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Is Corporate Social Responsibility (CSR) a New Alternative to Governance Challenges of State-Owned Enterprises (SOEs)?³

ABSTRACT: *This article aims to analyze the current theory of managing the State-owned Enterprises (SOEs) with the use of Single Ownership Entity and to suggest alternative solution, particularly, managing SOEs with Corporate Social Responsibility (CSR).*

After a thorough review of the literature analyzing the connection between CSR and SOEs, the article states that there are important missing points in the previous research and academic debate: (1) no scholar directly emphasizes CSR as the answer to the problems of SOEs; (2) there is no research conducted on the comparison of Single Ownership Entity and CSR, evaluating their potential positive effects on SOEs; (3) accordingly, academic literature does not discuss the ways and tools of implementation of CSR in SOEs.

The article aims to fill this gap and emphasize the links between CSR and SOEs. Due to the challenges, goals and ownership structure of SOEs, CSR is the most suitable corporate governance model for SOEs and its effective implementation is more vital than the execution of recommendations on creating the single ownership entity suggested by international organizations. The research question of the article is to compare managing the SOEs with the use of the CSR model (Alternative Theory) to single ownership mechanism established by OECD (Current Theory) and find out whether CSR is a better solution to the existing problems of SOEs.

Finally, the article discusses the institutional context of SOEs based on the examples of the countries of Eastern and Central Europe where the problems regarding SOEs remain remarkable; presents the balance of interests of stakeholders' in SOEs in connection to Alternative and Current Theories; and combines analysis, research and recommendations of international organizations and academia towards the problems of SOEs.

KEYWORDS: Corporate Social Responsibility (CSR), State-owned Enterprise (SOE), Supervisory Board, Corporate Governance Code, Single Ownership Entity

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INTRODUCTION

State-owned Enterprises (SOEs) are an intensely debated issue in all countries. SOEs are present in various spheres of economy such as heavy industry, natural resources (Goldeng *et al.*, 2008), public services, railway, airports, and even banking (OECD Guidelines, 2015). The 20th century was very rich in developing different trends of foundation, operation, and management of SOEs.

SOEs emerged primarily as vehicles for state intervention in cases where markets were perceived to fail. Economists have long argued that state ownership can be justified when market failures are present, and when other regulatory devices are inefficient (Cuervo-Cazurra *et al.*, 2014). In practice, however, state ownership in many countries was motivated by more than traditional market failures. Nationalization was undertaken to foster economic development through industrialization, to limit foreign ownership, and

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to maintain employment (Shapiro and Globerman, 2009). Still, the standard justification for the existence of SOEs is that they are designed to overcome market failures (Garde-Sanchez *et al.*, 2018).

Unlike private entities that are more concentrated on wealth maximization for their shareholders, SOEs might have various social, political, and commercial purposes (Ramamurti, 1987). At the same time, often these goals are ambiguous, debatable, and conflicting. “When state ownership is passive, managers may not fully understand social goals, and when it is not passive, the firm may suffer from too much political interference. If political markets are imperfect, government and political actors may be able to divert SOE resources to themselves. It is a challenge to structure this complex chain of accountability so as to encourage efficient SOE management. The challenge is greater when the SOE is not a listed company, and, therefore, not subject to stock exchange regulation.” (Shapiro and Globerman, 2009).

Emerging and transition economies have weaker state institutions and markets, therefore, state-owned entities are more common in such countries. In Soviet and Socialist countries, State was generally the only owner of industry; therefore, the collapse of Soviet Union and drastic revision of Socialist regimes in Central and Eastern Europe, meant the transformation of the economy and creation of the new rules for the management of State Companies. Most of the state companies were privatized, however, in many spheres, which are often referred as strategic, the State remained as a shareholder and the sole owner of companies and started to conduct adjusted functions to the new economic reality. During the management of SOEs, different problems arose, inter alia, transparency, accountability to the public, political neutrality, independence of management bodies, and independence of entrepreneurial activities of SOEs. At the same time, as companies belonged to the state, they were managed fragmentally and were decentralized, thus lacking single ownership mechanism. Furthermore, corporate governance in emerging economies has weaker corporate governance mechanisms (OECD Guidelines, 2015) associated with dominant shareholders, reduced insider control and low level of protection for minority investors (Estrin and Prevezer, 2011). Moreover, as mostly public servants and political affiliates are represented on the executive and supervisory branches of the SOEs (Ennser-Jedenastik, 2014), the separation of ownership and control is diminished, which is contradictory to the basic principles of the corporate governance (La Porta *et al.*, 1999). Therefore, Supervisory Boards are not able to perform well their basic functions. Accordingly, transformation of SOEs into the new era means addressing problems that need implementation of the best international practice, whilst considering and analyzing the local practice.

Notwithstanding the current recommendations and approaches towards the problems associated with SOEs, due to the challenges and aims and ownership structure of SOEs, this article states that CSR is the most suitable corporate governance model for SOEs’ and its effective implementation is more vital than the execution of recommendations by OECD and other international organizations. At the same time, the principles and dimensions of CSR combine almost all the recommendations of OECD and other international organizations, therefore, the states and international organizations should pay attention to the execution of CSR in SOEs. There is no academic work available where CSR would have been marked as the best possible governance model for SOEs, and where the ways for its implementation in SOEs would be given. This article aims to fill the gap and strengthen the links between CSR and SOE.

Rationale for this research was based on several factors. Firstly, as it was mentioned above, SOEs are facing number of problems. Secondly, these problems are also apparent to the SOEs in Central and Eastern European Countries. Thirdly, due to the reasons discussed below, the established practice of management of SOEs suggested by OECD and other international organizations is not the best solution to the problems of SOEs. At the same time, the implementation of OECD regulations gives different results in different countries. Further, there is a gap in the academic literature—there is no research paper that compares CSR to single ownership mechanism, and recommends CSR as a problem solution measure for SOEs.

The article starts with the general introduction of SOEs, their aims and challenges, and states the rationale of the study. Section 2 concentrates on problems of SOEs, theoretical framework and current theory suggested by OECD and makes a brief overview of the relevant academic literature. Section 3 analyzes institutional context of SOEs in Central and Eastern European countries, discusses OECD practices and gives a short summary on the implementation of OECD recommendations in the SOEs of the Czech Republic, Slovenia, Croatia, Lithuania, Latvia, Georgia, Greece, Poland, and Romania. This section contains Table 1 where the problems of SOEs, their executive and supervisory branches and managing SOEs by the states is briefly summarized. Section 4 focuses on the scientific methods used for obtaining the results of the research. Section 5 presents theoretical discussion on Current Theory and Alternative Theory and analyzes the ways for implementation of CSR in SOEs. The section includes Figure 1 where the balance of interests of SOEs’ stakeholders are shown, and the Supervisory Board is presented as the mediating management body among the stakeholders. Section 6 discusses the results of the research in comparison to the current theory. This section also contains Table 2 where the problems regarding SOEs and the ways of their solution according to the Current Theory and Alternative Theory is compared. Last section of the article combines the concluding remarks and summarizes the findings of the study.

