

AN INSTITUTIONALIST VIEW OF PUBLIC RELATIONS AND THE EVOLUTION OF PUBLIC RELATIONS IN TRANSITION ECONOMIES

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Abstract

The paper provides an institutionalist view of public relations as a refined mechanism for maintaining corporate power. The institutionalist theory of the firm, based on Galbraithian and Marxist tradition, offers a convenient framework for including public relations into economics. The authors present the role of public relations managers, the creation and management of issues as well as methods of financing the public relations activities. The institutionalist approach bears also relevant aspects for the analysis of the developments of public relations in transition economies, which is shown in a tentative periodisation of the evolution of public relations. During the past twenty years the public relations practices in transition economies have evolved through several stages. After having “successfully” assisted in neutralising the turbulent social consequences of transitional processes in the initial phases of transition, the public relations departments of transitional firms now tend to apply the proactive public relations strategies in order to enhance corporate power.

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Introduction

The growing importance of public relations in contemporary capitalism is illustrated by the fact that expenditures on corporate public relations have been rising constantly over the last decades and are expected to grow in the future (Robinson 2006).^{1,2} While the societal roots of public relations have been inspected thoroughly (for a survey of present societal approaches to public relations see Ihlen and van Ruler 2007), articles matching public relations and economics are more rare, e.g. Ehling (1992), Ehling and Dozier (1992), Kim (2001) and recently Duhé and Sriamesh (2009) and Podnar et al. (2009). In our view, analysing public relations from the economic perspective brings to the forefront the importance of the concept of power. Although the concept of power is implicitly referred to in many societal definitions of public relations – e.g. public relations as “a guide to social conduct,” “social and political engineering,” “builder of public opinion,” “persuader,” “devil’s advocate,” or public relations as having evolved from “the public to be damned” to “the public to be manipulated” or public relations being equated with “reputation management,” etc. (see Hutton 1999, 200-202) – the role of power in societal approaches to public relations remains unclear and relatively vague. In the emerging economic approaches to public relations, however, the concept of power is expressed more clearly, that is, in concrete accounting categories such as investment, profits, ROI, etc., and in connection with corporate power, market shares and barriers to entry. Since public relations activities and expenditures have not been extensively studied from the economic perspective, one can use the same words as John Kenneth Galbraith did in commenting advertising expenditures: “They are too big to be ignored” (Galbraith 1958, 156), which means that the phenomenon of public relations needs to get included into the corpus of economic theory. Especially among the institutionalist economists, who have been striving for a broader, social approach to economics, the tendency is to “translate” the vague societal “power” approach to public relations into economic processes and categories.

The paper presents public relations from the perspective of economic institutionalism, with some considerations about the role of public relations in transition economies. The orthodox economic theory is based on the neoclassical paradigm, according to which the economic analysis is focused on the formalisation of market equilibrium through maximisation calculus and not on the issues of power and the formation of preferences, where public relations activities have a crucial role. Institutional paradigm, on the other hand, provides a much more convenient framework for including public relations into economics. This can mostly be seen within the institutionalist theory of the firm which, in Galbraithian and Marxist tradition, builds on the “power sustaining” behaviour of the oligopolistic corporation. John K. Galbraith, as is well known, in his works continually criticised the neoclassical logic that producers’ decisions are basically guided by consumers’ tastes and preferences, and argued that in contemporary capitalism this sequence has been reversed. Large and powerful corporations rule the markets and mould consumers’ tastes and preferences (e.g. Galbraith 1958). We assume that an increasingly important role in the “reversing of the sequence” has been played by public relations functioning as a refined mechanism for exercising corporate power.

The paper is structured as follows. In the first section, we briefly review the goals of the firm in neoclassical and institutionalist economic theory, and empha-

side that sustaining power is the main goal of the oligopolistic corporation as the dominant type of the firm in contemporary capitalism. This is the framework for the institutionalist approach to public relations presented in the second section, with implications for organisation, issue management and financing of public relations. The third section indicates some considerations regarding the role and evolution of public relations during post socialist economic transition, illustrated by public relations practices of firms in Slovenia.

Power as the Main Goal of the Firm

“Power can be and is used in fighting for profitable positions in the market and for maintaining them, for influencing the framework which determines the working of market mechanisms, and power is also important as an aim of economic activity” (Rothschild 2002, 433). Nevertheless, according to Rothschild, the concept of power is very much neglected in contemporary economic theory, except in Marxist, radical and institutional theories. Similarly, M. Lavoie claims that the “notion of power, except when related to the pure monopoly, has been systematically ignored in economics, with the exception of institutionalists and Marxists. Among the former, Galbraith is the most well-known recent exponent of the importance of power in the economic sphere” (Lavoie 1992, 100). While the neglect of power in orthodox economics is guided by the ambition of neoclassical economists to be “scientific” and to therefore concentrate only on rigorous analysis of maximisation and equilibrium, the heterodox theories stick to political economy approach, which incorporates power as an essential element of economic processes. Thus for V. Mosco, the issue of power relations is also a distinctive feature of political economy as “the study of the social relations, particularly the power relations, that mutually constitute the production, distribution, and consumption of resources” (Mosco 2009, 24). Political economy (as distinct from economics!) concentrates “on a specific set of social relations organised around *power* or the ability to control other people, processes, and things” (ibid.; emphasis in the original). From political economy perspective, the firm is therefore seen as a typical institution that exercises power, both internally, through its hierarchical structure, and externally, by influencing and controlling its environment.

