RATIONALES FOR CORPORATE SOCIAL RESPONSIBILITY IN THE TELECOMMUNICATIONS DOMAIN: THE CASES OF *MAGYAR TELEKOM GROUP* AND *TELE2 HUNGARY*

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ABSTRACT

Keywords: corporate social responsibility, sustainability, telecommunications domain, shareholders, stakeholders, rationales, sunk costs, product differentiation, regulation, public image, *Magyar Telekom*, *Tele2*.

The aim of the current research is to answer the following questions: Why do telecommunications corporations engage in CSR activities? Which are the incentive structures that determine some telecom corporations to be more active than others in the field of CSR? It will be argued that telecommunications corporations who 1) have considerable sunk costs, 2) experience low real product differentiation in relation with the competitors, 3) put a strong emphasis on the importance of public image and 4) face regulatory burdens have a stronger incentive structure for adopting CSR practices. This thesis will investigate the rationales for corporate social responsibility in the telecommunications sector through an empirical analysis of the CSR rationales in the cases of *Magyar Telekom* and *Tele2* Hungarian telecom operators.

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LIST OF ABBREVIATIONS

CSR Corporate Social Responsibility

DJSI Dow Jones Sustainability Indexes

EMF Electromagnetic Fields

ETNO European Telecommunications Network Operators' Association

EU European Union

FTSE4GOOD Financial Times Stock Exchange Index for Responsible Investment

GRI Global Reports Initiative

ILO International Labour Organisation

NGO Non-governmental Organisation

NRA National Regulatory Agency

OECD Organisation for Economic Co-operation and Development

PR Public Relations

SMP Significant Market Power

SRI Socially Responsible Investment

UN United Nations

USP Universal Service Provision

WBCSD World Business Council for Sustainable Development

WWF World Wildlife Fund

INTRODUCTION

The telecommunications sector represents one of the strategic engines for economic growth and social inclusion. The ‘information society’ is becoming more dependent on the services provided by the telecommunications corporations. Therefore, the way in which telecom corporations accomplish their economic, social and environmental responsibilities has serious consequences for the entire spectrum of society. Corporate social responsibility (CSR) in the telecommunications sector plays an important role for achieving sustainable development. Identifying the main rationales that determine telecom actors to adopt CSR practices is a prerequisite for any attempt aimed at magnifying the social responsibility of telecom corporations. Revealing the different incentive structure corporations have for undertaking CSR activities can explain why some telecom corporations are champions and other laggards of social responsibility.

In the last decades fierce debates have questioned the responsibilities corporations have towards society. This is a critical topic placed on the top of a wide range of institutional agendas, given the major implications the corporate activities have on social and environmental aspects of human life. Extensive discussions emerged in the business field, academia, the national and supranational political institutions, the non-governmental sector and the media on the responsibilities corporations should assume as integrated entities of the society. These debates on the CSR concept seem to have gained momentum, but they are far from reaching a consensus. This is partly due to the difficulty in framing and defining this relatively new concept, and partly because of the disagreement that persists vis-à-vis the fundamental theoretical premises on which it was developed and the practical implications it poses for both the corporations and the society in general.

An increasing number of articles, studies, public debates and media exposure have contributed to the CSR debate in the last years. Some scholars dedicated their efforts to (re)defining the CSR concept or underlining its ethical facets (Baker, 2001; Buchholz, Evans and Wagley 1989; Doane, 2005; Eberstadt, 1973; Kolk and van Tulder, 2005; etc.). Other authors focused their research on how CSR principles can be practically implemented (Gruning and Hunt, 1984; Jenkins, Pearson and Seyfang 2002; Kolk, 2003; Molenkamp, 2006; Moore and Kalupa, 1985; Murray, 2003; Szondi, 2005; Ward, 1991; etc.). Researchers from various academic fields made a tremendous contribution to the debate by providing a theoretical framework for the CSR concept (Andrews, 1972; Freeman, 2005; Friedman, 1970; Wilson, 2003). The main theories elaborated by Friedman (1970) and Freeman (2005) argue over whether the social responsibility of corporations should extend beyond the minimum legal requirements or whether respecting the legislation is the best and the only responsibility a corporation shall have.

Although it seems that the CSR debate has reached its climax, only a few studies explored the main drivers that impact corporations' decision to adopt CSR activities (Buchholz, Evans and Wagley, 1989; Bowie, 1998; Doane, 2005; Moore and Kalupa 1985; McLauchlin, 2006;). There is little literature referring to the distinct incentive structures different corporations have for adopting socially responsible practices. This aspect of corporate social responsibility needs to be further researched since it can signal which are the features of the corporations most likely to implement CSR principles and which are those who lack the stimuli for adopting them. Addressing this problem is of utmost importance for a clear assessment of the catalysts that make CSR adoption more probable.

Insufficient research focused on corporate social responsibility in the telecommunications sector. There are no known studies that compare telecommunications corporations' different incentive structures for CSR activities and identify their rationales for undertaking socially responsible practices. Exploring this area possesses a remarkable value for understanding how the telecommunications sector can contribute to sustainable development through corporate social responsibility. Moreover, revealing the rationales for CSR practices in the telecommunications domain sheds light on the CSR rationales for corporations from other industries, especially from network industries.

This thesis will investigate the rationales for corporate social responsibility in the telecommunications sector through an empirical analysis of the CSR rationales in the cases of *Magyar Telekom* and *Tele2* Hungarian telecom operators. The aim of the current research is to answer the following questions: Why do telecommunications corporations engage in CSR activities? Which are the incentive structures that determine some telecom corporations to be more active than others in the field of CSR? In addressing these questions, four assessment criteria have been elaborated: sunk costs, real product differentiation, importance of public image and regulation asymmetry. The assessment criteria will be applied to analyze the different incentive structures they provide for the incumbent company and the competitor to engage in CSR activities. It will be argued that *telecommunications corporations who 1) have considerable sunk costs, 2) experience low real product differentiation in relation with the competitors, 3) put a strong emphasis on the importance of public image and 4) face regulatory burdens have a stronger incentive structure for adopting CSR principles and, therefore, are more likely to implement CSR activities than telecom corporations who do not exhibit these features*.

This work relies on the theoretical framework provided by Friedman's shareholder theory and Freeman's stakeholder theory. The CSR concept is referred to in accordance with the specifications provided by the European Commission and the European Telecommunications Network Operators' Association. Two telecom companies from Hungary, *Magyar Telekom* Group, the former monopolist, and *Tele2* Hungary, a new-entrant competitor, serve as comparative case studies in order to answer the research question. They are treated both as intrinsic and instrumental case studies since the findings can be extrapolated to a certain extent to companies who exhibit similar features. The employed research methods consist of a triangulation between observation, document analysis and interviews. Integrating all these complementary research methods provides a complex perspective and contributes to an accurate identification and analysis of the CSR rationales.

First, field observation has been performed throughout forty working days while holding an internship within the Sustainability Department at *Magyar*

Telekom Group. The placement provided valuable insights since the department elaborates the corporate sustainability strategy and reports. Secondly, relevant documents issued by the two companies (codes of ethics, financial reports, sustainability reports) have been analyzed in parallel with a content investigation of their websites. Various European Commission Directives and Hungarian Governmental Decrees referring to the electronic communications have been reviewed in order to identify the minimum requirements for telecom operators and the basis for asymmetric regulation. Thirdly, qualitative semi-structured interviews have been conducted with managers and directors with competence and responsibilities in the field of CSR from *Magyar Telekom* and with external stakeholders of the two corporations[1].

The thesis will proceed in the following order. The first chapter will provide an insight on the main definitions of CSR and the means through which it is practically employed. The shareholder theory and the stakeholder theory of the corporation and their implications for the CSR concept will be analyzed in the same chapter. Rationales for and against CSR practices will be also outlined there. In the second chapter four assessment criteria will be elaborated in order to reveal the rationales in favor of corporate social responsibility for telecommunications companies with different incentive structures. The same assessment criteria will be empirically tested on the cases of *Magyar Telekom* and *Tele2* telecom operators in the third chapter. The conclusion will summarize the main findings of the research and indicate opportunities for further research.

[1] Tele2 officials repeatedly refused to take part in the interview, but they communicated the company's official view on CSR.

CHAPTER 1: WHY (NOT) CORPORATE SOCIAL RESPONSIBILITY?[2]

What is corporate social responsibility, what is it good at and why would CSR practices be appealing for corporations are important questions that need to be analyzed interdependently. The first section of this chapter will expose various approaches to defining CSR and the main formulas that can translate it into practice. The second section will introduce and compare Friedman's stakeholder theory (1970) and Freeman's shareholder theory (2005), two major opposing views on CSR. The third section will display rationales in favor of and against corporate social responsibility.

1.1 Defining and Translating CSR into Practice

Determining the precise boundaries of corporate social responsibility is a difficult task given the multiple perspectives on this recently established concept. Nonetheless, reviewing its main definitions and practical implementations represents an essential precondition for identifying the rationales for CSR.

1.1.1 Defining Corporate Social Responsibility: A Responsible Task

There is no single term to capture what is usually described by this "broad, dialectical concept" (Wilson, 2003:2) and, therefore, no generally accepted descriptive or normative definition to express what CSR should consist of or how it should be practiced. Various theories underline different key features that add multiple perspectives to the concept. Some authors (Friedman, 1970) even reject the connotation of this phrasal construction and suggest that the only

[2] Parts of this chapter have been adopted from the paper "Corporate Social Responsibility in the Telecommunications Domain: Between Universal Service and Sustainability" submitted by the author for the *Telecommunications Policy: Privatization and Re-regulation* course at Central European University Budapest during the Winter Term 2005/2006.

responsibility (sic!) a corporation has is to respect the law while performing its main function for which it was established: profit maximization. This view, analyzed in detail in the next section of the chapter, implies that actually corporations, as legal entities, cannot have (social) responsibilities but only (legal, contractual) obligations. However, the origins and other recent developments of the CSR concept place the debate on fundamentally different coordinates that emphasize the importance of assuming corporate responsibilities.

Historically speaking, in spite of the fact that CSR was established as a familiar nomenclature only in the recent years, its conceptual roots can be traced as far as to the era of the ancient Greece. Ebserstadt (1973) reveals how in those days the governmental entities “set out rules of conduct for businessman and merchants” (as cited by Wilson, 2003:3). Since then, the most relevant developments of the CSR model occurred in the twentieth century and the theoretical debate on the topic is even more dynamic nowadays.

The concept of Corporate Social Responsibility shares partial or total synonymy with other notions that have been increasingly included in the business lexicon from other disciplinary areas throughout the last decades. Sustainability, Sustainable Development, Triple Bottom Line, People-Planet-Profit, Corporate Social Awareness, Corporate Accountability, Corporate Citizenship and Public Responsibility are some other expressions that enriched the terminology of “a new and evolving corporate management paradigm” (Wilson, 2003:1).

Many traditional and modern disciplines have contributed to the establishment of the CSR concept. Economics, Environmental Science, Sociology, Law, Strategic Management, Business Administration, Marketing and Public Relations are just a few disciplines from which CSR borrowed fundamental principles. For example, public relations (PR) can be defined as a process “in which advocates of an organization manage its performance in the public interest in order to nurture mutually beneficial associations with all interdependent groups through the responsible use of one-way and two-way communication” (Kendall, 1996:528). In addition, public relations developed stakeholder and shareholder relations in order to deal with two types of strategic audiences. Similarly to PR, CSR also aims at reaching a mutually beneficial equilibrium between various stakeholders, but the employed tools rise above communication. Despite its interdisciplinary origins, CSR continues to be an intensely debated concept that delineates itself from other areas. Nevertheless, there are different, sometimes even diametrically opposite, views on its semantics, theoretical and practical implications.

Some scholars argue that CSR “was fundamentally an ethical concept” (Buchholz, Evans and Wagley, 1989:23). CSR can provide an ethical reasoning platform that reveals the rationales for corporate responsibility. Even though ethics is a basic feature of CSR, relying on the ethical hypothesis when attempting to identify why corporations implement socially responsible activities seems to pose serious methodological and measurement problems. Therefore, for the purpose of this current research the ethical reasons will be disregarded.

Other scholars view CSR as a basic concept that contributes, among others, to the explanation of the much broader notion of corporate sustainability. Corporate sustainability acknowledges the role of the business enterprise to develop itself and increase profits, but "it also requires the corporation to pursue societal goals, specifically those relating to sustainable development – environmental protection, social justice and equity, and economic development" (Wilson, 2003:1). Investigations on the historical and theoretical foundations of corporate sustainability indicate that this model adopted features from more settled concepts. According to Wilson (2003:2), social responsibility, together with sustainable development, stakeholder theory and corporate accountability theory represent the main pillars that would contribute to the understanding of corporate sustainability.