THEORETICAL FRAMEWORK

According to the Organisation for Economic Co-operation and Development (OECD), there are three main ways of managing SOEs by the state (Shapiro and Globberman, 2009)—Centralized, Dualistic, and Decentralized. During the decentralized management, the SOEs are governed separately by various administrative bodies and sectoral ministries; in dualistic approach, SOEs are governed by Sectoral Ministries and coordinating entities together, though, separating the responsibility on monitoring (by coordinating entity) and ownership (by Sectoral Ministries) (OECD Guidelines, 2015). OECD argues that the best international practice and possible solution of problems associated with SOEs is managing them with the use of centralized agency or single ownership entity, which will hold the ownership and management functions of all the SOEs in a State (OECD Guidelines, 2015). This will enhance the state's role as a shareholder, increase its accountability, create disclosure and remuneration policy, and promote the unified approach towards all the SOEs. Main functions of the single entity should be the elaboration of reporting system, supporting transparency of public information, and the establishment of a transparent and merit-based system of electing the members of supervisory board (OECD Guidelines, 2015).

Unlike the recommendations mentioned in the first paragraph (Current Theory), the Alternative Theory suggests that the attention should be concentrated on the internal part of the management of SOEs and not on their governance by the State. Having a single entity is not the key in implementing the recommendations and best international practice. The management of SOEs by the State can stay decentralized and abovementioned problems can be resolved if the State supports the implementation of the Corporate Social Responsibility (CSR) in SOEs. Accordingly, it does not matter whether the management of SOEs is decentralized or dualistic as long as states unify it by the single strategy and universal approach illustrated in CSR. OECD and other international organizations should not enhance the management by a single entity, but carrying out CSR within the corporations. Thus, the research question for the article is to compare CSR to single entity mechanism suggested by OECD and answer the question: Which is a better solution to the existing problems of SOE—CSR or single ownership entity?

The authors reviewed dozens of researches and papers on SOEs and CSR. Apart from other literature, the authors have located more than 50 papers specifically dealing with the relationship between CSR and SOEs.

In the abovementioned academic literature, various standpoints were emphasized as follows:

- (1) SOEs are largely considered as politically influenced by the state, and the necessity for higher transparency and accountability should be emphasized (Enderle, 2001; Esa and MohdGhazali, 2012; Gao, 2011; Lauesen, 2011).
- (2) Private entities should be distinguished from SOEs, as state owned businesses do not have shareholder wealth maximization aims; therefore, the factors for CSR are different in SOEs and high level of accountability can be achieved (Al-Samman and Al-Nashmi, 2016; Cheng and Kung, 2016; Adams and McNicholas, 2007; Cheng *et al.*, 2017).
- (3) CSRs were positively linked with the reduction of the financial risk, labor protection, financial performance, information disclosure, environmental protection, and internationalization (Kuo *et al.*, 2012; Cheung *et al.*, 2015; Al-Samman and Al-Nashmi, 2016; Sanchez *et al.*, 2017; Chun, 2009; Gao, 2009; Tang *et al.*, 2015; Cormier and Gordon, 2001; Lopatta *et al.*, 2016; Godfrey 2005).
- (4) CSR was linked to the Stakeholder Theory and Legitimacy Theory underlining the involvement of various groups of stakeholders (stockholders, labor force, suppliers, consumers, investors, community) in the life of the corporation and stating that corporations have contracts with the society and these contracts are included in the business activities of the corporations, which legitimates their actions (Freeman and Mcvea, 2001; Garriga and Mele, 2004; Cormier and Gordon, 2000).

Though, named researchers consider the connection between CSR and SOEs, there are important missing points in the academic literature:

- (1) No scholar directly emphasizes that CSR is the answer to the problems of SOEs.
- (2) No scholar compares the management of SOEs with single ownership entity (Current Theory) to management of SOEs with CSR (Alternative Theory).
- (3) Accordingly, academic literature does not discuss the ways and tools of implementation of CSR in SOEs.

After the review of the relevant literature, it was discovered that one of the biggest portions of the research on CSR is dedicated to SOEs in China. However, CSR in China has a different definition and usage, and aims to create a harmonious society, thus

concentrates more on social objectives rather than on responsibility and profit generation. At the same time, CSR engagement in SOEs in China primarily serves the interests of the government and not various stakeholders (Kao *et al.*, 2014). Social and state objectives can be one of the many aims before SOEs as expectations of its stakeholders are different. Simultaneously, CSR has several dimensions and concentrating solely on social acts will violate the balance among these elements.

For the last decades, CSR is becoming increasingly popular (Lopatta *et al.*, 2016). This model is concentrated on implementing accountability and transparency at the highest possible level, supporting the environment and community, improving the working conditions of the employees, involving the stakeholders in corporation's activities and benefiting socially vulnerable groups. Thus, wealth maximization nature of corporation is balanced with providing the greater good to the whole society.

Various theories suggest that dimensions of CSR are wealth creation, responsibility in the political arena, social demands and ethical values (Garriga and Mele, 2004). At the same time, CSR can be used for reducing the risk and increasing the competitive advantages of the companies (Lopatta *et al.*, 2016). There are many studies showing the strong link between CSR and corporate financial performance (Godfrey, 2005). With assuming aims and character of the CSR and problems that SOEs are facing, it is argued in the article that this corporate governance model ideally suits SOEs.

Unlike other corporations, the stakeholders of SOEs are far diverse and complex, and SOEs should consider and balance the interests of these stakeholders (Garde-Sanchez *et al.*, 2018). In this regard, Supervisory Boards play a crucial role, as they should be filled with representatives from these stakeholders, inter alia, employees, and representatives of local city halls or non-governmental organizations that are working in the field of environment protection. Therefore, considering the interests of the stakeholders, the authors argue CSR emphasizes the involvement of each stakeholder, underlines the transparency of the business activities and benefits society, which in the case of SOEs is the beneficiary of the corporation.

Independent Supervisory Boards, filled with outside directors that are free from political influence, are the key bodies in implementing CSR. Review of the relevant literature suggests that the Supervisory Boards are crucial for effective functioning of the corporation (Langevoort [Joo eds], 2010). They monitor the actions of Executive Directors; create auditee committees; invite outside directors; elaborate various entrepreneurial and policy documents, and so on (Langevoort [Joo eds], 2010).

Unlike private entities, supervisory boards of SOEs usually are not subject to takeover or proxy threats and are rarely threatened by bankruptcy. At the same time, they often receive subsidized loans. Thus, the incentives for board members and managers to maximize the value of the company are reduced. Moreover, "the performance of SOEs has been widely studied, and it is generally agreed that they face performance challenges, largely related to their governance structures" (Shapiro and Globberman, 2009).

Having a single ownership entity does not necessarily mean that it will be free from political interference. Politically connected corporations are influenced by the political turnover, therefore, neutrality implemented by supervisory boards enhances the investments and further stability (Chan and Feng, 2018).

