CHAPTER 21

CORPORATE SOCIAL RESPONSIBILITY IN DEVELOPING COUNTRIES

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Introduction

The challenge for corporate social responsibility (CSR) in developing countries is framed by a vision that was distilled in 2000 into the Millennium Development Goals—'a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for women, and a healthier environment' (UN, 2006: 3). Unfortunately, these global aspirations remain far from being met in many developing countries today. The question addressed by this chapter, therefore, is: What is the role of business in tackling the critical issues of human development and environmental sustainability in developing countries?

To begin with, it is worth clarifying my use of the terms *developing countries* and *CSR*. There is an extensive historical and generally highly critical debate in the development literature about the classification of countries as *developed* and *less developed* or *developing*. Without reviving that debate here, suffice to say that I use *developing countries* because it is still a popular term used to collectively describe nations that have relatively lower per capita incomes and are relatively less industrialized.

This is consistent with the United Nations Developments Program's (2006) categorization in its summary statistics on human development and is best represented by the World Bank's classification of lower and middle income countries.[1] It should be noted, however, that the UNDP's classification of high, medium and low development countries produces a slightly different picture than the World Bank's list of which countries are developed and developing.

CSR is an equally contested concept (Moon, 2002*b*). However, for the purposes of this chapter, I use *CSR in developing countries* to represent 'the formal and informal ways in which business makes a contribution to improving the governance, social, ethical, labour and environmental conditions of the developing countries in which they operate, while remaining sensitive to prevailing religious, historical and cultural contexts' (Visser *et al.*, 2007).

The rationale for focusing on CSR in developing countries as distinct from CSR in the developed world is fourfold:

1. developing countries represent the most rapidly expanding economies, and hence the most lucrative growth markets for business (IMF, 2006);
2. developing countries are where the social and environmental crises are usually most acutely felt in the world (WRI, 2005; UNDP, 2006);
3. developing countries are where globalization, economic growth, investment, and business activity are likely to have the most dramatic social and environmental impacts (both positive and negative) (World Bank, 2006); and
4. developing countries present a distinctive set of CSR agenda challenges which are collectively quite different to those faced in the developed world.

The latter claim is explored further in the sections which follow and is summarized at the end of the chapter. The chapter begins by proposing different ways to categorize the literature on CSR in developing countries. It then reviews the research which has been conducted at a global and regional level, before considering the main CSR drivers in developing countries. Finally, a model of CSR in developing countries is proposed, before concluding with a summary and recommendations for future research.

[1] See <http:www.worldbank.org>.

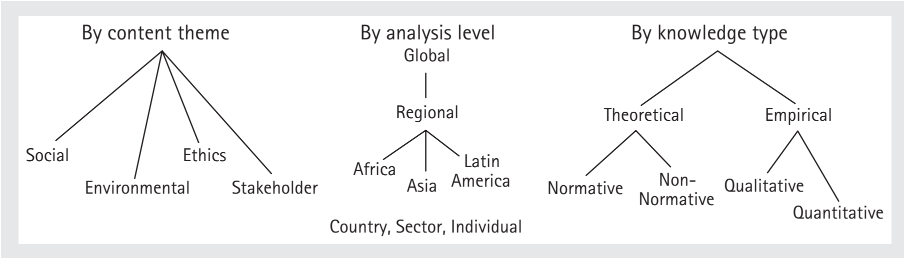

Fig. 21.1 Classification of literature on CSR in developing countries

Classification

There are various ways to classify the literature on CSR in developing countries, including in terms of content (thematic coverage), type (epistemological approach), and level (focus of analysis), as depicted in Figure 21.1. These will each be briefly considered in turn.

Content Theme

Using the same classification of content as Lockett *et al.* (2006), the CSR literature can be grouped into four dominant CSR themes: social, environmental, ethics, and stakeholders. What is immediately evident in applying this categorization to the literature on CSR in developing countries is that, in contrast to Lockett *et al.*'s (2006) findings that most CSR articles in top management journals focus on ethical and environmental themes, most scholarly work on CSR in developing countries focuses on the social theme.

In part, this reflects the fact that *corporate social responsibility* is the preferred term in the literature to describe the role of business in developing countries, as opposed to, say, business ethics, corporate citizenship, corporate sustainability, or stakeholder management. More than this, however, social issues are generally given more political, economic, and media emphasis in developing countries than environmental, ethical, or stakeholder issues (Schmidheiny, 2006). And there is also still a strong emphasis on the philanthropic tradition in developing countries, which is often focused on community development.

Knowledge Type

Lockett *et al.* (2006) also classify CSR papers by epistemological approach and find a roughly even split between theoretical and empirical research, which is also the case in the literature on CSR in developing countries, although the latter has a slight weighting towards empirical work.

What is interesting is that, whereas Lockett *et al.* (2006) find that 89% of theoretical CSR papers are non-normative, in the CSR in developing countries literature, the balance is far more evenly split. This is largely due to the relatively large number of papers on the role of business in development, which tend to adopt a normative, critical perspective (Blowfield and Frynas, 2005).