There are also those who assert that sustainable development can be achieved through corporate responsibility. The World Business Council for Sustainable Development has defined corporate responsibility as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (Molenkamp, 2006:4). This definition reasserts the need for simultaneously pursuing social and economical development. Corporate social responsibility appears to be a prerequisite for corporate sustainability. Similarly, corporate sustainability is a sine qua non condition for sustainable development. Therefore, corporate social responsibility can be perceived as a means for achieving sustainable development. This chain of interdependencies reveals the crucial contribution CSR has in establishing a balance between economic progress, social development and environmental protection.

Simplistic interpretations of CSR and the ways it should be implemented jeopardize the attempt to reach sustainable development. For example, many scholars warn that CSR should not be confused with philanthropy (Doane, 2005:23), although this kind of humanitarianism can be incorporated in the panoply of the socially responsible practices. The word ‘balance’ becomes recurrently visible in the more elaborated definitions, while terms like ‘philanthropy’ or ‘charity’ are more visible in superficial attempts to frame CSR. This is an indispensable differentiation since sustainable development can be envisioned only through a complex comprehension of the CSR concept.

Balance is a keyword in defining CSR, not only to contrast the complex implications of the concept against its improper assimilation in the category of philanthropic acts, but also to underline the necessity to reconcile colliding corporate objectives. Ideally, these conflicting interests can be solved in a manner that is mutually beneficial for both the corporation and society at large. Therefore, CSR can also be seen as the capability of the corporation to align its business goals with the social objectives (Andrews, 1972:137-138). Nevertheless, reaching this balance calls for compromises that are detrimental either to the financial interests of the corporation or to the wellbeing of society.

The non-compulsory character of CSR is also a key feature of the concept. At the European level there is a continuous and heated debate regarding the voluntary vs. prescriptive character of CSR due to widespread concerns that corporations are less likely to include CSR practices in their strategic management unless legal provisions clearly stipulate so (Murray, 2003:11-17). For the time being, CSR continues to represent the sum of the practices that are voluntarily undertaken. On the other hand, the adherence to the minimum legal requirements imposed by the national or supranational legislation and following the mandatory guidelines imposed by various regulatory agencies, although essential, can hardly be labeled as corporate social responsibility. When negative or moral externalities that appear as a result of market failures are corrected by direct regulation, corporations fail to behave in a socially responsible manner. When corporations go above the legal requirements by identifying sensitive areas, restoring market failures and avoiding potential negative effects on the society, they becomes socially responsible.

The voluntarily, self-imposed commitment to maintain a balance between economic, social and environmental sustainability can qualify the corporation as socially responsible. In her study “The Myth of CSR,” Deborah Doane (2005:23) defines social responsibility “as the efforts corporations make above and beyond regulation to balance the needs of the stakeholders with the need to make profit.” Similarly, Baker (2001) asserts that “CSR is about how companies manage the business processes to produce an overall positive impact on society.” Baker does not clearly indicate whether corporations should go beyond the existing laws in creating a win-win situation, but it can be inferred that companies cannot reach this goal by merely respecting the legislation. The multiple accountabilities most corporations have to face makes the balance between their “performance of the basic economic functions” and their “responsibilities arising from performance of basic functions” (Davis and Blomstrom as cited in Gruning and Hunt, 1984:54) a strategic exercise that needs to be performed beyond the law (see Figure 1).

In his article “Public Responsibility in the Private Corporation” Andrews (1972:135) emphasizes the polarization of the corporate accountabilities between the “self-interest of corporate entrepreneurship” and the “public interest”. Defining corporate social responsibility as a “voluntary restraint of short-term profit maximization” (Andrews, 1972:135) reveals one of the compromise that equilibrates these apparently conflicting accountabilities. This compromise might seem detrimental for the short-term financial performance of the corporation, but neglecting the public interest might have harmful long-term consequences.

Various political entities have stressed the significance of CSR and sustainable development and common visions can be identified without great endeavors in their definitions. The European Union (EU) and the United Nations (UN) have rather similar views on sustainable development since this desiderate cannot be achieved if major regional and global political actors ground their strategies on incompatible interpretations.

At the global level, UN envisions the process of sustainable development as occurring in a manner that “meets the needs of the present without compromising the ability of future generations to meet their own needs” (Szomolanyi, 2005). Although the social and environmental factors are not explicitly stipulated, one can deduce that accommodating short-term and long-term needs cannot take place without identifying an equilibrium between economic, social and environmental development. When the short-term and the long-term interests manifested by the business enterprises, the societal actors and the environment are conflicting, sustainable development is jeopardized. This risk is amplified when corporations attempt to maximize their operations without taking into consideration the long-term consequences of their practices.

The European Union's conception of sustainability is embodied by a definition that interconnects economical, environmental and social progress: "Sustainable Development can be defined simply as a better quality of life for everyone, now and for generations to come. It is a vision of progress that links economic development, protection of the environment and social justice…" (Szomolanyi, 2005:8). The European Commission describes CSR as a "concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with stakeholders on a voluntary basis" (Murray, 2003:9). Therefore, the CSR concept combines social and environmental responsibilities together with economic development and it contributes to the accomplishment of broader sustainable development. By juxtaposing the way EU defines sustainable development and corporate social responsibility, it comes to the foreground the reiteration of the business-society-environment triangle that, ideally, should be an equilateral one.

Major institutional entities like Global Reports Initiative (GRI), International Labor Organization (ILO), Organization for European Cooperation and Development (OECD) reached a consensus on CSR, but the concept is far from becoming a universal value. Although "other cultures and concepts need to be taken into consideration" (Koelbel, 2005:19) when defining CSR, for the purpose of this current research corporate social responsibility will be referred to in accordance with the European Unions' view. The European Union has recently created ample forums for the CSR debate comprising specialists from businesses, unions, non-governmental organizations (NGOs) and academia (Murray, 2003:29). These multidimensional perspectives correlated with the opinions of the member states provide a complex and legitimate vision of CSR. Moreover, notwithstanding the fierce debate, the opinion that CSR is a voluntary process that goes beyond the minimum legal requirements has consolidated its position. The empirical analysis of CSR rationales for two European telecom companies operating in an EU member state also calls for referring to a pan-European approach.

Corporate social responsibility will be also understood in consonance with the specifications of the European Telecommunications Network Operators' Association (ETNO) in order to add a sector specific feature to the European Union's idea of CSR:

Corporate Social Responsibility also needs to be understood in the context of sustainable development: Corporate Social Responsibility is the business contribution to making sustainable development happen, through the proactive management of a company's environmental, social and economic impacts (ETNO, 2006).

1.1.2 Translating CSR into Practice

Some authors (Friedman, 2005) believe that the only form of social responsibility is to maintain the corporation in harmony with the national and supranational legal requirements and to abide by the ethical norms that prescribe punitive measures in case of violation. The theory that claims that all the actions that are undertaken within the legal framework and in accordance with the authorities' specifications are automatically socially responsible will be analyzed in the third section of this chapter. For the time being, the CSR practices will be considered those activities that are voluntarily implemented, go beyond the legal provisions and benefit the entire spectrum of stakeholders.

The CSR concept can be embodied in a broad scope of practices that can vary from banal donations to elaborated corporate environmental strategies. Kendall (1996:529) suggests that corporate social responsibility is "often applied in reference to such issues as hiring of women and minorities, fair treatment of employees, sound environmental practices, foreign trade in support of human rights, and equitable treatment of suppliers and distributors." There are many other ways in which corporations can translate their social responsibility into practice and they will be reviewed in the following paragraphs.

The most rudimentary form of CSR activity is charity. There is the misconception that social responsibility equates philanthropy (Molenkamp, 2006:4). Although philanthropic acts or corporate contributions (Moore and Kalupa, 1985) represent one possible venue for acknowledging social responsibility, this confusion imperils the comprehension of the real motives that determine companies to become socially responsible. Corporate contributions represent the more general umbrella under which CSR activities like employee or company donations, institutional patronage, community involvement, community work and, to a minimal degree, sponsorship are accommodated. Close to the philanthropy sphere are the social tariffs and the free-of-charge services in case of emergency, when the law does not stipulate these measures.

Issuing codes of conduct and codes of ethics is also a basic form of CSR. Some companies devised codes of conduct as early as a century ago (Murray, 2003:8), but it was not until the last decades of the twentieth century when the dissemination of codes reached a large scale. These codes encompass guidelines for dealing with various stakeholders and set ethical standards. The comprised recommendations or rules reaffirm the corporate adherence to ethical behavior and social responsibility while acknowledging the supremacy of the legislation. The codes of conduct include specific issues that can range from stands on child labor and poverty (Kolk and van Tulder, 2005:8) to engagements for a "reasonable working environment" (Jenkins, Pearson and Seyfang, 2002:20). In addition to codes of ethics and codes of conduct, whistleblower policies can be elaborated to enhance the ethical behavior within the corporation. Unfortunately, in many cases these documents are a consequence of superficial emulation and do not represent more than a collection of glossy but shallow PR.

More and more companies have started to issue separate Sustainability Reports in addition to their annual financial reports. Corporate Responsibility Reporting is one of the recent tools companies use for communicating their social, environmental and economic performances (Molenkamp, 2006). The reports can contain policies regarding the waste management, equity and responsibility in selecting the supply chain, diverse forms of community involvement, working conditions, equal opportunity employment, human rights, environmental impact, corruption, etc. (Kolk, 2003:287). Needless to say, reporting on CSR issues is useless unless the aforementioned activities are thoroughly implemented or if the reporting is nothing more than window-dressing CSR. More than a half of the biggest 250 companies published Sustainability Reports in 2002, many of which are certified by independent third parties (Molenkamp, 2006:3). Besides describing the policies, strategies and activities that are in consonance with sustainable development, these reports might also include the reasons that determine corporations to embrace CSR practices.

Social Responsible Investment (SRI) funds, besides mainstream investment, are specialized funds that take into consideration the social, environmental and ethical performance of a company when making investment decisions (Murray, 2003:42). This is an aspect of significant importance for the corporate social responsibility since investors "make responsible judgments about how their money is used" (Ward, 1991:16). Shareholders' resolutions on social, environmental and ethical performances of the corporation indicate that the interest of the investors in sustainability issues is constantly increasing (Molenkamp, 2006:63). Socially responsible investors encourage CSR practices and they contribute to the change of corporate policies even if the law does not require this or the return on their investments is lower.

The New York Stock Exchange is the most popular site for assessing the financial performance of corporations. However, corporations came to be evaluated according to their sustainability as well. The Dow Jones Sustainability Indexes (DJSI) and the Financial Times Stock Exchange Index for Responsible

Investment (FTSE4Good) have elaborated criteria that measure companies from a sustainability standpoint (Dow Jones Sustainability Indexes, 2006). To be included and rated by these indexes, corporations have to submit information on corporate governance, environmental management, innovation, human capital, labor practices, human rights and stakeholder engagement that meet certain criteria (Molenkamp, 2006:58). As mentioned in the previous paragraph, socially responsible investment is increasing and these indexes are a sign for corporate social responsibility. Performing well on these indexes can increase the value of the market stocks and demonstrate the responsible leadership.

Innovation can also be perceived as a practical embodiment of the CSR concept, especially if it is adopted when corporations lack financial incentives to develop new products, technologies or processes that would benefit not only their customers, but also other societal actors and the environment. Corporations that comply with quality standards (ISO 9001) might be customer responsible, but those who in addition comply with non-mandatory sustainability criteria (ISO 14001) are socially responsible (Szondi, 2005). The intrinsic improvement of product or service quality for revenue consolidation cannot be perceived as CSR unless it has a positive impact on the other stakeholders as well. Furthermore, innovation developed for eliminating or at least reducing negative externalities who failed to be regulated, is an important socially responsible practice.

A complex overview of the CSR conceptual framework correlated with the identification of its practical applications is of tremendous importance for investigating the rationales that determine corporations to adopt CSR. This is why in the next section the itinerary to frame CSR will continue with the presentation and analysis of two major conflicting views on CSR. This will prepare the ground for the last section of the chapter where the main rationales for and against CSR will be discussed.

1.2 Between Friedman and Freeman or Two Opposing Views on CSR

The shareholder theory and the stakeholder theory of the corporation express different viewpoints on the CSR concept and its implementation rationales. This theoretical framework will be extremely useful for understanding why some corporations are very active in the field of CSR while others are not visible at all. These two views will be analyzed within this current section.

1.2.1 The Shareholder Theory

The Oxford Dictionary (2000:946) defines the word oxymoron as “a phrase that combines two words that seem to be opposite to each other.” Some voices define the phrase ‘corporate social responsibility’ as an illustrative oxymoron (Mischa Beitz, personal communication 2006). Not far from this view, the conservative economist Milton Friedman, one of the founding fathers of the shareholder theory, annuls the very concept of corporate social responsibility by qualifying it a “nonsense spoken in its name” (1970). Arguing that corporations cannot and should not have social responsibilities other than “to make as much money as possible while conforming to the basic rules of the society” (Friedman, 1970) partially explains the semantic confusion CSR might create. Nevertheless, the shareholder theory has more than semantic and conceptual implications.