Such view of the firm is in opposition with neoclassical economics, in which the concept of power has generally remained “on the sidelines.”³ In neoclassical economics, the firm was long considered to be simply a profit maximising unit, where all the attention was placed on the technical relation between inputs and outputs and on the passive implementation of the optimisation procedures based on rational choice, while the internal hierarchical organisation and structure of the firm seemed to be of no importance. This approach has often been called, by its critics, the “black box” view of the firm (Sawyer 1989, 124-126; see also Browne and Quinn 2008, 246) or firm as a “robot decision-maker” (Davidson 1991, 69). Giant corporations with their internal and external power relations were put on the same theoretical level with small entrepreneurs in a free enterprise economy, which was clearly inconsistent with capitalist economic reality, where powerful corporations prevail. However, neoclassical economics has found an elegant way to circumvent this obvious inconsistency. Based on the work of Coase (1937) and Williamson (1975) evolved the neoclassical theory of the firm, which became the foundation of the so

called “new institutional economics.” According to new institutionalists, firms are considered as “huge islands of hierarchy (power) in the sea of market relations” (Browne and Quinn 2008, 247). But the decision about which coordination to use, market or hierarchy, is a matter of rational choice of economic subjects, based on the criterion of the minimisation of transaction costs. So Browne and Quinn (2008), in their critique of the absence of power in neoclassical theory, rightly conclude (246-247), that the neoclassical firm as institution has thus itself become a product of a maximising calculus, and the potentially autonomous logic of power has been subsumed under the dominant neoclassical paradigm of rational choice.⁴

To introduce a realistic view of the firm into economic theory, which would incorporate a wide notion of power, has long been a prime task on the agenda of institutional economists. By the term “institutionalism” in this paper we refer to the so called “old institutional economics” (also sometimes called original institutional economics or institutional-evolutionary economics) which is (contrary to “new institutional economics”) based on the Veblenian tradition (Rutherford 1994). Economists of this strand have been striving to provide non-neoclassical explanations of firm behaviour, such as growth maximisation (Berle and Means 1932), the importance of advertising (Kaldor 1950), moulding of consumer preferences (Galbraith 1958), corporate hegemony (Baran and Sweezy 1966/1996; Dugger 1989), innovation and technological progress (Shapiro 1991), pricing (Eichner 1976; Downward 1999), microfoundations of distributional issues (Lavoie 1992), and competition and rivalry (Capoglu 1991).

The old institutionalist view, based on the assumption that sustaining power over its environment is the ultimate underlying objective of the behaviour of corporations, has been recently reinforced by Pressman (2006-7). Pressman supports the Galbraithian view of the prevailing role of powerful corporations striving for growth, which not only prevents firing managers but also serves the psychological needs of managers for prestige. Institutionalists have been focusing their micro-analysis on pricing and investment behaviour of the oligopolistic firm intended to maximise its long-run growth and to increase its power. M. Lavoie, a distinguished institutional economist, claims that power (and not profit maximisation) should be considered as the ultimate objective of the firm. “The firm wants power over its suppliers of materials, over its customers, over the government, over the kind of technology to be put in use. (...) A powerful control over events and human actors provides the conditions required for such long-run existential goals” (Lavoie 1992, 99, 100; see also Capoglu 1991, Ch. 2; Lavoie 2001 and Lee 2003).

While the brutal power of corporations in economic and political spheres, either in the form of squeezing out the competitors by barriers to entry, attacking the consumer sovereignty by aggressive advertising or by being engaged in political plotting, was discussed already in the works of early Marxists and institutionalists, the more refined means that corporations use to achieve “social” power over their environment through creating favourable public opinion began to be analysed at a later date. Baran and Sweezy were among the first to stress that corporations employ “increasingly refined and elaborate techniques of suggestion” (Baran and Sweezy 1966/1996, 121). Also, Alfred Eichner, a renowned institutional economist, in his detailed microanalysis of corporate behaviour (Eichner 1976) stressed the importance of internal investment funds for creating “a more favourable public image. This can be done through ‘institutional’ advertising as distinct from product

advertising, through basic research as distinct from applied research or through the erection of aesthetically pleasing office buildings and similar public relations gestures" (Eichner 1976, 93). At approximately the same time, the issue of corporate social responsibility was launched in literature (e.g. Sethi 1975) with growing importance in the next three decades. Image oriented advertising, corporate social responsibility and public relations have become three important elements of the theory of corporate behaviour, representing the refined ways of sustaining corporate power and an effective "antidote" to the falling rate of profit in capitalism.⁵ We will limit ourselves to the issue of public relations.

