

Formal and Informal Institutional Drivers of Corporate Social Responsibility: Theoretical Perspective

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Abstract

Drawing on institutional theory this article presents theoretical perspective of formal and informal institutional drivers of corporate social responsibility (CSR). It tries to enlarge the understanding of the drivers of CSR activities and how it varies among corporate operating in various contexts. Corporations engaged in corporate social responsibility because of formal and informal pressures. Formal institutional drivers are rule based such as political system, law enforcement and labor system. While, informal institutional drivers are societal-level norms and values including socio-economic need, social organization, and national culture. Formal and informal institutional pressures are interacting to construct a vibrant pressure for the practice of CSR. Thus, understanding institutional context is a key to comprehensively realize the drivers of CSR as institutions determine the decisions and strategies of companies towards corporate social responsibility. Thus, corporate social responsibility is context specific and its conceptualization and practice varies among the globe depending on differences in institutional context.

Keywords: Corporate Social Responsibility, Formal and Informal Institutional Drivers, Institutional Theory

INTRODUCTION

Understanding the reason why corporate engage in corporate social responsibility (CSR) activities is a

significant aspect in today's CSR arena (Simcic et al., 2009; Halkos & Skouloudis, 2017, Galbreath, 2010; García et al., 2022). Scholars revealed corporate engaged in CSR for various reasons (Hahn & Scheermesser, 2018; Rangan & Chase, 2012) including formal and informal institutional pressures (Campbell, 2007; Tolmie & Lehnert, 2019; Deephouse et al., 2016), internal and external pressures (Marfo et al., 2016; Boskovic, 2018; Gulema & Roba, 2021) and to manage its relationships with a diverse range of stakeholders. Formal institutional pressures are rule based and they create and enforce the rule of law through governments via legislation and enforcement.

Informal institutional pressures are defined by societal-level norms and values (Matten & Moon, 2020; Muthuri & Gilbert, 2011). Informal institutions reflect the values, norms, beliefs and moral concern found within CSR (Tolmie & Lehnert, 2019; Deephouse et al., 2016). Informal values that are aligned with the firm's strategies and stakeholder desires have a strong impact on firms' CSR actions (Peng et al., 2012; Tolmie & Lehnert, 2019). Formal and informal institutional pressure have direct impacts on firm CSR actions (Tolmie & Lehnert, 2019; Yin, 2017). The literature on corporate social responsibility provides a variety of definitions, but we prefer definition by Khan et al. (2020): CSR is action by companies to meet social need of the society beyond required by law. Apitsa and Millot (2021) also indicated the concept of CSR depends on a range of local contexts including culture, religion, governmental and legal conditions.

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CSR suggests business companies to integrate social and environmental elements with business operations, management, and relations with stakeholders (Muchlinski, 2008; Adda et al., 2016). CSR can contribute to the triple bottom line of economic, social and environmental performance (Macassa et al., 2020). Business companies have become integral actors in social development, in which they should follow the rules that help maintain the socioeconomic order, follow shared values, and make no harm to society while pursuing a profit (Adda et al., 2016).

Corporate social responsibility decision making depends on the institutions where they are operating (Brammer et al., 2012). Institutions are able to adapt to the particular situation and reflect the behavior of those individuals who participate within them. Institutional pressure affect the way in which CSR practices are adopted locally and they reflect the behavior of individuals and organizations who participate within the given context (Blasco, 2010). Thus, the characteristics of the institutional environment influence the decisions and strategies of companies towards corporate social responsibility (Oliveira et al., 2018). Hence, understanding institutional context is a key to comprehensively understand the drivers of CSR.