In terms of empirical research, there are also differences. According to Lockett *et al.* (2006), the CSR literature is dominated by quantitative methods (80%). In contrast, CSR papers on developing countries are more likely to be qualitative. Lockett *et al.* (2006) suggest that their findings probably reflect the positivist editorial tendencies of many of the top management journals, rather than the inherent epistemological preference of CSR scholars. And indeed, the CSR and development journals in which most developing country papers are published seem to have more interpretive or epistemologically flexible editorial policies.

Analysis Level

Most research on CSR in developing countries to date has either generalized about all developing countries (e.g. Frynas, 2006), or focused at a national (rather than a regional) level. In terms of generic literature, *Corporate Citizenship in Developing Countries* (Pedersen and Huniche, 2006) is a useful compendium, as are special issues on CSR in developing countries that have appeared in the *Journal of Corporate Citizenship* (issue 24, 2006), *International Affairs* (81(3), 2005) and *Development* (47(3), 2004).

Despite the focus on countries in the literature, only about a fifth of all developing countries have had any CSR journal articles published on them. Of these, the most commonly analyzed and written about countries are China, India, Malaysia, Pakistan, South Africa, and Thailand. Analysis at a regional level (notably Africa, Asia, and Latin America) is becoming more common, but papers at the sector, corporate, or individual level remain relatively scarce.

Global

Although the literature often frames the debate about CSR in a global context, there is very little empirical research on the nature and extent of CSR in developing countries. One notable exception is Baskin's (2006) research on the reported corporate responsibility behavior of 127 leading companies from 21 emerging markets[2] across Asia, Africa, Latin America, and Central and Eastern Europe, which he compares with over 1,700 leading companies in high-income OECD countries.

Looking at three generic indicators of CSR, Baskin (2006) finds that emerging market companies have a respectable representation in the Dow Jones Sustainability Index and show rising levels of take-up of the Global Reporting Initiative and ISO 14001. More specifically, over two-thirds of the emerging market companies in the sample either produced a sustainability report or had a specific section on their website or in their annual report covering CSR. Interestingly, emerging market companies are also more inclined to report extensively on corporate social investment activities than OECD companies.

Other areas of reported CSR performance examined by Baskin (2006) show that emerging markets lag the OECD significantly on reporting on business ethics and equal opportunities (with the exception of South Africa), are roughly on a par for environmental reporting, and show comparable reporting variance on women on company boards (e.g. high in Norway and South Africa, low in Japan and Latin America), training and occupational health and safety (e.g. high in South Africa and Western Europe, low in North America and Asia).

Despite the limitations of using reporting as an indicator of CSR performance and the danger of representing regions by just a few countries (e.g. only two of the 53 countries in Africa were included in the sample), the Baskin (2006) study does provide some insight into the level of CSR activity in developing countries, concluding that 'there is not a vast difference in the approach to reported corporate responsibility between leading companies in high income OECD countries and their emerging-market peers. Nonetheless, corporate responsibility in emerging markets, while more extensive than commonly believed, is less embedded in corporate strategies, less pervasive and less politically rooted than in most high-income OECD countries' (p. 46).

Regional

Asia

Asia is the region most often covered in the literature on CSR in developing countries, with a significant focus on China (e.g. Zhuang and Wheale, 2004), India (e.g. Balasubramanian *et al.*, 2005), Indonesia (e.g. Blowfield, 2004), Malaysia (e.g. Zulkifli and Amran, 2006), Pakistan (e.g. Lund-Thomsen, 2004), and Thailand

[2] Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Morocco, Mexico, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Thailand, and Turkey.

(e.g. Kaufman *et al.*, 2004). Other countries that have had less attention include Bangladesh (Nielsen, 2005), the Pacific Forum Islands (Prasad, 2004), Sri Lanka (Luken and Stares, 2005), and Vietnam (Prieto-Carron, 2006*b*).

The *Journal of Corporate Citizenship* special issue on CSR in Asia (issue 13, spring 2004) provides a good overview of the status of the debate. Editors Birch and Moon (2004) note that CSR performance varies greatly between countries in Asia, with a wide range of CSR issues being tackled (e.g. education, environment, employee welfare) and modes of action (e.g. foundations, volunteering, and partnerships).

A number of quantitative studies confirm this picture of CSR variance. In a survey of CSR reporting in Asia, Chapple and Moon (2005) find that nearly three-quarters of large companies in India present themselves as having CSR policies and practices versus only a quarter in Indonesia. Falling somewhere between these two extremes are Thailand (42%), Malaysia (32%), and the Philippines (30%). They also infer from the research that the evolution of CSR in Asia tends to occur in three waves, with community involvement being the most established form of CSR, following by successive second and third waves of socially responsible production processes and employee relations.

In a comparative survey of CSR in 15 countries across Europe, North America, and Asia, Welford (2005) speculates that the low response rates from countries like Hong Kong, Malaysia, Mexico, and Thailand may in itself be an indicator of CSR being less prevalent in developing countries. This seems to be borne out by the research findings, in which these countries fairly consistently underperform when compared with developed countries across 20 aspects of CSR measured by the survey. More specifically, Malaysia is generally the weakest in terms of CSR performance, with Thailand being relatively strong on external aspects (such as child labor and ethics) and Hong Kong being generally better on internal aspects (such as non-discrimination and equal opportunities).

