THE EMBEDDEDNESS OF HIGH QUALITY SUSTAINABLE CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE*

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Abstract

A model of corporate governance framework is constructed that may help businesses to create social value as well as financial value and an opportunity for researchers to measure and predict social value and financial value of businesses in the future. This model is only the first model employing the core dimensions of the Competing Values Framework that help identify ways in improving organisations performance, corporate value and corporate legality which addresses all stakeholders and shareholders needs and expectations under laws and regulations. The model contribute to our understanding of the embeddedness of high quality Corporate Social Responsibility and Corporate Governance that include orientation in Control, Compete, Create and Collaborate and corporate governance regulations that include orientation in Board of Directors and Managerial Incentives, Capital Structure Provisions and Control Systems, Laws and Regulations, and Capital Markets by considering all stakeholders and interact with the political environment. In short, the model span almost every attribute for corporates to establish effective and efficient governance system in terms of the modern legal environment. The study examines how embeddedness of high quality corporate social responsibility and corporate governance may help for better creation of a corporate culture that affects company performance and the society.

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* Part of a PhD research, the constructed model has been used to investigate corporate culture (internal governance) and Corporate capital market culture (external governance) of randomly selected 13 firms in North Cyprus where a two variable and a multiple variable regression analysis have been used,

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Introduction

The paper aims to enhance on a view of how the embeddedness of CSR and CG help create corporate value and predict social and financial performance. It could be argued that, the right corporate culture can be created by an organisation when it establishes orientation in dimensions, such as Control, Compete, Create and Collaborate that generate social value an outcome that, will be greater than what a person could do. Thus, all stakeholders will be better off than those without the organisation when social value is created. Cameron et al. (2006) suggests that, competencies in these dimensions will help create value consistent with how the market values firms. It could also be suggested that, the right corporate legality can be created by organisations when they establish orientation in dimensions such as Board of Directors and Managerial Incentives, Capital Structure Provisions and Control Systems, Laws and Regulations, and Capital Markets that generate financial value outcome. Furthermore, organisations corporate culture and corporate legality complement each other signaling the right way of directing and controlling (corporate governance) which help create social and financial value. For corporate legalities Gillan (2006:384) in his research paper have developed the corporate governance framework that refer to the dimensions of better Board of Directors and Managerial Incentives, Capital Structure Provisions and Control Systems, Laws and Regulations, and Capital Markets to predict financial performance. However, he also suggests that, a firm should also consider other parties such as primary and secondary stakeholders and interact with the political environment, rules and regulations and legislation cited at (Jensen, 2001); as stated by Gillan (2006:383).

Stakeholders are characterised as external and internal stakeholders that, directly and indirectly affect the activities of a firm, (Freeman, 1984) as stated by Gillan (2006). External or secondary stakeholders are not usually engaged in transactions and are not essential for organisation's survival such as media, trade unions, NGO's and interest groups but, there are different pressures and priorities arising from these stakeholders cited at (Waddock et al. 2002) and (Schaefer, 2002) as stated by Maignan et al. (2005: 959), power is the experience and skill to practice individuals' future over others. On the other hand, a certain number of stakeholders have similar needs and expectations, such as choose to join formal communities dedicated to better defining their values and norms, Maignan and Ferrell (2004). For example, investors choose to play a role in Social funds, that stimulates shareholder act in favour of CSR. Similar communities are Consumer Associations, Better Business Bureau, National Associations etc.

According to (Harrison and Freeman, 1999) and (Mitchell et al, 1997) as stated by Maignan et al. (2005: 959) to assess stakeholder influence, the priority is to address their issues based on their "power, legitimacy and urgency" where, legitimacy relates to socially accepted and expected structures that help define whose concerns or claims really count and urgency is the dynamic interaction addressing issues and resolve them often they all agree upon shared needs and interests. This will create a stakeholder oriented culture that, will bring a competitive edge and competitive advantage to the organisation, confirmed by (Leap and Loughry 2004) as stated by Maignan et al. (2005: 960).

Many theorists, politicians and scholars agree on the common knowledge that, corporate governance mirror national culture, Licht et al. (2005:231). Thus, in terms of the relations between culture and legal rules, they argue that, culture is used to motivate and create a strong influence on the company's rules and regulations and on the degree of importance on those that have to make decisions in running the company. It is true to state that, the social actors such as leaders and politicians must also consider cultural values in order to select the right action and analyse participants and events in terms of governance.