The shareholder theory of the corporation provides the theoretical basis for understanding the rationales some corporations have for not undertaking

CSR activities. It has been argued that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception of fraud” (Friedman, 1970). Therefore, a corporation that is solely devoted to its shareholders’ profit-maximization cannot afford to spend valuable resources on CSR activities. Corporate social responsibility becomes therefore “a human rights case” (Sternberg, as cited by Baker, 2006) since acting in line with CSR principles violates the financial interest and the property of the shareholders.

Moreover, it is argued that there is no need for the corporation to carry a crusade for social responsibility since there are “elaborate constitutional, parliamentary and judicial provisions to control these functions” (Friedman, 1970). According to this view, the best way for corporations to ensure social responsibility (sic!) in a competitive market is through the provision of employment opportunities, distribution of goods and services and compliance to the existing legislation. Investment could also contribute to the overall prosperity dissemination in society. Studies devoted to the limitations of CSR revealed that corporations can fight widespread poverty and contribute to economic growth through investment and business practices rather than CSR practices (Kölbel, 2006). However, this type of investment does not take into consideration the criteria of socially responsible investment outlined in the previous section.

The CSR concept viewed from the shareholders’ theory perspective does not annihilate the importance of the stakeholders. It just argues that the corporations should not spend consumers' and stakeholders' money on social issues since specially devised institutional entities have the mission to take upon this role. Moreover, the theory admits the strategic reasons that might determine a corporation to adopt a proactive stance on community involvement or charitable gestures as long as they are in its own benefit. These activities might be beneficial on the long run and can help the corporation to maximize its profits. However, Friedman (2005:284) qualifies the attempt of assimilating these purely business led actions under the umbrella of corporate social responsible practices as "hypocritical window-dressing." This research will accept the inclusion of the social-environmental oriented voluntarily actions that go beyond the law in the category of CSR practices even if they are not grounded on ethical rationales.

According to the shareholder theory, community involvement as a preventive tool against negative reactions or as a tool for attracting "desirable employees" are some reasons for corporate 'responsibility' since "it may reduce the wage bill or lessen losses" (Friedman, 1970:284). These kind of activities can facilitate the business operations and have an immediate or long-term increase in the revenues. All in all, the theory considers social responsibility the compliance to legislation. It also admits the importance of voluntary actions in the external environment as long as their effect is positive for the corporate financial bottom line. In the next sub-section, the stakeholder theory underlines the reasons for a triple-bottom-line (economic-social-environmental) of the business enterprise.

1.2.2 The Stakeholder Theory

In his study "A Stakeholder Theory of the Modern Corporation" (see Figure 2) Edward Freeman (2005) revolutionizes the assumptions about the role of the corporation in the contemporary society by giving equal importance to all corporate stakeholders, shareholders included. It was argued that “the stakeholder theory is a progressive development of the shareholder theory” and that these two theories do not contradict each other (Kölbel, 2006:20). While acknowledging this point of view, it will be underlined that actually these two theories provide radically different premises for corporate social responsibility rationales.

Stakeholders are “those groups who are vital to the survival and success of the corporation” or, in a broader sense, “any group or individual who can affect or is affected by the corporation” (Freeman, 2005:115). The stakeholder theory acknowledges, besides shareholders, other entities that have a stake in the corporation such as management, local community, customers, employees, suppliers and even competitors and government. The main challenges the corporation faces as implied by the stakeholder theory is to “keep the relationships among stakeholders in balance” and avoid to “give primacy to one stakeholder group over another” (Freeman, 2005:118).

Consequently, the stakeholder theory represents a conceptual framework that creates strong premises for corporations to undertake responsibilities towards their stakeholders due to increased accountability. Relying on the stakeholder theory, it can be inferred that corporations have more responsibilities than just legally producing goods and services for profit and they have a “broader constituency to serve than that of stockholders alone” (Buchholz, Evans and Wagley, 1989:22). It is not only the fact that the corporations acknowledge the importance of their stakeholders, but, maybe even more important, all the stakeholders "*must* participate in determining the future direction of the firm in which they have a stake" (Freeman, 2005:111, with emphasis). The fundamental principles of the theory argue that 1) "corporations shall be managed in the interests of its stakeholders" and 2) "stakeholders may bring an action against the directors for failure to perform the required duty of care" (Freeman, 2005:121). Thus, Friedman's shareholder theory is seriously challenged by this new vision of the "modern corporation." The implications for corporate social responsibility are major.

The political (the fall of the Iron Curtain, Europeanisation), economical (liberalization and privatization) and technological (Internet, mobile telephony, satellite communications, etc.) transformations that occurred in Europe in the last decades had turbulent effects for business enterprises. For some corporations, especially the former monopolists, the number of stakeholders has dramatically increased and the new business environment correlated with their corporate features determined them to shift from the shareholder approach to the stakeholder view. Friedman's famous essay "The Social Responsibility of Business is to Increase its Profits" (1970) seemed to become obsolete in their case. On the other hand, these manifold transformations created the perfect ground for some corporations to embrace the shareholder perspective and give primacy to stockholders' profit maximization. There is also a plenitude of corporations whose strategy relies on green washing and window dressing CSR. The degree to which corporations mix the aforementioned principles can be influenced by the specific features they exhibit or the particularities of the industry sector in which they operate.

To conclude, it is obvious that corporations who remain attached to the shareholder theory are unlikely to adopt CSR practices, while those who adhere to the underlying principles of the stakeholder theory will be more active in the field of CSR. Nonetheless, this does not exclude the possibility that corporations whose overall goal to return profits for their shareholders prevails – a flagrant contradiction with the stakeholder theory – will employ CSR activities as a tool for profit maximization. The next section of this chapter will analyze the arguments both in favor and against CSR as a preliminary step for the identification of the CSR rationales in the telecom sector.

1.3 Why to Incorporate Corporate Social Responsibility?

After defining CSR, identifying the main practices through which corporate social responsibility can be achieved and positioning the concept within the theoretical framework of two significant theories, it is reasonable to proceed with the examination of the rationales that stay both in favor and against CSR.

1.3.1 Arguments in Favor of Corporate Social Responsibility

The stakeholder theory reveals the social benefits that arise when corporations responsibly take into consideration their external environment, while the shareholder theory underlines the societal gains that appear when corporations exclusively focus their efforts on profit-maximization. This sub-section will analyze the corporate rationales that emerge from integrating CSR principles on the grounds of both theories.

In the casebook “Management Response to Public Issues” Buchholz, Evans and Wagely (1989:25) have excellently synthesized eight major arguments for corporate social responsibility which are listed in the table below:

No	Arguments in Favor of Social Responsibility
1	Kept business in tune with public expectations
2	Promoted long-run self-interest
3	Gained a better public image
4	Avoided government regulation
5	Balanced responsibility with power
6	Used business’s resources
7	Turned problems into business opportunities
8	Helped solve social problems to which business had contributed

Table 1: Rationales for CSR (Buchholz, Evans and Wagley, 1989:25)

Disregarding the ethical aspects of the arguments (no5 and no8), these rationales can be clustered around four broader categories: ensuring long-term sustainability (no2), marketing (no7), maintaining good public image (no1 and no3) and dealing with regulatory bodies (no 4). Sorting various rationales in these main classes of arguments can reveal that different arguments can stay both in favor and against CSR. This categorization will be preserved for identifying the arguments against CSR.

In his article “Companies are Discovering the Value of Ethics” Bowie (1998) illustrates the benefits ethical corporations can have and challenges the widespread belief that ethics represent a constraint on profits. While acknowledging the importance of business ethics, ethical arguments will be omitted in this analysis as they pose complex methodological challenges that expand beyond the purpose of this research.

1.3.1.1 Long-Term Sustainability

If a company wants to survive for a long time on the market it has to take into consideration its external environment. Although it is questionable whether there is a direct causal effect between adopting CSR practices and increasing revenues (Bansal, 2002:19), establishing and consolidating good relations with various stakeholders and avoiding potential risks from the external environment is a must for the long-term oriented corporation. Corporate social irresponsibility can have minor effects in the short-term, but in the long run they can prove to be disastrous for the very existence of the corporation. Natural disasters, labor depreciation or scarcity of resources are potential scenarios if the corporation does not seek sustainable development. The corporation can be deprived tomorrow of its basic inputs if it does not take into consideration its current outputs. Some companies or industry sectors have specific features (immense sunk costs, for example) that automatically determine them to adopt a long-term perspective. Corporate social responsibility activities do not rely on alchemy but they can prolong the longevity of the corporation by smoothening the relation with the external environment and by lowering the risks it faces.

1.3.1.2 Marketing

CSR can serve as a useful marketing tool since “new marketing strategies seek to build long-term, productive relationships with the consumers” (Guth and Marsh, 2003:424). Sustainability is about a long-term vision that is mainly achieved through corporate social responsibility. CSR practices can make a difference between products or services that are perfect substitutes. Even if the products are not “different” they can be “differentiated” (Beath and Katasoulacos, 1991:1). CSR is an alternative to price competition when it comes to promote brands with low product differentiation. Although the magnitude the purchasing behavior of the aware and responsible consumer segment is still a “myth of CSR” (Doane, 25-27:2005), socially responsible activities can make products “apparently different” (Beath and Katasoulacos, 1991:2) and offer a competitive advantage in a market with low real product differentiation.

1.3.1.3 Public Image

CSR activities can ensure the kind of public image that cannot be built through advertising campaigns. The necessity of maintaining a good corporate public image is not any longer just an interesting topic for cinematography productions like “The Corporation” (The Corporation, 2006), but it has been fully experienced in the last years by many companies. McDonalds vs. *McMurder*; Shell vs. *Hell* or *Shell go Home*; Gap vs. *Crap* or *Gag-clearcutting since 1998*; Nike vs. *Just boycott Nike*; Nestlé vs. *Stop the sale of the sale of baby formula in third world countries*; Esso vs. *Don’t buy E$$O*; and Microsoft vs. *Microsoft sucks* have become moralizing stories about how irresponsibility can create a devastating boomerang effect (Szomolanyi, 2005:5).

Building a public image on corporate social responsibility can increase the credibility and probably the share price (Bansal, 2001:18). Establishing and maintaining effective media, community, governmental, investor, consumer and international relations is vital for the survival of many corporations, especially of those who are sensitive to media and NGO criticism (Hendrix, 2004:15-23). Although these publics might have divergent interests, strategic PR can incorporate CSR principles to equilibrate conflicting interests and to prevent public scrutiny and destructive image crises. Needless to mention, green washing, window-dressing CSR or hollow PR can accentuate the negative effects of crises, boycotts, sabotages or regulatory initiatives.

1.3.1.4 Regulation

Regulatory expansion might appear in areas where corporations cause serious negative or moral externalities. Moreover, preventive regulation can be adopted in order to avoid potential conflicting interests between undertaking social and environmental responsibilities, on one hand, and creating profit for the shareholder, on the other hand. Some voices argue that CSR is just a "cosmetic exercise" and a voluntary approach will allow companies to decide on what is socially responsible instead of delivering real responses to the "needs and demands of stakeholders" (Murray, 2003:9). Members of the Committee on Employment and Social Affairs of the European Parliament took an even more drastic stance to the voluntary approach arguing that "it is not for the companies to decide whether they wish to contribute" and asking for an increase of regulation in order to "promote and safeguard human life and the environment" (as cited by Murray, 2003:10). Corporations should adopt a proactive attitude and contribute to sustainable development before this issue reaches the political agenda because "publics that perceive organizations to be irresponsible frequently turn to government for help. Government usually helps by formulating regulations and restrictions. It costs the organization a great deal to comply"

(Gruning and Hunt, 1984:52). Thus, integrating socially responsible activities can smooth off the relation with the regulatory bodies and avoid detrimental regulatory prescriptions.

1.3.2 Arguments Against Corporate Social Responsibility

Analogously with the beginning of the previous sub-section, Table 2 lists eight major arguments against corporate social responsibility:

No	Arguments Against Social Responsibility
1	Proved difficult to define
2	Lacked accountability
3	Diluted responsibility to shareholders
4	Increased business's power
5	Assumed executives had skills and incentives to deal with social problems
6	Reduced international competitiveness
7	Assumed incorrectly that corporations were moral agents
8	Undermined the free enterprise system

Table 2: Rationales against CSR: (Buchholz, Evans and Wagley, 1989:25)

These arguments, most of them emerging from the shareholder theory, can be sorted in parallel categories with those elaborated in the foregoing section: ensuring long-term sustainability (no3 and 8), marketing (no6), maintaining good public image (no2) and dealing with regulatory bodies (no 4, 5 and 7). The same rationales can fully justify the integration of CSR practices in the corporate functions or they can determine corporations to totally disregard them. The first argument against CSR (no1) has been extensively analyzed in the first sections of this thesis paper while the other arguments will be discussed in the next paragraphs.