Africa

The literature on CSR in Africa is heavily dominated by South Africa (Visser, 2005*a*), while other pockets of research exist for Côte D'Ivoire (e.g. Schrage and Ewing, 2005), Kenya (e.g. Dolan and Opondo, 2005), Nigeria (e.g. Amaeshi *et al.*, 2006), Tanzania (e.g. Egels, 2005), and Mali and Zambia (e.g. Hamann *et al.*, 2005). Very few papers are focused on industry sectors, with traditionally high impact sectors like agriculture (e.g. Blowfield, 2003), mining (e.g. Kapelus, 2002), and petrochemicals (e.g. Acutt *et al.*, 2004) featuring most prominently.

Two good sources of literature on the region are *Corporate Citizenship in Africa* (Visser *et al.*, 2006) and the *Journal of Corporate Citizenship* special issue on CSR in Africa (issue 18, summer 2005). The latter concludes that 'academic institutions and researchers focusing specifically on corporate citizenship in Africa remain few and under-developed' (Visser *et al.*, 2005: 19).

This is confirmed by a review of the CSR literature on Africa between 1995 and 2005 (Visser, 2006*a*), which found that that only 12 of Africa's 53 countries have had any research published in core CSR journals, with 57% of all articles focused on South Africa and 16% on Nigeria. The latter partly reflects the high media profile generated around corporate citizenship issues and the petrochemical sector, especially focused on Shell and their impacts on the Ogoni people (Ite, 2004).

My review also found that, in contrast to the socially oriented focus of the literature on CSR in developing countries more generally, business ethics dominates as a research topic in the region, accounting for 42% of all articles on CSR in Africa over the past decade. Partly, this reflects the collective weight of the ethics-focused journals in the study. But it is also because CSR debates in Africa have historically been framed in terms of the ethics of colonialism and apartheid and the prevalence of corruption and fraud on the continent.

This pattern is unsurprisingly also reflected in CSR research on South Africa. For example, in a previous review I found that, of the pre-1994 literature, most dealt with the ethical investment issues relating to apartheid; and since the transition to democracy in 1994, many papers now focus on the individual ethics of South African managers (Visser, 2005*a*). I expect that other themes, such as stakeholder engagement, social responsibility, and health (including HIV/AIDS) will move up the agenda as CSR increasingly addresses these issues in an African context. In practice, however, it is likely that the economic and philanthropic aspects of CSR (rather than the legal and ethical responsibilities) will continue to dominate CSR conceptualization and practice in Africa (Visser, 2007).

Latin America

CSR in Latin America is the least covered of the developing country regions (Haslam, 2007), with the focus mainly on Argentina (e.g. Newell and Muro, 2006), Brazil (e.g. Vivarta and Canela, 2006) and Mexico (e.g. Weyzig, 2006), although Nicaragua (Prieto-Carron, 2006*a*) and Venezuela (Peindado-Vara, 2006) also feature. One helpful collection of papers is the *Journal of Corporate Citizenship* special issue on CSR in Latin America (issue 21, spring 2006).

De Oliveira (2006) notes that the CSR agenda in Latin America has been heavily shaped by socio-economic and political conditions, which have tended to aggravate many environmental and social problems such as deforestation, unemployment, inequality, and crime. Schmidheiny (2006) frames this in a constructive way, claiming that CSR is seen by many Latin Americans as the hope for positive change in the face of persistent poverty, environmental degradation, corruption, and economic stagnation.

The trend towards increasing CSR in the region has been generally upward. For example, Correa *et al.* (2004), cited in Schmidheiny (2006), reported that by 2004, there were more 1,000 Latin American companies associated with EMPRESA (the hemisphere-wide CSR network), 300 were members of the World Business Council for Sustainable Development, 1,400 had obtained ISO 14001 certification, and 118 had signed up to the UN Global Compact. Furthermore, the CSR debate is alive and well, with the CSR track in Brazilian Academy of Management (ENANPAD) in 2005 attracting the largest number of articles (De Oliveira, 2006).

Araya's (2006) survey of CSR reporting among the top 250 companies in Latin America also gives some indication of practices in the region. Overall, 34% of the top companies publish sustainability information in a separate report, the annual report, or both, mostly from the energy and natural resources sectors. The annual report is the more common format (27%, versus 16% using separate reports), with Brazilian companies being the most likely to report (43% disclose sustainability information in annual reports and 22% in sustainability reports), as compared with Mexico (33% and 25%) and Chile (22% and 16%). Even companies with European and American origins are less likely to be reporters than Brazilian companies.

The picture for small and medium-sized enterprises (SMEs) is slightly different. In a survey of over 1,300 SMEs in Latin America, Vives (2006) found that SMEs in Chile and Argentina have the highest level of CSR activity, while those in Brazil and El Salvador have the lowest. Most CSR by SMEs is focused on internal activities (especially employee welfare), whereas external (philanthropic) and environmental activities are less common.