On the other hand, the theory of embeddedness is also important because the emphasis of the constructed model captures the idea of connecting corporate culture together with corporate legality that affect financial markets and firm performance.

Literature review

Orientation in dimensions, such as Control, Compete, Create and Collaborate can generate social outcome, Cameron et al, (2006) Orientation in dimensions such as Board of Directors and Managerial Incentives, Capital Structure Provisions and Control Systems, Laws and

Regulations, and Capital Markets, generate financial outcome Gillan (2006:384). Competencies in these dimensions will help create value consistent with how the market values firms. Thus, Corporate culture and corporate legality complement each other Cameron et al. (2006). A firm should also consider other parties such as primary and secondary stakeholders and interact with the political environment, rules and regulations and legislation cited at (Jensen, 2001); as stated by Gillan (2006:383).

There has been a vast amount of research and investigation taken by many scholars and researchers after the stock market downturn of 2002, leading to economic crisis and the collapse of many corporations especially in the western world. The following table of contents refers to some scholars' research on corporate governance and corporate social responsibility in a chronological order, which help enhance the general view about corporate governance and corporate social responsibility and their main intentionality in the current global economy.

Table 1 Research and investigation in the last decade.

Year	Research Outcome	Reference
2010	**Comparative and International Corporate Governance** Authors have examined the comparative and international Corporate governance by identifying main concepts in order to explain the cross-country diversity in corporate governance.	Aguilera, R. V. and Jackson, G. (2010)
2011	**Evidence on the international evolution and convergence of corporate governance regulations** Their study provides a detailed investigation of corporate governance systems and the evolution since 1990 in Europe and USA covering more than 30 countries. They have created indices to show how the law in each country addresses issues and conflicts between shareholder and managers, between majority and minority shareholders.	Martynova and Renneboog (2011).

Year	Research Outcome	Reference
2012	**Corporate Governance in Turkey: Issues and Practices Of High Performance Companies** This paper examines the concept of corporate governance in Turkey by comparing companies with high performance and Lower performing performance by explaining problems with regard to the regulations in Turkey. They have found that, HPCs in Turkey score higher on the norms of good corporate governance than	Needless et al. (2012)

	comparable companies and the difference are significant.	
2012	**Corporate governance and the information environment: Evidence from state antitakeover laws** Researchers of this paper have examined the relationship between firms governance and its environments. They have used the government antitakeover laws in the US in order to identify changes in firms behavior based on the information environments.	Armstrong et al. (2012).
2013	**Corporate governance in emerging markets: A survey** The authors of this paper have reviewed corporate governance by focusing more on emerging markets. They have found that, firms benefit from having easier and bigger success of getting external finance and end up having lower costs, show better performance and hence, is treated more favorably by all stakeholders.	Claessens, S. and Yurtoglu, B. B. (2013).
2013	**Is corporate governance relevant during the financial crisis?** This paper examined the impact of internal corporate governance on performance of firms during financial crisis. The researchers have tested corporate governance performance of cross country sample of 4046 publicly traded non-financial firms from the USA and 22 developed countries.	Gupta et al. (2013).

In accordance with (Table 1) corporate governance is a serious matter and it is very obvious that, greater scrutiny is inevitable. Bebchuck et al. (2004) have put forward an entrenchment index covering twenty four provisions in order to find out the relationship between these provisions, firm valuation as well as their returns during the 1990 and 2003 period. Six provisions were as follow: Staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendments. What they have found out was that, increases in the index level were associated to a significant fall in firm valuations and to a large negative abnormal return during this period. Furthermore, the other eighteen provisions used in the index were uncorrelated with firm valuation and negative abnormal returns. Bebchuck et al. (2004) concluded that, the E index provides a measure that can be used in a large number of studies by researchers aiming to use in their tests. It is a governance measure covering six provisions, the E index are those that the private and public decision-makers should pay most attention.

After 2002, the USA and the EU stepped forward with action plans outlining their intensions for modernising the company law and built the right framework of corporate governance. The EU Commission COM(2012) 740 final action plan have identified three main actions by enhancing transparency, engaging shareholders and supporting companies' growth and their competitiveness to modernise the existing company law framework. Hence, Globalisation has made organisations to review their current activities and if necessary deviate from their corporate current culture orientation profile to face the demands of stakeholders internally and externally.