Thus, this study intends to examine the institutional drivers of corporate social responsibility. The study provides conceptual insight of institutional drivers of CSR considering the effect of context on CSR activity. CSR practice usually relies on contextual realities and its understanding and implementation also varies accordingly. We employed institutional theory since it has been a useful theoretical lens for understanding the effects of the institutional environment on CSR behaviors of companies (Brammer et al., 2012). The gap in literature from the empirical and theoretical review done on this study, little research work has been done on examining formal and informal CSR drivers in a comprehensive way. Even though this study is not an empirical one, it has tried to explain how formal and informal institutional pressure affects corporate CSR engagement. We argued that formal and informal institutional drivers are not two competing ideas rather the combination of them shape the adoption and practice of CSR as evidenced in (Khan et al., 2018). This study may pinpoint potential research area for future study by indicating how context is essential for the determination of CSR.

LITERATURE REVIEW

Overview of Corporate Social Responsibility

The evolutions of CSR construct beginning in the 1950s and definitions expanded during 1960s and widely discussed among academics and business practitioners during 1970s and 1980s (Carroll, 1999). Nevertheless, a concern for social responsibility appeared earlier than this, and especially during the 1930s and 1940s (Carroll, 1999). However, there are inconsistencies between scholars in defining the role of business to various stakeholders which is conceptualized as CSR. Scholars like Friedman define CSR as the responsibility of a business is making profit; no “social responsibility” to the public or society; business’s only responsibility is to its shareholders (Friedman, 1970). In contrary, scholars like Carroll began to argue organizations have more responsibility beyond meeting financial need of their organization. He argued that business organizations are operating in the community not in the vacuum so they should work beyond economic benefit of the organization and should contribute to improve the life of the society. Aguinis, (2011, p. 858) define CSR as “Context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance”. Fontaine (2013) also defined CSR as a way business align their values and behavior with the expectation and needs of stakeholders. Piasecki and Gudowski (2017) defined CSR as a broad construct that comprises actions aimed at stakeholders and social issues.

The concept of CSR emerges from the conception of no responsibility beyond shareholders economic benefit (Friedman, 1970) to company’s responsibility to various stakeholders such as employee, customer, society and natural environment beyond financial benefit to stakeholders (Carroll, 1999). Working for the benefit of all is critical since making a business is beyond generating economic benefit to the organization and the wellbeing of the society and the whole globe is crucial for the long term survival of the company. Furthermore, recent researches indicated that the concept of CSR is not simply to make companies more socially responsible but a component of new systems of societal governance (Wirba, 2023; Moon, 2007) that work to reduce global challenges. CSR require

businesses to play a leading part in making world a better place (Steurer, 2010). He further revealed that CSR is better linked with sustainable development, as sustainable development emphasizes to better integrate the social, environmental, and economic aspects of development involving businesses. Without corporate support society will never achieve sustainable development, as firms represent the productive resources of the economy (Hahn & Scheermesser, 2006). Corporations' engagement in CSR being seen as a necessity rather than an option to be viewed as being socially responsible (Hurst, 2018). Corporations have become the most powerful institutions on the planet, the engines of human welfare and progress, so it only makes sense that we talk about the responsibility that they have to other stakeholders (Jerry et al., 2007). Thus, corporate social responsibility is presented as a wide and multi-dimensional construct related to the capacity of businesses to survive and generate profits with a long-term vision, promoting their economic, social and environmental development, which, in turn, causes the consolidation of its corporate identity (Loor et al., 2020)

Institutional Drivers of Corporate Social Responsibility

Prior research have discussed drivers of CSR as formal and informal institutions (Zhang et al., 2017; Halkos & Skouloudis, 2017; Tolmie & Lehnert, 2019) and internal and external pressures (Marfo et al., 2016; Boskovic, 2018). Formal institutional drivers are rule based governance environments (Zhang et al., 2017), strategic planning (Galbreath, 2010). While informal institutional drivers are community bonds, trust, religion (Zhang et al., 2017) and culture (Galbreath, 2010). Internal pressures are organizational values, top management beliefs, competitive advantage, and image creation while external drivers are government regulatory framework, international standards, and stakeholder engagement to mention some.

Formal Institutional Drivers

Formal institutions are political, law enforcement and labor system of a specific context that affect the business system (Soares et al., 2020; Cullen, 2010).