Drivers

Having sketched a broad overview of the ways in which the literature on CSR in developing countries can be classified, as well as giving a flavour of CSR in a regional context, I now want to address the central question of what makes CSR in developing countries different from its typical manifestation in the developed world, as defined by America and Europe. One powerful way to do this is by examining the various drivers for CSR in developing countries. Although they are not all unique to developing countries, together they build up a distinctive picture of how CSR is conceived, incentivized, and practiced in emerging economies. I have identified ten major drivers for CSR in developing countries, as illustrated in Figure 21.2 and discussed below. Internal drivers refer to pressures from within the country, while external drivers tend to have a global origin.

Cultural Tradition

While many believe CSR is a Western invention (and this may be largely true in its modern conception), there is ample evidence that CSR in developing countries

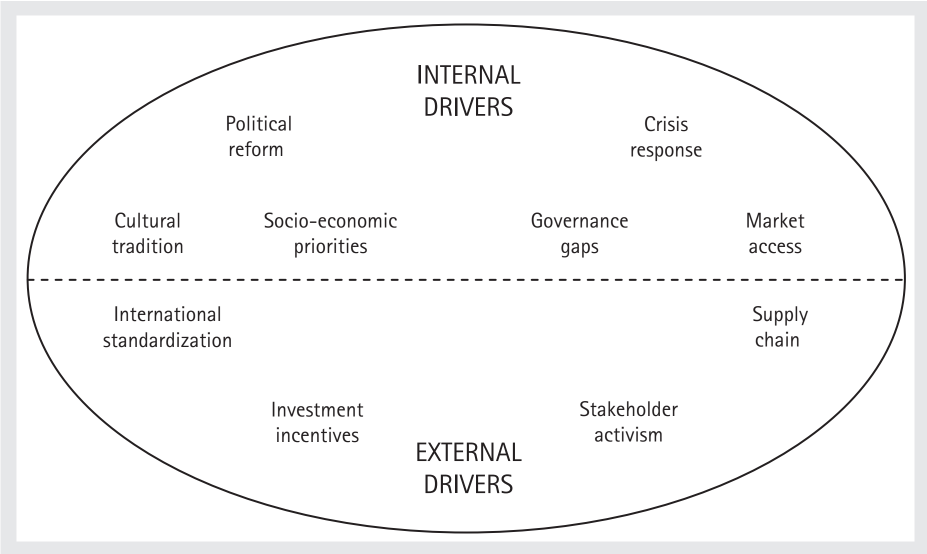

Fig. 21.2 Drivers of CSR in developing countries

draws strongly on deep-rooted indigenous cultural traditions of philanthropy, business ethics, and community embeddedness. Indeed, some of these traditions go back to ancient times. For example, Visser and Macintosh (1998) recall that the ethical condemnation of usurious business practices in developing countries that practice Hinduism, Buddhism, Islam, and Christianity dates back thousands of years. Similarly, Frynas (2006) notes that 'business practices based on moral principles were advocated by the Indian statesman and philosopher Kautilya in the 4th century BC' (p. 17).

In a Latin American context, Sanborn (2002), quoted in Logsdon *et al.* (2006) reminds us that 'varied traditions of community self-help and solidarity stretch back to the region's pre-Hispanic cultures, and include the mutual aid societies, trade unions and professional associations that emerged in the 19th and early 20th centuries' (p. 2). This is consistent with Logsdon *et al.*'s (2006) myths of CSR in Mexico that need debunking: 'One myth is that CSR in Mexico is new, another is that US firms brought CSR to Mexico, and a third is that CSR as practised by Mexican firms simply reflects the CSR patterns and activities of US firms' (p. 51).

Looking at more modern applications of CSR, in Vives's (2006) survey of over 1,300 small and medium-sized enterprises in Latin America, he finds that the region's religious beliefs are one of the major motivations for CSR. Similarly, Nelson (2004) shows how Buddhist traditions in Asia are aligned with CSR.

In Asia, Chapple and Moon (2005) reach a similar conclusion, namely that 'CSR does vary considerably among Asian countries but that this variation is not explained by [levels of] development but by factors in the respective national business systems' (p. 415), a finding consistent with Birch and Moon's (2004) review of CSR papers for the *Journal of Corporate Citizenship* special issue on CSR in Asia.

In an African context, Amaeshi *et al.* (2006) find that CSR in Nigeria is framed by socio-cultural influences like communalism, ethnic religious beliefs, and charitable traditions, while Visser (2005*b*) suggests that the values-based traditional philosophy of African humanism (*ubuntu*) is what underpins much of the modern, inclusive approaches to CSR on the continent.

Political Reform

CSR in developing countries cannot be divorced from the socio-political reform process, which often drives business behavior towards integrating social and ethical issues. For example, De Oliveira (2006) argues that the political and associated social and economic changes in Latin America since the 1980s, including democratization, liberalization, and privatization, have shifted the role of business towards taking greater responsibility for social and environmental issues.

In South Africa, the political changes towards democracy and redressing the injustices of the past have been a significant driver for CSR, through the practice of improved corporate governance (Roussouw *et al.*, 2002), collective business action for social upliftment (Fourie and Eloff, 2005), black economic empowerment (Fig, 2005), and business ethics (Malan, 2005). Visser (2005*a*) lists more than a dozen examples of socio-economic, environmental, and labor-related legislative reform in South Africa between 1994 and 2004 that have a direct bearing on CSR.

