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Screening the theories of institutional dynamics in the light of the post-socialist transformation

JEL Classification: M14, P30

Keywords: institution, evolutionary change, corporate social responsibility, foreign direct investment, Central and Eastern Europe.

Abstract

Screening the theories of institutional dynamics in the light of the post-socialist transformation

Post-socialist transformation offers the opportunity to analyse the dynamics of institutions in a kind of “life-size laboratory” and challenges theories dealing with institutional change. This paper argues that the complexity of the transition may be better understood through a framework based on evolutionary economic theories. The interaction between these theories paves the way for new theoretical findings regarding causes, processes, actors and results of the institutional evolution. We apply our theoretical framework to analyze two evolutionary processes in Central and Eastern Europe, respectively on micro and macro level: the rise of corporate social responsibility and the inflow of foreign direct investment.

Introduction

The post-socialist transformation appears as a stimulating subject of study because of its features. This is a multidimensional phenomenon and a time-situated event because:

- upheavals affect in the same time the economic, social and political spheres of nations. Moreover, transformations have a systemic nature that makes it very difficult to analyse each dimension separately;
- we can observe a moment when transformations reach a critical threshold, which leads to a change in the nature of the system, and a moment when transformations cease from being systemic and become only local. Thus, several Central

and East European Countries (CEECs), especially those which joined the European Union (EU) in 2004, can be considered as out of the stage of post-socialist transformation but still in a stage of institutional and economic convergence with early EU members.

Even if other geographical areas in the world have been experiencing a process of post-socialist transformation (i.e. China, Vietnam), the present paper will focus on the CEECs given the common features of their transformation path.

To summarise its features, the post-socialist transformation appears as a historical phenomenon of systemic evolution. It is not a state but a process, a dynamic phenomenon by its very nature. Moreover, it can be considered as an archetype of institutional change. Thus, the post-socialist transformation offers a rare opportunity to analyse the dynamics of institutions in a kind of “life-size laboratory” and in this way to challenge existing theories dealing with institutional change.

Actually, mobilising an orthodox theoretical approach appears unsatisfactory to analyse such processes, as it was widely demonstrated by the bulk of academic research. However, despite their greater relevancy, evolutionary theories also have their limits as they highlight only some aspects of institutional change. This paper argues that the complexity of the transition may be better understood through a framework based on interaction between these theories. Obviously, this interaction raises questions at the epistemological and methodological levels: how to maintain a coherent approach while “borrowing” our scientific material to a great diversity of sources? It is thus necessary to define the conditions of this theoretical interface. We proceed by identifying four criteria that allow selecting the theories which are likely to contribute to an evolutionary approach to institutions (part 2). The interaction between these theories paves the way for new theoretical findings regarding causes, processes, actors and results of the institutional evolution (part 3). Finally, in order to illustrate the findings, examples of institutional evolution will be analysed (parts 4 and 5): if the post-socialist transformation leads to improve the theoretical framework required to analyse it, the feedback effect is to allow a better understanding of the post-socialist reality. It goes without saying that a paper dedicated to institutional change cannot avoid starting with a brief definition of an institution (part 1).

1. Defining the institutions

Analysing institutional change in the CEECs implies first to define what an institution is. Following a terminology coined by Dufourt (1995), we adopt an ontological approach to institutions considering institutions as the essential base of social life and thus putting them at the starting point of the analysis. Putting together various theoretical perspectives considering institutions in the heart of their analyses invites us to distinguish between institutions as rules and institutions as

actors. In our approach, the institutions as rules correspond to a consistent set of collectively admitted prescriptions of behaviours (see Fig. 1). Institutions as actors are groups of individuals endowed with a certain stability and with a capacity of acting on their environment. The study of the institutional dynamics principles will underline the close links that exist between institutions as rules and institutions as actors.

Both are part of the same general category of institution, the function of which is to create regularities of behaviours and thus to allow the coordination of individual actions. Institutions direct individual action, but do not determine it. Therefore, institutions participate in the building of a social order which is neither optimal, nor spontaneous, but which is the result of a temporary stabilisation of the balance of powers. As they further the building of a social order, institutions incorporate a collective dimension, which constitutes their main feature.



Fig. 1. A synopsis of different types of institutions

Source: Author's elaboration.

2. Setting the conditions of a dialogue between theories of institutional dynamics

Several theoretical perspectives intend to explain the institutional dynamics. But they do not take root in the same paradigm, i.e. they do not adopt the same philosophical, methodological and theoretical bases. A comparison of these theories on such a basis will obviously lead to an opposition. But complementarities may be brought to light when analysing the different fields of the institutional reality (Vanberg 1989: 357) and beyond “at the level of the method allowing the study of the whole process [of the institutional evolution]” (Garrouste 1995: 46–47). It means that a minimal common base has to be shared by these theoretical approaches in the analysis of the institutional dynamics: P. Garrouste (1995) proposed to define “a problematics which en-

compasses emergence and functioning [of institutions] within the framework of an evolutionary approach of institutions”.

