Review
(accepted April 14, 2019)

THE INFLUENCE OF THE USE OF POWER IN CORPORATE GOVERNANCE ON THE SOCIALLY RESPONSIBLE POLICIES OF A COMPETING COMPANY

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Abstract
This paper is an action research conducted to demonstrate the connection between the use of power by members of the Board of directors and the social responsibility of the company that reflects the building of the corporate image of the company, which is crucial for increasing its efficiency.

International corporate governance standards are rigorous about the rules of ethics in the operation and decision-making with respect to improving the work of the company. North Macedonian companies have accepted these international standards and are trying to implement highly professional work at all levels of the organization, including the top management body of the company i.e. the board of directors. The introduction of social responsibility in strategic and other types of planning that emanates from it clearly demonstrates the role of social responsibility in the creation of organizational development policies. The research is conducted in a socially responsible company that applies the international corporate governance standards within the Board of Directors. This paper has proven the assumption of a general hypothesis about the connection between the use of the power of the Board of directors in favour of creating and maintaining a socially responsible company.

Keywords: commitment, board, strategy, planning, social responsibility.

Jel Classification: M14; L21

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INTRODUCTION

We live in a time of many economic, social and environmental problems impacting our everyday life. Over the past 20 years socially responsible work has become an imperative of organizations in the public, private profit and private non-profit sector. Europe 2020 is a European strategy for smart, sustainable growth that emphasizes several important elements of development. One of them is sustainable growth – an economy that uses resources efficiently; the other is a key growth, that is, an economy with a high employment rate that brings economic, social and territorial cohesion.

Corporate governance as a set of mechanisms that one corporation is managing, growing and developing on the market is fundamental to the developed countries. Corporate governance is a set of relationships between the company's management, its board, shareholders, and other stakeholders. Consequently, boards have become larger, more independent, have more committees, meet more often, and generally have more responsibility and risk (Adams, Hermalin, and Weisbach 2010). Corporate governance also provides an organizational structure that enables the company to determine the objectives, and at the same time to determine how to achieve these goals, as well as to monitore the company's performance. It is important to notify that when boards are dominated by outside directors, CEO turnover is more sensitive to firm performance than it is in firms with insider-dominated boards (Adams and Ferreira 2009). Faleye (2007) finds that a staggered board lowers the sensitivity of CEO turnover to firm performance. Good corporate governance should provide appropriate incentives to achieve the objectives that are in the interest of the company and the shareholders; and should facilitate effective monitoring, thus encouraging companies to efficiently use their resources. Many times, the main internal control mechanism the monitoring by the board of the CEO, has been regarded as ineffective, and boards of directors have been criticized for being "hostages"of the CEO that they are supposed to monitor, but contrary it has been pointed out that takeovers are costly and that they can correct only the most extreme cases of mismanagement (Graziano and Luporini 2004). Some studies on the importance of the board of directors focus primarily on the influence of the size and independence of the board on firms' capital structure (Bin-Sariman, Ali, and Mohd Nor 2016).

North Macedonian companies, following the trend of introducing socially responsible activities, imposed as a change to the globalization process, are increasingly involved in socially responsible activities that are recognizable, but also original and initiated by employees. This trend is particularly prominent in larger companies, especially with mixed capital, and recently in purely North Macedonian companies. The research in this paper is carried out in the top ten most developed North Macedonian companies.

1. SOCIAL RESPONSIBILITY AS A WORLD MOVEMENT

Social responsibility is manifested through various active measures undertaken to protect the environment, various social donations, development of human potentials and giving equal opportunity to all employees, through the transfer of knowledge and technologies, consumer protection and many other measures aimed at raising the level of responsibility towards society. Corporate social responsibility (CSR) is a relatively modern concept and refers to the strategies that organizations create in order to be ethical, socially friendly and beneficial to the community. CSR has been changing in meaning and practice throuout the years (Lee 2008). In the early 20th century, social performance was tied up with market performance. One of the pioneers of this view, Oliver Sheldon, however, encouraged management to take the initiative in raising both ethical standards and justice in society through the ethic of economizing, i.e. economize the use of resources under the name of efficient resource mobilization and usage (Bichta 2003).