INSTITUTIONAL CONTEXT OF MANAGING SOES IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

Transitional period was difficult for the SOEs in Central and Eastern Europe. States started to adjust their functions to the new reality. Before the transition, the enterprises were property of the whole community. During the transition, some of the entities were privatized while others remained in the state ownership (Nemec *et al.*, 2015). State started to use SOEs for different purposes, for example, investing in the specific field, implementing state policy, providing communal services, securing strategic areas, and so on (Shapiro and Globberman, 2012). Thus, SOEs became instruments of economic activities affected by the public policy (OECD Guidelines, 2015). From the analysis below, it can be concluded that almost all countries in Central and Eastern Europe face problems in the management and operating of SOEs, and only few of OECD recommendations are implemented in practice.

Based on the abovementioned analysis, following conclusions can be withdrawn:

- (1) All the countries face governance problems of SOEs. These problems are associated with management and corporate governance, low level of elaboration and implementation of unified strategy, reduced transparency and openness, political interference, qualification of board members, and so on.
- (2) Discussed countries either do not follow or follow only few OECD recommendations, except Slovenia, which is considered as one of the champions in implementation of OECD recommendations.

Tab. 1: Comparison of the Countries of Central and Eastern Europe

Countries	Brief Information	Main Problems	Management Model	Literature
Croatia	Croatia has the highest share of State-owned Enterprises (SOEs) in GDP among the European countries. SOEs are an important part of the Croatian economy and they are present in various sectors, including transport, energy, communication, forestry, agriculture, and manufacturing.	Basic principle of the Corporate Governance on separation of Ownership and Control is not implemented. Performance of SOEs in Croatia is weak and their profitability level is low.	Decentralized	Bajo and Primorac, 2017; Bajo, <i>et al.</i> , 2018; Poljak Z, 2018; EBRD, Croatia, 2018; EBRD, Transition Report, Croatia, 2018-2019; European Commission, Country Report Croatia, 2018; European Commission, State-owned Enterprises in the EU, 2016.
Czech Republic	SOEs play a significant role in the State's economy. SOEs are mostly functioning in the key areas of State's economy, such as transportation, railway, electricity, forestry, postal services, and so on.	There is no unified state policy towards SOEs; there is a lack of transparency and openness; appointment of the Board Members is not standardized and there is a low level of diversity in management bodies.	Decentralized	Mertlik, 1997; OECD Guidelines, 2015; Ondrich and Sebastova, 2017; Transparency International, Corruption Risks in the Visegrad Countries, 2012; Krulis, 2017; Eichlerova, 2017.
Greece	Greece was not a Socialist country but it is still included in the discussion because the degree of state control over the economy is amongst the highest in OECD.	Specific commercial and social goals are not defined individually to all SOEs; politicians are serving on the Boards and there is a lack of independent and qualified representatives in the Supervisory Board.	Decentralized	Greece Policy Brief, OECD, 2016; Lampropoulou, 2017.
Poland	Due to the problems in the management of SOEs, Poland ranked at seventh lowest place out of the OECD's 33 countries in SOE governance.	There is limited transparency, inconsistent evaluation of boards, undue influence from politicians; obscure targets set for the financial performance; management is filled with people having political background.	Decentralized	Gliniecki, Zaleska-Korziuk, 2017; OECD, Ownership and Governance of State-owned Enterprises: A Compendium of National Practices, 2018; Poland SOEs Workshop, 2015.
Georgia	Georgia is an Associate Member of EU and a Post-Soviet country and faces number of severe problems in the management of SOEs, which are underlined by the local and international sources.	There is a problem in the separation of management and ownership; low level of accountability, transparency, and openness; lack of unified state policy; no clear rules for appointing the members of the Supervisory Board; violation of Labor Code, and so on. SOEs in Georgia are bearers of a significant financial risk. The paternalistic role of the state towards SOEs introduces a "soft budget constraint" (Pargendler, 2012), which reduces pressures to contain costs (Goldeng <i>et al.</i> , 2008). For example, big SOEs in Georgia incur financial losses but their performance is crucial for the State, therefore, they are always subsidized from the central or local budgets.	Dualistic and Decentralized	Maisuradze (Zarandia eds) 2016; Law of Georgia "On Joint-Stock Corporation – Partnership Fund", 13/04/2011; State Audit Office, "SOE's Management and Governance Efficiency Audit", 2015; The Institute for Development of Freedom of Information, "SOE's in Georgia and their Efficiency", 2014; Georgian Young Lawyers' Association, "State Created Enterprises' Transparency and Accountability", 2015; Georgian Young Lawyers' Association and the Institute for Development of Freedom of Information, 2016; Transparency International – Georgia, "Georgian SOE's: Transparency, Accountability and Preventing of the Corruption", 2016; IMF, 2018.

Continued **Tab. 1:** Comparison of the Countries of Central and Eastern Europe

Countries	Brief Information	Main Problems	Management Model	Literature
Lithuania	Management of SOEs is performed by 12 Ministries and 5 other administrative bodies.	Management bodies are weak, and the directors of SOEs are appointed for political reasons and not for qualification; there is a high level of corruption.	Decentralized	OECD Lithuania, 2015; Baltic Institute of Corporate Governance, 2012; Baltic Institute of Corporate Governance, CEOs in Lithuanian State-Owned Enterprises, 2013.
Latvia	In 2009, Supervisory Boards were abolished in most SOEs and this worsened the overall situation. This step was later criticized by OECD and was followed by the restoration of supervisory boards in big state-owned corporations.	SOEs have weak supervisory boards. Management of SOEs are appointed for political reasons and not for qualification. There is a lack of unified approach, and a high level of corruption.	Decentralized	Baltic Institute of Corporate Governance, 2012; Baltic Institute of Corporate Governance, CEOs in Lithuanian State-Owned Enterprises 2013.
Romania	Romania is the owner of the largest number of SOEs in Europe.	There is corruption in SOEs, weak corporate governance framework, selective distribution of benefits to individuals or groups, and high level of political influence on management bodies.	Decentralized	Volintiru <i>et al.</i> , 2018; Capannelli, 2017; Marrez, 2015.
Slovenia	Unlike other analyzed countries, SOEs in Slovenia are managed by a single ownership entity, which is responsible before the Parliament and its members of the supervisory board are considered as independent.	Challenges remain regarding the political influence of SOEs.	Centralized	The Slovenian Sovereign Holding Act, ZSDH-1, Official Gazette of RS, no 25/2014; OECD, Slovenia Policy Brief, 2015.

- (3) Almost all the countries (apart from Slovenia) implement decentralized approach in contradiction to the recommendations of the OECD on centralized management.
- (4) There is a high risk of political interference in the management of SOEs and creating the single ownership entity does not guarantee independence and high qualification of members of supervisory board.

Therefore, alternative solution to the ongoing problems of SOEs should be suggested. The answer to the challenges presented in this paper, and stated by the international organizations and researchers, lies in corresponding the State's strategy on SOEs to the principles of CSR. This solution labeled as the Alternative Theory is broadly discussed below.