Borrowing P. Garrouste’s framework of analysis and developing it to enlarge the scope of his analysis, we consider that four criteria are important in order to distinguish between theories focused on the institutional dynamics:

- 1 – According to the theory considered, is the institutional evolution a process of cumulative causation where institutions are at the same time cause and effect of dynamics?
- 2 – Is it an irreversible process of evolution?
- 3 – Is it a genetic, i.e. non-teleological process?
- 4 – Is it a conflicting process?

Depending on the degree of incorporation of these criteria into their reflection, the theories of institutional dynamics may be considered as participating to a small or to a larger extent to the building of an evolutionary economics of institutions.

Table 1. Analysis of theories of institutional dynamics

Theory	Definition of institutions		Conception of change			
	Actors	Rules	Cumulative	Irreversible	Genetic	Conflict-ing
Old Institutional Economics: – Veblen – Commons	+	+	++	+	+	+
		+	+	+	+	++
New Institutional Economics: – North		+	+	+	+	+
Austrian Thought: – Menger – Hayek	○	+	○	+	++	
		+	+	+	++	
Evolutionary economics: – Schumpeter – Nelson and Winter	+		+	+	–	+
		+	+	+	+	–
Evolutionary game theory		+	+	+	+	+
French Institutional approaches: – the regulation school – the economics of conventions		+	○	+	+	++
		+	+	+	+	+
Evolutionary approach to institutions	+	+	++	++	++	++

Key: « ++ »: element found in the theory, analysed in publications and crucial in the research problematics; « + »: element found in the theory and analysed; « ○ »: element quoted in the theory but not analysed; « – »: element explicitly rejected.

Source: Author’s elaboration.

The Old Institutional Economics (Veblen, Commons) and recent works in line with this tradition of thought fulfil all the criteria of an evolutionary approach to institutions. It is also the case of D.C. North's approach to historical change (in its recent developments). To a lesser extent, the Austrian approach (Menger and Hayek), Schumpeter's theory of the evolution of capitalist institutions and, more recently, the evolutionary economics in line with Nelson and Winter's works, the evolutionary game theory (Schotter), the French regulation school (Boyer, Saillard) and the economics of conventions (Salais, Thévenot), may also contribute to this research program.

In order to compare the respective contributions of quoted theories, Table 1 summarises our account of their answers according to the four criteria previously defined.

3. Findings drawn from the theoretical dialogue

Interesting observations come from the screening and the gathering of those complementary theories in order to build an evolutionary economics of institutions.

First, it leads to an enriched conception of institutional evolution. Each theory agrees totally or partially with the conception of institutional evolution as a path-dependent process in the sense that "every moment of the institutional evolution is understandable only according to all the moments which preceded it" (Garrouste 1995). Using "path dependency" expression does not involve a deterministic vision of change: actually, evolution is the result of a double dynamics consisting in the strengthening of some institutions on the one hand, while introducing variety among them on the other hand, by allowing new institutions to develop. The mode of articulation of these two processes explains the more or less continuous – or intermittent – character of evolution (Corei 1995). The introduction of variety is concomitant with the emergence of conflicts: each institution can be seen as a temporary solution found by the community to conflicts that could otherwise undermine it. Considering the institutional change as a historical process implies taking into account the irreversible character of time in the analysis.

Second, the confrontation of these approaches contributes to bringing to light the very principles of institutional evolution: the causes, processes, actors and results of the institutional transformation.

3.1. Causes

The causes of the institutional change are multiple and complex, but they can always be considered as the result of the break of a previous compromise between

divergent interests of a fragile balance of powers. That is the way in which institutional evolution is conflicting. Moreover, as T. Veblen (1898)¹ put it forward, causes and consequences of institutional changes (technology, organisation, ethics, social behaviours, and so on) are closely intertwined, leading to a process of cumulative causation.

3.2. Processes at work

Concerning the nature of the institutional evolution, we can assert that even if the process is largely beyond the human will in the long term – in this sense, the institutional evolution is the result of a spontaneous process or of a natural selection (Menger 1985; Hayek 1973) – it is not possible to consider this process as “blind” or totally unconscious. Actually, agents keep a partial control of the process, at least for some of them, by playing a leading role in the changes affecting the institution. In this way, the evolution is artificial in the short term (Commons 1934). Overall, evolution is generally mixed, made of spontaneous and artificial selection of institutions (Dutraive 1993).