Likewise, more recently, the goal of accession to European Union membership has acted as an incentive for many Central and Eastern European countries to focus on CSR, since the latter is acknowledged to represent good practice in the EU (Baskin, 2006).

Socio-economic Priorities

There is a powerful argument that CSR in developing countries is most directly shaped by the socio-economic environment in which firms operate and the development priorities this creates.

Amaeshi *et al.* (2006), for example, argue that CSR in Nigeria is specifically aimed at addressing the socio-economic development challenges of the country, including poverty alleviation, health-care provision, infrastructure development, and education. This, they argue, stands in stark contrast to many Western CSR priorities such as consumer protection, fair trade, green marketing, climate change concerns, or socially responsible investments.

Similarly, Schmidheiny (2006) questions the appropriateness of imported CSR approaches, citing examples from Latin America, where the most pressing issues like poverty and tax avoidance are typically not included in the CSR conceptions, tools, and methodologies originating in developed countries. By contrast, locally developed CSR approaches are more likely to respond to the many social and environmental problems in the region, such as deforestation, unemployment, income inequality, and crime (De Oliveira, 2006).

Michael Spicer, CEO of the South Africa Foundation and former senior executive for the mining conglomerate Anglo American, argues that having CSR guided by the socio-economic priorities of the country or region is simply good business. Furthermore, he suggests that companies in developing countries have to actively shape the socio-economic and political landscape in order to create an operating environment which is conducive for business (Middleton, 2005). The business response to the socio-economic challenge of HIV/AIDS is a case in point (Brennan and Baines, 2006).

Governance Gaps

CSR as a form of governance or a response to governance challenges is discussed elsewhere in this book (Levy and Kaplan, Chapter 19). However, of particular relevance for developing countries is the fact that CSR is often seen as a way to plug the 'governance gaps' left by weak, corrupt, or under-resourced governments that fail to adequately provide various social services (housing, roads, electricity, health care, education, etc.).

Matten and Moon (forthcoming) see this as part of a wider trend in developing countries with weak institutions and poor governance, in which responsibility is often delegated to private actors, be they family, tribe religion, or, increasingly, business. Furthermore, 'as many developing country government initiatives to improve living conditions falter, proponents of [CSR and bottom of the pyramid] strategies argue that companies can assume this role'.

Such proponents of CSR, Blowfield and Frynas (2005) observe, see it as 'an alternative to government' (p. 502) which is 'frequently advocated as a means of filling gaps in governance that have arisen with the acceleration of liberal economic globalisation' (p. 508). A survey by the World Business Council for Sustainable Development (WBCSD 2000) illustrates this perspective: when asked how CSR should be defined, Ghanaians stressed 'building local capacity' and 'filling in when government falls short'.

Moon (2002*a*) argues that this is part of a broader political shift towards 'new governance' approaches, whereby governments are increasingly seeking to share responsibilities and to develop new modes of operation, whether as a result of overload or of a view that they do not have a monopoly of solutions for society. This is often in the form of social partnerships with non-profit and for-profit organizations. Moon *et al.* (2005) cite this as an example of corporations acting in a 'civic republicanism' mode.

In addition to being encouraged to step in where once only governments acted, through the mechanism of either privatization or welfare reform, Matten and Crane (2005) also suggest that companies enter the arena of citizenship where government has not as yet administered citizenship rights, for example, improving working conditions in sweatshops, ensuring for employees a living wage, and financing the schooling of child laborers in the absence of legislation requiring this.

However, there are many critics of this approach. Hamann *et al.* (2005) argues that CSR is an inadequate response to these governance gaps and that more proactive involvement in moving local governance towards accountability and inclusiveness is necessary. Blowfield and Frynas (2005) also question the logic: 'Is CSR a stepping-stone on the path to better national regulation in developing countries? Or is it part of a longer term project for overcoming the weaknesses of territorially prescribed judicial and welfare mechanisms, that is, addressing the limitations of the nation-state in regulating a global economy?' (p. 509)

There are also serious questions about the dependencies this governance gap approach to CSR creates, especially where communities become reliant for their social services on companies whose primary accountability is to their shareholders. Hence, multinationals may cut expenditure, or disinvest from a region if the economics dictates that they will be more profitable elsewhere. There is also the issue of perceived complicity between governments and companies, as Shell all too painfully experienced in Nigeria (Ite, 2004).

Crisis Response

Various kinds of crises associated with developing countries often have the effect of catalyzing CSR responses. These crises can be economic, social, environmental, health-related, or industrial. For example, Newell (2005) notes that the economic crisis in Argentina in 2001–2 marked a significant turning point in CSR, prompting debates about the role of business in poverty alleviation. Others see climate change (Hoffman, 2005) and HIV/AIDS (Dunfee, 2006) as crises that are galvanizing CSR in developing countries.