1.3.2.1 Long-term Sustainability

Corporate social responsibility jeopardizes the long-term survival of the corporation by spending its precious resources. Sustainable development includes economical development and if this function is undermined by CSR practices the wealth of future generation will be endangered. Environmental and social protection is a function that should be performed by the state that has to set the legal framework for business enterprises (Friedman, 2005). The free market is a highly competitive environment where costs are minimized in order to survive. Shareholders who spend money on socially responsible activities loose any competitive advantage by making compromises on product quality or laying employees off (Baker, 2006). Where no financial motivation for CSR is present, acting contrary to economic laws threatens the survival of the company.

1.3.2.2 Marketing

Successful trademarks, logos and packaging created by design specialists' are the main ingredients for successful marketing (Selame and Selame, 1988). Advertising, as "paid and controlled mass communication," is also one of the best marketing tool for corporations due to its "selectivity, control of the impact and timing" (Wilcox, 2001:409) that transforms CSR in a futile marketing tool. Advertising can be employed for image building or strengthening investor and financial relations and it represents an alternative to CSR activities. Many surveys demonstrate that "consumers are more concerned about things like price, taste, or sell-by date than ethics" (United Kingdom's Institute of

Grocery Distribution as cited by Doane, 2005:26). These features can be successfully promoted through advertising campaigns while the corporation should strive to improve its product specifications instead of focusing on CSR. Moreover, in the United Kingdom “fewer than 5 percent of consumers show consistent ethical and green purchasing behaviors” (Co-operative Bank as cited by Doane, 2005:26), which does not provide too many incentives for using CSR as a marketing tool.

1.3.2.3 Public Image

Corporations that create employment opportunities, deliver desired goods and services and contribute to local, regional or national budgets by paying taxes in time have created themselves all the premises for a good public image. The claim a la Friedman (1970:281) that respecting the legislation is the only expectation a “free enterprise, private-property” based society should have from companies diminishes the correlation between corporate social responsibility and corporate image. The corporation should search worldwide for the best business environment and respect the local and international legislation, while building its image via branding, advertising, customer services or sponsorships. Public relations actions and special events organized in the public interest can “best advance the public image” of the company (Hendrix, 2004:31), but these activities should be undertaken only if they are “entirely justified in its own interest” (Friedman, 1970:284).

1.3.2.4 Regulation

As it was reiterated in the previous paragraphs, the best way corporations can maintain good relations with regulatory bodies is by obeying the law. If a business practice is considered harmful or dangerous and it should be made illegal and the corporation would maintain positive relations with the regulators by not engaging in those practices anymore. There is no need to go beyond the minimum requirements, to self-impose constraints or to meet expectations when the government officially allows for a business activity (Baker, 2006). It makes sense to expect governments to sympathize with those companies who respect the law since “asking a corporation to be socially responsible makes no more sense than asking a building to be" (Friedman as cited by The Corporation, 2006).

1.4 Conclusions

Reviewing the main definitions and practical implementations of the CSR concept represents an essential precondition for understanding its complex implications and for identifying the rationales for CSR. This thesis paper relies on the definitions provided by the European Union and the European Telecommunications Network Operators’ Association. The shareholder theory and the stakeholder theory of the corporation express different viewpoints on the CSR concept and its implementation rationales. This theoretical framework indicates why some corporations are active in the field of CSR while others are not too visible. Same rationales can fully justify the integration of CSR practices in the corporate functions or they can determine corporations to totally disregard them. This suggests that for identifying the rationales for corporate social responsibility in the case of a specific industry or corporation, a more detailed analysis of their particular features is required.

CHAPTER 2: RATIONALES FOR CORPORATE SOCIAL RESPONSIBILITY IN THE TELECOMMUNICATIONS DOMAIN

The modern ‘information society’ reveals promising business opportunities for telecom corporations. Nevertheless, the complexity of the current digital era faces them with specific social responsibilities related to social inclusion, shortening the digital divide and sustainable development. However, not all telecommunication corporations devote themselves to these responsibilities in the same proportion. Identifying the rationales for corporate social responsibility in the telecommunications domain has a major importance given the significance of this sector for the entire spectrum of the society.

This chapter will analyze the CSR rationales in the telecom sector. Four assessment criteria have been elaborated in order to compare different incentive structures for CSR: sunk costs, real product differentiation, importance of public image and regulatory asymmetry. It will be argued that telecom corporations who 1) have considerable sunk costs, 2) experience low product differentiation in relation with the competitors, 3) show dependency for good public image and 4) face regulatory burdens have a stronger incentive structure for adopting CSR principles than telecom operators who do not posses these features cumulatively. Each of the hypotheses will be discussed in the following paragraphs, after providing a short overview of the recent transformations undergone by the telecom sector.

The telecommunications sector experienced rapid and drastic transformations in the last three decades. The liberalization, privatization and re-regulation of the sector correlated with succeeding technological developments determined telecom corporations to continuously reconsider their social responsibilities. The convergence of the telecom services accelerated the transfer of the companies from the public sphere to private ownership while the de-regulation process limited the interference of the state with the business (Rubsamen, 1989:105-120). Liberalizing the market created the premises for competition in the benefit of the consumers, while privatization redesigned the structure of corporate accountabilities.

In Europe, the shift from state-owned monopolies started almost three decades ago when British Telecom lost its monopolistic position, continued with the total or partial privatization of many other telecom companies and fulminated with the re-regulation of the European telecommunications market (Knieps, 2001). The re-regulation of the telecom sector was imperative for safeguarding fair competition. The monitoring role of the state was rediscovered despite the previous widespread beliefs that state control over the private sector would be detrimental to consumers. The significant market power (SMP) many telecom corporations enjoyed determined a radical reevaluation of the telecom domain. New providers of electronic communications services were allowed to enter the market and fostered competition, but faced great resistance from the former incumbents. The European Union elaborated a regulatory framework for the telecommunications market and set up national regulatory agencies (NRAs) to act as arbiters for ensuring a fair competition (Nihoul and Rodford, 2004).

The telecommunications domain is a complicated network industry that now comprises actors ranging from major former monopolists to Lilliputian companies. Although the “regulatory state” retook many of the functions it once gave up, corporate social responsibility remains a key issue in this problematic domain. The de-regulation and the re-regulation of the telecom sector are symbolic summaries about the incapacity of both the market and the state to set up a functional framework for the business enterprise. Some telecom corporations rely on the purest interpretation of the shareholder theory, while others are emulating in integrating the principles of the stakeholder theory. Is Friedman or Freeman right in the telecom sector? Why do some telecommunications corporations claim to be socially responsible? How can those corporations be identified?

Telecom companies exhibit nowadays multiple features, operate in a transforming network industry and face new accountabilities that challenge their social responsibilities. Instead of quantifying the morality of the executive officers and of the ethics of their business, CSR rationales can be searched for in the particular features of the corporations and in the specificity of the industry. The telecom sector, as a network industry, relies on complex networks that represent a sunk cost (irreversible) for those corporations that invested in them. Secondly, in the telecom sector, like in many other network industries (electricity, water distribution), there is a low real product differentiation among basic services such as fixed line telephony. Thirdly, telecom corporations with significant power in national or global economies put a strong emphasis on the public image since they are vulnerable to media and NGO criticism that can harm their brand. Fourthly, within the current regulatory framework, incumbent companies are subject to asymmetric regulation. Analyzing these criteria can reveal those telecom corporations who have more incentives to integrate CSR practices and forecast how their social responsibility will be altered if their incentive structure is modified.

2.1 Sunk Costs and CSR

Telecommunications is a network industry and, as railways or electricity, relies on an infrastructure. Even though technological developments like mobile telephony do not require a wire network, considerable investments need to be allocated for devices that would facilitate the delivery of the service. These investments represent “irreversible costs” (Knieps, 2001:11) or, to put it differently, sunk costs, since they cannot be “recovered to any significant degree” (Liebowitz, 2002:84). In most of the cases, the former telecom monopolies own the nationwide telecom infrastructure. However, the NRAs obliged the incumbents to ensure access to the network for alternative providers by unbundling the local loop and interconnection (Gerardin, 2002:108).

The incumbent faces therefore a paradoxical situation. It invested in the network so much needed for delivering services, but apparently lacks any competitive advantage based on this ownership. Incumbents have to exploit these networks on the long run in order to receive a return to their investment. On the other hand, the competitor can pay a reasonable price for access and does not have a too strong incentive to build its own infrastructure. Establishing a parallel network is an option that poses considerable costs and risks “to lose the invested capital in the infrastructure if the business model fails“ (Knieps, 2001). The liberalization and re-regulation of the telecom market lowered the entry and exit barriers for alternative service providers. This determined some of the competitors to adopt a “hit and run” strategy (Knieps, 2001). The competitor can quit the market at any point without losses and there are weak incentive and high costs for building its own infrastructure.

Therefore, telecom corporations who have considerable sunk costs are constrained to adopt long-term business goals in order to receive a return on their investment. The incumbent cannot simply quit the market after a few terms nor can it focus on short-term profit maximization. The necessity for long-term sustainability will determine the company to take into consideration its external environment. Corporations who own a nationwide infrastructure interact with a multitude of stakeholders whose interests have to be balanced with shareholders’ interests. CSR can successfully contribute to achieving their long run interests. The telecom corporation that has considerable sunk costs is interested in long-term sustainability and CSR is one of the best tools that can be employed.

On the other hand, competitors who did not establish a parallel network and rely entirely on the incumbent’s infrastructure in order to deliver their services can easily exit the market. The “hit and run” (Krieps, 2001) strategy becomes a possible scenario for companies who seek short-term profit maximization and can quit tomorrow without too many costs. This strategy does not require any other rationale than short-term skillful marketing, while CSR seems a meaningless concept. Many new entrant providers are small companies, at an incipient stage of development that first have to survive a fierce price competition in order to afford integrating CSR practices. Shareholders come first to stakeholders in this case. Corporate social responsibility cannot bring too many immediate benefits and those telecom corporations who do not have a long-term approach lack the incentives for adopting CSR practices.

2.2 Real Product Differentiation

Telecommunications corporations offer a wide range of services that extend from the classic fixed line telephony to broadband Internet or mobile voice and data transmissions. However, within the same class of product/service there is a low real product differentiation. This is also the case of other network industry services, like electricity or water distribution, where, once a standard quality is ensured, who is the provider does not really matter. The only criterion that seems to play a role in markets with low product differentiation is the price. In telecommunications sector, the convergence phenomenon caused by the digitalization of the electronic communications, allows for data to be delivered through the same network. Essentially, basic services like fixed line telephony are almost perfect substitutes and the difference is to be found in price. Although major corporations dedicate significant resources for product or service innovation, the major service categories are basically the same.

Telecommunications represented until recently an industry where the number of the network users was positively correlated with the consumers' preferences (Navon, Shy and Thisse, 1995). In this situation, the network with more users made a difference since its utility was increased. However, the new regulatory framework for telecommunications annihilates the positive network externalities that might create a competitive advantage for the incumbent

(Liebowitz, 2002:76). Alternative telecom corporations can access now the same network that was once popular only for one service provider.

Since real product differentiation is not really possible for the alternative telecom service provider, price represents the battlefield for competition. However, competition carried on this field is not feasible for the incumbent due to the regulatory burdens. Price ceilings, low interconnection access tariffs for the competitors or limitation of the market share are just a few measures that can be imposed by the NRAs to prevent the incumbent's tendency to lower prices to such an extent that would eliminate competition. Moreover, these measures provide strong incentives for the competitor to engage in price competition. Under the supervision of the regulatory agency, the new entrant can challenge the incumbent's monopolistic market power by providing cheaper services. Thus, it is expected that companies who compensate the low product differentiation through price competition, lack the rationales for undertaking CSR principles.

In the case of the incumbent, price competition does not represent a viable alternative for compensating for the low the real product differentiation. However, the incumbent can focus on differentiating its services from those of the competitors. Even if the products or services are not "different," they can be "differentiated" (Beath and Katasoulacos, 1991:1). The services are similar, but associating them with a socially responsible corporation can successfully differentiate brands. CSR can be the secret weapon of the former incumbents in delineating themselves from the competitors. Incumbents, as companies with tradition on the market, are expected to maintain socially responsible functions.

CSR is more likely to be implemented by corporations who have a low real product differentiation in relation with the competitors and who encounter regulatory barriers from engaging in price competition. On the other hand, telecom operators that focus on price competition lack the incentive structure from undertaking CSR activities.

2.3 Importance of Public Image

Telecommunications corporations with large market share are more visible in the society than small operators. Big companies have a high number of employees, customers and various other stakeholders. A potential crisis will have a multiplied effect if more than one stakeholder category is affected. Avoiding risks through CSR is especially likely to occur in the case of corporations who are exposed to media or NGO criticism. Moreover, incumbents, even if they have been privatized, are still perceived as ‘national’ companies with increased responsibilities for the citizens. Their legacy, size, sensitivity to public criticism and impact on the society are the main variables on which the public image depends. A former state-owned monopoly still has a considerable number of employees, is under the scrutiny of media and various NGOs and the way in which it performs its functions is of high public interest.