METHODOLOGY

The study is positioned within the academic debate on analysis of the problems of SOEs and identification of the ways for their solution. Connection of CSR and SOEs is a recent and rare study area. It must be mentioned that academic work on CSR in relation to SOEs is remarkably smaller than the research conducted in connection with private entities and CSR (Garde-Sanchez *et al.*, 2018).

We used the methodology of comparative analysis, put the research question, formed a hypothesis, selected countries and companies, and explained the ways of management of SOEs. The study is concentrated mostly on institutional context of management

of SOEs in Eastern and Central Europe because these countries experienced the transitional period from socialist economies, and this process enhanced the vulnerability of the efficient functioning of SOEs.

In order to assess the challenges of SOEs and to draw specific conclusions, various types of research were used, such as:

- Historical research - ideas, their alterations, and implementations were studied in depth. The article discussed the evolution of CSR and development of management of SOEs in different countries;
- Doctrinal research - legal concepts, principles, theories, rules, regulations were studied, and relevant academic literature was analyzed. As it is mentioned in the paper, not including the number of articles, researches, and policy briefs, more than 50 papers were studied specifically on relationship between CSR and SOEs. In forming the Alternative Theory, the approach of OECD on Single Ownership Entity – Centralized Management was carefully analyzed;
- Non-doctrinal (empirical) research - several state and company cases were analyzed and the implementation of local and international regulations on company governance system was discussed. The article discusses the management models implemented by the state and refers to specific SOE cases only on seldom occasions. While the number of countries discussed can be used to support the Alternative Theory, the number of company cases are not enough to justify the point but they serve as examples to support the new approach;
- Comparative research - comparative research methodology is actively used in the article. In order to prove the new approach, the paper contains the comparison of countries, theories and perspectives of practical application of different viewpoints to the problems of SOEs. Apart from the comparison of the countries, the article contrasts the viewpoints on CSR, its dimensions, and objectives.

Simultaneously, authors used problem-based doctrinal research methodology. At first, they have assembled and analyzed legal facts and statutes; then, they went through the academic material covering the ongoing research and debate; identified legal issues, compared and discussed them, and finally, drew conclusions.

Lastly, together with the methods of qualitative and critical research, authors used method of policy analysis. To get the thorough understanding of the governance of SOEs within the state, authors reviewed a number of corporate governance codes, documents of international organizations, and policy briefs; discussed the implementation of the reforms and adjustment of the state activities to the recommendations of the international organizations.

RESULTS: THEORETICAL DISCUSSION

OECD argues that the best possible model for governance of SOEs is using the single ownership entity, which can unify the state's approach towards the management of SOEs. Centralized agency or single ownership entity will perform monitoring and management functions of all the SOEs within the State (OECD Guidelines, 2015). This will enhance the State's role as a shareholder, will increase its transparency, accountability, and create disclosure and remuneration policy.

OECD recommends that the ownership rights should be centralized in a single ownership entity. The selected entity shall have competence (legal, finance, and management professionals) and resources to apply the government policy to State-Owned Enterprises. The main advantage of such centralization is to pool the existing competences and experience, and to ensure the consistent approach to all the entities (OECD Guidelines, 2015). According to the OECD, the main functions of the Single Ownership Entity should be establishing a structured, merit-based, and transparent system to nominate the supervisory board members; setting mandates and objectives for State-Owned Enterprises. This includes public, as well as economic objectives, such as target financial results, capital structure and risk tolerance levels; developing a disclosure policy for State-Owned Enterprises that will identify the information that shall be disclosed, defining the remuneration policy of supervisory board members, which will ensure that qualified professionals are attracted to management bodies, and so on (OECD Guidelines, 2015).

Generally, countries and international organizations tend to be more concentrated on the ways of management of SOEs by the country and whether the governance system is represented by the ownership or coordinating entities. Political interference, social and political goals can decrease transparency and accountability even if it is done by the single ownership entity. Studies suggest that politically connected firms (who are led by former heads of the government or members of the parliament) lead to preferential corporate bailouts (Faccio *et al.*, 2006). Such firms also have no motivation for disclosing the financial information (Chaney *et al.*, 2011). SOEs are actively influenced by politics, therefore, preferential treatment, subsidizations, and low level of disclosure is relevant for them.

Together with the recommendation on single ownership entity, OECD suggests transparency of business activities, openness of information, and independence and diversity of supervisory boards (OECD Guidelines, 2015). At the same time, OECD recommends enhancing the involvement of stakeholders in the commercial actions of SOEs and secure the safe employment and environmental protection (OECD Guidelines, 2015).

Other International Organization, World Bank, drafted a report, in 2014, on Corporate Governance of State-owned Enterprises. According to the Report various documents testify that unsatisfactory working results of SOEs is caused not from outside factors but by problems in the management of the companies itself (World Bank Group, 2014). These problems include: contradictory regulations and guidelines that are used during the management of the companies, reduction of the autonomy of managers, low level of financial reporting, transparency, and accountability (World Bank Group, 2014). Apart from these challenges, the World Bank also states that single ownership entity positively affects the corporate governance of SOEs (World Bank Group, 2014).

The evolution of corporate governance relates to separation of ownership and control, which is the vital issue in SOEs. Particularly, often Supervisory Boards, which should be filled by independent Directors as supervisors, instead are comprised of Public Servants. Therefore, government, which represents citizens as indirect owners of the company, also appoints Directors and managers of the company. Thus, it does not give any clear separation of ownership and control that leads to low level of corporate governance within the company. Accordingly, if the SOE does not have independent directors, it means that there is no real separation of ownership and control, accountability and transparency is reduced, protection for minority shareholders is decreased, and so on.

European countries discussed above, apart from Slovenia, do not follow the recommendations of OECD on centralized management and implement dualistic or decentralized approach in managing the SOEs. The problems remain regarding the openness, transparency, corruption, violation of labor rights, low level of qualification and diversity in management bodies, low level of accountability, no unified state policy and/or approach, lack of independent representatives on the supervisory boards, weak corporate governance mechanisms, no clear separation of ownership and control, and so on. Even suggested single ownership entity is not a guarantee from undue political interference.

The article suggests solving the problems of SOEs with bottom-up principle and not vice-versa, and concentrates the attention on the management of SOEs with using corporate governance model of CSR and not by State's strategy of unified coordinating or ownership mechanism as discussed above. In comparison, one of the corporate governance models is shareholder wealth maximization, which is widespread in privately held companies but might not be appropriate for SOEs because of social and political goals that are contradictory of gaining maximum revenues for shareholders.

Probably the most well-known definition of CSR is stipulated by Carroll (1979). He has characterized the obligations of businesses to society in four dimensions: economic ("to produce goods and services that society wants and to sell them at a profit"), legal (laws and regulations under which businesses are expected to operate), ethical ("society has expectations of business over and above legal requirements") and discretionary (Carroll, 1979). World Business Council for Sustainable Development defines CSR as "the commitment of business to contribute to sustainable economic development, working with the employees, their families and local communities" (Jamali and Mirshak, 2007). According to Wood (1991), corporate social performance is defined as "configuration of the principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (Wood, 1991). Thus, businesses should transform their activities from mere gain generators to creators of value, should contribute to sustainable economic development, and balance the interests of all stakeholders. Therefore, corporations should exceed minimum legal requirements and ethical standards.