Political System

Political system has the greatest impact on countries government interventions. The political system is essential to impose a strong rule of law and greater enforcement power (Oliveira et al., 2018). It is evaluated by principles, governance processes, and implementation of public policies (Soares et al., 2020). The essential feature of any political system is the extent to which the state dominates the economy and shares risks so that businesses are dependent on state policies and actions. Governments have the coercive power of the state to regulate the behavior of companies and society.

The key distinctive feature of political systems is the power of the state (Moon, 2008). When the country's political environment is favorable, companies are expected to be encouraged to show their social and environmental responsibilities. Government influence corporate social responsibilities through binding guidelines or regulations. Political system involves various aspects such as law enforcement, corruption, accountability and political stability (Moon, 2008). Although the political system is involved in the aforementioned aspects, law enforcement is considered in this study since it is more important to follow and monitor the social performance of corporate as per the stated government rules and regulations. Oliveira et al. (2018) also revealed that law enforcement is more important aspect to determine political system.

The government is evaluated by principles, governance, processes, and implementation of public policies the essential feature of any political system is the extent to which the state dominates the economy and shares risks so that businesses are dependent on state policies and actions. They further revealed that governments, as social institutions, have the coercive power of the state to regulate the behavior of companies and society. When the country's political environment is favorable, companies are expected to be encouraged to show their social and environmental practices (Soares et al., 2020).

Law Enforcement

Law is a necessary condition for creating socially responsible corporations since some aspects of responsible behavior must be regulated (Vives, 2008). CSR is a subject that has links with many areas of law, including

international law, corporate law and corporate governance, labour and environmental law, and criminal law and law is crucial for the proper implementation of CSR (Lambooy, 2014). Compulsory regulation seen a sure way to promote transparency and accountability and also regain the trust of the public since companies left unchecked they do become oppressive and irresponsible (Ihugba, 2012). Public sector regulatory and enforcement capacity plays a critically important role in underpinning CSR (Vogel, 2015). The presence of regulations and the capacity of the state to monitor and enforce those regulations matters to influence corporations' socially responsible behavior (Campbell, 2007). Legally binding regulations need to have a clear and predictable enforcement mechanism (Amodu, 2017). Law enforcement has a positive effect on the level of responsible activities (Demamu, 2020).

In addition to government laws and regulations industries establish their own regulatory mechanisms to ensure fair practices, product quality, workplace safety, and the like by setting standards to which their members are expected to adhere. Industrial self-regulation also requires monitoring and enforcement to be effective. Without enough support from the state, self-regulation often fails (Campbell, 2006).

Businesses organizations can also draft their own tailor-made guidelines (Smits, 2015). Corporations can decide to draft their own tailor-made CSR Code of Conduct as guidelines that intend to describe companies' responsibilities in the areas of human rights, labor, the environment, and socially sensitive business in general. Business organizations CSR codes require a system for close follow up and enforcement for its efficacy (Smits, 2017). Company codes need strong enforcement procedures and institutions and may be suited for countries or areas with high institutional development, including the ethical manpower to enforce them (Vives, 2008).

Labor System

Labor system is employee-employer collaboration which is explained in terms of wellbeing, education, training and development, profit sharing, health and safety at work, prevention of child and forced labor (Soares et al., 2020). They further revealed that the labor market distinguishes the economies of developed and developing countries: in developing countries the labor market is typically characterized by inability of trade unions to represent the

interests of workers, while developed countries represent more prominent trade unions which help to perform better in CSR practices, as powerful unions may push for employees' benefits in the form of provisions regarding health and safety, as well as progressive labor policies, and more amenities in the workplace (Soares et al., 2020).

The power of labor unions is a key factor affecting corporate social responsibility activities since powerful unions may push for extended benefits for employees, focusing more on health and safety provisions, progressive labor relations policies, and more workplace amenities, and may push for more engaged community involvement (Ioannou & Serafeim, 2012). Beside, laws and regulations alone cannot fully control corporate behavior to the extent that society expects corporations to behave responsibly (Vives, 2008) there are other inter-reliant institutional pressures such as economic context, social organization, and national culture that shape the responsible behavior of corporate.