For the incumbent, the public image is extremely important for ensuring long-term sustainability. Dealing with the external environment on the long term is only possible while ensuring a good public image. Moreover, the incumbent’s effort to establish and maintain a good image can earn the benevolence of the regulatory authorities. Governments and public authorities are sympathetic with good corporate citizens and a good public image earned through CSR is even more valuable. Corporate social responsibility is one of the most trustworthy and legitimate tools for communicating with the external environment. The proactive or reactive response the corporations give to public issues should emanate responsibility if it wants to escape the public opprobrium.

Telecommunications corporations who are exposed to public criticism need an excellent public image in order to enhance the value of their brands. Given that in the telecom sector the real product differentiation is low, a good public image can differentiate the brand and act as an excellent marketing tool.

The competitor who is mainly driven by price competition and who can easily exit the market without significant costs is not constrained by the necessity of maintaining an impeccable public image. In this case the best way to maintain a good public image is to maintain low prices that are delivered in conformity with the legal norms. Friedman was right in their case.

2.4 Asymmetric Regulation

Telecommunications is a highly regulated domain, especially for the companies who have significant market power. For the incumbent the same regulatory provisions apply as in the case of other companies with two exceptions: 1) price and quality of universal service provision and 2) interconnection (Glachant, 2002:306). The regulatory framework of the European Union, although criticized for provoking harmful market distortion and creative wrong incentive structure, is an extremely elaborated one aimed at ensuring the survival of the competition. The NRAs have to carry out a relevant market analysis, to notify the European Commission, and decide remedies against companies with SMP (Duvernoy and Desmedt 2004:30). This complex process has asymmetric effects for an incumbent and an alternative service provider.

Telecom corporations that provide the Universal Service Provision, “a package of services which are made available at a specified quality level to all end users at an affordable price” (Nihoul and Rodford, 2004:500) usually undertake this task voluntarily. The universal service provision is partially a socially responsible function with dramatic consequences for the information society:

> “the distribution of telecommunication services can be regarded as a matter of distributive justice in the information society and as a necessary requirement in order to avoid creating a two-tier information society” (Skogerbo and Storsul, 1998:1)

Exceeding the minimum legal requirements in the delivering the universal service provision is a form of social responsible behavior that might prevent the regulatory authority from taking a measure in any other sectors.

The issue of electromagnetic fields (EMF) was extensively researched and debated. Some argue that it might pose some threats for human health, while others refute potential harms caused by EMF. For the time being, the World Health Organization considers that EMF do not present any health threat for humans, but that further research is needed for a full understanding of the effects (World Telecommunication Development Report, 1999:11). Telecommunication companies who act not only in respect with the current legislation, but go beyond it and act responsibly towards the environment and the member of society can establish positive relations and smoothen off the relation with the regulatory bodies from the telecommunications sector or other institutions.

Companies, who are not subject to asymmetric regulation on competition issues, do not provide the universal service provision and do not handle with electromagnetic fields in their business operations do not have many incentives to exceed the legal minimum requirements in their activity.

2.5 Conclusions

The major political and economical transformations of the last three decades dramatically influenced the landscape of the telecommunications sector. The implications for CSR are major and the rationales for CSR in the telecom sector are to be found in the various corporate features and the specificity of the industry. Four assessment criteria have been elaborated for identifying the rationales of CSR in the telecom sector: sunk costs, real product differentiation, importance of public image and regulatory asymmetry. Telecom corporations who have considerable sunk costs, experience low product differentiation in relation with the competitors, show dependency for good public image and face regulatory burdens are expected to consistently integrate CSR principles.

CHAPTER 3: THE CASES OF *MAGYAR TELEKOM GROUP* AND *TELE2* HUNGARY

The empirical analysis of the CSR rationales of *Magyar Telekom* and *Tele2* Hungarian telecom operators will reveal some of the the main rationales for corporate social responsibility in the telecommunications sector. This chapter will try to answer the following questions: Why does *Magyar Telekom* engage in CSR activities? Which are the incentive structures that determine *Magyar Telekom* to be more active than *Tele2* in the field of CSR? In addressing these questions, the same assessment criteria that have been elaborated an analyzed in the previous chapter will be applied: sunk costs, real product differentiation, importance of public image and regulation asymmetry. The assessment criteria will be applied to analyze the different incentive structures they provide for *Magyar Telekom*, the incumbent company, and *Tele2*, one of the competitors, for engaging in CSR activities. It will be argued that *Magyar Telekom* is more likely to implement CSR activities than *Tele2* due to its immense sunk costs, low real product differentiation in the market of fixed telephony, strong emphasis on the importance of public image and considerable regulatory burdens.

The CSR concept continues to be referred to in accordance with the specifications provided by the European Commission and the European Telecommunications Network Operators' Association.

Magyar Telekom and *Tele2* represent relevant case studies for the analysis of the CSR rationales in the Hungarian telecom sector since it allows for a contrasting view on CSR between the incumbent and the new entrant. *Magyar Telekom* is the incumbent company while *Tele2* is one of the most aggressive price oriented competitors. The companies exhibit different features, but they will be analyzed with identical assessment criteria in order to reveal what are the corporate features that might provide incentives for CSR. The country selection is justified by the fact that Hungary, a member of the European Union since 2004, harmonized its electronic communications legislation (Governmental Decrees) with the Directives of the European Commission. This is extremely important since the agreed definition of CSR was that elaborated by the European Union. Moreover, this research wills posses a high potential for generalization in the cases of other European telecom operators. Nevertheless, an analysis relying on only two cases presents its own limitations and more comprehensive research needs to be carried.

Field observation has been performed throughout forty working days within the Sustainability Department at *Magyar Telekom* Group. The department elaborates the corporate sustainability strategy and reports. Relevant documents issued by *Magyar Telekom* and *Tele2* (codes of ethics, financial reports, sustainability reports) have been analyzed in parallel with a content investigation of their websites. Various European Commission Directives and Hungarian Governmental Decrees referring to the electronic communications have been reviewed in order to identify the minimum requirements for telecom operators and the basis for asymmetric regulation. Qualitative semi-structured interviews (see Annex 5) have been conducted with managers and directors with competence and responsibilities in the field of CSR from *Magyar Telekom* and with external stakeholders of the two corporations (see Annex 6). *Tele2* officials repeatedly refused to participate in the interview, but they expressed the official point of their corporation on CSR:

> Dear Mr. Müller,
> Having read and discussed the questionnaire with our client, we still insist on our original recommendation, that you should consider the description and details you can find on our corporate homepage (*www.tele2.com*). Local *TELE2* activities are reflecting that approach, we have nothing to add which would be different from that. Since you've been interested in mainly "finding why *Tele2* does not claim large corporate social responsibility involvement.", and the answer to that question is the one you can find on the homepage, we cannot add too much new information to that. Thank you very much for your kind understanding.
> (Andras Nagy, email communication)

Before analyzing the elaborated assessment criteria for both *Magyar Telekom* and *Tele2*, it is necessary to become shortly accustomed with the corporate identity of these two business enterprises in order to understand who is who in the Hungarian telecom market.

Magyar Telekom, known as former *Matav*, was privatized in 1993 at a moment when big telecom monopolies across Europe began to shatter. Between 1997 and 2000, Deutsche Telekom obtains majority ownership and in 2005 *Magyar Telekom* introduced its “T-brand”. *Magyar Telekom* had EUR 2,502.4 millions reported revenue in 2005. The ownership structure of the Group accounts 59,21% for *Magyar Telekom* Holding GmbH, entirely owned by Deutsche Telekom, and 33,65% foreign institutions (Sustainability Report, 2004). The company provides business, residential, Internet and mobile services. Regarding social responsibility, *Magyar Telekom* claims that CSR is the tool that contributes to accomplish “the harmonization of social, economic and environmental interests in the business process” (Szomolanyi, 2005). Moreover, “corporate social contributions and charitable activities are an integral part of the corporate culture of the Group” (Sustainability Report, 2004). Preliminary research indicated that *Magyar Telekom* is an active company in the field of social responsibility that appears to be a CSR pioneer in Central and Eastern Europe. *Magyar Telekom* is also a member of ETNO, the main charter in the field that enhances the importance of CSR.

Tele2 is a Swedish corporation who entered the telecommunications market as early as 1970 under the name of *AB Kinnevik*, who is still the largest shareholder of the company. On the Hungarian market, *Tele2* is present only since 2004, but it also operates in twenty-two countries in Europe, where “is Europe’s leading alternative telecom operator” (*Tele2*, 2006). In Hungary, *Tele2* offers products and services only in fixed telephony. Regarding CSR, “*Tele2* does not claim to broad social responsibility. […] The overall goal of *Tele2* is to generate a return for our shareholders. […] Sustainable growth in society and good business go hand in hand. The company has an important prosperity-creating role, whether as an employer, supplier customer or taxpayer” (*Tele2*, 2006). Preliminary research indicated that neither is *Tele2* visible in the field of CSR, nor does it adopt *window-dressing* CSR practices.

3.1 Sunk costs

In 2004, *Magyar Telekom* received 77.8% of its revenues from “network usage and access“ (Sustainability Report, 2004). *Magyar Telekom*, together with *Emitel*, a member company, has a market leadership position in the fixed line telephony with a share of 81% (Sustainability Report, 2004). *Magyar Telekom* has considerable sunk costs in the mobile market as well, but the bulk of its sunk costs reside in the network used for residential services.

The company's mission is to "be a key player in the information society and the new economy, retaining its leading position in Central and Eastern Europe" (Sustainability Report, 2006). *Magyar Telekom* has a long-term strategy that is determined to a great extent by the immense sunk costs the company has. Ensuring its sustainability is a crucial task for the survival of the company. Szomolányi Katalin, the Head of the Group Sustainability Department, considers that sustainable strategy equals responsibility and a future vision (Szomolányi, personal communication 2006). Sustainability is aimed at "making the harmonization of social, economic and environmental interests in the business process" (Szomolányi, 2005). As it was argued in the first chapter of the thesis, corporate social responsibility practices are supporting sustainable development. Long term sustainability implies reducing risks, reducing costs and, eventually, leading to profits.

The empirical research shows that long-term sustainability was highest rated by *Magyar Telekom* directors when assessing the importance of CSR rationales in general (see Annex 2). Long term sustainability and the immense sunk costs were also rated very high when assessing the CSR rationales for *Magyar Telekom*. At the lower side of the spectrum are the short-term marketing issues (see Annex 4). Most of the interviewed stakeholders (see Annex 6) consider that *Magyar Telekom* as having a long term strategy on the market even if they do not consider the sunk costs as the main determinant for this vision.

Nevertheless, there is a very high correlation between long-term sustainability and incorporating CSR practices. *Magyar Telekom* is incorporating CSR practices for ensuring its long-term investment mainly by implementing sustainable business practices (see Annex 1, Question 14).

Tele2 defined itself as “a tough challenger to the former government monopolies” (*Tele2*, 2006). *Tele2* collects its revenue mainly from customer based relations, not from operating a network since it “usually acts as a virtual operator, avoiding large investments in its own networks” (*Tele2*, 2006). In the absence of sunk costs, *Tele2* focuses on short-term marketing objectives aiming at drastically minimizing costs in order to be able to offer the lowest prices. CSR expenditures are avoided by *Tele2* since they contravene to cost minimization strategies. Moreover, the absence of any considerable sunk costs for *Tele2* does not impose a long-term sustainable view and, implicitly, the adoption of CSR practices.

Therefore, it can be concluded that companies with considerable sunk costs are dependent on a sustainable approach, have a rather long-term vision and are therefore more likely to integrate socially responsible practices in their operations.

3.2 Real product differentiation

Magyar Telekom’s innovation strategy aims at providing added value for its products and services. However, the real product differentiation is quite low in the fixed telephony services, where it competes with *Tele2* and other companies. The new-entrant telecom operator believes that “customers want simpler services and smaller bills” and that their needs are more important than “fascinating and leading-edge technology” (*Tele2*, 2006). In order to achieve these goals, *Tele2* “strives to offer the market’s best prices” (*Tele2*, 2006). *Magyar Telekom*, as an incumbent company who faces asymmetric regulation, cannot engage in fierce price competition and has to differentiate its substitutable services and products via other strategies. CSR can make a difference.

Although “innovation” was rated fourth out of ten means for ensuring CSR at *Magyar Telekom*, donations and sustainable business (economic, social and environmental) are the main tools that can be used for differentiating company’s products in relation with the competitors (see Annex 3). Moreover, “product differentiation” was considered by *Magyar Telekom* professionals as being the most important rationale for employing CSR at *Magyar Telekom*, after the good public image (see Annex 4). *Magyar Telekom* donated or sponsored socially responsible activities with potential for creating a unique identity for its brands:

> *“Magyar Telekom* will be a sustainable company in Hungary for many years. They accepted our project even if they did not have nature conservation in their strategy. The project will be maintained for the next years as well. This is a success. We had the three years ‘Illegal Bird Hunting Project’ together with *Magyar Telekom*. The project was aimed at preventing illegal hunting of bird species and it was widely advertised. *Magyar Telekom* sponsored us with five million Hungarian Forints (HUF), but they also carried the advertising campaign, which was approximately another five million HUF”
> (Petra Garamvolgyi - Corporate Relations Manager at World Wildlife Fund Hungary - personal communication 2006).