3.3. Actors

If individuals are actors of change, they are always “institutionalised” actors, in the sense that human behaviours are shaped by existing institutions, and so by collective action (Commons 1934). Therefore, institutions as actors play a determining role, however spontaneous or artificial the institutional evolution may be (Schumpeter 1942). In this process, institutions cannot substitute themselves for individuals. But the State, in particular, plays an essential role of an arbiter (Commons 1931).

3.4. Results

The results of the institutional change process are not defined *a priori* (Veblen 1898; Hayek 1990). Even in the case of a cumulative causation putting the process on a particular path, the possibility of dramatic changes in the trajectory is not excluded.

Several issues from the post-socialist transformation context may be examined in order to illustrate the relevancy of the perspective based on the contribution of various theories of institutional change. The following parts deal with two of them: the emergence of corporate social responsibility in the CEECs, and the opening of CEECs to foreign direct investment.

¹ In the following paragraphs, the authors mentioned are only those considered as “pioneers” in the elaboration of the concept.

4. Example No. 1: Emergence of CSR in the CEECs

Corporate governance and business practices can be considered as institutions as rules, involving institutions as actors. Among such practices, a growing interest in corporate social responsibility (CSR) can be currently observed, at least in developed market economies. Nevertheless, responsible behaviours do exist also in the CEECs and their development can be seen as a process of institutional evolution.

In a green paper published by the European Commission in 2001, CSR was defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis”. In other words, “being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing ‘more’ into human capital, the environment and the relations with stakeholders” (European Commission 2001).

The analysis of CSR emergence in the CEECs presented here is based on qualitative data obtained during semi-structured interviews with the representatives of 19 companies operating in four CEECs (Czech Republic, Slovakia, Romania and Bulgaria) (Koleva and David 2009; David, Koleva, Marasova and Rodet-Kroichvili 2005).

4.1. Main causes

In the CEECs, the rise of CSR discourses and practices took place in a context of deep transformations following the collapse of socialism. Policies of liberalization, privatization and firms restructuring were accompanied by the breaking off of the previous compromise in labour relations and production organisation and the consequent redefinition of the place of business in society. The former compromise was based on the principles of job for all citizens and the offer of social benefits by the enterprise in return for refraining from pay claims, a lack of independent trade unions and a limited mobility of the workforce. The collapse of the planned system provoked a deep change in the social balance of powers in the CEECs, which resulted in discontent of a significant part of the population. At the same time, some environmental deteriorations accompanying the development of a capitalist-type economy were added to those inherited from the socialist period (OECD, 2000).

Thus, during the past few years the theme of CSR has gradually started to take shape in the CEECs. Reflection and practices in this field can be interpreted as a search for a compromise between market and social logics (to use the terminology of Gabriel and Gabriel 2004), as an endeavour to circumvent some negative consequences of the reforms in the early 1990s. Nevertheless, this attempt

runs counter to the interests of some companies (which consider that adopting a socially responsible behaviour is a constraint on their activity) and sometimes to the State view on business (in Russia for example, see Johnson and Brady 2004). Conflicts around CSR in the CEECs are a proof of a process of institutional evolution in progress.

4.2. Processes at work

The emergence of CSR in the CEECs is generally interpreted as a process of institutional importation initiated by western multinationals, as a transfer of “good practices” eastward. This widespread view stems from the conviction that the process of European integration and the leading role of Western European companies in CEECs-oriented foreign investment lead automatically to a convergence of the corporate practices across Europe. However, case studies show that CSR practices result from a complex combination between old (inherited) and new elements.

Continuity-based CSR

Continuity-based CSR is the reproduction in the current context of old practices mainly relating to social considerations, and also sometimes to environmental ones. Two kinds of legacies underpinning current CSR practices can be brought to light. The first one dates back to the socialist economic system, some social achievements and values of which are resumed selectively or are interpreted through the lens of individual (or company’s) values. The second one is linked to the pre-socialist past, and especially to traditions of environmental assets’ protection in some countries (e.g. former Czechoslovakia); the CSR stake is then to “awaken and develop them” (words of a Slovak manager).

Innovation-based CSR

This approach to CSR is based on the belief that most of the socialist-era processes operating within business organisations have no value in the context of market economy. In the current era of globalisation and EU integration, the transposition of external models of CSR to the CEECs is made easier.

