporations is increasing once again. One of the reasons is that the state faces the challenge of legitimacy itself as a backlash against the role it played in allowing a small group of the population to acquire disproportionate wealth during privatization (Fry, 2006). One consequence is the attempt by the state to take the initiative of promoting CSR on its own terms, emphasizing the payment of taxes and the taking of responsibility over social issues which are traditionally covered by the state. This may be the reason why respondent to our survey did not expect the state to trade intrusive control for greater business self-regulation in the foreseeable future.

One probable explanation of the evidence that Russian managers appear to attach less importance to some elements of CSR that are traditionally high on the agenda of western corporations is that the legitimacy issue in the Russian context has a different focus. Opinion polls still demonstrate that the Russian public tends to deny that business people possess such virtues as morality, integrity, talent or hard work. Instead, many Russians regard dishonesty and connections as the keys for business success in their country (Kuznetsov and Kuznetsova, 2005). In turn, it is not uncommon for members of the business community to maintain that the current economic and institutional set-up in the country precludes honest ways of making money (Latynina, 1999). In contrast to other countries, in Russia there is a considerable degree of ambiguity regarding some most fundamental issues including ownership rights, the role of contract, the concept of legality, the notion of business ethics, etc, contributing to the unpopular image of the entrepreneur and businessman. This suggests that the legitimacy challenge for Russian business outside of the largest strategic corporations is very much to establish a consensus where business can be seen as an honorable and acceptable activity that will command respect and support from the wider society.

Our study has disclosed a notable variance in the position of Russian companies towards CSR. Presenting a positive social image is more likely to be important to those companies with a high public visibility. Yet those firms that do not have a high profile tend to be far less committed to CSR. Our survey revealed that almost half of respondents believe that the conditions are not yet right for them to take on more social responsibility. Lack of financial resources is indicated as a major constraint. Firms also blame the state and the legal system for not providing enough incentives (20 percent and 24 percent of respondents respectively). Characteristically, some managers are concerned that greater expenditure by companies on CSR may encourage the state to increase taxes.

Conclusions

Our study of Russian medium and large firms provides an important contribution to the understanding of the institutional aspect of post-communist transformation. Previous research on developed capitalist economies indicates that business acquires legitimacy when it conforms to institutional constrains (Palmer and Biggart, 2002: 272). In this context, the mixed picture of attitudes held by Russian managers towards CSR does not necessarily suggest that they are less concerned with societal legitimacy than their western counterparts. Rather our results draw attention to the changeable nature of what the society perceives as an “appropriate” business practice during different stages of its history, and the factors that precipitate this change. In the West CSR is seen by firms as a legitimation tool because they expect the members of the society to appreciate their demonstrated readiness to go beyond statutory norms in pursuit of social good. However, it is sensible for the firm to make this extra effort only if such norms are efficient, universally and fairly enforced and sufficiently stable, i.e., if there is no discrepancy between the declared and actual "rules of the game." If this is not the case, whatever the social expectations are, the rational economic actor will be discouraged from producing such an effort because formal regulations and relations have little currency. Russia and some other transition countries suffer from widespread corruption, the insecurity of property rights, arbitrary law enforcement and bureaucratic inconsistency. These are not the conditions that are likely to make Russian firms receptive to the values of CSR on a voluntary basis. The strengthening of the institutional setup is required to make Russian firms acquire the attitude towards CSR characteristic of the firms in the West.

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Table 1. **Distribution of Enterprises in the REB Surveys by Industry (%)**

Industries	2003 REB	1999 Goskomstat*
Power	-	1
Fuels	1	1
Metals	4	2
Machinery	25	36
Chemicals	3	4
Woodworking, pulp-and-paper	13	13
Construction materials	12	6
Light industry	17	12
Food	21	14
Other industries	2	10

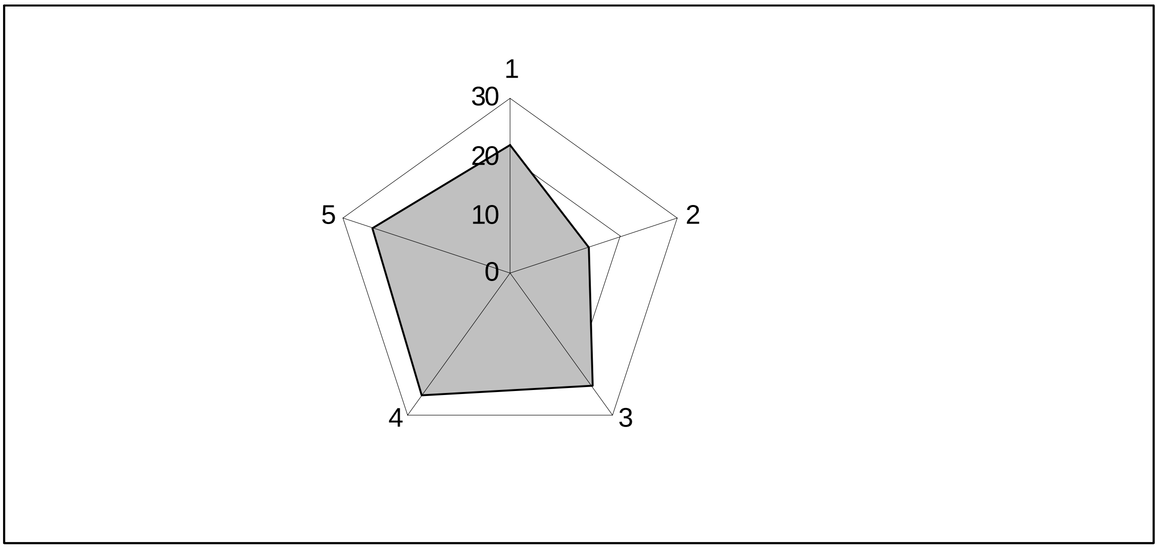
* Goskomstat – the official data of the State Statistics Committee of the Russian Federation.

Table 2. **Characteristics of CSR as perceived by Russian managers**

Rank	Characteristic	Frequency
1	looking after employees*	0.904
2	protecting the environment	0.760
3	paying taxes	0.704
4	being ethical with the stakeholders	0.632
5	creating jobs	0.608
6	contributing to charities	0.584
7	contributing to the welfare of the local community	0.576
7	obeying laws	0.576
8	making a profit	0.395
9	adhering to international standards of ethical business conduct	0.296

n=125
* mostly implies the timely payment of wages and meeting health and safety requirements in the place of work

Figure 1 **The impact of "showing responsibility to society at large" on the public perception of the firm**



1 – 5 impact score (1= minimal impact; 5= maximum impact)
0 – 30 number of respondents