Power-Related Aspects of Public Relations

The concept of corporate power has been excluded from neoclassical economics, because in neoclassical theory the forces that guide the decisions of rational economic agents in their search for profit maximisation are reduced to changes in market prices. According to the neoclassical logic, producers, who are at the service of consumers whose tastes and preferences rule the market, do not have the power to impose their prices (see Pouchol 2006, 73-74). This is based on the fundamental neoclassical assumption that, in perfect competition, equilibrium market prices lead to the optimal allocation of the resources of a firm as well as of the economy as a whole. Already Chamberlin claimed that in the perfectly competitive model of neoclassical economics, where perfect information exists and where a competitor can sell as much as he wants, there is no need for advertising (Chamberlin 1946; Dorfman and Steiner 1954) and no need for any other promotional activities, public relations included. These activities would only increase costs of the perfect competitor, decrease profits and, viewing from the macroeconomic perspective, distort the optimal allocation of productive capacities. In the imperfect competition, the neoclassical approach to public relations concentrates on the "optimum level" problem, that is, an optimal combination between market prices, revenues and costs of communication of the firm. More precisely, the problem for the firm is to find the optimal level of communication expenditures, taking into account that increasing communication expenditures, i.e. "costs," tend to equal "benefits" such as cooperation with or reduction of the possibilities of conflicts with its stakeholders and environment (see Ehling and Dozier 1992, 268-270; Kim 2001).

From the institutionalist perspective, the emergence of power based on promotional activities can be fundamentally explained within the framework of Galbraith's dependence effect and social construction of wants. Fifty years ago Galbraith wrote: "If the modern corporation must manufacture not only goods but the desire for goods it manufactures, the efficiency of the first part of this activity ceases to be decisive" (Galbraith 1958, 257). These words can already be seen as his prophesy that the activities, techniques and expenditures related with the creation of desires and wants will become more and more important and subtle. This is noticed in the foreword to the newest edition of the *New Industrial State* by his son James Galbraith, who views public relations as one of the new characteristics of modern corporations (Galbraith 2007, xxiii). While the influence of advertising on target consumers' desires is more or less direct and predictable (see Lah et al. 2006-7), the economic effect of public relations on consumers is indirect, complex and less predictable. This can be attributed to the fact that public relations, before reach-

ing the final impact, involves interactions with many different stakeholders and publics. Hutton (1999, 208) claims that due to its broadness and several long-term implications, public relations in fact means “managing strategic relationships” with corporate stakeholders. In the following subsections we briefly refer to three aspects of public relations which all point to the relevance of the concept of power in the analysis of public relations.

The Role of Public Relations Managers

The Galbraithian view of corporate power is related with the class of techno structure personalised in corporations’ top management. The members of techno structure “are not driven by profit maximisation, but instead by combinations of compensation, compulsion, identification, and adaptation ... mostly motivated by *identification* – their connection to the status of their organisation within the techno structure – and *adaptation* – their accumulation and exercise of power, especially to shape social attitudes, beliefs and values” (Waller 2008, 18, emphasis added). One of the ways of exercising power by top management, when “shaping social attitudes” in accordance with corporations’ interests, is public relations. Lauzen (1995) argues for the necessity of the value congruity between public relations managers and top management stressing that, once the key values are shared between top management and public relations managers, they can efficiently perpetuate their power within the corporation and over the corporation’s environment. Therefore, PR departments and PR managers cannot be treated simply as a productive factor which passively adapts to changes in the social environment. Rather, they exert strong influence on the social environment and are in fact, to extend the famous Galbraith’s term, “creators of dependence.”

Regarding the internal organisation of public relations department, Lauzen (1995) following Dozier (1992) distinguishes between public relations managers and public relations technicians: “Public relations managers make communication policy decisions and are held accountable for the success or failure of public relations efforts. Technicians, on the other hand, handle the production of public relations messages, take photographs, edit the writing of others, and implement policy decisions made by others” (Lauzen 1995, 290). While the work of technicians (practitioners) can be qualified as supportive, even similar to routine manufacturing work and therefore powerless, the public relations managers have intraorganisational power, stemming from their specific knowledge of corporate environment: “Public relations managers function as organisational boundary spanners, individuals within the organisation who frequently interact with the organisation’s environment and who gather, select, and relay information from the environment to decision makers in the dominant coalition” (Lauzen, *ibid.*). Of course, the power of public relations managers in the decision making process is limited to consultancy, suggestions and communication and not to the content. Ruler and Verčič (2004, 6) define four characteristics of the (European) public relations – it is reflective (analysing changing standards, values and standpoints in the society), managerial (developing plans to communicate and maintain relationships with public groups), operational (preparing means of communication) and educational (helping members of the organisation to become communicatively competent), where the consultative and thus inferior position towards top management is obvious. When the power of large

corporations leads to undesired social effects such as high unemployment, great income inequality, and other “egregious social problems that stem from excessive corporate power (e.g. environmental degradation, an arms race that threatens civilisation, and urban decay)” (Presmann 2006-7, 68), the task of public relations managers in particular corporations is to communicate these issues favourably and to construct “a desirable reality” (Bentele 2004, 490).