Catastrophic events with immediate impact are often more likely to elicit CSR responses, especially of the philanthropic kind. The corporate response to the Asian tsunami is a classic case in point (Fernando, 2007). However, industrial accidents may also create pressure for CSR. Examples include Union Carbide's response to the 1984 Bhopal disaster in India (Shrivastava, 1995) and Shell's response to the hanging of human rights activist Ken Saro-Wiwa in Nigeria in 1995 (Wheeler *et al.*, 2002).

Market Access

The flipside of the socio-economic priorities driver is to see these unfulfilled human needs as an untapped market. This notion underlies the now burgeoning literature on 'bottom of the pyramid' strategies, which refer to business models that focus on turning the four billion poor people in the world into consumers (Prahalad and Hammond, 2002; London and Hart, 2004; Rangan *et al.*, 2007). As we have previously noted, this straying of business into the development arena is not without its critics or problems (Hardcourt, 2004).

CSR may also be seen as an enabler for companies in developing countries trying to access markets in the developed world. For example, Baskin (2006) identifies competitive advantage in international markets as one of the key drivers for CSR in Central and Eastern Europe and Asia. Similarly, Araya's (2006) survey of CSR reporting among the top 250 companies in Latin America found that businesses with an international sales orientation were almost five times more likely to report than companies that sell products regionally or locally.

This is especially relevant as more and more companies from developing countries are globalizing and needing to comply with international stock market listing requirements, including various forms of sustainability performance reporting and CSR code compliance (Visser, 2005*a*). This is echoed in Chapple and Moon's (2005) study of seven countries in Asia, which found that there is a strong relationship between international exposure, either in terms of international sales or foreign ownership, and CSR reporting.

CSR is also sometimes used as a partnership approach to creating or developing new markets. For example, the AED/Mark Partnership with Exxon Mobil was created on the basis of developing a viable market for insecticide-treated mosquito nets in Africa, while improving pregnant women's access to these nets, through the delivery of targeted subsidies (Diara *et al.*, 2004). Similalry, ABB used a partnership approach to CSR to deliver a rural electrification project in Tanzania (Egels, 2005).

International Standardization

Despite the debate about the Western imposition of CSR approaches on the global South, there is ample evidence that CSR codes and standards are a key driver for CSR in developing countries. As already noted, Baskin's (2006) survey of CSR practices in emerging markets indicates growing adoption rates of ISO 14001 and the Global Reporting Initiative's Sustainability Reporting Guidelines.

Codes are also frequently used as a CSR response in sectors that are prevalent in developing countries, such as horticulture (Dolan and Opondo, 2005), cocoa (Schrage and Ewing, 2005), and textiles (Kaufman *et al.*, 2004), as well as to deal with pressing social issues in developing countries, such as child labor (Kolk and Van Tulder, 2002) or the role of women in the workplace (Prieto-Carron, 2004).

Often, CSR is driven by standardization imposed by multinationals striving to achieve global consistency among its subsidiaries and operations in developing countries. For example, the Asia study by Chapple and Moon (2005) found that 'multinational companies are more likely to adopt CSR than those operating solely in their home country, but that the profile of their CSR tends to reflect the profile of the country of operation rather than the country of origin' (p. 415).

Investment Incentives

The belief that multinational investment is inextricably linked with the social welfare of developing countries is not a new phenomenon (Gabriel, 1972). However, increasingly these investments are being screened for CSR performance. Hence, socially responsible investment (SRI) is becoming another driver for CSR in developing countries. As one indicator of this, Baskin (2006) notes that approximately 8% of emerging market companies on the Dow Jones World Index are included in the Dow Jones Sustainability Index, compared with around 13% of high-income companies.

In some developing countries, like South Africa, the SRI trend is well documented (AICC, 2002). In addition to featuring prominently in the SRI movement in the 1980s through the anti-apartheid disinvestment phenomenon, since 1992, South Africa has introduced more than 20 SRI funds nationally which track companies' social, ethical, and environmental performance (Visser, 2005*a*). According to research by the African Institute of Corporate Citizenship (AICC) (2002), the size of the South African SRI market in 2001 was already 1.55% of the total investment market. In a significant development, in May 2004, the Johannesburg Securities Exchange also launched its own tradable SRI Index, the first of its kind in an emerging market (Sonnenberg *et al.*, 2004). A similar index has also subsequently been introduced in Brazil.

Closely linked to the literature on SRI in developing countries is the debate about the business case for CSR. Although very few instrumental studies have been done, a Thailand survey by Connelly and Limpaphayom (2004) shows that environmental reporting does not negatively impact on short-term profitability and has a positive relationship with firm valuation. More generally, a report by SustainAbility (2002) uses case studies to illustrate various business benefits associated with addressing sustainability in developing countries. Furthermore, Goyal

(2006) contends that CSR may serve as a signaling device for developing countries seeking to assess foreign direct investment proposals by unknown foreign firms.

Stakeholder Activism

In the absence of strong governmental controls over the social, ethical, and environmental performance of companies in developing countries, activism by stakeholder groups has become another critical driver for CSR. Lund-Thomsen (2004) describes this as 'an outcome of micro-level struggles between companies and communities over the distribution of social and environmental hazards which are created when global political and economic forces interact with local contexts around the world' (p. 106).