Therefore, *Magyar Telekom* cannot strongly compete with the new-entrants on the price field, but indicates that communicating CSR activities can be an attractive marketing tool. Despite the fact that real product differentiation is relatively low in the fixed line telephony, *Magyar Telekom* differentiates its services by adopting a socially responsible approach to the business. This strategy is also important for telecom operators who are highly dependent on a good public image.

3.3 Importance of public image

Magyar Telekom identified broad categories of stakeholders and classified them in market-based and non-market based stakeholders. The relation the corporation develops with the external environment depends on how it establishes and maintains effective relations with these groups. Dealing with local communities, NGOs, educational institutions or media require different approaches than dealing with employees, customers or shareholders. *Magyar Telekom* determined itself to the development of "proactive and sustainable customer relations" that would answer many concerns that persist outside the business entity: equal opportunities, human rights, human capital, health and safety, electromagnetic fields, etc. To focus on these sensitive issues means to put an emphasis on the corporate image. Interviews with representatives from the Hungarian Consumer Protection Agency and National Communications Authority indicated that they did not receive serious complaints regarding *Magyar Telekom*, except from competition issues in the case of the latter. On the other hand, the Consumer Protection Agency criticized *Tele2* for its non-transparent relation with the public. Many billing complaints against *Tele2* where dealt as business secrets when the Agency tried to investigate the case (Gabor Fischer, personal communication 2006).

Promoting a socially responsible image can differentiate the company and its brands from the competitors, overcoming in this way the handicaps pose by the low real product differentiation of telecom services. By undertaking institutional patronage (*Magyar Telekom* Symphony Orchesta, Post Museum), establishing Public Benefit Foundations ("With Telephone for the Needy") and civil tariff packages, creating Telekom Donation Lines and Helplines to assist flood victims, *Magyar Telekom* differentiates itself from the competitors and avoids media or NGO criticism (Sustainability Report, 2004). *Magyar Telekom* utilizes CSR also as a branding technique that can increase the value of its brands.

Magyar Telekom is a corporation with many resources, it is one of the largest employers in Hungary and its activities have a diffused effect at the whole spectrum of the society. Therefore, the company is under the continuos scrutiny of regulatory bodies (Consumer Protection, National Communications Authority, etc.), political institutions, NGOs and media channels (*Magyar Telekom*, 2006). Behaving in an irresponsible manner can destroy the strategic value of the recently adopted brands. The Code of Ethics of *Magyar Telekom* underlines the "T-Spirit" and the values adopted from its major share owner, Deutsche Telekom (*Magyar Telekom* Code of Ethics, 2006). A "good public image" was rated as the first reason for employing CSR at *Magyar Telekom* (see Annex 1). Corporate socially responsible activities can prevent destructive crises for telecom companies and can enhance the value of the brand. Companies who are highly dependent on a good public image are more likely to implement CSR activities.

Tele2 envisions its mission as "to offer cheap and simple telecoms." A company that offers valuable services at a more than affordable price and complies with the legislation has already created the premises for a good public image. *Tele2* perceives more advantages in engaging in price competition than CSR activities. The Hungarian branch of *Tele2* had only 24 employees in 2004 when the corporation penetrated the Hungarian market (Krisztina Rozgonyi, personal communication 2006). The size of the company correlated wit its lower market share reduces the impact this company can have on the public sphere. Therefore, media or NGO criticism is less probable for *Tele2* than in the case of the incumbent. *Tele2* has low market exit barriers due to insignificant sunk costs and does not face an imperative need to pose as a CSR champion. On the contrary, telecom operators like *Tele2* whose vital functions are not reliant on a good public image and who do not enjoy a strong public acceptance are less active in the field of CSR.

3.4 Regulation asymmetry

Magyar Telekom, as an incumbent company, faces regulation asymmetry. It cannot therefore enter the ground of price competition and it extensively employs CSR activities for gaining competitive advantage. Moreover, *Magyar Telekom* is one of the most important suppliers of the Universal Service Provision (USP). Krisztina Rozgonyi, member of the Board of the Hungarian National Communications Authority, declared that this voluntarily engagement was partially done in the past for the subsidies received from the state, but that there are no substantial financial incentives for ensuring this provision nowadays. However, the same professional, declared that *Magyar Telekom,* as one of the largest telecommunications corporations contracted by the public institutions, has close links with the Hungarian Government (Krisztina Rozgonyi, personal communication 2006). Government relations developed through socially oriented activities can prove to be extremely useful in difficult times and for the revenues collected from this sector. In these days, when “top EU Telecoms companies may be forced to reduce control of networks” (Laitner, 2006) by the European Commission, relations developed with the national governments and regulatory agencies play a strategic interest for the incumbent. An illustrative example is *Deutsche Telekom,* the owner of *Magyar Telekom*, who is under Commission’s pressure to open its network for competition, but enjoys the protection of the German government. Facing asymmetric regulation, *Magyar Telekom* is consolidating is consolidating its position by undertaking CSR practices aimed at capturing the benevolence of the NRA and the government.

CSR is employed by *Magyar Telekom* for maintaining a friendly business environment and ensuring the brand sustainability and for maintaining a positive relation with the regulatory authorities. Although the qualitative interviews with *Magyar Telekom* professionals indicated that the latter rationale is not very important (see Annex 4), the interviews taken with the NRA indicated that “there are CSR incentives” in smoothening this relation (Krisztina Rozgonyi, personal communication 2006). Gabor Fischer, the Head of Expert Advisory Panel of Infocommunications within the National Agency for Consumer Protection, also evaluated the need of maintaining a positive relation with the regulatory authorities as an “extremely important” CSR rationale.

Tele2, as a new-entrant competitor, does not face any regulatory burdens that might provide it with an incentive for undertaking CSR activities. *Tele2* is expecting the fastening of the deregulation phenomenon and is celebrating at the opportunities to come: “Hundreds of millions of Europeans have yet to become our customers” (*Tele2,* 2006). Whether those customers will expect any form of social responsibility besides affordable prices remains an open question. In the meanwhile, the absence of heavy regulatory burdens determines *Tele2* not to put a strong emphasis on CSR. The regulation of the telecommunications corporations was compared with handling floating ice cubes, where the incumbent, the biggest ice cube, is submerged in order to raise the smaller new-entrant competitors (Szabolcs Koppanyi, personal communication 2005). As long as *Tele2* continues to be a small ice cube and benefits from the NRA’s ‘lifeguards’ supervision in surviving the competition with the former monopolist, the company will lack the incentives for carrying CSR activities. On the other hand, *Magyar Telekom* will engage in CSR practices in order to smoothen the relations with various regulatory bodies or political entities and prevent over exaggerated remedies.

3.5 Conclusions

Magyar Telekom and *Tele2* have different incentive structures for adopting CSR practices. *Magyar Telekom*, the Hungarian incumbent, has considerable sunk costs in infrastructure, which impose a long-term business perspective that cannot omit adopting CSR principles. The incumbent cannot strongly engage in price competition due to asymmetric regulation and has incentives to adopt CSR for differentiating its brands. The former monopolist is under the public opinion’s scrutiny and is determined to behave in a socially responsible manner. Last, the regulatory burdens that press on *Magyar Telekom* create some incentives for implementing socially oriented activities that go beyond the legal obligations in order to consolidate its relation with political actors or independent regulators.

Tele2, one of the most aggressive competitors, lacks all of these features besides low real product differentiation, but its brand is differentiated by the cheap price offer instead of CSR. Therefore, CSR remains a white territory for *Tele2*.

Conclusion

Corporate social responsibility in the telecommunications sector plays an important role for achieving sustainable development. Identifying the main rationales that determine telecom actors to adopt CSR practices is a prerequisite for any attempt aimed at magnifying the social responsibility of telecom corporations. Searching for key corporate features and identifying the particularities of the industry explained the CSR rationales in the telecommunications domain.

Revealing the different incentive structure corporations have for undertaking CSR activities explicated why some telecom corporations are champions and other laggards of social responsibility. Discussing different views and theories on the concept of corporate social responsibility, reviewing some of the practical formulas that can translate it into practice and describing the major transformations that recently occurred in the telecommunications sector shed light on the CSR rationales in the telecom sector.

The empirical analysis of the *Magyar Telekom* and *Tele2* companies confirmed the initial hypothesis. The analysis of the CSR rationales in the telecommunications domain revealed that telecom corporations who have considerable sunk costs, experience low real product differentiation in relation with the competitors, put a strong emphasis on the public image and face regulatory burdens have a stronger incentive structure for adopting CSR principles and, therefore, are more likely to implement CSR activities. Telecom corporations for whom CSR, as a voluntarily based activity, represents a path of turning risks and constraints into opportunities are more likely to adopt CSR. This approach to CSR combines elements of the shareholder theory with principles of the stakeholder theory. Telecom corporations rely on both the stakeholder theory (*Magyar Telekom*) and shareholder theory (*Tele2*) and the justifications for this approach are to be found in their different incentive structure.

Moreover, identifying the rationales for CSR in the telecom sector can allow for a certain degree of extrapolation to other network industries. The current debates at the European level analyzing the importance of soft measures and policies with incentive structures in promoting CSR (Murray, 2003) should seriously consider the different incentive structure corporations have *ex ante* for CSR.

The limitations of this current research reside in the fragile equilibrium of the comparative case design. Much more resources and analytical tools were used in the case of *Magyar Telekom* than for *Tele2*. However, this was due to the scarcity of background information related to *Tele2*. Insufficient interviews were conducted with external stakeholders, while no interview at all was taken with *Tele2* executives due to their persistent refuse.

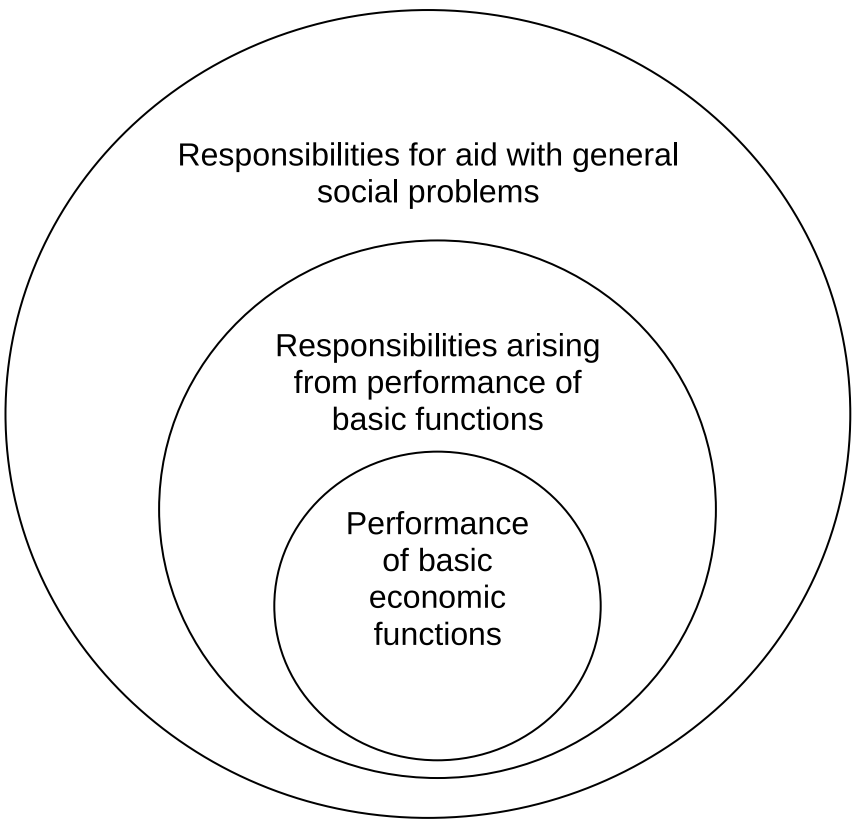
There is immense need for further research to investigate the social responsibility of telecommunications corporations from an ethical perspective. This paper deliberately omitted ethical arguments in assessing the CSR rationales, but this does not mean that they should be neglected. Telecom companies play a strategic role in the society and understanding what determines them to responsibly behave can provide valuable information to policy makers. Further research can aim at a pan-European analysis that would reveal weather *Europeanization* or the national governments can stimulate CSR emulation and assimilation among telecom operators.