The role of business in the development of society and the increased responsibility of business systems, proves to be the a necessity nowadays. As such, business systems and other organizational forms are expected to generate more than profit for their owners. More and more people think that business systems, that is, organizations that gain profit by exploiting the resources of the state, are obliged to work on its promotion (Vittel 2014). Lately, the number of business systems that are questioning their social responsibility strategy in response to various social and economic pressures, and above all those affecting environmental and work environment protection, is growing. In this way the organization sends a message: It's good to work well! The International Organization for Standardization (ISO), in its documents, generalises the notion of social responsibility, and in that way wants to emphasize the generic nature of the standard, valid for all organizations, not just for enterprises. ISO that treats international standards among people did a practical work of making ISO 26000 the voluntary standard of SR. Though the standardization of ISO 26000 (SR) rests on the comprehensive standard, it integrates the management system, the characteristic of the ISO standard (Park and Kim 2011). The ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way. This means acting in an ethical and transparent way that contributes to the health and welfare of society. It is intended for all types of organizations both in the public and private sectors, as well as in developed and developing countries. It should allow for the achievement of an added value for social responsibility by doing the following:

- Develops an international consensus on the meaning and issues that the organization should deal with;
- Provides guidance in the implementation of the principles and specific activities;
- Compromises the best developed practice and global expansion for the benefit of the entire community.

2. SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The institutional approach to corporate social responsibility should be a reasonable alternative and addition to the three known theoretical approaches to date:

- Corporate egoism – firms can undergo an organizational culture transformation that allows them to move from pure corporate egoism to a beneficial mix of self-interest and corporate social responsibility (Madsen 2010)
- Corporate altruism – It has also been suggested that "unfocused" corporate altruism can even be dangerous to those in need of assistance (Mitschow 2000).

Over the last two decades in the world, concerns about corporate social responsibility are growing dramatically (Carroll 2010). Engaging corporations is, above all, directed towards pro-social behavior, such as supporting the health system, combating corruption, eliminating child labor, etc. Corporate social responsibility is mentioned in the literature under various names: strategic philanthropy, social responsibility, corporate citizenship, and so on. Regardless of the name in question, the dominant paradigm of social responsibility at the moment is the orientation towards the idea of creating a "sharing" of values – responsibilities (Maimunah 2009). The role of the business is to create value for its shareholders, but in such a way it also creates value for society as a win-win proposal. Corporate social responsibility is known as an effective tool for the corporation to improve its reputation and build brand image and loyalty from customers, and to positively affect society. Corporations have responsibility for all other social entities, except for shareholders. All corporations inevitably face the pressure to address social issues. As a result, organizations must be more sensitive to the significance of a positive corporate contribution to society.

Corporate social responsibility consists of four components (Carroll 2010):

- Economically – the primary responsibility is to create profit, to be sustainable,
- Legal – duty, compliance with the law,
- Ethical – responsibility for acting in a manner consistent with social expectations,
- Discretion – activities that exceed social expectations.

Corporate social responsibility includes a broad list of issues related to the role, position and function of working in contemporary society (Jonker 2005). Social institutions pertain to the exercise of power, but researchers also look at differences in the legal regimes that regulate self-dealing—the quintessential manifestation of the use of power in corporate governance (Siegel, Licht, and Schwartz 2011).

The purpose of corporate social responsibility is for organizations to have responsibility beyond profit maximization. The challenge that companies face in the current environment is how to use their own abilities and capacities to contribute to a traditional business sense while accepting the social role (Jonker 2005). By adopting such a dual perspective, many leading companies have shifted from traditional charitable perspectives to strategic corporate social responsibility, which is trying to integrate corporate donations and utilities with operations and interests (Dwane 2002).

3. THE PLACE OF SOCIAL RESPONSIBILITY IN THE MANAGEMENT MECHANISM OF THE COMPANIES WORLDWIDE

Firm ownership is an increasingly influential form of corporate governance. Although firms might be owned by different types of owners, most studies examine owner influence on a particular firm outcome in isolation (Connelly et al. 2010). Some of the changes to ownership structures and their influence on firm actions have been seen in the recent years. Institutional investors have become some of the most active owners in corporate history, often confronting managers and directors and even seeking tochange the make-up of boards and top management teams (Dai 2007). The stakeholder approach was further developed by British economic experts, advocates of the Labor Party. Tony

Blair's concept of the stakeholder economy could prove truly revolutionary and is so-called a stakeholding economy, which can be applied both in the workplace and in the business activities (Freeman 2010).