The distinction we have made between continuity-based and innovation-based processes of CSR reflects the currently dominant type of elements in the CSR trajectory. Nevertheless, an assumption can be made about the emergence of a third form of CSR in the CEECs, resulting from the interaction of both models. This form is difficult to observe in the current context given the novelty of the topic and the need to stand back a bit to assess this phenomenon. However, it could be asserted that continuity-based CSR should not durably resist the process of institutional hybridisation and, conversely, innovation-based CSR cannot ignore some elements of legacy. While the implementation of imported principles corresponds to an artificial process of evolution, the adaptation of these or

pre-existing principles to new conditions, as well as the process of re-combining, should be analysed as a spontaneous process of evolution.

4.3. Actors of change

Several actors have been participating in the implementation of CSR in the CEECs. Three main expressions of CSR can be distinguished according to the actors involved in their definition and development and the degree of that involvement. In some cases, the leading actor of definition and mainstreaming of CSR practices is the company's manager, in others it is the manager together with other actors, lastly the State appears sometimes as the spearhead for the implementation of CSR.

Hierarchical CSR: the leading role of managers

In this case, CSR consists in manager-led initiatives that go beyond the existing regulations and reflect some personal values. Managers design 'responsible' measures in unilateral manner, without appealing to other actors to participate in the definition process.

In this conception of the CSR, which is rooted in paternalism, the company could be considered as a group in which the mutual commitments of the employees and the boss are very strong. For the employer (who is the owner as well), it leads to setting up important social devices within his firm, in return of an allegiance and of a substantial effort made by employees in terms of quality and discipline. Although this 'neo-paternalist' mode of CSR is generally not based on a balance of powers and is not the subject of a formalisation in the form of written code or rules, it seems to work. It could be hypothesized that this hierarchical form of rising and functioning of CSR can be sustainable only if the actor who introduces it has a strong legitimacy.²

Participative CSR: a more balanced interaction between employers and their partners

Contrary to the previous form of CSR, this one is based on participation of actors other than managers or owners to the definition of objectives and tools of CSR. Most frequently, these include employees or their representatives. However, participative CSR is often uneasy to introduce in Central Europe, given the difficulty to find legitimate social partners to negotiate.

Regular meetings between executive managers and trade unions may illustrate the participative approach to CSR. Important issues relative to employment or, more broadly, to human resources management are discussed there. This con-

² According to the well-known distinction established by Max Weber, there are three types of legitimacy in the dominance by the authority: traditional, legal-rational and charismatic. More recently, some specialists in organisations' analysis add to these a skill-based view of legitimacy according to which "the essence of the capacity of management resides in its legitimacy, i.e. in its conformity with values recognised in the name of the effectiveness to act" (Maccio 1988). The legitimacy is thus linked to the manager's skill to find solutions to arising organisational problems.

frontation of points of view is important to come to a compromise on crucial issues such as the impact of possible restructuring measures aimed at preserving the company's competitiveness. Even if this compromise is not easy to reach, many managers (local as well as foreign) recognize that transparency and direct relations with trade unions are desirable to obtain a satisfactory level of social peace. In firms where the difficult stage of restructuring has ended, CSR consists in creating the conditions for a continual exchange of expectations of various actors relative to the smooth running of the company.

Contrary to the hierarchical form of CSR, this model is based on formalisation (sometimes very exhaustive) of actors' obligations, as illustrated by Codes of conduct, Ethical charts, Standards of orientation towards clients, Sponsoring strategy, Regulation on environmental protection, etc.

Minimalist CSR: the coercive role of the State

Minimalist CSR corresponds to the application of binding measures, by the State request, and/or of some voluntary measures, the number and the cost of which are limited for the company, in a context of widespread irresponsible practices.

First of all, some companies, especially those which previously belonged to the State, experience a difficult economic situation and are not able to go beyond obligatory measures because of the lack of financial means. Some of them are even compelled to make some cuts in existing corporate social practices. Nevertheless, CSR still exists in people's mind as long as the law is respected, even when corporate social practices are less developed than they used to be. Beyond the case of enterprises having difficulties, obeying the law is considered by some managers as equivalent to behaving responsibly in a context of insufficiently enforced social legislation and common "irresponsible" behaviours. More generally, a great number of companies adopting such a minimalist responsible behaviour consider that CSR is not useful or does not constitute at present a competitive advantage in a context of 'wild competition', where energies must be mobilized for surviving.

Other measures of CSR, voluntary as for them, appear as a limited commitment of the company: it is the case, for example, when the employer stands security for employees wishing to sign a loan with a bank of which the company is a customer, or when all the employees and their families meet sometimes on the occasion of celebrations. Such actions can be useful to keep a good social climate within the firm without being expensive. In coherence with the kind of commitment to insiders (especially the employees), the efforts are limited concerning external responsibility, which is considered as a 'secondary matter'. It consists mostly in occasional charity actions.