Corporate social responsibility is also associated with "triple bottom line" principle that includes social, economic, and environmental issues (Elkginton, 1998). It mandates to govern the corporations in a responsible way with thinking more about the people who are employed and/or are affected by the activities of the corporation (Garde-Sanchez *et al.*, 2018) and to conduct the activities of the company whilst taking environmental issues into consideration (Jamali and Mirshak, 2007). Furthermore, implementing CSR increases trustworthiness, lowers asymmetric information, and creates a positive image of the company, which indirectly positively affects the economic performance (Lopatta *et al.*, 2016).

CSR is also defined with the use of 4Ps: people, place, price, and profile. These dimensions include contact/visibility with the public, commitment to ethics, employee discretion, and so on (Aguinis and Glavas, 2012).

With the abovementioned definitions, Corporate social responsibility leads us to the Stakeholder Theory of corporate governance, which is relevant for SOEs due to the number of stakeholders they have. The Stakeholder Theory dictates participation of all stakeholders—shareholders, employees, local community, customers, suppliers—in the life of the corporation (Garriga and Mele,

2004). At the same time, the Stakeholder Theory argues that all stakeholders have firm specific stakes in corporate governance and “stakeholder management is never-ending task of balancing and integrating multiple relationships and multiple objectives” (Freeman and Mcvea, 2001). Thus, society and not merely shareholders becomes the stakeholder of the SOEs (Garde-Sanchez *et al.*, 2018). Therefore, SOEs should be responsible before all citizens. This is particularly important for the employees who are working at State-owned enterprises as generally low level of accountability and transparency affects labor rights. Decisions of the large corporations can have the impact on internal and external stakeholders (Keasey *et al.*, 2005). At the same time, the interests of the stakeholders are also different, thus, the ambiguity of their goals should be combined in various dimensions of the CSR and solved together with other challenges associated with the management of SOEs.

Though there are views suggesting that the Stakeholder Theory can replace CSR because it also integrates the concerns of stakeholders into business process (Laplume *et al.*, 2008), article opposes this view and considers CSR as a more practical application of stakeholder theory. CSR is the method to meet the expectations of stakeholders (Karsalari *et al.*, 2017). At the same time, there are views that even in a perfect scenario, not all stakeholders will have access to the Supervisory Boards (Macey [Joo eds], 2010). Of course, CSR is not an absolute solution for the problems of the corporate governance mechanisms but this article states that CSR better faces the problems of SOEs than the established principle of single ownership mechanism.

CSR is also connected with the Legitimacy Theory, which underlines the concept that organizations have contracts with the society and these contracts are included in the corporate actions that legitimizes the actions of the corporations (Cormier and Gordon, 2000). Financial reporting is one of the ways corporation communicates with society to legitimize its actions. CSR can be also considered as an applied strategy for the Legitimacy Theory.

This article does not specifically concentrate on a single definition of CSR but gives the broader understanding of its dimensions, thus, the new approach in the form of Alternative Theory can be better clarified and analyzed. CSR mandates openness and accountability, therefore, the political agenda driven by SOEs should be open, transparent and responsible as well (Lopatta *et al.*, 2016). SOEs are politically supported, therefore, they must make more disclosures due to reasons of accountability and visibility (Cormier and Gordon, 2000). At the same time, CSR promotes managerial discretion (Jamali and Mirshak, 2007), which eventually diminishes political dependence of the corporate decision-makers.

It should also be mentioned that CSR, as the governance model, has its critiques. Heath and Norman (2004) discuss the futility of application of CSR (Heath and Norman, 2004). In their paper, Heath and Norman state that private entities are better than SOEs; their managers have more incentives and they can concentrate on various corporate governance models, which will be more suitable for their shareholders. At the same time, they present CSR as managers’ obligation to have duties before many stakeholders, thus, multitasking problems appear in principal and agent relationship. Moreover, they emphasize that SOEs are the ones that do not follow environmental restrictions and, in many cases, oppose them.

Firstly, the aim of this article is not to compare the SOEs and private entities; secondly, the article is based on the disposition that SOEs exist and they have problems, which should be addressed if we want to improve their functioning; thirdly, when Heath and Norman claim that SOEs do not follow environmental restrictions, it should only enhance the State’s will for further implementation of CSR in SOEs.

Furthermore, implementing CSR increases employee satisfaction and ensures the protection of labor rights (Barnett, 2005). This can be achieved by appointing representatives of employees on the Board, who generally are in the minority; however, this trend will increase the level of informed decisions within the Board because these Labor Directors can raise the awareness regarding problematic issues; also, they can be against shareholders who are willing to loot or sell the company.

In the case of Slovenia, the law on “Worker Participation” mandates a labor representative on the management board of all the corporations with more than 500 employees. The labor representative is nominated by the corporation’s employees through their works council, although they are formally elected by the supervisory board. The labor member is specifically charged with representing workers’ interests with respect to personnel and social matters.

Codetermination—representing stakeholders, most importantly employees and shareholders, is an important principle of corporate governance system in Germany. Although, there is little evidence that codetermination leads to improved corporate governance system, it still lowers the departure rate of employees and increases their salaries (Keasey *et al.*, 2005).

There are also theories and opinions describing employees as residual claimants. Authors are aware that residual claimants are only shareholders but if employees have representation on boards and if during bankruptcy, salaries of SOE employees are paid first before anything else, it generally means that their position is not too different from a position of a preferred shareholder (Keasey *et al.*, 2005).

At the same time, CSR with the use of Stakeholder Theory, protects rights of all related and involved parties who are affected by the activities of SOE. For example, municipality, citizens, country, and other stakeholders.

While discussing CSR, it is also crucial to point out that SOEs are legal entities and as it was mentioned above, one of the principles of CSR is gaining profit. At the same time, satisfying other dimensions of CSR will improve the profit generation of the firm. “Profitability argument asserts that doing good (CSR) leads to doing well (improved financial returns)” (Godfrey *et al.*, 2010).

CSR is also positively linked with the degree of internationalization. Though in private entities, such connection is stronger, still it is also visible in SOEs (Cheung *et al.*, 2014).

Thus, it can be concluded that CSR enhances the participation of stakeholders in management bodies; serves the overall social and state goals with concentrating on profit generation, takes into account environmental concerns; considers the interests of workers and the community; supports the diversity and independence of the supervisory board; promotes managerial discretion; strengthens accountability, openness and visibility; mandates transparency and financial reporting to the society; increases trustworthiness; lowers asymmetric information and creates the positive image of the company, which indirectly positively affects its economic performance. Furthermore, the abovementioned problems also underline the importance of management bodies, particularly Supervisory Boards in managing the corporation. Supervisory Boards and Corporate Governance Codes can play a significant role in unifying the state approach towards implementation of CSR model in SOEs.