Corporate governance models have developed differently in the world. Two models of corporate governance are commonly referred to as:

- An open type of corporate governance model,
- A closed type of corporate governance (Shabir and Omar 2016).

In the open type of corporate governance (Anglo-American), the most important feature is that the main role in the control of the work and the success of the manager of the corporation make the capital market, not the owners of the corporation. The closed type of corporate governance (insider type) is mostly present in continental Europe and Japan (Hirota and Kawamura 2007). The most important features of this model are the high concentration of ownership structure, therefore shareholders play an important role in the management and evaluation of the performance of management structures. In this model of corporate governance, the focus of external factors is shifted to the internal management structure. When it comes to corporate social responsibility in most of the world's companies, it is devised at a corporate level whereby the work plan associated with the company's social activity is usually incorporated in strategic planning. Corporations usually undertake four planning activities as follows (Kotler and Keller 2012):

- defining a corporate mission,
- establishment of strategic business units,
- allocation of resources to each business unit,
- assessing job opportunities.

After designing the plan for social activities at the corporate level, the budget and the budget holders, the managers, for the implementation of this plan are determined. Most large corporations create a slogan that is based on the mission.

4. RESEARCH

The established hypothetical framework, in the methodological part of the paper, was aimed at investigating socially responsible practices and their initiation, setting up and controlling by the management boards of the top ten corporations in the Republic of North Macedonia. The connection and the influence of the power of corporate governance on the socially responsible practices of companies are proven, which in turn contributes to building the image of a socially responsible company and increases its competitive advantage. 237 respondents are surveyed with closed-type questionnaires. The interviewees are randomly selected from among the managers and non-managers, while 32 examinees are from among the members of the management boards of the same companies. In the hypothetical framework five variables are crossed. The calculation of the points is made with an arithmetic mean of the set of questions for one variable, including the answers of all surveyed focus groups (members of management boards, managers and non-managers).

The commitment of board members to work and the achievement of set corporate goals are set as a research variable. This variable won a high score of 2.49 points from a total of 3.00, which means it has been confirmed. This variable is crossed with the *application of socially responsible practices* in a company that has a score of 2.27. It can be concluded that the commitment to the board the members reflects positively on the company's social responsibility. The order of proof of this connection is presented in Figure 1.

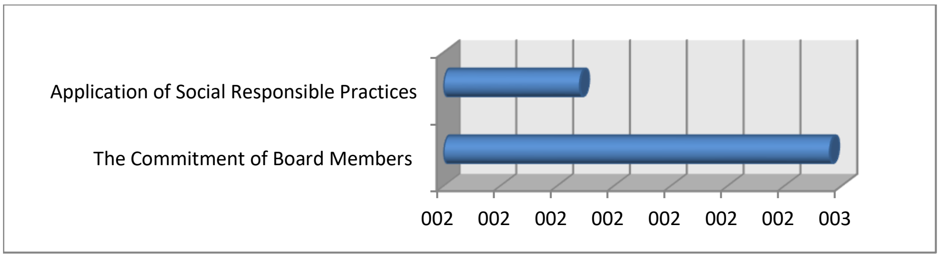

Figure 1. Connection of the commitment to the work of the management boards with socially responsible activities

The next variable that has been researched is the *application of corporate governance standards*. It has a score of 2.59 points. This variable is also crossed with the variable *application of socially responsible practices* that has a score of 2.27. The crossing of these variables is shown in Figure 2. From these results we can conclude that the management boards of successful companies work in accordance with international corporate governance standards and this positively reflects on the application of socially responsible practices in companies.