The institutionalist view of the role of public relations as outlined above contrasts with Grunig’s *idealistic* view of public relations presented in his, as he calls it, “general theory of public relations” (Grunig 1992, 2, 27), which is based on the four-model evolutive typology of public relations⁶ with the highest stage (two way symmetrical model) implying parity between organisations on the one side and publics (i.e. all the relevant stakeholders) on the other. He advocates the idealistic role of public relations as “a mechanism by which organisations and publics interact in a pluralistic system to manage their interdependence and conflict” which includes that “public relations scholars and practitioners can and should criticise public relations for poor ethics, negative social consequences, or ineffectiveness, suggesting changes to resolve those problems” (Grunig 1992, 9-10). By this he opposes the *conservative* view of public relations, according to which the purpose of this activity is “to maintain a system of privilege by defending the interests of the economically powerful” (Grunig 1992, 8). Following the institutionalist theory of corporate power, the public relations should be viewed from the conservative perspective. This means that even public relations in its highest form, as exemplified in Grunig’s “excellent” symmetrical public relations model, represents only “a strategy of hegemony” (Roper 2005) to allay the concerns of stakeholders and “to reshape the social and legal environment in their own favor” (Dugger 1989, 23). Therefore, according to the “power approach” to public relations, also the distinction between “functionalist” and “cocreational” perspective of public relations, as discussed by Botan and Taylor (2004, 651-653), is irrelevant. The corporation exercises power in both cases, whether employing publics functionally or in a cocreational way, that is, by absorbing opinions of the publics to achieve its goals (long-term growth). The latter case is only a refined way of exercising corporate power.

Creation and Management of Issues

Beside his already mentioned definition of public relations as management of strategic relationships, Hutton also discusses the term “corporate communications” (Hutton 1999, 203) as a synonym for public relations.⁷ On the other hand, when estimating the “state of the field” of public relations, Botan and Taylor maintain that “the idea that issues management is strategic public relations is generally accepted in the public relations world” (Botan and Taylor 2004, 654). Therefore, *issues* and *publics* are the core concepts in public relations. An issue is created, when one or more publics pay attention and attach significance to a particular situation, event, problem, activity, product, etc. in the organisation’s environment. A combined definition of public relations, from the institutionalist perspective, might therefore be: *managing strategic relationships regarding issues in order to maintain corporate power.*

There are very diverse issues in the corporations’ internal environment (problems with employees, technology, organisation, etc.) as well as in their external

environment (stakeholders' interests, political problems, environmental trends, etc.), which may potentially benefit or harm the corporation. Many of them are economically irrelevant, if they do not affect consumers' wants (and sales), because they either simply fade or are neutralised by public relations activity. Gaunt and Ollenburger (1995) suggest that "successful issues management tends to remain invisible."

A number of authors agree that "[i]ssues appear to evolve in a predictable manner," that is, that they go through a life-cycle (Hainsworth 1990, 34). Botan and Taylor (2004), modifying previous work of Jones and Chase (1979) and Crable and Vibbert (1985), argue that public issues, similarly to products, go in their life-cycle through five stages (preissue, potential, public, critical and dormant) and concentrate on the relation between particular issue and specific publics involved during these stages. From the economic perspective, it should be remarked that a direct impact of issue life-cycle on sales happens rarely. But resolutions of big issues from the critical stage may definitely leave long run traces in the company's public image and sales.

The strategy of issues management might be *proactive/persuasion* or *reactive/advocacy* (Hutton 1999, 205-207).⁸ While the first relies more on the exercise of power, the second is more passive and has a neoclassical flavour. The proactive issues management works similarly to (and often in connection with) advertising: in the last consequence the goal is to affect consumers' perception of the company and its products. Concerning the reactive issues management, Botan and Taylor (2004, 654), following Dewey (1927), suggest that publics "have a kind of will of their own (...) and decision making as the driving force in the development of issues." This approach is somehow similar to the consumer in neoclassical theory who autonomously makes decisions about goods bought and who in that way "votes" for their further production. While the reactive strategy of public relations bears neoclassical features, the institutionalist view of public relations is related with the proactive strategy, emphasising the power of public relations managers. In the initial stage of the issue-creation process their task is to detect and select the potentially beneficial issues for the corporation; in later stages they are responsible for the preparation of public relations programs and control of issue development. Thus, although apparently positioned on equal footing, the publics remain, over the long run, in an inferior position towards the corporations. Only in cases when aggressive activists succeed in creating an issue spin, leading to intensive protests from the side of the publics, the corporate investment or production may be stopped. But due to the alertness of PR departments such developments are rare.