There is a concern that, organisations must focus on their customers and to the important stakeholders group that hold the organisation responsible for its actions. According to Maignan et al. (2005) “company orientation to non-consumer stakeholder groups will be dependent on their consumer orientation”. Therefore, within the marketing function, the degree of customer orientation will affect relationships with other stakeholders. It is argued that, unintended activities of the market considers relevant interests of key stakeholders (Fry and Polonsky, 2004), where, customers and employees have an impact on firms performance cited in (Berman et al. 1999) as stated by Maignan et al. (2005: 956). Furthermore, for successful implementation of marketing strategies, market orientation is the key variable (Homburg et al. 2004) and moreover, there is a new existing logic of marketing that provide social and economic processes, skills and knowledge to all stakeholders (Vargo and Lusch, 2004), and many marketing scholars focused on two main primary stakeholders: customers and channel members as stated by Maignan et al. (2005:957).

The importance of implementing CSR will lead to adaption of values and norms along with organisational activities to minimise negative and maximise positive impacts on important stakeholders. The degree of commitment to CSR may vary because the CSR of an organisation is issue-specific because stakeholder issues may be different and vary with the different stakeholders, Maignan et al. (2005: 958). According to Siegal and Vitaliano (2006: 7), Corporate Social Responsibility is established on the buyers belief, where they expect that, the company aim to provide quality products and services with honesty and that, they also see the CSR as the direction of trust. Therefore, the company will search to choose the right materials to produce in order to maintain quality and reliability. Moreover, is a framework that involve actions in order to reduce externalities and avoid market failure (Heal 2004:1).

Ararat and Gocenoglu (2012) on the orher hand, define CSR as "institutionalised corporate practices and behaviour" driven by the acceptance of "moral obligation" and "accountability" by management for the consequences of corporate activity for all of the stakeholders and society at large*".* According to McBarnet (2009) CSR involves a change from profit maximization for shareholders towards a change for stakeholders from environmental protection that provide support on ethical issues and legal obligations.

Stakeholder's values and norms apply to a variety of marketing issues such as sales activities, consumer rights, environmental protection, product safety, and proper information disclosure. Norms and values concern both issues that do and do not affect stakeholders' own welfare. Therefore, the level of social responsibility of an organisation can be assessed by controlling its impacts on the issues of concern to all defined stakeholders.

The Research model

The emphasis of the constructed model (Figure 1) captures the idea of connecting corporate culture together with corporate legality that affect financial markets and firm performance. With this model, researchers may aim to explore, the quality of flexibility and discretion and stability and control practices of companies in terms of their CSR and CG.