Informal Institutional Drivers

Informal institutions are socio-economic need, social organization, and cultural norms, beliefs, morals, codes of conduct, and religious values (Brammer et al., 2012; Deephouse et al., 2016; Khan & Law, 2018) that influence human behavior. Those societal value systems might not officially written down but embedded in a social fabric of the society that portrays the broad underlying basis of a society (Constanze, 2011). They are a normative motive that explains corporate engagement in CSR because of cultural and religious values that encourage socially responsible behavior. As evidenced in Davis, (1973) informal institutional pressure are powerful determinants of behavior since they are as real as technical, legal, and market constraints. Thus, corporations incline to act in socially responsible ways if cultural institutions are in place.

Socio-Economic Needs

CSR is an assurance of every company to encounter the needs and welfares of society and the activities of CSR need to ensure socio-economic justice of the society (Laurinavicius et al., 2013). Socially responsible organizations are beneficial to society's socio-economic development through creating new workplaces,

improving working conditions, paying fair wages, developing scientific and technological innovations, and other (Karlait, 2014). CSR can be used for the cause of community development in developing nations (Hamidu et al., 2016; Muthuri & Gilibert, 2011). CSR can be used to meet the socioeconomic problems of people living in poverty and to fulfill the basic needs of the communities. The development of CSR should be strongly influenced by relevant cultural, social and economic factors specific to a particular country (Robertson, 2009). Thus, CSR initiatives need to be designed in line with the context and realities of developing nations (Degie & Kebede, 2019).

Social Organization

Social organization is a key element of national culture system and it organizes the society around family systems, neighborhood, ethnic groupings, and tribal systems (Khan & Law, 2018). Different cultures have different social systems. Social organization is the process by which communities achieve their desired results for individuals and families. Social organization is often viewed as suppressing community problems such as crime, delinquency, or child maltreatment (Mancini et al., 2005). Business companies more likely to act in socially responsible ways if they are engaged in institutionalized dialogue with unions, employees, community groups, investors, and other stakeholders (Campbell, 2007).

National Culture

Culture is beliefs, morals, norms, habits, conventions, codes of conduct that differ between societies that allow a differentiation between groups and it includes the people's language, dressing, music, work, arts, religion, and so on. It also goes on to include a people's social norms, taboos and values (Constanze, 2011). He further revealed that values are beliefs that are held about what is right and wrong and what is important in life. Cultures differ between regions since cultural components such as values, norms, beliefs, conventions, worldviews, and attitudes can all differ (Constanze, 2011). National culture defines a nation's value system (Nin & Deanna, 2012).

National culture is part of the informal institutional pressure that affect the uptake of corporate social responsibility (Cullen, 2010) and have impact on firm's CSR action (Deephouse et al., 2016). It often likened to the "soul" of a country and also has direct impact on all

the thoughts and behaviors of people who are members of that nation (Nguyen & Truong, 2016). National culture is recognized as fundamental determinants of companies responsible behavior (Peng et al., 2012; Hofstede, 2011). Blasco (2010) also revealed culture affects corporate behavior and individuals' perceptions of certain corporate behaviors, and that values influence individuals' attitudes toward corporations' CSR decision (Deephouse et al., 2016).

RELIGION

Regional, national, or indigenous cultures in many parts of the world are heavily influenced by religious belief systems and religious institutions. Understanding any local context therefore requires understanding its religious influences (Syed & Mir, 2019). As a source of moral norms and beliefs, religion has historically played a significant role in the vast majority of societies and continues to remain relevant in almost every society. Religion is one of the most prominent and wide-reaching social institutions, touching and shaping virtually every sphere of culture and society (Ives & Kidwell, 2019). It also has a role in defining and understanding social value. Since values are not freestanding but are connected to social practices and institutional dynamics, to pay attention to local expressions of values embedded in religious contexts (Brammer et al., 2012).