In conclusion, we may stress that hierarchical and participative form analysed above fit clearly the European definition of CSR as initiatives, be they launched

by managers or other partners, that not only fulfil legal expectations but also go beyond them. On the other hand, 'minimalist' expression of CSR can be seen as an embryo of CSR such as defined above. It essentially corresponds to the first part of the standard definition (respect for the law). This kind of compulsory CSR – which should not be called CSR if we adopt the strict definition formulated in a context different from that of the CEECs – seems to be specific to companies in the CEECs. It shows the importance of institutions as actors, and in particular the State, in putting the proper regulatory or legislative framework in place in order to define a level playing field on the basis of which all voluntary socially responsible initiatives can develop.

4.4. Results

The result of the evolution of socially responsible behaviours in the CEECs cannot be completely predicted (Koleva 2005). Nevertheless, forms of CSR that will emerge in the CEECs will be under the influence of at least three models: the American and British model, the continental European model (which is still not stabilised and encompasses several versions of CSR), and the CEECs' success stories. According to Habbard (2005), what differentiates the American and British model from the continental European one is the conception of corporate governance in which they are embedded: in the former, the legal priority is given to shareholders, while in the latter other stakeholders, especially employees, are allowed by the law to take part in the internal process of decision. This entails that their interests are voiced even if the balance of power is not always favourable to them. Even if many observers talk about the weakening of the continental European model to the benefit of the American-British one, the process of integration of the CEECs into the European Union, as well as FDI inflows, coming mainly from continental Europe, will certainly give a strong influence to the continental European model in the emergence of CSR in post-socialist countries. Last but not least, specific home-grown success stories still continue to play a role in Central and Eastern European new entrepreneurs' minds and are considered as good practices to be copied: that is the case of the 'BATA management', even if the proximity of this model with the CSR practices might be discussed (David and Koleva 2005; Trnkova 2004).

The evolutionary process of CSR emergence in the CEECs may be conceived as a process of hybridization starting from multiple influences. Such a hybridization of socially responsible practices however old (or local) or recent (from the West) they may be, will be a source of new models of CSR. Several Eastern European models of the CSR will certainly emerge from this process and might be considered as institutional innovations. Thus, responsible practices are embedded in an institutional context which shapes them, but in turn these practices contrib-

ute to modifying the institutional framework. We find here another meaning of the ‘genetic’ character of CSR development: the cumulative causation (Veblen 1898). It seems too early to bring to light examples of institutional innovations regarding CSR in Central and Eastern Europe. Nevertheless, such a cumulative process was observed in the UK by Whitehouse (2006).³

5. Example No. 2: FDI and opening trajectories in the CEECs

Foreign direct investments (hereafter FDI) in the CEECs largely illustrate the theoretical findings evoked in this paper. Obviously, FDI as such are not institutions. Nevertheless, their development and consequences in the CEECs do interact with the institutional evolution of these countries.

To illustrate this interaction, we intend to point out the causes, processes, actors and results of the institutional evolution of the CEECs, during their opening to the world economy. In this aim, we first focus on the variety of national FDI’s trajectories. Then we explore various ways to explain this variety by looking to some cumulative phenomena implied by FDI flows shaping what can be interpreted as a path-dependent process of integration into the world economy.

5.1. Assessing the variety of trajectories: some observations about FDI in the CEECs

A preliminary comparative analysis of FDI inflows and stocks leads to putting forward three observations.

First, the stock of FDI in the CEECs remains largely concentrated. In 2003, four countries (namely, Russia, Poland, Hungary and the Czech Republic) accounted for 73% of the global FDI stock received by the region (Fig. 2). Romania, the fifth destination in 2003, has attracted only a quarter of the stock accumulated in the Czech Republic.

Second, the concentration of the cumulative stock of FDI is declining during the period but the FDI intensity of GDP remains uneven. All indicators of

³ She speaks of the practice of some firms regretting that the environmental dimension disappears behind the social one – the philanthropic connotation being too dominant in the term ‘CSR’. They consequently adopted a new terminology, that of ‘corporate responsibility’ (without ‘social’) to better describe their responsible behaviours. This new expression is being publicly recognized, i.e. ‘institutionalised’ by the UK government, and may constitute a move toward a clarity regarding CSR demanded by firms. In this example, firms’ behaviours clearly have an impact on the definition of new rules.

concentration of FDI stocks show a clear tendency to decrease throughout the period: corrected by the mean of the panel, the standard deviation decreased by 11% between 1995 and 2003. Meanwhile, the share of the four biggest destination countries diminished by 17%. This does not exclude peculiar individual trajectories: Slovenia, for example, was the fourth destination in 1991. At present, only four countries (Latvia, Belarus, Albania and Moldova) have attracted less FDI than Slovenia. Conversely, Estonia and Croatia show a remarkable growth profile of FDI intensity as a percentage of GDP (Fig. 3). This indicator makes it possible to identify three groups of countries in 2003: in Group 1 (Estonia, Hungary, the Czech Republic and Croatia), FDI stocks represent more than 20% of the GDP. They all experienced a steady growth of this indicator. Group 2 is composed of countries in which FDI stocks represent between 10 and 15% of the GDP. Others constitute the Group 3 (see Vercueil, 2006 for more details).