The Role of Supervisory Board in implementation of CSR

Supervisory Boards are one of the core pillars of the Management, which play a major part in implementing the principles of Corporate Governance. They are one of the most important and at the same time, most problematic areas of Management Bodies in SOEs. Separation of ownership and control enhances the efficient functioning of Supervisory Boards (Filatotchev and Allcock (Wright *et al.*, eds) 2013). It is impossible to implement CSR in SOEs without proper functioning of the Supervisory Board; therefore, it is necessary to separately analyze it and underline its significance.

Supervisory Boards monitor the executive branch of the corporation. In one-tier corporate governance systems, supervisors and executives are comprised by one board of Directors, which performs supervisory and executive functions (Enriques and Volpin, 2007). In two-tier corporate governance systems, the Executive and the Supervisory Branches are divided between Directors and Supervisory Board. Executive Directors perform day-to-day management functions and the members of the Supervisory Board are monitoring their activities.

The most important part in both types of corporate governance systems is the monitoring function, which is performed by the Supervisory Board (Two-Tier) or by the Supervisory Directors of the Board (Single-Tier). They monitor the executive directors, implement policy documents and guidelines, and create committees that analyze agreements, ratify deals, solve the conflict of interest situations, examine financial documents of the corporation, and balance the interests of the stakeholders (Fisch [Joo eds], 2010). In this regard, outside directors play a crucial role. Inviting outside directors from the private sector and/or academia rather than bringing the ones from the public sector will better serve the separation of ownership and control, and will increase the independence of the Supervisory Board and efficiency of its monitoring function because the State as the owner will not execute the controlling function directly.

Supervisory Boards of SOEs, unlike management bodies of private entities, have incentive problems. If private companies use their resources inefficiently, the market reacts, and the value of these companies will be diminished. One of the illustrations of Corporate Governance is the way problems between agents and principals are dealt with. The principals must be sure that the agents are committed to give them a return on investment (Shleifer and Vishny, 1997).

In case of SOEs, the gains of companies are mostly addressed to the state budget and no specific individual can be treated as principal. At the same time, efficiency of wages is decreased in SOEs and jobs are more secured with a reduced probability of getting fired, therefore, it also decreases the managers' incentive to work harder (Goldeng *et al.*, 2008). CSR can deal with this problem with higher transparency and disclosure, so the earnings of the company and performance of the managers will be open to the public, which will increase their accountability that might positively affect their financial performance.

At the same time, Supervisory Boards present and balance the interests of stakeholders. Members of the Supervisory Board can be representatives of the minority shareholders, employees, local municipalities, and so on. Balancing the interests of stakeholders is firm specific (Freeman and Mcvea, 2001) and cannot be implemented by single ownership entity. It will be almost impossible for a

single ownership entity to monitor consideration of all stakeholders' interests in all SOEs. Therefore, supervisory boards can take the lead in implementing corporate social responsibility with taking into account the interests of stakeholders in each SOE.

Unlike other corporations, challenge of SOEs is increased with the state's participation in it. State involvement can cause conflict of interests with the public service, reduce the level of independence of directors, increase political interference and provoke other problems that affect the functioning of the company. Therefore, SOEs that have problems cannot bring the results to its beneficiaries – the citizens, and can also reduce the profits to minority shareholders, worsen the labor conditions and affect the environment.

Thus, having a single ownership entity can only be efficient if it provides ways for ensuring the independence and effective functioning of the Supervisory Boards in all SOEs.

Managerial autonomy of state-owned enterprises (SOEs) is a central part of public debate in many countries. When the State is creating a company as an independent legal body, it recognizes its sovereignty. Supervisory Boards in SOEs play a major role in preventing corruption, conflict of interest, misappropriation of company funds by Directors, violating the rights of stakeholders, and so on. Therefore, it is crucial to assemble independent and highly qualified members of supervisory board who can effectively monitor the executive branch of the company. "It is expected to relieve government of some of the burden of decision making and overload with technical and specialized issues. Placing enterprise decisions outside politics and ministerial bureaucracy is assumed to promote the efficiency of both enterprises and government" (Liuokas, 1993). It is the illustration of separation of ownership and control, which is the core principle of corporate governance.

Obviously, this is not the absolute option as CSR increases agency costs and makes the decision-making more problematic as long as the decision-makers have to assume social and environmental problems (Heath and Norman, 2004). However, it fits SOEs aims and concentrates on problematic issues such as transparency, openness, accountability, and labor rights. Though CSR increases agency costs, it does not create new agency problems, it might only exacerbate the existing ones (Heath and Norman, 2004).

Figure 1 describes the balance of interests of various stakeholders in SOEs based on the CSR model (Blair and Stout [Joo eds], 2010). Stakeholders whose interests are affected by the activities of the corporation are placed in one space. The body responsible for the balance of interests of various stakeholders is Supervisory Board filled with the independent directors. These directors support the accountability and transparency of the corporation and enhance the conducting of the business activities in a responsible way. At the same time, there are external implementers of CSR—Corporate Governance Code and other regulations and Stock Exchange and other institutions—which support the increase of accountability and transparency.

Another significant impact on efficient management and development of SOEs can be made with the implementation of Corporate Governance Codes. Corporate governance codes can also be implemented as guidelines or instructions where the state's basic approach towards SOEs is illustrated.

Generally, Corporate Governance Codes are suggested by International Organizations and implemented in various countries as non-binding legal instruments in different spheres (Hermes *et al.*, 2007). Corporate governance codes contain various articles where the management, control, monitoring, transparency, and openness, protection of employees' rights, involvement of stakeholders, creation of supervisory boards, appointing of independent board members, regulation of remuneration, organization structures, and other issues of CSR are designated (Wieland, 2005). This document can be applied with the principle of comply or explain. Thus, it will be a recommendatory regulation with the available best practice ready to be shared and implemented. It will be a guidebook for SOEs on how to increase the accountability. Therefore, Corporate Governance Codes can become an influential instrument of implementing the CSRs.

Wieland (2005) describes Corporate Governance Codes as the instruments for implementation of business ethics, moral values, CSR, organizational structures of the corporation, transparency, and shareholders' rights. He emphasizes this on the example of Corporate Governance Codes regulating private entities, but defines characteristics of business conduct that are equally important for private and state actors. Wieland argues that corporate governance is considering the objective of values management as a strategic management task and highlights that effective and efficient leadership of the firm is impossible without integrating moral attitudes (Wieland, 2005). At the same time, he underlines that most of the European Corporate Governance Codes orientate themselves onto the stakeholders and the company. Thus, Corporate Governance Codes are seen as instruments for implementation of social, economic, and ethical dimensions of CSR, and support involvement of stakeholders in decision-making.