Religion play a significant role in shaping individual perceptions of CSR and that there is considerable variation in attitudes to aspects of CSR across religions (Brammer et al., 2012). It is important to understand the religious roots of a society to develop a deep understanding of the norms of that context as they affect business (Karbo, 2013). Religion helps managers and policy makers to consider the importance of social responsibility that promote cultural and religious values (Hamidu, 2016). More religiously-inclined individuals tend to exhibit a greater orientation to CSR (Brammer et al., 2012). Religious beliefs can be viewed as a motivator of philanthropy (Hemingway & Maclagan, 2004).

Formal institutions always depend on non-legal rules and inexplicit norms in order to operate. That is to say, formal institutions might emerge from informal institutional values and they are not clearly separable (Caffarena, 2006). Informal institutions represent the culture of a

society, and include unwritten social norms of conducts that individuals follow in their day-to-day activities, accepted by the majority in culturally homogenous groups (Caffarena, 2006). Overall, formal and informal institutional pressures are interacting to construct a vibrant pressure for the practice of CSR (Tolmie & Lehnert, 2019).

According to Garst et al. (2017) as any person in society, a company is required to comply with socio-cultural norms, and its activities are judged according to a socially-constructed value system. Since a business firm is considered as a citizen since business operates under a set of cultural constraints in the same way that any other person in society does. Informal institutions are based on the fundamental structure of values and beliefs and they construct a system of mental guidance and affiliation (Constanze, 2011). The informal institutional environment of each country appears to play an important role in a company's CSR decision (Khan et al., 2020). Informal institutions promote the social goals of the institutional society, motivate action, and promote the standards for judging others' action (Tolmie & Lehnert, 2019). Thus, understanding and navigating the informal institutions allow corporations to properly leverage their own social responsibility initiatives (Tolmie & Lehnert, 2019).

CSR activities vary according to the nature of institution context that guide the CSR practices of companies. Therefore, variance in institutional context lead to differences in CSR practices of countries (Hee et al., 2013). Different institutional contexts, with different regulations, norms, cultures, expectations and behaviors bring variation in practicing CSR (Hee et al., 2013). Besides, CSR practices are not static, and are shaped, dynamically, by the characteristics of both the national institutional framework and the (trans-national) organizational field of the firm (Hee et al., 2013). Therefore, understanding the local business context and customizing the international business system to fit to the local context in practicing CSR is essential. Thus, a combination of formal and informal institutions in any jurisdiction shape the adoption, or otherwise of CSR by business through its adherence to acceptable governance practices (Khan et al., 2020).

In a developing country where institutional voids such as lack of government rules and regulations dwell, CSR

is usually characterized as less formalized, and more submerged and more philanthropic (Soares et al., 2020). Besides, in developed country where institutional system is more integrated and mutually reinforced, companies strategically plan and implement CSR activities. Baz et al. (2016) on their study of impact of national institutions on CSR practices for small- and medium-sized enterprises (SMEs) of France and Morocco shows that there is a distinct difference between the CSR practices adopted by SMEs in France and Morocco, since SMEs in France function under the rule based governance system and SMEs in Morocco function under the relationship-based governance system.

In general, even though business organizations mainly engaged in CSR for formal and informal institutional pressures, both of them endorse the proper engagement of business companies in CSR activities. Formal and informal institutional pressure mostly combined to play role in enhancing CSR activities. Business organizations expected to obey local and international CSR laws and at the same time they are expected to consider the cultural and religious values that encourage responsible behavior in their locale. Therefore, it is possible to conclude that business organizations engaged in CSR because of both formal and informal institutional factors.