In developing countries, four stakeholder groups emerge as the most powerful activists for CSR, namely development agencies (Jenkins, 2005), trade unions (Kaufman *et al.*, 2004), international NGOs (Christian Aid, 2005), and business associations (WBCSD, 2000). These four groups provide a platform of support for local NGOs, which are not always well developed or adequately resourced to provide strong advocacy for CSR. The media is also emerging as a key stakeholder for promoting CSR in developing countries (Vivarta and Canela, 2006).

Stakeholder activism in developing countries takes various forms, which Newell (2001) classifies as civil regulation, litigation against companies, and international legal instruments. Of these, civil regulation is perhaps the most common and effective. Bendell (2000) describes this as the theory that 'businesses are being regulated by civil society, through the dual effect of negative impacts from conflict and benefits from collaboration [which] provides new means for people to hold companies accountable, thereby democratising the economy directly'.

There are numerous examples of civil regulation in action in the developing world of which South Africa is a rather striking case in point (Visser, 2005*a*). This has manifested itself mainly through community groups challenging companies over whether they are upholding the constitutional rights of citizens. Various landmark cases between 1994 and 2004 suggest that, although civil society still tends to lack capacity and resources in South Africa, this has been an effective strategy. Stakeholder activism has also taken a constructive approach towards encouraging CSR, through groups like the National Business Initiative and partnerships between business and NGOs.

Stakeholder activism can also be a source of criticism of CSR, arguing that it is an inadequate response to the social and environmental challenges of developing countries. The Christian Aid (2005) report *Behind the Mask: The Real Face of Corporate Social Responsibility* epitomizes this critical approach, and may be a driver for an enlarged conception and practice of CSR in developing countries.

Supply Chain

Another significant driver for CSR in developing countries, especially among small and medium-sized companies, is the requirements that are being imposed by multinationals on their supply chains. This trend began with various ethical trading initiatives (Blowfield, 2003, 2004), which led to the growth of fair trade auditing and labelling schemes for agricultural products sourced in developing countries (Dolan and Opondo, 2005; Schrage and Ewing, 2005). Allegations of poor labor conditions and human rights abuses in several high profile multinational supply chains in the sporting and clothing sectors were also a significant catalyst for greater attention to CSR requirements (Hussain-Khaliq, 2004; Kaufman *et al.*, 2004; Nielsen, 2005).

One response has been the development of certifiable standards like SA 8000, which is now widely used as a screening mechanism for multinationals in selecting their suppliers in developing countries (Kolk and Van Tulder, 2002). Major change has also been achieved through sector-based initiatives such as the Forest Stewardship Council for sustainable forestry and the Marine Stewardship Council for sustainable fishing. More recently, this driver has been scaled up due to the so-called 'Wal-Mart effect' whereby major global and national retailers are committing to promoting sustainability and responsibility through their suppliers (Johnson, 2004).

A CSR Pyramid for Developing Countries

Having considered the various drivers for CSR in developing countries, the question is: Are current Western conceptions and models of CSR adequate for describing CSR in developing countries? If we consider the most popular model—Carroll's (1991) CSR Pyramid, comprising economic, legal, ethical, and philanthropic responsibilities—this is almost entirely based on research in an American context. Even so, several empirical studies suggest that culture may have an important influence on perceived CSR priorities (Pinkston and Carroll, 1994; Edmondson and Carroll, 1999; Burton *et al.*, 2000).

Crane and Matten (2007*a*) address this point explicitly by discussing CSR in a European context using Carroll's CSR Pyramid. They conclude that 'all levels of CSR play a role in Europe, but they have different significance, and furthermore are interlinked in a somewhat different manner' (p. 51). In the same way, I believe

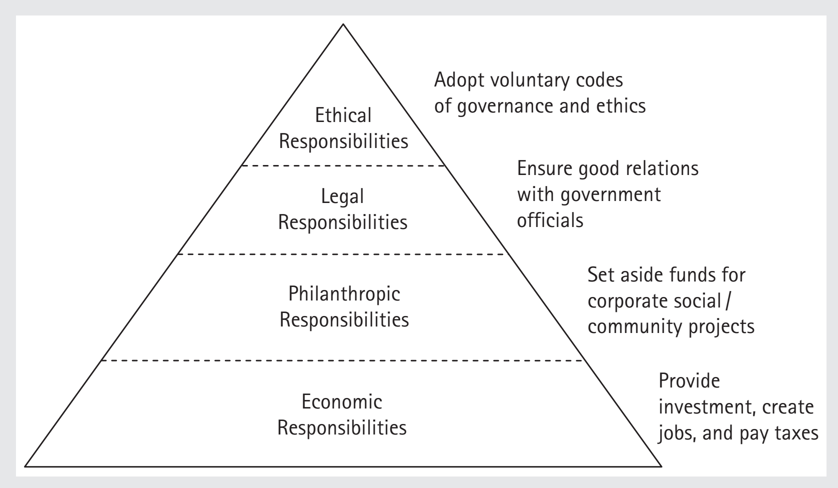

Fig. 21.3 CSR pyramid for developing countries

Carroll's four-part pyramid construct can be useful to look at how CSR is manifested in a developing country context.