Financing Public Relations

Kotler and Keller (2009, 524-525) define four general methods of financing promotional and communication activities: affordable, percentage-of-sales, competitive-parity and objective-task method. In the case of budgeting public relations, the first and the fourth method can be excluded: the first due to its neglect of the importance of public relations as a permanent activity for modern corporations; the fourth due to the impossibility of estimation and exact measuring of the impact of issue life-cycles, potential publics involved and final impact on sales (this method is questionable also in the case of advertising). It seems that the relevant

methods are the second and the third stressing routine budgeting at the beginning of each planning period. However, it has to be noted that the established pattern of routine budgeting might be changed, depending on different strategic issues defined by public relations department in the preparatory stage when scanning the environment to identify publics involved. Such situation arises when, for example, a company with a specific innovative product proactively plans to launch a big issue potentially leading to an extensive public debate, which will have to be covered by public relations. This brings us to the problem of the predictability of public relations financial effects, which is from the institutionalist perspective viewed differently than in neoclassical theory.

The neoclassical reasoning assumes that profit maximisation calculus can be applied to public relations isolating public relations as a “productive factor.” Such reasoning presupposes that both “marginal costs” of public relations (i.e. spending on public relations managers, practitioners, use of communication technology, public relations programmes, etc.) and the “marginal product” of public relations activities (the improved public image and increased company’s sales) are always exactly known and fully predictable. Such predictability of financial effects of public relations seems highly unrealistic.

The institutionalists view the corporation and its investment decisions dynamically, dividing its operational path into successive planning periods. Strategic decisions are taken at the beginning of each planning period. Decisions about expenditures on public relations should be treated *pari passu* with other investment expenditures, following the idea that “advertising expenditure is similar in many ways to investment in durable plant” (Nerlove and Arrow 1962, 129; see also Lah et al. 2006-7). Public relations expenditures are thus treated in the same way as other strategic expenditures of the corporation, which means that they can be more or less predicted, mostly on the basis of expenditures from previous years or from revenues. The financial impact of public relations, however, cannot be predicted. This is due to the uncertainty in the environment and to the unexpected effects of public relations activities. Public relations departments usually deal simultaneously with many issues, some issues are perplexing, each particular issue is at a different stage of its life-cycle and it cannot be predicted how long a particular issue will last (an uncontrollable spiral issue spin may always happen). The final financial result of public relations on public image and sales can therefore never be predicted. Such view is consistent with Grunig et al. (2002, 21, 109), who report that return on investment (ROI) in public relations, as estimated by a sample of CEO’s, is very high (225 percent) but the rate of return is “lumpy, long-term, and ... major return ... may occur only once every 10 to 20 years.”⁹

Public Relations in Transition Economies

The Socialist Experience

“The main characteristic of public relations development in Russia is the absence of communication tradition” (Tsetsura 2004, 340). Tsetsura’s statement is relevant also for many other ex-socialist economies. In socialist economies, the term “public relations” did not even exist. Conceptually, firms’ autonomous decisions about public relations, as understood in contemporary market economies, were

not compatible with the command system of central planning, in which individual firms were subordinate to the political as well as to the planning authorities. In the Soviet Union, for example, all mass communication media for addressing the publics were monopolised by the state. The information was directed and manipulated to show “the victories of firms” – this was the so called “lie syndrome” (Tampere 2004, 97). The situation was more or less similar in other Central and Eastern European (CEE) countries. In Bulgaria, the term “public relations” was first mentioned in 1972, but with no real impact in the society and economy (Zlateva 2004, 72). In Hungary, although there were some traces of public relations practices in the sixties and seventies, the book on public relations in 1968 was banned, and no texts with the term “public relations” were allowed to be published (Szondi 2004, 187). When public relations were introduced at the beginning of transition in Poland, this activity was viewed as a suspicious propaganda stemming from the historic role of censorship during socialism (Lawniczak 2004, 221). A somewhat different situation was in Slovenia (then a part of socialist Yugoslavia) where firms, within the so called self-management market economy, were relatively autonomous, some of them even establishing departments for “contacts with the public” (Verčič 2004, 378). It is interesting that the noun “public” was never used in plural. There was only one public – the socialist public (see Verčič et al. 1996, 45).

The non-existence of the term during socialism does not mean that some sort of *quasi* public relations between firms and publics did not exist. “Socialist managers” were obliged to discuss important economic issues with an adequate level – depending on the significance of the issue – of political hierarchy. Political journalists were then assigned to communicate big issues through selected mass media to general publics, while the firms were “autonomous”, entitled to communicate only minor issues associated mostly with local environment. Political structures were thus in the last consequence the main directors of the information flows and were therefore also able to predict the final result. In short, “public relations under communism meant political relations, not public relations” (Žáry 2004, 366).

After the collapse of socialism public relations regained its position within the organisational structure of postsocialist firms. Lawniczak (2005, 2007) stresses the important role that public relations activities, taken generally, played at the beginning of the postsocialist period: it was a powerful instrument for changes of the institutional regime on the macro level, that is, from socialism to democracy, and for the acceptance of norms and institutions of capitalist economy. In the initial stage of transition, public relations, according to Lawniczak, had three main tasks: to reverse fears and prejudices toward “ruthless capitalism” instilled during the socialist era, to inform people about a variety of “capitalisms” to choose from, and to facilitate effective functioning of the market economy (Lawniczak 2001, 14-15).