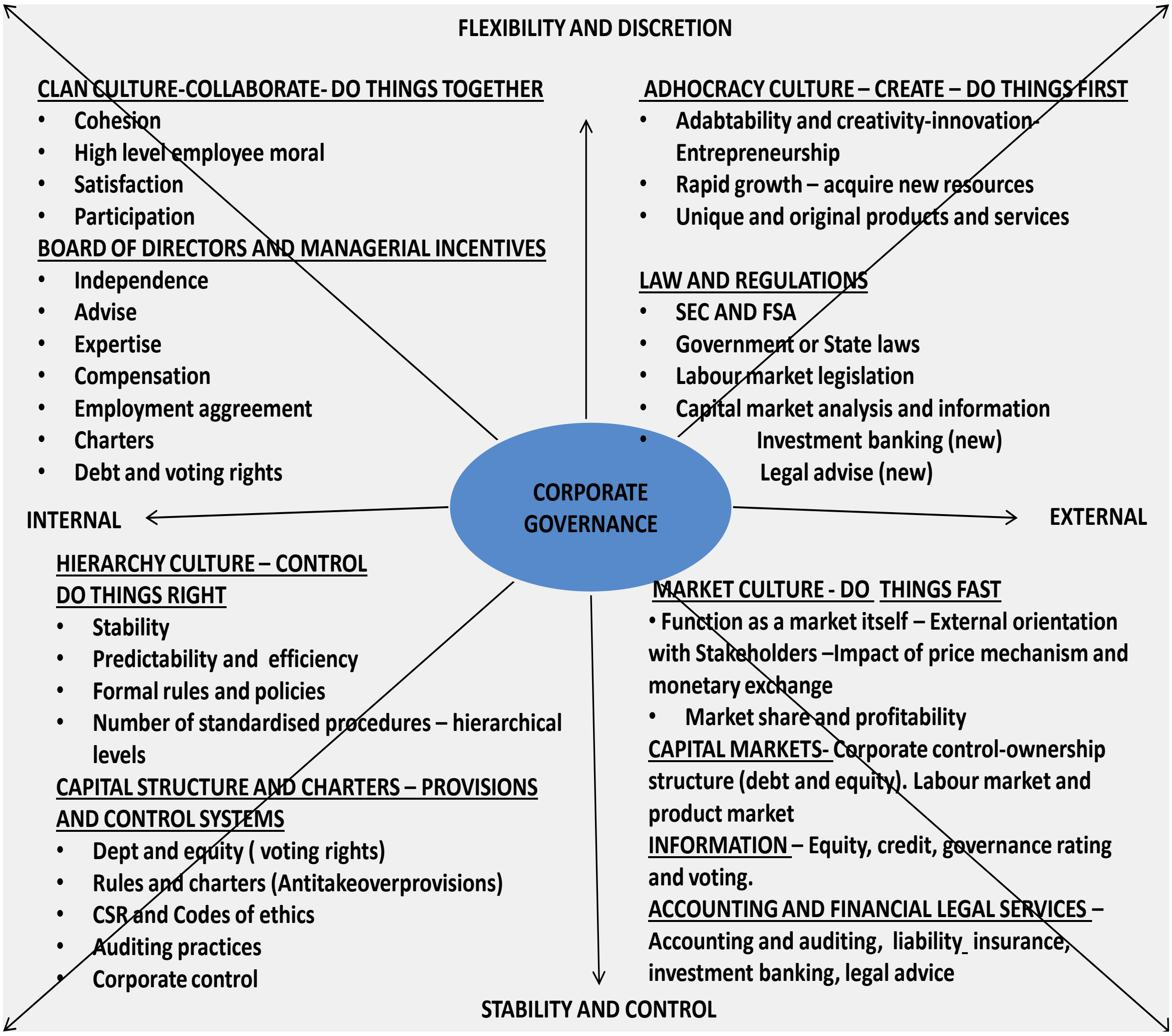

Figure 1: The Research Model.

Stakeholder theory and the model of Corporate Social Responsibility

According to Maignan et al. (2005), in terms of values and norms an organisation internally and externally has to create a framework to satisfy the needs and expectations of various stakeholders so called Primary stakeholders and Secondary stakeholders in order to be able to create a greater collaboration, satisfaction and control. The organisation must create a cohesian internal environment to protect and support the actions of the related stakeholders and be able to closely work together to find ways to implement rules and regulations and plus, work closely with social actors and policy makers to create better corporate governance provision. A corporation should create a stakeholder issue solving indicators in order to deal with every problem facing stakeholders, Maignan et al. (2005):

961. In order to create a CSR, an organisation should be able to discover its values and norms and identify its stakeholders and their issues. Furthermore, an organisation may follow an eight step procedure as in Figure 2, in order to be able to implement a successful CSR policy (Maignan et al. 2005:966).

Table 2: Source: Adapted from Maignan et al. (2005) : 961

Stakeholder groups and issues	**Indicators of business impact on the issue**
Employees	
Health and safety	Amount of injuries and ratio of absenteesim
Communication with managers	Appraisal schemes per year
Education and training	Changes in average training of employees per year.
Customers	
Quality and reliability of products	Number of complaints
Customer service including for disabled customers	Feedback and charter standards
Community	
Protection in terms of health and safety	Available risk management
Donations and supporting local businesses	Time spent in community service