FIGURES

Figure 1

From Corporate Responsibility to Corporate Social Responsibility

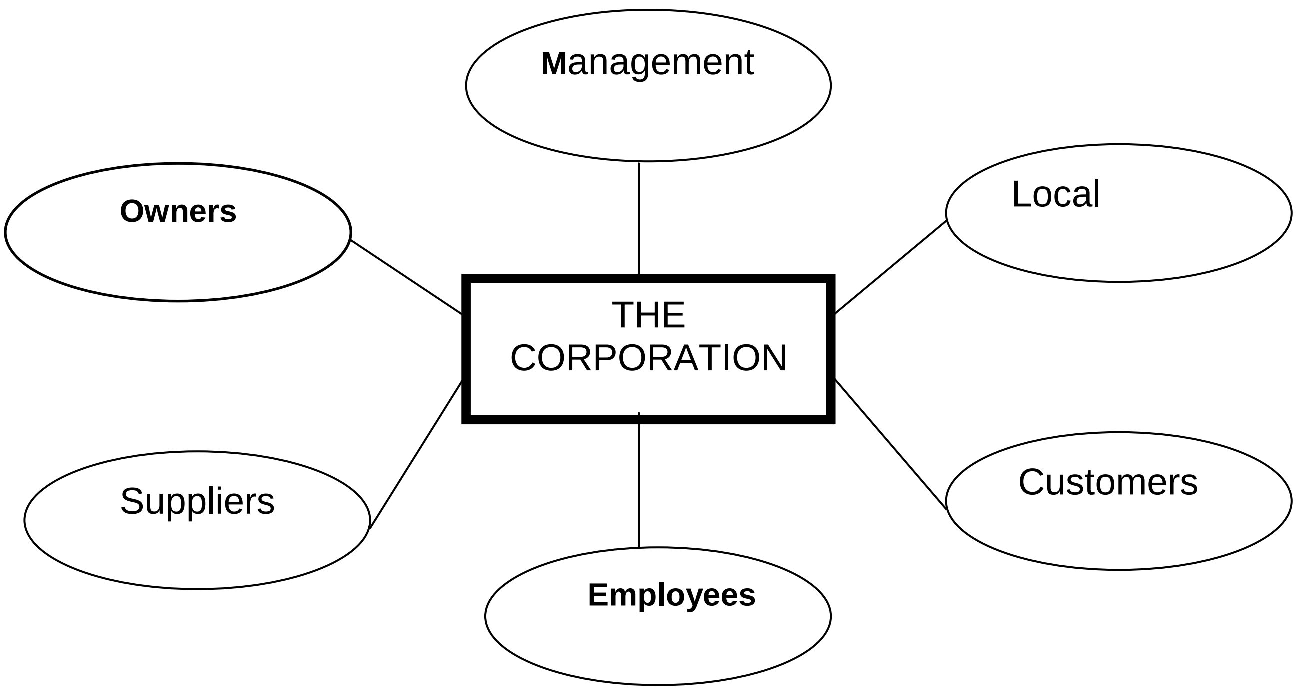
The three concentric circles illustrate three types of corporate responsibilities and implies the multiple accountabilities the corporation has to face. Coprorate social responsibilities extend much beyond the “basic economic functions”



Source: (Davis and Blomstrom as cited in Gruning and Hunt, 1984:54)

Figure 2

The Stakeholder Model of Corporation



Source: (Freeman, 2005:116)

Annexes

Annex 1

Question 6. I have provided a list of reasons frequently used to explain the rationales for CSR practices. Please rate them according to their importance on a scale from 1 to 5 where ***1*** stands for '*not important at all'* and ***5*** stands for '*very important'*. You can also add and rate other rationales.

		Total score	Number of respondents	Average score
6	Short-term marketing issues	15	7	**2.14**
	Long term sustainability	33	7	**4.71**
				0.00
	Moral duty	25	7	**3.57**
	Business ethics	26	7	**3.71**
				0.00
	Voluntary decisions and awareness	24	*6*	**4.00**
	Legally binding obligations (or policies with incentive structure)	22	7	**3.14**
				0.00
	Acting in conformity with the current legislation	20	7	**2.86**
	Going above the legal requirements	27	7	**3.86**
				0.00
	Respecting the interests of the shareholders	22	7	**3.14**
	Respecting the interests of the stakeholders	32	7	**4.57**

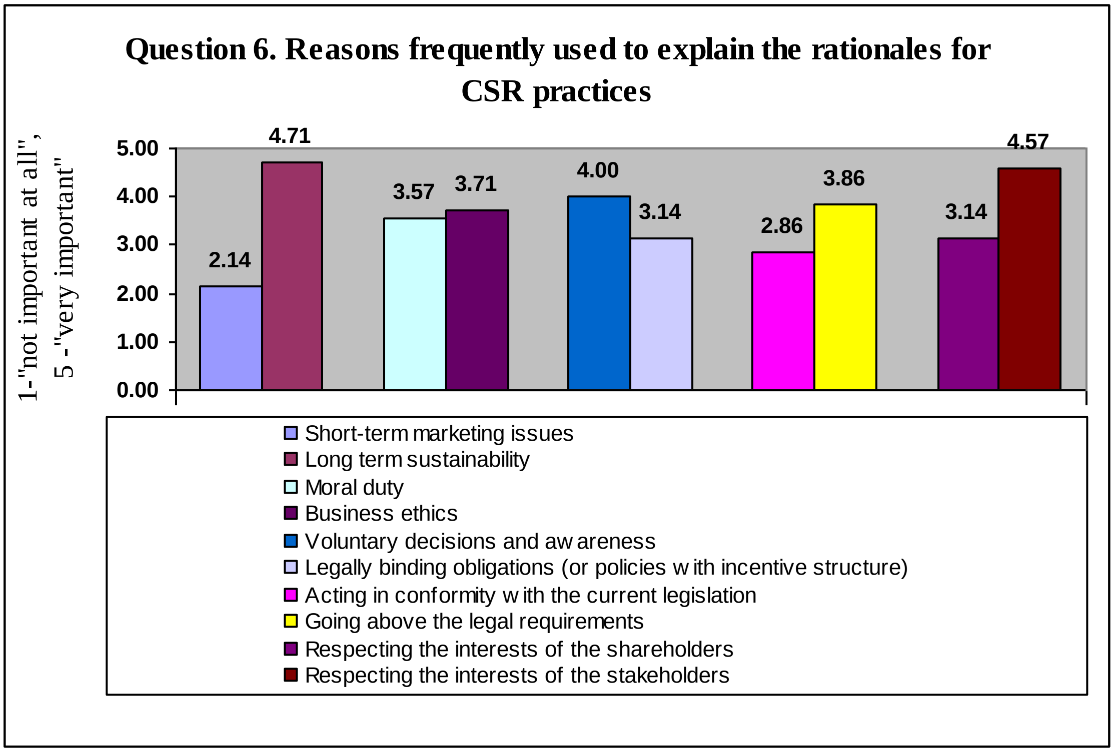
Question 14. I have identified some of the means through which CSR is practiced at *Magyar Telekom*. Please rate them in terms of their significance on a scale from 1 to 5, where ***1*** stands for '*not important at all*' and ***5*** stands for '*very important*'.

		Total score	Number of respondents	Average score
14	Innovation	28	7	**4.00**
	Institutional patronage	26	7	**3.71**
	Donations by the company	31	7	**4.43**
	Donations by the employees	26	7	**3.71**
	Sponsoring	25	7	**3.57**
	Civil tariff package	22	7	**3.14**
	Respecting the legislation	31	7	**4.43**
	Help phone lines	23	7	**3.29**
	Universal service	18	*5*	**3.60**
	Sustainable business	33	7	**4.71**

Question 16. How would you rate the following rationales for employing CSR at *Magyar Telekom*? Please evaluate them in terms of their relevance on a scale from 1 to 10 where ***1*** stands for '*not important all'* and **10** for '*extremely important'*.

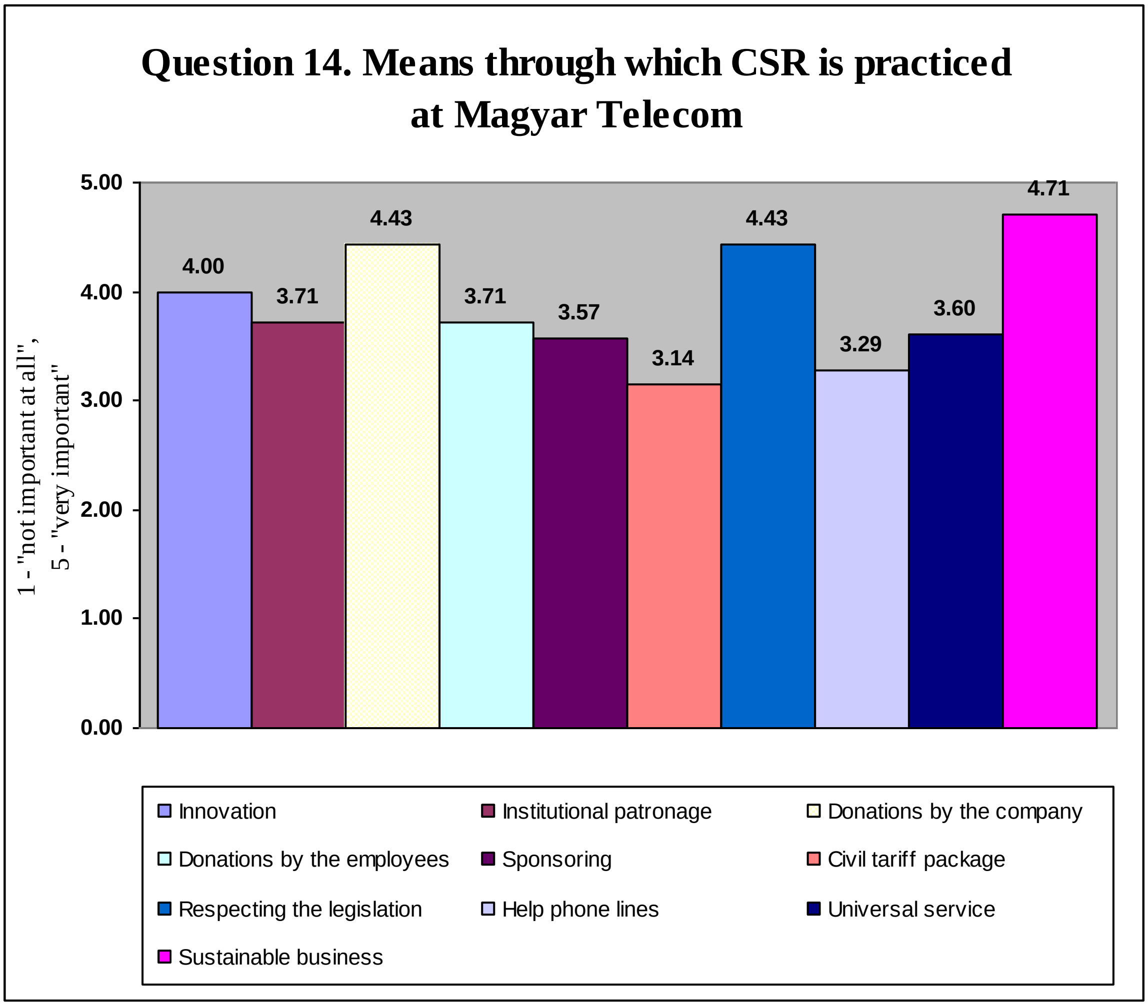
		Total score	Number of respondents	Average score
16	Long term sustainability and the immense sunk costs	51	7	**7.29**
	Taxation incentives	37	7	**5.29**
	Short-term marketing objectives	29	7	**4.14**
	Legal binding legislation	38	7	**5.43**
	Good public image	62	7	**8.86**
	Product differentiation in relation with the competitors	54	7	**7.71**
	Maintaining a business friendly environment and ensuring the brand sustainability	56	7	**8.00**
	Avoiding regulatory expansion and intensification	43	*6*	**7.17**
	Hungarian and European incentive policies, Subsidies	30	*6*	**5.00**
	Business ethics and a social voluntarily assumed role	50	7	**7.14**
	Respecting the interests of customers and shareholders	53	7	**7.57**
	Respecting the interests of local communities, unprivileged social groups, and the natural environment	53	7	**7.57**
	Adherence to socially oriented values	52	7	**7.43**
	Maintaining a positive relation with the Regulatory Authority, the Consumer Protection Organizations and Environmental Agencies	47	7	**6.71**
	Maximizing profits	37	7	**5.29**