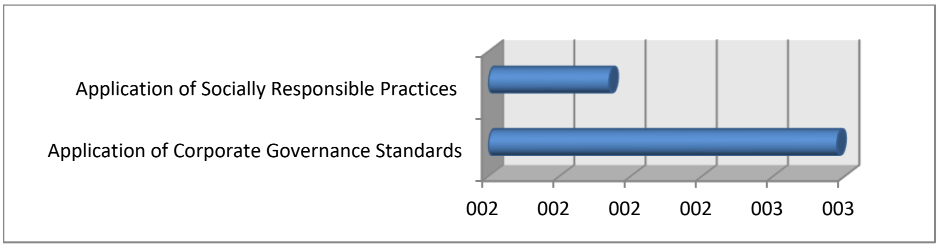

Figure 2. Connection of the application of corporate governance standards to socially responsible practices of companies

The commitment of the members of the management boards to the work with 2.49 score is crossed with the variable *planning of socially responsible practices* at the level of the Board of Directors. This variable has a common score of 2.46. It shows that the dedicated members of the management boards of successful companies control the strategic, that is, the annual planning of companies in which they also have socially responsible activities of the companies. The visualization of the intersection is shown in Figure 3.

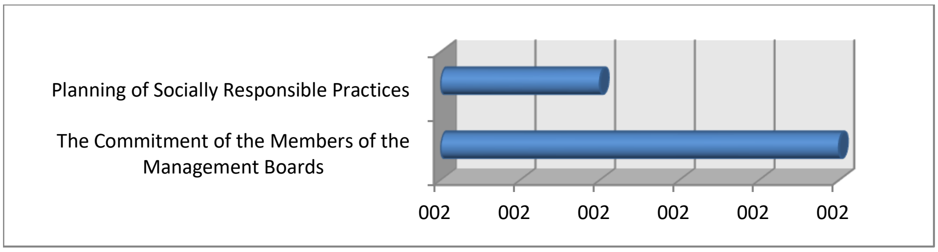

Figure 3. Connection of commitment of the Board of Directors with the planning of socially responsible practices

The board's commitment to the company's operations as a variable is crossed with the *control of the annual reports*, i.e. the socially responsible practices of the company in the past year. This variable has been confirmed by the members of the board of directors and by the employees of the companies. In doing so, managers gave higher scores for trusting the work of board members, than other non-managing employees. Figure 4 presents the crossing of these two variables.

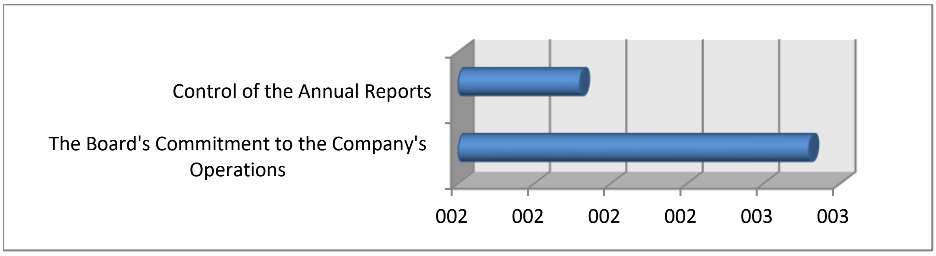

Figure 4. The connection of the commitment of the management boards with the control of socially responsible practices of the companies

CONCLUSION

Today, society has concerns and interests that are not exclusively related to economic development, such as care for quality of life and protection of the environment, reducing the impact of various negative factors that occur during the business process. It is precisely noticed in this paper that the goal of the social responsibility of the organizations, which implies economic success with simultaneous social responsibility for the protection of the natural and human potentials.

The trend of accepting socially responsible activities has expanded worldwide based on the impact of globalization. This paper specifically addresses the social responsibility of the most profitable companies in the Republic of North Macedonia. As participants, members of management boards of companies, managers, and employees who are not placed in management positions are included.

The aim of this paper was to prove the correlation of the influence of the power of the members of the board on the socially responsible activities of the company. From the obtained results, it can be concluded that if the members of the company's management board are committed to the work of the company, they will necessarily initiate and control the socially responsible practices of the company without which it could hardly build the image of CSR and achieve a competitive advantage in the surroundings.

The principle of social responsibility contributes to building the image of a socially responsible organization. Customers want to cooperate with socially responsible organizations. It certainly increases their profits and contributes to the development of the company as part of the creation of a leading company in the environment.

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