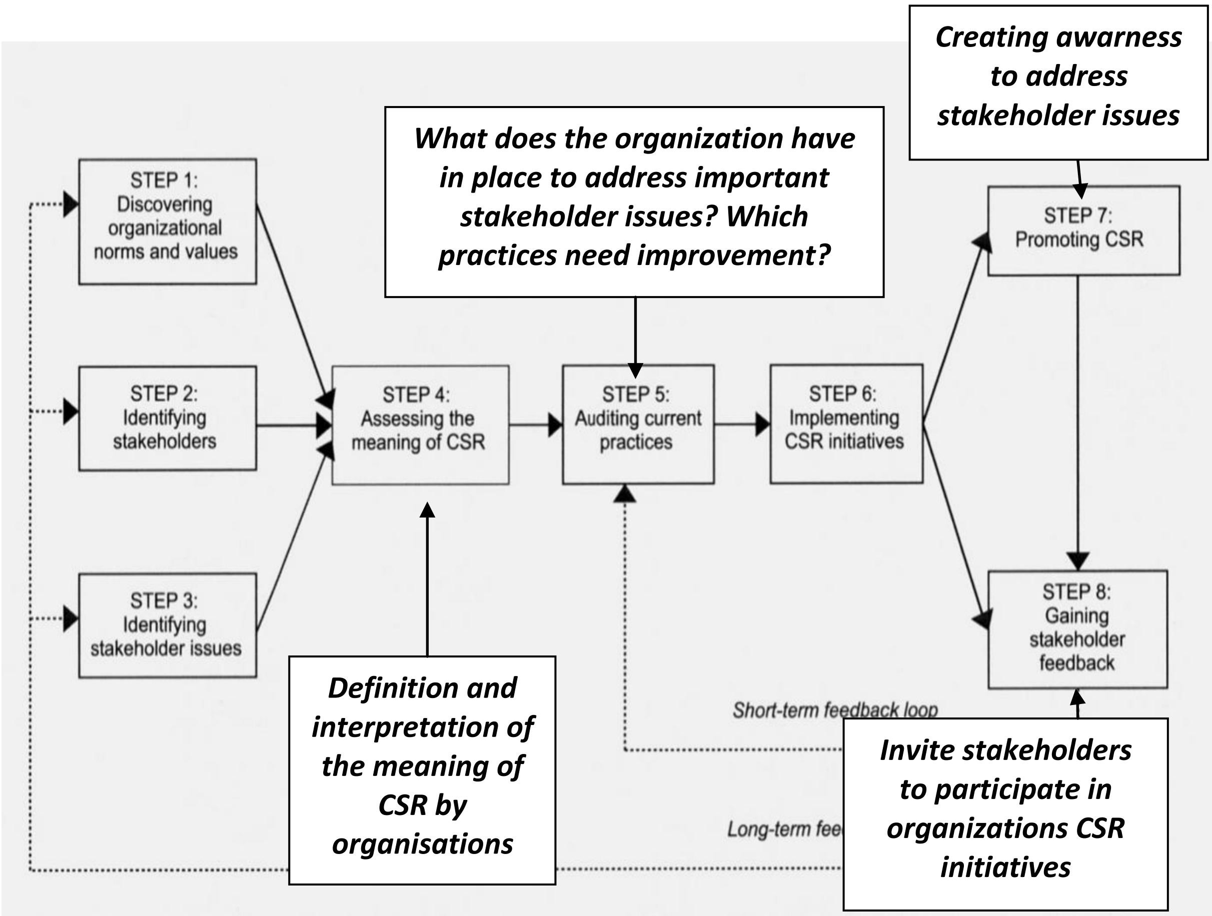

Figure 2: Adapted from Maignan *et al*. (2005) : 966

According to (Figure 2), step 4 brings all the first three steps together that arrives to the right definition of CSR that fits any organization of interest. Step 6 is where the CSR is implemented.

Assessing the meaning of CSR

The following example of CSR definition is from Turkcell.

" Being an active mobile communication service provider both in Turkey and around the world we aim to contribute and conduct social responsibility projects that add value to the society from education, technology, sports to art and culture art in order to develop social values and preserving cultural and art heritage. We strive to bring together the representatives of the industry on an international platform, and continue to play an important role in raising the awareness of technology in the public." (TURKCELL, 2000).

It is evident that Turkcell's vision and strategy and its definition of CSR is confirming the eight step of CSR implementation as seen in its support to social projects. Its activities and with its CSR policy, confirms its success against its all stakeholders. The stakeholder methodology has outlined the right understanding in explaining the implementation of CSR in relation to organisational cultural values and on values and norms of all stakeholders.