Third, as transformations go on, per capita FDI stocks appear to be increasingly linked to per capita GDP. As shown in Figure 3, the intensity of FDI in the GDP is constantly increasing over the period. This growth seems to be linked to the strong correlation between FDI stocks and GDP (Figure 4), which is increasing over time (Table 2).

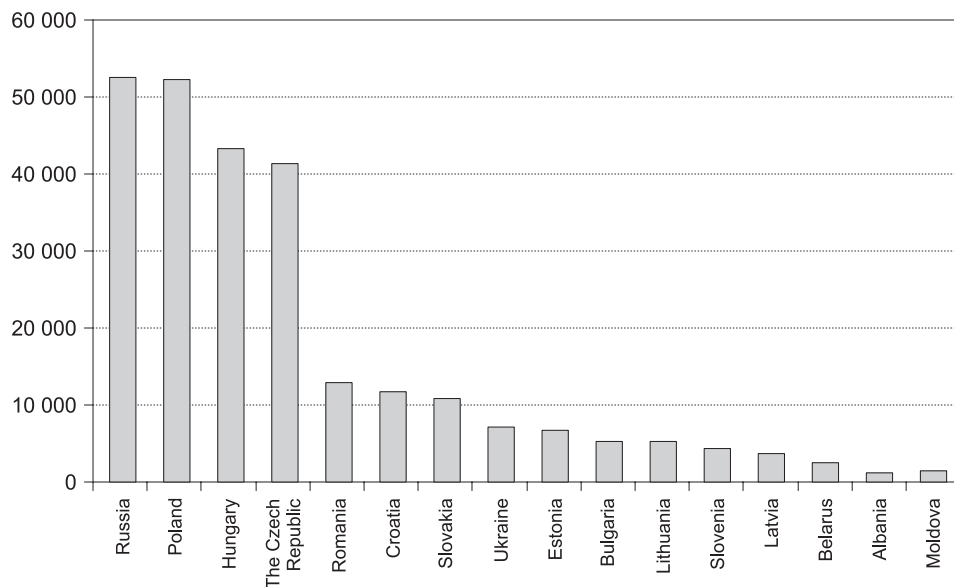


Fig. 2. FDI Stocks, 2003 (millions US \$)

Source: UNCTAD.

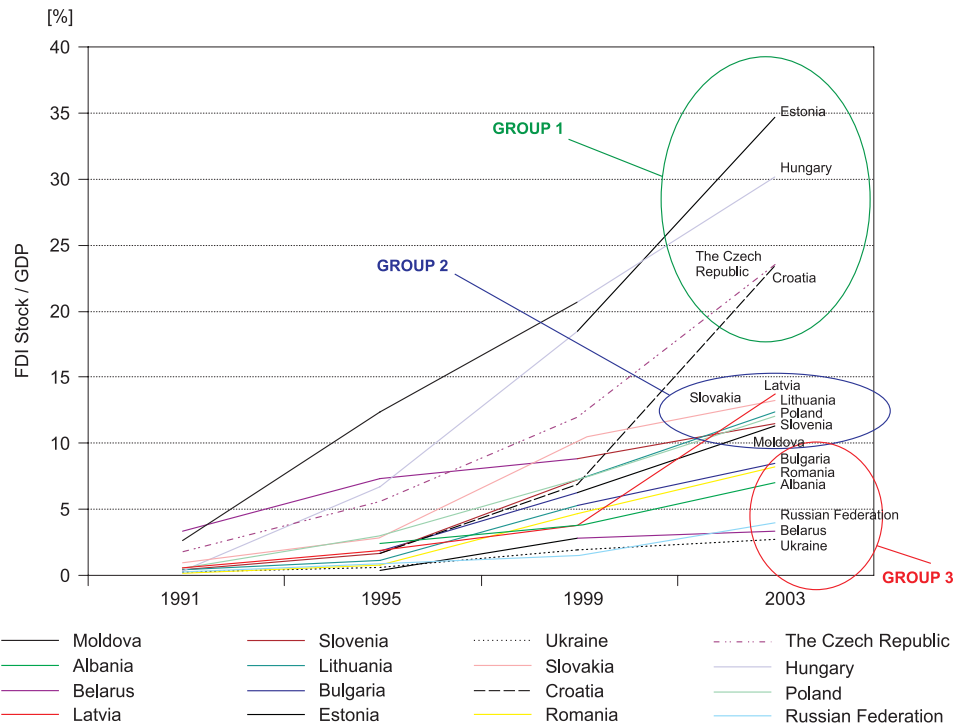


Fig. 3. Compared FDI trajectories, 1991–2003

Sources: UNCTAD, author’s calculations, IMF.