Institutional Theory and Corporate Social Responsibility

Institutional theory, with its long and varied tradition in social sciences (Scott, 2001), has been a useful theoretical lens for understanding the effects of the institutional environment on CSR behaviors of firms (Brammer, Jackson & Matten, 2012). The formidable lens of institutional theory helps to understand how and why CSR has different forms in different contexts (Khan et al., 2018). Institutional theory posit that organizations are substantially influenced by the institutional settings in which they operate (Muthuri & Gilbert, 2011). Institutional theory has been employed in CSR research to explain cross-national differences in CSR practices (Khan et al., 2018).

Institutional theory is traditionally concerned with how groups and organizations better secure their positions and legitimacy by conforming to the rules (such as

regulatory structures, governmental agencies, laws, courts, professions, and scripts and other societal and cultural practices that exert conformance pressures) and norms of the institutional environment (Champion et al., 2014). Institutions can define what is appropriate or legitimate. Institutions comprise laws and regulations that regulate social interactions and cultural values that guide responsible actions. These rules can be either informal solely exist in human minds (as codes of behaviour) or be formally written down (as laws and regulations) (Constanze, 2011).

Institutional theory presume that institutional contexts influence the rules and understandings by which organizations operate (Hee et al., 2013). It also suggests that organizations will adopt societal-level values as a way to gain legitimacy with their environment (Waldman et al., 2006). It has been employed in CSR research to explain cross-national differences in CSR practices. Since the institutional framework of businesses in a particular country determines what it means to be socially responsible. CSR concept can hardly be understood without understanding the institutional environment under which the idea was considered (Khan et al., 2018).

Institutional factors interact in intricate ways to create complex and dynamic pressures for CSR practice. Therefore, CSR research needs to consider these interactions and institutional theory can help provide a sufficiently intricate research framework (Hee et al., 2013). Institutional theory promote that institutions will implement societal-level values as a means to enhance acceptability within their environment. Institutions are based on behavioral norms and mental paradigms of individuals. Campbell (2007) stated institutional determinants for socially responsible corporate behavior include: public and private regulation; the presence of NGOs and other independent organizations that monitor behavior; associative behavior amongst corporations themselves; and organized dialogues amongst corporations and their stakeholders. Formal and informal institutional determinants affect the uptake and practice of CSR, and serve to promote or temper CSR agendas operate (Khan et al., 2018; Muthuri & Gilbert, 2011).

Muthuri and Gilbert (2011) also revealed the nature of CSR is shaped by contextual factors, and companies respond to different institutional pressures to remain

legitimate. Zhang et al. (2017) also revealed corporate social responsibility depends on the institutional context of a country. Institutional context of an individual country determines what business conducts means to those organizations operating in that context (Khan et al., 2018). They revealed that CSR is observed to be shaped quite differently in different countries because of the respective different institutional environments. Thus, formal and informal institutional pressure construct a vibrant pressure for the practice of CSR (Tolmie & Lehnert, 2019).

CONCLUSION

Institutional context of an individual country determines what business conducts means to those organizations operating in that context as CSR is shaped quite differently in different countries because of the respective different institutional environments (Khan et al., 2018). Drawing on institutional theory we tried to show theoretical perspective of what drives companies to engage in CSR activities. We argued that CSR activities are guided by the formal and informal institutional pressure of a certain context. The formal and informal institutions exert a vibrant pressure for the practice of CSR (Tolmie & Lehnert, 2019). Formal and informal institutional factors mutually guide the decision of organizations towards corporate social responsibility activities (Morgan, 2007). The structure and practices of any institutional context have a decisive impact on the ways in which business companies arrange their economic and social system which is one of the causes for differences between countries CSR adoption and practice. Thus, formal and informal institutional pressures mutually function to influence corporate CSR uptake.

DIRECTIONS FOR FUTURE RESEARCH

In this study theoretical perspective of formal and informal institutional drivers of corporate social responsibility was examined. Future research would complement the concept by empirically examining the concept. Second, we encourage future research to combine internal factors such as, leadership, organizational culture to yield a comprehensive view in examining the drivers of CSR activities. Third, we suggest context specific study to identify how CSR concept is shaped and what drivers companies to engage in CSR activities.

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