Competing Values Framework (CVF)

The competing values framework (CVF) focuses on values that add to organizational culture, and successfully reflects the conflicting demands of the organizational context (Shih and Huang, 2010). According to the researchers Quinn (1988), Barley and Kunda (1992), Cameron and Quinn (2006), the CVF aligns with well-known and widely accepted categorical schemes that outline how people think, how they organize their values and ideologies, and how they process information (Linnenluecke and Griffiths, 2010: 360). It is a model that, presents four dominant management models of organizational effects developed by Quinn et al. (2007) as stated by (Riggs and Hughey, 2011: 111). According to Crim et al. (2011), the CVF is a multidimensional concept, using the dimensions of organizational focus, structural preference, and managerial concern to investigate organizational effectiveness in a wide variety of areas.

It serves as the foundation for OCAI (Organisational Culture Assessment Instrument) that helps to characterize an organisation. It is useful in organising Total Quality Management (TQM) and to identify the changing roles of the Human Resources Management (HRM) (Cameron and Quinn, 2006: 31-32).

According to (Figure 3), the four indicators (criteria) define the competing (opposite) core values on which judgements about organisations are made. Each indicator helps to identify organisation's cultural strength, cultural type, and cultural appropriateness.

Competing Values Framework

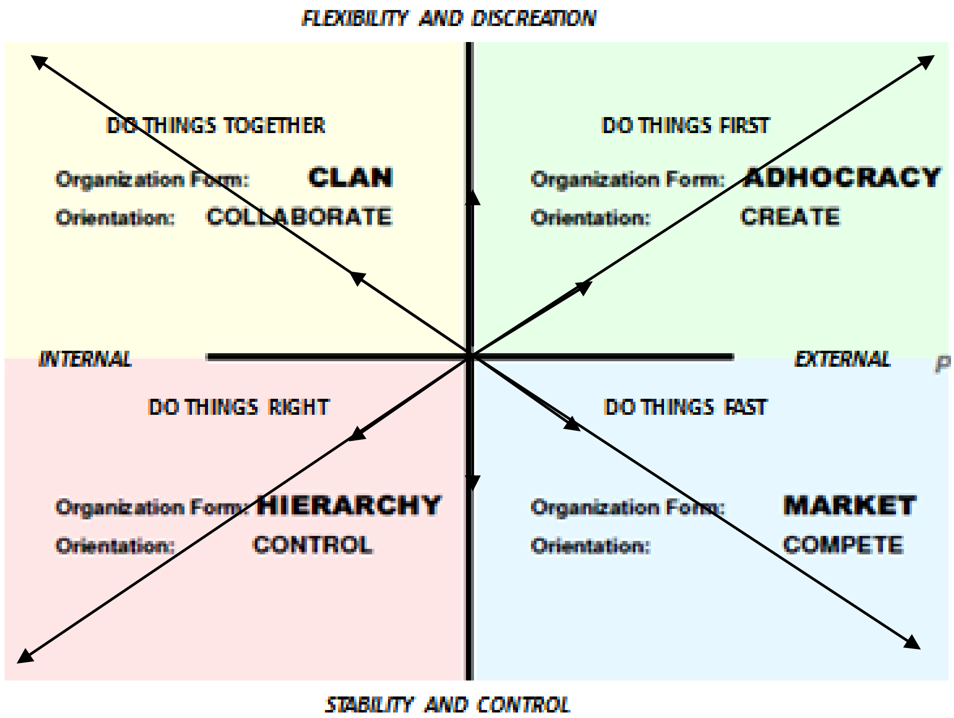

Figure 3: Adapted from: Cameron et al. (2003) : p 16

The theory of Embeddedness

The word embeddedness refer to various sociological accounts that, help explain the way that financial markets are effected (Granovetter 1985; Portes and Sensenbrenner 1993; Romo and Schwartz 1995, Uzzi 1996, 1997) as stated by Uzzi (1999: 482).
Furthermore, helps to enhance greater understanding of the way social value is created by investigating sociological aspects in relation to better formation of financial markets (Fligstein 1996; Podolny 1993) as stated by Uzzi (1999: 483).