The purposes of corporate governance codes can be achieved with other measures as well. For example, transforming SOEs into public corporations automatically increases the accountability and transparency standards of these companies, as long as corporations must adjust their regulations to securities exchange acts (Dewenter and Malatesta, 1997). However, it does not mean that Stock

Fig. 1: Proposed balance of interests in SOE

Corporate Governance Code as a way of Implementing CSR

Exchange regulations correspond all dimensions of CSR. Therefore, for the purposes of CSR implementation, Stock Exchange regulations cannot replace Corporate Governance Codes.

Corporate Governance Codes may consist of various guidelines and policy documents. For example, document on Remuneration Policy where the salaries and bonuses of directors can be defined; Transparency Policy where the levels of openness can be defined, and so on.

Slovenian Sovereign Holding (SSH) elaborated Corporate Governance Code (Corporate Governance Code of State-owned Enterprises 2016), which acts with the principle of comply-or-explain. Company can avoid the regulations of the abovementioned Code, only in case if it has implemented equal or higher standards of Corporate Governance. It should be highlighted that Corporate Governance Code considers the participation of employees in the election of the members of the Supervisory Board (Bohinc and Bainbridge, 2001). According to the Corporate Governance Code, there should be a gender balance in the Supervisory Board (Corporate Governance Code of State-owned Enterprises 2016). Most of the members of the Supervisory Board should be independent (Corporate Governance Code of State-owned Enterprises 2016). Audit committee should be formed within the Supervisory Board, filled with the independent members of relevant qualification (Corporate Governance Code of State-owned Enterprises 2016).

Corporate Governance Codes illustrate the importance of transparency. Information asymmetry exists when managers have access to information that investors do not. Non-disclosure of the information makes investors to down the stock price or require the interest rate premium on debt (Cormier and Gordon 2000). Publishing the information on corporation reduces information asymmetry, and potential investors and other outside stakeholders know more about the corporation (Chan and Feng, 2018). Thus, greater transparency will reduce the uncertainty surrounding the firm. Therefore, this will serve well for implementation of CSR in SOEs.

In order to meet the challenges of politicized management and low level of transparency, the World Bank also emphasizes the significance of Corporate Governance Codes (World Bank Group, 2014). At the same time, the World Bank mentions that offering the shares publicly and adjusting to the Stock Exchange principles, will also increase the level of transparency.

CURRENT THEORY VS. ALTERNATIVE THEORY

Based on the reviewed literature and this research, the article sets forth challenges of SOEs, and provides solutions according to the principles of the Current Theory and the Alternative Theory. The table below is an illustration of the comparison of current and alternative theories and could be used for dealing with the problems discussed in the institutional context of management of SOEs by Central and Eastern European countries.

Based on Table 2, we can conclude that there are criteria of Single Ownership Entity and CSR, which equally correspond to the best interests of the SOEs. However, CSR is logically connected with the Stakeholder Theory, and with this, diversity of the management bodies and representation of the stakeholder rights is better ensured than during the management of Single Ownership Entity. At the same time, CSR contains social and environmental dimensions, thus, implementing CSR automatically means improving the social and environmental standards of SOEs, while creating Single Ownership Entity does not necessarily indicate upholding better labor and environmental measures. At the same time, Single Ownership Entity cannot effectively separate ownership and management, and this separation is the core principle for Corporate Governance. It should be also highlighted that most of the discussed countries follow only a few of the OECD recommendations. At the same time, even single ownership entity created according to the principles of OECD can be politically influenced, therefore, reducing the ability to select qualified members of the Supervisory Board. Finally, CSR can be a better method for unification of the state policy on management of SOEs. CSR itself is the policy that can be implemented via Corporate Governance Codes and Supervisory Boards.

Tab. 2: Current Theory vs. Alternative Theory

Problems of SOEs	Theories	Solution	Link to the Theoretical Literature
Low level of openness and transparency	Current Theory	Single Ownership Entity supports the openness and transparency of business activities.	OECD Guidelines, 2015; World Bank Group, 2014.
	Alternative Theory	CSR enhances the openness and transparency of the business activities.	Caroll, 1979; Elkginton, 1998; Garde-Sanchez <i>et al.</i> , 2018; Aguinis and Glavas 2012; Cormier and Gordon, 2000; Lopatta <i>et al.</i> , 2016.
Low level of accountability	Current Theory	Single Ownership Entity strengthens the accountability in SOEs.	OECD Guidelines, 2015; World Bank Group, 2014.
	Alternative Theory	CSR increases the measures for reporting, including the financial reporting, which leads to better accountability.	Elkginton, 1998; Garde-Sanchez <i>et al.</i> , 2018; Aguinis and Glavas 2012; Cormier and Gordon, 2000; Lopatta <i>et al.</i> , 2016.
Violation of labor rights	Current Theory	There is no direct indication in the guidelines of international organizations that having a Single Ownership Entity improves the labor rights. Therefore, protection of the labor rights is not guaranteed by the Current Theory.	OECD Guidelines, 2015; World Bank Group, 2014.
	Alternative Theory	One of the CSR dimensions is “the people”, which also includes improving the working conditions of the employees. Therefore, it is impossible to implement CSR without improving the labor conditions.	Jamali and Mirshak, 2007; Wood, 1991; Caroll, 1979; Elkginton, 1998; Garde-Sanchez <i>et al.</i> , 2018; Aguinis and Glavas 2012; Barnett, 2005; Keasey <i>et al.</i> , 2005.
Violation of standards of Environmental Protection	Current Theory	Having the Single Ownership Entity does not mean that the environmental standards will be improved. As in case of labor rights, there is no direct link in literature about securing environmental protection rights by Single Ownership Entity.	OECD Guidelines, 2015, World Bank Group, 2014.
	Alternative Theory	Implementing CSR means almost automatically improving the support for the environmental protection because taking care of the “planet” is one of the dimensions of CSR.	Caroll, 1979; Elkginton, 1998; Garde-Sanchez <i>et al.</i> , 2018; Aguinis and Glavas 2012.