Public Relations and the Stages of Transition – The Institutionalist View

Following the study of Verčič et al. (1996), Lawniczak (2004, 218) adopts the idea that there are some generic principles of public relations, which can be applied in every political and economic system. We may agree with this idea, since the areas discussed in the previous section (organisation, issue management and financing of public relations) have been relevant also for firms and companies in transition economies. The basic specificities of the transitional environment stem

from the intensity of changes during postsocialist period, especially in the initial stages of transition. In the majority of Central and Eastern European countries, the period of transition might be divided into stages determined by political decisions related with the dynamics of the EU-accession process. The steps towards EU have subsequently been changing the companies' environment, the surrounding institutions and norms, as well as potential issues, and thereby also the role of public relations. This evolution of public relations in transition economies is schematised in Table 1.

Table 1: Evolution of Public Relations in Transition Economies

STAGES	ENVIRONMENT	DOMINANT ISSUES	PR – CONTENT STRATEGY (MODEL) FINANCING
Socialism (pre-transi- tional period)	Stable	Political selection and determination of issues (often with no economic relevance)	<ul style="list-style-type: none"> • No public relations • Political propaganda and state control in the last instance • PR budget not specified
(1) Introduction of market capitalism	Turbulent changes	Privatisation, manage- rial buyouts, massive firings, FDI	<ul style="list-style-type: none"> • Emergence of PR departments, unsystematic expression of power • Public information model, waiting/reactive "fire brigade" strategy • Affordable, no rule method of financing
(2) EU-acces- sion process	Stabilising	FDI, acquisitions, mergers	<ul style="list-style-type: none"> • Identification of crucial stakeholders, emergence of systematic expression of power • Asymmetrical communication • Beginnings of planned routine financing
(3) EU (EMU) membership	Stabilised	Products, product policy, employees, environmental issues, corporate social responsibility	<ul style="list-style-type: none"> • Developing stakeholder relations, expression of power further refined • Beginnings of symmetrical communication, proactive strategy and cocreational view of PR • Routine financing

In the first stage of transition – no matter whether the country decided for shock therapy or followed a gradualist strategy towards capitalism – the new capitalist managers noticed the usefulness of public relations departments to communicate big issues such as brutal firings, explaining of "necessary" (and many times questionable) privatisations of formerly social property, etc. Many foreign companies were entering new markets in transition economies (FDI) and so were many PR agencies. Viewed from a different angle, this was an unsystematic expression of rude power of the new class of managerial elite. Public relations was typically seen from the functional perspective. Szondi (2004, 194) succinctly points out: "Public relations is brought into play when the decisions have been already made and need only to be communicated to the public," thus playing the role of the "fire brigade" (Zlateva 2004, 79). The most practised model at this stage was, to use

already mentioned Grunig's typology, public information related with the reactive strategy of "waiting" and combined with hope that issues will not provoke undesired reactions in the environment. Grunig and Grunig (2005), using the four-model typology, observed: "In the transitional societies of Eastern Europe many organisations are tempted to use public relations to try to asymmetrically impose their idea of the change on the publics that are affected by the change" (2005, 5). Since there was high unpredictability of issue spins, the budgeting of public relations was irregular (affordable no rule method) and also the impact on consumers' wants and sales – being of secondary importance for "new" capitalist managers – could not be estimated.

In the second stage of transition the environment was stabilising. This stage was characterised by gradual accomplishing of privatisation processes and by the acceptance of laws, norms and standards imposed by EU-membership, which all contributed to further stabilisation of the transitional environment and to the normalisation of public relations in accordance with the standards of developed countries. New issues emerged due to an increased internationalisation of transition economies, growth of FDI, mergers and acquisitions, takeovers, etc. Public relations activities were adopted in ever more companies and public relations departments expanded with the purpose of systematic identification and classification of crucial stakeholders (suppliers, government and ministries, even newly established consumers' organisations and emerging activist publics of civil society). Even the laggard firms, becoming aware of the importance of public relations for their businesses, established public relations departments. At the beginning of this stage, the possibility of unpredictable issue spins was still present and the budgeting of public relations was still irregular. But later the unpredictability of big issue spins retreated and, with standardised public relations, the budgeting became planned, with some firms already adopting proactive strategies. The power of the managerial class thus came to be exercised in a more refined way. Public relations managers noticed the importance of permanent maintenance of relations with selected crucial stakeholders.

The trend towards westernisation of public relations practices and similarity with public relations financing in developed economies has been continuing in the third stage of transition, when the business environment has stabilised. In the advanced transition economies, more and more corporations use public relations to systematically express their power and to gain competitive advantage. The public relations strategies of corporations have been characterised by cocreational approach and routine financing. The cocreational approach is often adopted to absorb the prevailing public views related with issues such as social responsibility, health and health care, environment protection, security, etc. Some companies are adopting symmetrical communication as a model for corporate public relations. However, all these strategies should be viewed in light of companies' efforts to increase their power in a refined way.