Embeddedness is about the strength of the relationship between a person and a group and that this relationship represents autonomy which, describes their ideas and interactions and experiences with regard to cultures. Therefore, the corporate culture and corporate legality embeddedness are important variables and the concentration is on; how in general firms establish better corporate social responsibility and corporate governance in financial markets?

The Theory of Corporate Legality

According to Gillan (2006), companies consist of more than capital management and capital investors. He suggests that, a firm should also consider other parties such as primary and secondary stakeholders and interact with the political environment, rules and regulations and legislation (Jensen, 2001); as stated by (Gillan 2006:383).

In the USA the Securities Act of 1933, the Exchange Act of 1934 and recent reforms in the legal system such as the Sarbanes-Oxley Act of 2002 has shown that, legislation, and politics have an important impact on companies operations and on corporate governance system, Gillan (2006). Moreover, the corporate governance framework should also take into account the cultural approach together with the legal approach, in order to be able to examine the corporate governance structures with the aspects of the environment. Therefore, there is an issue that has to be addressed and entering only investor's rights into the law will not be enough. According to Licht et al. (2005) culture involve many meanings, symbols, and assumptions about what is accepted or not accepted that shows societies norms and actions. On the other hand, they define the term value as the shared ideas of what is good or bad and desire in a society. Leaders of organisations, politicians and individuals take into consideration these cultural value dimensions in order to choose their actions, people, events and be able to clarify and justify own actions and evaluations (Kluckhohn, 1951) as stated by Licht et al. (2005). Furthermore, the work of Licht et al. (2005) explains the importance of culture, law and corporate governance in relation to shareholders and stakeholders. They have presented evidence that, the relationship between law and culture is important regarding corporate governance. During their examination, they have used cross-sectional samples of nations based on cultural value dimensions and have found out that, corporate governance laws have a relationship with existing culture. Furthermore, they have stressed that, a new procedure of law has emerged between civil law and culture. Moreover, many scholars, academicians and politicians share the concept where, national culture is the reflection of corporate governance. However, it is argued that, national culture could delay change and may obstruct improvement and may force dependence in corporate governance system (Licht et al. 2005:231:232). In the Green paper EU COM (2011) 164 final, corporate governance system refers to the ways that, companies are governed (Cadbury Report,1992,15) and refers to the interactions between directors, shareholders plus all stakeholders (OECD, 2004:11).

Social responsibility of Capital Market Board of Turkey (CMBT) and the involvement of the Competing Values Framework (CVF)

According to the amended by resolution dated of the Capital Markets Board (CMB) of Turkey (2005), the corporate governance framework should identify and accept the rights of shareholders by law and company policy. Therefore, the company policy should be well-balanced and aimed to protect all stakeholders independent from each other. Moreover, it is suggested that, a company should implement a mechanism to encourage greater involvement of stakeholders in the management and give priority to all employees to interact with company activities (Capital Markets Board of Turkey 2003:37-40). It is argued that, a planned CSR model or a policy practice should be acknowledged by the company internally and must be included in the Articles of Association. It could be deduced that, a company may establish a collaborative cultural environment (Clan culture), (Cameron and Quinn, 2006:46-48) to enable issues regarding financial position, remuneration, recruitment and training and social welfare. In organizations when stability is maintained and must be maintained during uncertainty, collaborate (Clan culture) quadrant of the Competing Values Framework (CVF) help people and organizations to establish expected skills and create the best and the most value, Cameron et al. (2006:38)

The emphasis should be on the need for a modern and an efficient law and "corporate governance system" for the investors, employees by adapting to the expectations of the whole society and to the rapid change of the economic environment.[3] So, there is a need for more engaged shareholders and sustainable companies.

Financial performance and value creation prediction

The CVF helps create value and as a method to measure and predict financial performance. Correlates more in value with stock market valuation, Cameron et al. (2006). So, this implies that, the **CVF dimensions is positively related to firms value and Tobin's *q.***

[3] For a more comprehensive and detailed information: See EUROPEAN COMMISSION - Strasbourg, 12.12.2012 COM (2012) 740 final. Action Plan: European company law and corporate governance - a modern legal framework for more engaged shareholders and sustainable companies.