Annex 2



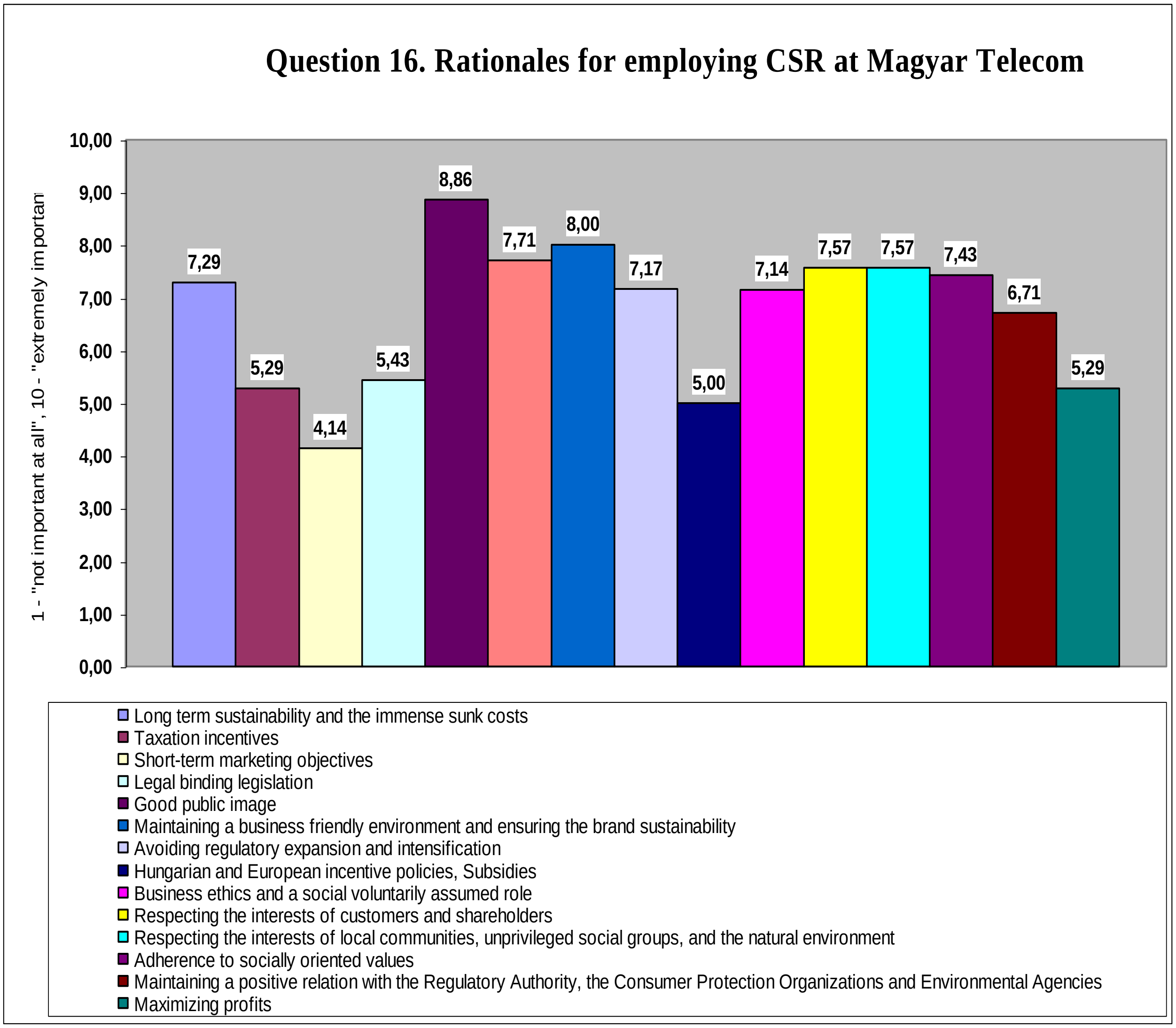
Question 6. Reasons frequently used to explain the rationales for CSR practices
1-"not important at all", 5 -"very important"
5.00
4.00
3.00
2.00
1.00
0.00
2.14
4.71
3.57
3.71
4.00
3.14
2.86
3.86
3.14
4.57
Short-term marketing issues
Long term sustainability
Moral duty
Business ethics
Voluntary decisions and aw areness
Legally binding obligations (or policies w ith incentive structure)
Acting in conformity w ith the current legislation
Going above the legal requirements
Respecting the interests of the shareholders
Respecting the interests of the stakeholders

Annex 3



Question 14. Means through which CSR is practiced at Magyar Telecom
1 - "not important at all", 5 - "very important"
5.00
4.00
3.00
2.00
1.00
0.00
4.00
3.71
4.43
3.71
3.57
3.14
4.43
3.29
3.60
4.71
Innovation
Institutional patronage
Donations by the company
Donations by the employees
Sponsoring
Civil tariff package
Respecting the legislation
Help phone lines
Universal service
Sustainable business

Annex 4


Question 16. Rationales for employing CSR at Magyar Telecom
1 - "not important at all", 10 - "extremely importan
10,00
9,00
8,00
7,00
6,00
5,00
4,00
3,00
2,00
1,00
0,00
7,29
5,29
4,14
5,43
8,86
7,71
8,00
7,17
5,00
7,14
7,57
7,57
7,43
6,71
5,29
Long term sustainability and the immense sunk costs
Taxation incentives
Short-term marketing objectives
Legal binding legislation
Good public image
Maintaining a business friendly environment and ensuring the brand sustainability
Avoiding regulatory expansion and intensification
Hungarian and European incentive policies, Subsidies
Business ethics and a social voluntarily assumed role
Respecting the interests of customers and shareholders
Respecting the interests of local communities, unprivileged social groups, and the natural environment
Adherence to socially oriented values
Maintaining a positive relation with the Regulatory Authority, the Consumer Protection Organizations and Environmental Agencies
Maximizing profits

Annex 5

Research Interview

*Dear Mr/M*s……………..., *my name is Roland Müller and I am currently enrolled in an MA program in 'Media, Information and Telecommunications Policy' at Central European University. I am doing a research on Corporate Social Responsibility (CSR) in the telecommunications domain with a particular focus on the Magyar Telekom Group.*

I would kindly ask you to answer the following questions to the best of your knowledge. The time required for completing this interview may vary between 30 and 45 minutes.

The answers you provide are extremely important for the accuracy of the research. They will contribute to my final MA thesis entitled "Rationales for Corporate Social Responsibility in the Telecommunications Domain: the Case of Magyar Telekom." The answers you provide will be used for the sole purpose of this research.

Overview

The interview is structured in four sections. Section A contains some preliminary questions related to your personal background in the field of CSR. Section B refers to general aspects of CSR and overall rationales for CSR practices. Section C comprises a few inquiries regarding CSR in the telecommunications domain. Section D consists of several CSR assessment criteria for the Magyar Telekom Group.

Section A

1. What is your current position within the *Magyar Telekom* Group and which are your responsibilities that are interconnected with CSR?

2. Could you please tell me a few words related to your experience in the field of CSR/Sustainability? What is your prior experience in the field of CSR, if any?

Section B

3. How would you define CSR/Sustainability?

4. Should companies become involved in CSR practices? Why?

5. Which are the rationales that determine corporations to become involved in solving social problems?

6. I have provided a list of reasons frequently used to explain the rationales for CSR practices. Please rate them according to their importance on a scale from 1

to 5 where 1 stands for ‘not important at all’ and 5 stands for ‘very important’. You can also add and rate other rationales.

Short-term marketing issues
Long term sustainability

Moral duty
Business ethics

Voluntary decisions and awareness
Policies with incentive structure

Acting in conformity with the current legislation
Going above the legal requirements

Respecting the interests of the shareholders
Respecting the interests of the stakeholders

Other

7. There is an ongoing debate about whose interests should corporations safeguard. Some theories argue that corporations should exert their responsibility by respecting the shareholders’ interests while others argue for respecting the interests of the stakeholders.
a) Where do you place yourself in this debate?
b) What would you choose between if it were impossible to reach a balance between the two?

8. a) What do you think that represents the core of the competition in the telecommunications market?

b) Which are the main fields where the competition is manifested in the telecom sector?

c) What are the advantages and disadvantages of an incumbent (*Magyar Telekom*) from?

Section C

9. Which are the main reasons for which CSR is practiced in the telecommunications sector?
10. Which are the specific features of CSR in the telecommunications domain that differ from other sectors?

11. Do you think that all the telecom actors should engage in CSR practices in the same way and with the same intensity? Is this about ethical issues or incentives? Why?

Section D

12. How is CSR defined and practiced at *Magyar Telekom*?

13. Which are the most important ways for employing CSR practices at *Magyar Telekom*?

14. I have identified some of the means through which CSR is practiced at *Magyar Telekom*. Please rate them in terms of their significance on a scale from 1 to 5, where 1 stands for 'not important at all' and 5 stands for 'very important'.

Innovation
Institutional patronage
Donations by the company
Donations by the employees
Sponsoring
Civil tariff package
Respecting the legislation
Help phone lines
Universal service
Sustainable business
- economic
- environmental
- social

15. Which are the main reasons for which CSR is practiced at *Magyar Telekom*?

16. How would you rate the following rationales for employing CSR at *Magyar Telekom*? Please evaluate them in terms of their relevance on a scale from 1 to 10 where 1 stands for 'not important all' and 10 for 'extremely important':

Long term sustainability and the immense sunk costs

Taxation incentives

Short-term marketing objectives

Legal binding legislation

Good public image

Product differentiation in relation with the competitors

Maintaining a business friendly environment and ensuring the brand sustainability

Avoiding regulatory expansion and intensification

Hungarian and European incentive policies, Subsidies

Business ethics and a social voluntarily assumed role

Respecting the interests of customers and shareholders

Respecting the interests of local communities, unprivileged social groups, and the natural environment

Adherence to socially oriented values

Maintaining a positive relation with the Regulatory Authority, the Consumer Protection Organizations and Environmental Agencies

Maximizing profits

17. Why and how does *Magyar Telekom* ensure the Universal Service Provision in Hungary? Is there any CSR aspect involved in ensuring the Universal Service Provision?

18. Which is the importance of shareholders and stakeholders for *Magyar Telekom* and what are you doing for each of these groups from a CSR perspective?

19. If it were to take a decision whether to loose money but to behave in line with CSR or not to behave in line with CSR but to maximize profits, what would you choose?

20. What would be the short-term and long-term consequences for *Magyar Telekom* if all the expenditures on CSR stop tomorrow?

21. How would you rank the intensity of competition in these four fields?
Who is no. 1 in Hungary in these fields and what is the place of *Magyar Telekom*?

Product differentiation
Price competition
Reliability of the service

Corporate Social Responsibility
Customer care
Marketing

22. Are there any actions that are not legally binding, they are not bringing profit, but you see a necessity for them from a CSR perspective?

23. Critics of CSR say that 'social responsibility' is just a Public Relations exercise aimed at maximizing profits. How would you answer on behalf of *Magyar Telekom* the claims that CSR nothing else but just a cheap marketing tool?

24. Which are the reasons for communicating the CSR practices to the internal and external publics of *Magyar Telekom*?

25. Is the CSR of *Magyar Telekom* controlled/audited by an independent organization? How is the credibility of the CSR reports enhanced?

26. What is the role of the ………… Department/Unit in employing CSR at *Magyar Telekom*?
27. a) Which are the points in your specific area where CSR helps you in achieving your every-day goal?
b) Which are the CSR practices undertaken by your unit that contribute towards the achievement of the *Magyar Telekom*'s overall goals?
c) How do you think CSR could be used as a helpful tool in the accomplishment of various objectives within your Unit?

28. Do you have anything to add?

Thank you for your time.
The answers you provided will be used for the sole purpose of this current research. You will receive an electronic copy of the final thesis after completion.
Please do not hesitate to contact me (mulleroland@yahoo.com) if you consider that you omitted something in your answers or if you would recommend the analysis of other relevant documents/units/issues in assessing CSR for the Magyar Telekom Group.

Annex 6

List of Interviewees

NAME	RESPONSIBILITY	AFFILITAION
Katalin Szmolanyi	Head of Group Sustainability Strategy	*Magyar Telekom* Group szomolanyi.katalin@ telekom.hu
Nagy Balint	Communication Department Director	*Magyar Telekom* Group balint.nagy@telekom.hu
Gyula Szabo	Communication Manager Brand Management, Sponsoring Strategy	*Magyar Telekom* Group Szabo.gyula@telekom.hu
Krisztina Tolosi	Human Resources Manager	*Magyar Telekom* Group tolosi.kriszta@telekom.hu
Attila Koos	PKI Telecommunications Development Institute Director	*Magyar Telekom* T-Com koos.attila@t-com.hu
Gabor Ponya	Total Quality Management Director	*Magyar Telekom* T-Mobile ponyag@t-mobile.hu
Endre Hercz	Total Quality Management Manager	*Magyar Telekom* T-Mobile hercze@t-mobile.hu
Michael Frank	Electromagnetic Fields and Regulatory Issues	*Magyar Telekom* T-Mobile frankm@t-mobile.hu
Attila Szaraz	Union Representative	*Magyar Telekom* Union szaraz.attila@telekom.hu
Petra Garamvolgyi,	Corporate Relations Manager	World Wildlife Foundation Hungary petra.garamvolgyi@wwf.hu, attila.steiner@wwf.hu
Gabor Fischer	Head of Expert Advisory Panel of Infocommunications	National Agency for Consumer Protection gfischer@t-online.hu
Krisztina Rozgonyi	Member of the Board	National Communications Authority rozgonyi.krisztina@ t-online.hu

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