The Case of Slovenia

Slovenia was the first among ex-socialist transition economies to join in 2007 (after becoming a member of EU in 2004) European Monetary Union thus achieving full integration into EU. This was the result of a systematic governmental

macroeconomic policy from the beginning of transition as well as of the adaptation of firms towards EU-standards at the micro level. The development of public relations followed the same path. The results of the quantitative study carried out in 1998 (Grunig et al. 1998) showed that the principles of excellent public relations (although having less support of dominant coalitions within firms) clustered into an identical index for Slovenia as well as for the United States, the United Kingdom and Canada. Therefore, as already mentioned, Slovenian practice can be taken as an example of the public relations development in transition economies. During transition, several large Slovenian companies have been successfully applying various PR strategies to improve their market position and enhance their reputation and power.

By applying the above schematisation of the evolution of transitional public relations to Slovenia, some typical cases of successive stages may be illustrated. In the first year of transition, Slovenia adopted voucher mass privatisation, but during the following years some former socialist managers through not always transparent buyouts privatised large parts of profitable firms, mostly trading companies, like Mercator (the largest Slovenian merchandiser) and BTC (the largest shopping centre). These privatisations became an issue in the media, where various publics questioned the legality of buyouts, spinning the issue on the basis of at that time still present socialist egalitarian thinking, with people claiming that the new owners/managers used to be "one of us." The newly established public relations departments in these companies mostly applied waiting/reactive PR strategies. The main argument, which neutralised the considerations put forward by the publics about the negative consequences of privatisation, was that the emerging owners and managers would follow the benefits of the company (and of its employees) instead of unclearly and broadly defined benefits of the working class as a whole proclaimed during the socialist regime.

The second stage can be illustrated by the case of Belgian brewery Interbrew attempting to take over the Slovenian brewery Union. Union's management supported the takeover, but Laško, another Slovenian brewery, launched a public campaign against the takeover by a foreign company. The campaign identified the crucial stakeholder – the ministries, which later provoked the parliamentary debate based on the spin of "national interests." At last Laško, with the help of the government, took over Union. Another example is Revoz, a branch of Renault, located in Slovenia since 1989. Revoz has had a strong public relations department building the company's image as an important local job provider and national exporter. It continuously stressed the benefits for local environment, especially in terms of knowledge, technology, production methods and skills. Also, the cooperation with local educational and training system is being emphasised as important for both the firm and local environment. One of the results of this positive approach, stressing mutual interdependence, came in 2005, when the Renault headquarters decided the new Twingo model to be produced exclusively by Revoz. This required an extension of existing production capacities. Because of the broader macroeconomic effects (700 jobs were expected to be directly opened and another 500 with local suppliers) the crucial stakeholder – Slovenian government – agreed to subsidise the 400 million Euros project with 10 percent of total value. Due to well created and sustained image Revoz is today appreciated in both local and national community.

The third stage might be illustrated by Krka, a successful Slovenian pharmaceutical company, which has had a well organised public relations department proactively planning the public relations programs, i.e. analyzing the potential big issue spins and routinely dealing with daily communications with stakeholders, thus permanently cocreating the environment. In 2003, pharmaceutical giant Merck accused Krka of manufacturing a product for which patent had not yet expired. As big fine was expected, Krka's shares were falling sharply. The infringement was becoming a big issue with further unpredictable consequences. But Krka's public relations department and the CEO predicted this issue spin and managed to neutralise the issue by launching in media a campaign about the firm's high profitability and related social responsibility. Later, the alleged patent infringement dispute was ended by the decision of the Supreme Court which refused the request by Merck. Therefore, by using proactive PR, Krka even increased its power in and over the environment. Also, the Gorenje Group Company, producing primarily household appliances, is a good example of both second and third stage. The company started to consider its environment early, and focused on both the production for cleaner environment and cleaner production, thus expressing its social responsibility. The company has been very successful not only in providing information to its investors, but has also managed to create a proactive public relations policy that strengthened the company's role as a producer with good business results as well as a company that is deeply involved with broader social development in Slovenia and aware of the importance of investing in knowledge, human capital and new technologies for its long term progress. Consequently, by expressing its power through public relations, Gorenje in a refined way managed to enhance the position of its brand's image.

Conclusion

Public relations activities deserve attention of the economists and should be studied within the institutional paradigm viewing large companies as dominant players in the economy and rejecting the neoclassical focusing on the optimisation approach to PR. Public relations has to be viewed as a subtle mechanism by which corporations create, maintain and enforce their power or, more precisely, as a modern modification of the technocracy's control over the corporate internal and external environment with the purpose to maximise growth over the long run. This is close to the Galbraithian and Marxist view that PR is part of the sales effort which, although wasteful from the broader social perspective, helps to perpetuate the capitalist process by sustaining the demand for the ever increasing production of corporations. Institutional approach bears relevant aspects also for the analysis of public relations in transition economies. The schematisation of the evolution of public relations in transitional companies has shown that in the initial stages of transition public relations activities served to reduce the people's fears of capitalism and to facilitate the institutional transformation in the turbulent aftermath of the collapse of socialism. In later stages, particularly in Central and Eastern European transition economies on their way towards EU-membership, public relations departments in transitional firms worked on the creation and management of issues connected with product policies, environmental questions and social responsibility. Through increasingly proactive strategies and planned budgeting public relations in transitional environment is rapidly catching up with the standards of the field

in the developed economies. Elaborate PR strategies, related with philanthropy and other social issues, indicate that transitional firms have come of age and that refined means of competitive struggle, characteristic for developed capitalism, have become a common practice in transition economies. This might be one of the signs that transitional process is getting accomplished.