The CVF explains what the stock market takes into account of value in pricing companies and looks into its strengths to deliver better future performance, Cameron et al. (2006). So, it can be deduced that, **there is a significantly strong relationship between the CVF and the Tobin's *q*.**

Proposed Research Methodology and Hypotheses

A ***questionnaire*** can be designed. The survey questions may consist of ***two sections*** where first set of questions may be distributed ***to the employees*** regarding orientation in Collaboration, Control, Creativity and Compete (Corporate Culture). The second set of questions may be distributed to be completed by ***employers and members of the board of directors*** regarding orientation in Board of Directors and Managerial Incentives, Capital Structure provisions and Control Systems, Law and regulations and Capital Markets (Corporate Legality). The list of questions for each category is scored on a ***YES*** and ***NO*** where*, **YES answer is equal to 1 point*** and the overall CCS (Corporate Culture Score) and CLS (Corporate Legality Score) for each firm is determined. The hypotheses can be tested by using ***two*** variable factor and a ***multiple*** variable factor regression models.

Proposed Research questions

1. *How embeddedness of high quality corporate social responsibility and corporate governance may help for better creation of a corporate culture that affect company performance and the society?*
2. *How Board of Directors and Managerial Incentives, Capital Structure and Control Systems, Law and Regulations have a positive relationship with firm's Capital Market Culture (external governance) behavior that lead to a better corporate performance?*
3. *How Collaboration, Control, Compete and Creativity have a positive relationship with firm's Market Culture (internal governance) behavior that lead to a better corporate performance?*

Proposed hypotheses

H1. The CVF framework is positively related to firms value and with Tobin's q.

H2. Better corporate social responsibility and corporate governance help create better corporate culture and company performance.

H3. Firm's Collaboration, Control, and Creativity have a positive relationship with firm's Market Culture behavior and performance.

H4. Firm's Board of Directors and Managerial Incentives, Capital Structure Provision and Control Systems, Law and regulations have a positive relationship with firm's Capital Market Culture behavior and performance.

H5. There is a positive relationship between firm's Market Culture (internal governance) and Capital Market Culture (external governance)

Potential Statistical Analysis

Statistical analysis may consist of ***factor analysis*** for each element used in the model and for each element the ***Cronbach's alpha values*** will be obtained such as for Control, Creativity, Market Culture, and Collaboration.

Similarly, the ***Cronbach's alpha values*** related to Directors and Managerial Incentives Capital Structure provisions and Control Systems, Law and regulations and for Capital Market will be obtained respectively . ***Models can be created*** *to* assess the impact and the relationship of each independent variable on the dependent variables - ***Firm's Market Culture and Capital Market Culture behavior***.

Discussion

The present study proved that, the CSR model has an integrated stakeholder orientation. Corporate governance framework as a system takes into account the corporate culture and the corporate legality. The relationship between law and culture was important regarding corporate governance, Licht et al. (2005). Organisations should work closely with social actors and policy makers to create a better corporate governance provisions, Maignan et al. (2005):962. CSR involves a shift in the focus of corporate responsibility from profit maximisation. For shareholders within the obligations of law to responsibility to a broader range of stakeholders, (McBarnet, 2009:1). Thus, the model of corporate governance framework has pointed out the need for CSR and codes of ethics for better company performance.

Conclusion

The aim of the study stressed the importance of better corporate social responsibility and corporate governance by establishing a more comprehensive picture of corporate governance framework for better corporate culture. Protection, regulations for investors, new legal and judicial system is in need to make better governing companies. The stakeholders model of CSR provides a foundation for creating an organisational recognition based on the stakeholders values and norms. The rightness of a company's vision and strategies may confirm the eight step of stakeholders model surrounding CSR decisions. The constructed model of corporate governance framework support the view that, high quality and sustainable CSR and CG is associated with better company performance in terms of creating social value as well as financial value which could be used to be measured by future researchers.

Recommendations

The CSR model and the Corporate governance model could be used to measure and predict social value and financial value. The model of corporate governance may help future researchers to find the relationship between corporate culture and corporate market culture behaviour. The CSR model may help organisations to find ways of improving their practices prior to implementation. There are opportunities to create more hypotheses other than those presented in the study to measure and predict CSR and CG quality.

Limitations

It is unsure whether the models may fit for specific countries. It is not an easy task to measure the quality of CSR and CG since the models do not take into account other external factors. The study does not refer to the long-term effects of poor quality of CSR and CG.

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