Table 2. Per capita FDI and GDP: Cross-country regressions, 1991–2003

	1991		1995		1999		2003	
Linear/ Logarithmic Model	Lin.	Log.	Lin.	Log.	Lin.	Log.	Lin.	Log.
Coefficient	8.27	1+10.5E-4	6.87	1+10.3E-4	4.31	1+6.05E-4	2.47	1+2.73E-4
Constant	7501	7321	4744	4413	4938	4503	6478	5938
R ²	0.21	0.20	0.57	0.43	0.57	0.48	0.61	0.50
F	2.73	2.53	18.31	10.50	18.85	12.78	22.27	14.03
Degrees of freedom	10		14		14		14	
Significance	> 5%	> 5%	1%	1%	1%	1%	1%	1%

Sources: UNCTAD (2005), author’s calculations, IMF (2005). E-X = 10^{-X}.

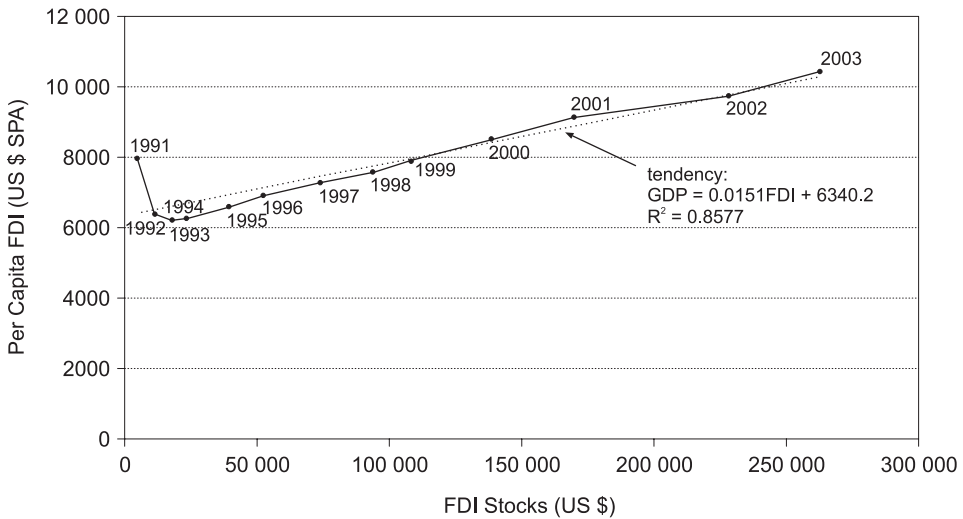


Fig. 4. FDI Stocks and Per Capita GDP: 1991–2003

Source: UNCTAD, author's calculations, IMF.

These observations raise questions concerning the general convergence hypothesis, according to which economic opening to FDI leads to an increase in economic performances of less advanced countries and finally to a convergence with more advanced ones, thanks to various spillover effects (Borensztein et al. 1998).

Despite the apparent homogenisation trends shown by the figures, it could be asserted that the development of FDI in the CEECs does not imply a simple, straightforward process of economic integration for the region. To illustrate our reflection on this issue, we shall evoke the cumulative dimension of the processes regarding the link between FDI and other economic and institutional variables in the CEECs.

5.2. The variety of FDI trajectories: the outcome of a multidimensional process

Concerning the causes, the various compromises achieved by local or national authorities regarding the often diverging interests involved in FDI can be considered as starting point in explaining some peculiarities of individual situations. On the one hand, authorities often bless the investment projects of foreign companies, acknowledging that they need them to restructure their economy. But on the other hand, in the past few years political reactions throughout Europe have shown that “economic patriotism” is not an old-fashioned idea. Moreover, several examples across Europe seem to indicate a recent rise in the national sensitiveness to the “loss of control” on one or another sector of the

economy.⁴ In this way, formal (for instance, legal provisions on investment) and informal (for instance, public expectations regarding political attitudes toward mergers and acquisitions) institutions do shape the framework within which economic policies are built and conducted. As such, they play a key role in the explanation of some of the differences among national trajectories regarding FDI. Slovenia, Russia and Estonia show very different institutional frameworks concerning FDI that are the consequences of different compromises between all the interests at stake in this issue.