Notes:

1. According to Harris and Whalen (2008, 8) the public relations budget of the average US company exceeds US\$ 3 million. Sir Martin Sorrell, CEO of WPP (one of the world's largest communications conglomerates), reported that these activities represented more than one-third of his firm's US\$ 6 billion in revenue in 2004. He also predicted that they will reach one-half within the decade (*ibid.*). Also, the wages of spin/PR spending in America will be growing faster than ad spending and will reach more than \$5 billion in 2009 (*The Economist*, 19th January, 2006, "Do We Have a Story For You?"). It is interesting that even the governmental public relations spending has been growing. According to the Federal public relations spending report (2005, 1), in 2004 the contracts with the PR companies were worth 88 million US\$, which represents an increase of 128% from 2000, with some of the funds also being spent as a way of promoting Acts. Public relations industry market assessment 2007 reported that both in Europe and in the US PR industry has been growing fast: the top 30 agencies report increases of around 17% in the US and by 10.5% in the UK in 2006 in comparison with 2005. Even in present economic crisis spending on public relations in America grew in relative and absolute terms: PR spending grew by more than 4 percent in 2008 and nearly 3 percent in 2009 to \$3.7 billion, compared with contracting spending on advertising by nearly 3 percent in 2008 and by 8 percent in the past year (*The Economist*, 16th January, 2010, "Good News").
2. In postsocialist economies the public relations spending was also high: in Slovenia, which, according to the leading theoreticians in the field Larissa and James Grunig, "provides an excellent example of how public relations should be practised in a transitional East European country" (Grunig and Grunig 2005, 8), the spending on managed communication in commercial sector is 1.5 percent of GDP (Verčič 2004, 377).
3. Rothschild (2002, 436). Rothschild claims that in neoclassical theory power is restricted to narrowly defined concepts such as monopoly power or bargaining power in goods and labour markets, that is, to specific "market- and price-relevant power phenomena which can be easily endogenized into a theory of competitive markets as deviations from perfect competition" (*ibid.*, 433).
4. According to Browne and Quinn (2008, 246) there are, from the perspective of an economist, two keys for the analysis of social life: rational choice for the neoclassical, and class struggle (power) for the Marxist (and the institutionalist). At the level of the firm, the new institutionalists with the transaction costs paradigm (although granting the point of Marxist and institutionalist critics about the relevance of power relations) effectively promote rational choice as the principle key of analysis, while the principle of power has again been relegated to a secondary position. New institutionalism therefore belongs to the neoclassical paradigm (Rutherford 1994).
5. C.f. Baran and Sweezy (1966/1996). For Baran and Sweezy, "sales effort," which is conceptually "identical with Marx's expenses of circulation" (114), has turned out "to be a powerful antidote to monopoly capitalism's tendency to sink into a state of chronic depression (...) (and its) role in the capitalist system (...) has advanced to the status of one of its decisive nerve centers" (131, 115). Public relations can be viewed from the same perspective as "sales effort." Although Baran and Sweezy, in thoroughly Marxist terms, consider public relations experts as a new stratum of "surplus eaters" (*ibid.*, 127), it is obvious that PR activities on the other hand contribute to sustaining corporate power and to absorbing the surplus. But from a social point of view, Baran and Sweezy, consider public relations to be, just like sales effort, nothing but massive waste (*ibid.*, 379-380).
6. Until then, in Grunig's opinion, public relations was "a field without a body of knowledge" (Grunig 1992, 5). See also Grunig et al. (2002, 5). According to the four-model typology, which was first presented by Grunig and Hunt (1984), the evolution of public relations went from lower level to higher level models: (1) press agency – publicity model; (2) public information model; (3) two way asymmetrical model; (4) two way symmetrical model.

7. Nayden (2009), for example, offers a different starting point for the concept of public relations arguing that the basic level of public relations is relations between individuals as “strangers,” which do not need any “institutional mediation.” Taking Nayden’s conceptualization, we focus on the aims of PR as “institutional mediation” of the modern corporation.
8. According to Kotler and Keller (2009, 563), “public relations (PR) includes a variety of programs to promote or protect a company’s image or individual products,” which is similar to proactive/reactive distinction, since promotion might be understood as proactive public relations, while protection is reactive.
9. However, high profitability is “valid” only for companies practicing excellent symmetrical model of public relations and not for companies with lower level models of public relations such as press agency and public information. On average, ROI in public relations is about 186 percent (Grunig et al. 2002, 109).

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