Continued **Tab. 2:** Current Theory vs. Alternative Theory

Problems of SOEs	Theories	Solution	Link to the Theoretical Literature
Weak corporate governance mechanisms	Current Theory	Single Ownership Entity supports the corporate governance mechanisms only on particular direction (transparency and accountability) and not overall regarding strengthening the management bodies in SOEs	OECD Guidelines, 2015, World Bank Group, 2014, Slovenia Policy Brief, 2015.
	Alternative Theory	CSR strengthens the corporate governance mechanisms overall including rights of the minority shareholders, stakeholders; accountability of the corporation and diversity of the management bodies.	Jamali and Mirshak, 2007; Wood, 1991; Carroll, 1979; Elkginton, 1998; Garde-Sanchez <i>et al.</i> , 2018; Aguinis and Glavas 2012; Cormier and Gordon, 2000; Lopatta <i>et al.</i> , 2016; Barnett, 2005.
No clear separation of ownership and control	Current Theory	Transparency of business activities and disclosure of company information supports separation of the ownership and management; however, full separation is impossible to achieve because single ownership entity combines both functions—ownership and control.	OECD Guidelines, 2015, World Bank Group, 2014.
	Alternative Theory	Independence of Boards and nominating the independent members for management bodies, disclosing the information on company and its business activities supports the effective separation of the functions of ownership and management.	Garde-Sanchez <i>et al.</i> , 2018; Aguinis and Glavas 2012; Cormier and Gordon, 2000; Lopatta <i>et al.</i> , 2016; Jamali and Mirshak, 2007; Barnett, 2005; Keasey <i>et al.</i> , 2005.
Lack of independence of the representatives on the supervisory boards	Current Theory	Single Ownership Entity is not a guarantee for the independence of the members of the supervisory board. The available literature does not give specific assurances for the independence of the members of the supervisory board in SOEs.	OECD Guidelines, 2015, World Bank Group, 2014, Corporate Governance Code of State-owned Enterprises 2016 (Slovenia), Slovenia Policy Brief, 2015.
	Alternative Theory	CSR enhances the independence of the board members by ensuring their nomination from different group of stakeholders.	Jamali and Mirshak, 2007; Barnett, 2005; Keasey <i>et al.</i> , 2005.
Low level of diversity in management bodies	Current Theory	Single Ownership Entity cannot ensure the diversity of the management bodies and balancing the interests of the stakeholders.	OECD Guidelines, 2015; World Bank Group, 2014; Freeman and Mcvea, 2001; Corporate Governance Code of State-owned Enterprises 2016 (Slovenia).
	Alternative Theory	CSR considers the interests of the stakeholders and ensures their participation in the management bodies. Balancing the interests of the stakeholders is firm specific, therefore, it can be achieved with the implementation of CSR individually in any given SOE.	Freeman and Mcvea 2001; Garriga and Mele 2004; Cormier and Gordon 2000; Jamali and Mirshak, 2007; Wood, 1991; Barnett, 2005; Keasey <i>et al.</i> , 2005.
No incentives for board members and managers	Current Theory	Single Ownership Entity will define remuneration policy, which will support appointment of qualified board members.	OECD Guidelines, 2015; World Bank Group, 2014.
	Alternative Theory	CSR provides higher transparency and disclosure; therefore, the earnings of the company and performance of the managers is open to the public and increases managers' accountability. At the same time, remuneration policy can be a part of the Corporate Governance Code, which will increase the chances for appointing the more qualified managers.	Cormier and Gordon, 2000; Lopatta <i>et al.</i> , 2016; Wieland, 2005.

Continued **Tab. 2:** Current Theory vs. Alternative Theory

Problems of SOEs	Theories	Solution	Link to the Theoretical Literature
Performance Challenges	Current Theory	Single Ownership Entity improves the management of the companies but it does not guarantee a better performance rate.	OECD Guidelines, 2015; World Bank Group, 2014.
	Alternative Theory	CSR was positively linked with the reduction of financial risk and improved financial performance. At the same time, implementing CSR increases trustworthiness, lowers asymmetric information, and creates a positive image of the company, which positively affects profit generation.	Lopatta <i>et al.</i> , 2016; Godfrey, 2005.
No unified state policy and/or approach	Current Theory	Single Ownership Entity enhances the unified state policy towards the SOEs.	OECD Guidelines, 2015; World Bank Group, 2014.
	Alternative Theory	CSR itself is the unified policy of the principles, which can be implemented towards all SOEs.	Caroll, 1979; Elkginton, 1998; Garde-Sanchez <i>et al.</i> , 2018; Aguinis and Glavas 2012.
Undue political interference	Current Theory	Single Ownership Entity cannot ensure the political independence of the management bodies, even in Slovenia, which is the best example of executing the OECD recommendations.	OECD Guidelines, 2015; World Bank Group, 2014; Chaney <i>et al.</i> , 2011; Faccio <i>et al.</i> , 2006; Slovenia Policy Brief, 2015.
	Alternative Theory	CSR supports nomination of stakeholders' representatives at Supervisory Boards, whilst increasing diversity and independence of management bodies. Furthermore, CSR supports managerial discretion, which leads to the diminishing of political dependence.	Jamali and Mirshak, 2007; Caroll, 1979; Aguinis and Glavas 2012.

CONCLUSIONS

The article is a combination of analysis on SOEs and finding new ways to solve their challenges. It gives a clear picture of the problems with SOEs, which the European countries have and stipulates that recommendations of International Organizations on Single Ownership Entity cannot effectively deal with these problems. Therefore, the article establishes the Alternative Theory, which can be better used for the theorists and practitioners in dealing with the problems regarding SOEs.

From the abovementioned, it can be concluded that in comparison to Single Ownership Entity (Current Theory), CSR (Alternative Theory) has a number of superiorities, which—unlike the Current Theory—directly address the problems of SOEs:

- Violation of Labor Rights is a serious problem in SOEs; however, the Current Theory cannot address and solve the problem. On the other hand, one of the primary purposes of CSR is concentrating on the needs of the employees and providing the opportunities for representation on the Supervisory Boards.
- One of the major concerns of CSR is environmental protection. Though there are views, that it is mostly used for PR purposes, still CSR remains probably the only corporate governance model that deals with environmental protection as a top goal for the corporation. The Current Theory does not consider any views on environmental protection.
- CSR supports strong corporate governance mechanisms. Current Theory does not give any real solutions for enhancing the governance of the company overall and is mostly concentrated on management of the Single Ownership Entity. This attitude diminishes the efficiency of the management bodies of the corporation, which has negative effects on the control and monitoring of the corporation.
- CSR supports the separation of ownership and control. While Single Ownership Entity is a combination of ownership and monitoring, CSR strengthens the independence of the members of the Supervisory Board and splits the roles for the control and ownership, which is the core principle of the corporate governance.

- e) CSR focuses on the independence of the members of the management bodies, while Single Ownership Entity cannot guarantee the independence of the members of the Supervisory Board. Political interference is one of the basic problems of the SOEs and without separating the control and ownership, which reduces the level of political influence in the management of the corporations, they cannot be governed effectively, which (reduction of political interference)—in case of Single Ownership Entity—is impossible.
- f) Another problem for SOEs is the lack of diversity and representation of Stakeholders. Alternative Theory again better focuses on the needs of stakeholders and is superior to the Current Theory in this regard too. CSR considers high diversity of various groups of stakeholders, while Single Ownership Entity cannot ensure and is not concentrated on the representation of other parties.
- g) Performance challenges of the SOEs can be better dealt by CSR. CSR is positively linked with the reduction of the financial risk and improved financial performance. CSR increases trustworthiness, lowers asymmetric information, and creates the positive image of the company, which overall positively affects the profit generation.

The article shows that Single Ownership Entity does not possess the problem-solving features vital for efficient functioning of SOEs, therefore, the problems for the SOEs are ongoing and the researches should concentrate on alternative solutions that can have better outcome for the states in dealing with the challenges related to SOEs. In this regard, the Alternative Theory, emphasized in the article, should be placed among the new and notable approaches, which has the potential to improve the management of SOEs and can have a better impact on their business activities.

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