Evolution of FDI flows implies many processes of institutional change. First, the cumulative dynamics linking FDI and GDP contributes to explaining the path-dependent character of national evolutions: FDI flows improve the productive capacity and the global productivity of the national economy, while in turn, an increasing GDP acts as a powerful incentive for foreign enterprises to invest in a given country. This cumulative causation process largely explains the strong correlation between GDP and FDI observed in Figure 4 and Table 2.

As FDI are often accompanied by technology transfers (be they technical, organisational or managerial), they have more or less powerful accelerating effects on the performance of the business units concerned. This resulting impetus put these units on a technological track that clearly diverges from those which remain away from the process. This could explain the very weak empirical evidences of technical spillovers of a local affiliate to its horizontal competitors and to its vertically linked suppliers and customers (Damijan 2005, Javorcik and Spatareanu 2005). The gap created is likely to increase further as performances of the region / sector attract, in turn, new FDI. In other words, the cumulative causation between FDI and GDP already underlined at the national level is likely to take place at the sectoral and regional levels as well (at least concerning high-tech FDI), leading to an increase in the diversity of the “local” trajectories. The data compiled here show only the national dimension of FDI. To go further in the analysis, studies at various levels (sectors, regions, macro-regions) should be conducted, in order to check the emergence of local divergences (“winner” versus “loser” sectors, clusters, regions or cities), notwithstanding the apparent convergence of national trajectories. In this work, it would be useful to assess the relevancy of industrial legacies (and, in this way, of the past-dependency hypothesis): not only socialist, but also in many case pre-socialist patterns of specialisation can contribute to explaining the local variety of situations.

Finally, actors that deserve to be included in the explanatory scheme of the FDI trajectories are situated at all levels. At the local level, regional authorities play a crucial role through their activity of interpreting national rules about FDI,

⁴ See for example the discussions about FDI and economic patriotism held in the *Europe-Russian Economic Forum* in Vilnius, Lithuania (23–24 March 2006): www.forum-ekonomiczne.pl/index_eng.php.

as the chaotic development of FDI in some raw material sectors in Russia has shown; conversely, local firms are more or less attractive for foreign investors, depending on their structure of ownership, management, technology, qualification of the workforce, etc. (Murrell 2003). At the national level, the ability of the government to take appropriate measures and to enforce existing legislation regarding economic activity is one of the main factors likely to explain FDI flows. At the macro-regional and/or global level, international organisations like OECD or WTO and regional powers like the European Union (via the *acquis communautaire* for example) greatly influence the legislation and policies on the national level. Conversely, firms, especially multinational ones, are key actors in these processes of economic and institutional evolution by elaborating and implementing their strategies throughout the region, but also by trying to influence the institutional evolution by lobbying at all levels. The interaction of all these actors cannot produce a unique result. In this sense, the variety of FDI trajectories is the logical outcome of a multidimensional process.

To sum up, it appears that a lot remains to be done in order to correctly understand the economic and institutional implications of the opening of CEECs to FDI flows. Our hypothesis is that the theoretical framework used in this paper can provide useful analytical tools in this direction.

Conclusion

Transition is an unprecedented event and existing theories are sometimes too limited to account for its complexity. In particular, it is the case of phenomena related to institutional evolution. That is the reason why a theoretical perspective combining elements of various existing theories (which were built to explain institutional change in other contexts) may appear as powerful in shedding light to the reality: the post-socialist transformation. This combination may be analysed as a kind of “theoretical innovation” resulting from facts that question existing theories without being completely explained by them.

This contribution is a first attempt in this direction but needs further elaboration. In particular, epistemological and methodological conditions of the theoretical bridge between evolutionary theories require to be further analyzed, as well as the principles of institutional evolution. Besides, the study of the combination of some of them is worth being further developed (see Koleva et al. 2006). Moreover, one should be aware that such a theoretical perspective may entail the risk of giving an over-determining role to institutions.

If the post-socialist reality challenges existing theories and spurs theoretical evolution, there is also a process of feedback as the new theoretical perspective allows a more relevant study of post-socialist changes.

Actually, our theoretical framework of analysis offers a deeper understanding of evolutions in the CEECs at different levels starting from the emergence/evolution of a particular institution (such as CSR) to some aspects of changes affecting systems (for example the opening of national economies to FDI). It offers an opportunity to carry out a multi-level evolutionary analysis where path-dependency, irreversibility, the genetic character of evolution and conflicts are crucial.

Moreover, the proposed framework of analysis allows studying issues that go beyond purely economic topics and include other dimensions of the post-socialist reality, especially the social one. More generally, it lends itself rather well to analyzing new themes in the post-socialist context such as the emergence of CSR and the modernisation of the productive system resulting from economic openness.

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