Taking this approach, my contention is that the order of the CSR layers in developing countries—if this are taken as an indicator of the relative emphasis assigned to various responsibilities—differs from Carroll's classic pyramid (Visser, 2006*b*). Hence, in developing countries, economic responsibilities still get the most emphasis. However, philanthropy is given second highest priority, followed by legal and then ethical responsibilities. This is illustrated in Figure 21.3. Each element will be briefly discussed in turn.

Economic Responsibilities

It is well known that many developing countries suffer from a shortage of foreign direct investment, as well as from high unemployment and widespread poverty. It is no surprise, therefore, that the economic contribution of companies in developing countries is highly prized, by governments and communities alike. Fox (2004) argues that this should not be seen in a negative light, but rather as a more development-oriented approach to CSR that focuses on the enabling environment for responsible business in developing countries and that brings economic and equity aspects of sustainable development to the forefront of the agenda.

This is similar to the approach to economic responsibility taken by companies in Europe, in contrast to the more narrow focus on profitability in the USA (Crane and Matten, 2007*a*). Hence, in developing countries, CSR tends to stress the importance of 'economic multipliers', including the capacity to generate investment and income, produce safe products and services, create jobs, invest in human capital, establish local business linkages, spread international business standards, support technology transfer and build physical and institutional infrastructure (Nelson, 2003). For this reason, companies that operate in developing countries increasingly report on their economic responsibilities by constructing 'economic value added' statements.

It is worth re-emphasizing as a caveat that economic responsibility has two faces—economic contribution on the one side and economic dependence on the other. When communities or countries become overly dependent on multinationals for their economic welfare, there is the risk of governments compromising ethical, social, or environmental standards in order to retain their investment, or suffering huge social disruption if those businesses do decide to disinvest, as occurred with Anglo American in Zambia.

Philanthropic Responsibilities

Crane and Matten (2007*a*) suggest that philanthropic responsibility in Europe tends more often to be more compulsory via the legal framework than discretionary acts of successful companies or rich capitalists as in the United States In this respect, developing countries have more in common with the American model, although philanthropy generally gets an even higher priority as a manifestation of CSR (Arora and Puranik, 2004; Fig, 2005; Ahmad, 2006; Amaeshi *et al.*, 2006; Weyzig, 2006).

Partly, this is a result of strong indigenous traditions of philanthropy in developing countries, as previously discussed. However, there are several other reasons as well. In the first instance, the socio-economic needs of the developing countries in which companies operate are so great that philanthropy is an expected norm—it is considered the right thing to do by business.

Second, companies realize that they cannot succeed in societies that fail, and philanthropy is seen as the most direct way to improve the prospects of the communities in which their businesses operate. HIV/AIDS is a case in point, where the response by business is essentially philanthropic (it is not an occupational disease), but clearly in companies' own medium- to long-term economic interest.

Third, over the past 50 years, many developing countries have become reliant on foreign aid or donor assistance. Hence, there is often an ingrained culture of philanthropy. And a final reason for developing countries' prioritization of philanthropy is that they are generally still at an early stage of maturity in CSR, sometimes even equating CSR and philanthropy, rather than embracing the more embedded approaches now common in developed countries.

Legal Responsibilities

In developing countries, legal responsibilities generally have a lower priority than in developed countries. This does not necessarily mean that companies flaunt the law, but there is far less pressure for good conduct. This is because, in many developing countries, the legal infrastructure is poorly developed, and often lacks independence, resources, and administrative efficiency.

Many developing countries are also behind the developed world in terms of incorporating human rights and other issues relevant to CSR into their legislation (Mwaura 2004). Admittedly, there are exceptions and some developing countries have seen significant progress in strengthening the social and environmental aspects of their legislation (Visser, 2005*b*). However, government capacity for enforcement remains a serious limitation, and reduces the effectiveness of legislation as a driver for CSR.

Hence, several scholars argue that tax avoidance by companies is one of the most significant examples of irresponsible business behavior in developing countries, often contradicting their CSR claims of good conduct (Christensen and Murphy, 2004).

Ethical Responsibilities

Crane and Matten (2007*a*) suggest that ethical responsibilities enjoy a much higher priority in Europe than in the United States. In developing countries, however, ethics seems to have the least influence on the CSR agenda. This is not to say that developing countries have been untouched by the global trend towards improved governance (Reed, 2002). In fact, the 1992 and 2002 King Reports on Corporate Governance in South Africa have both led the world in their inclusion of CSR issues.

For example, the 1992 King Report was the first global corporate governance code to talk about 'stakeholders' and to stress the importance of business accountability beyond the interests of shareholders (IoD, 1992). Similarly, the 2002 revised King Report was the first to include a section on 'integrated sustainability reporting', covering social, transformation, ethical, safety, health, and environmental management policies and practices (IoD, 2002).

This progress is certainly encouraging, but in general, it is still the exception rather than the rule. For instance, in Transparency International's annual Corruption Perception Index and Global Corruption Barometer, developing countries usually make up the bulk of the most poorly ranked countries. Furthermore, survey respondents from these countries generally agree that corruption still affects business to a large extent. The World Bank's (2005) *Investment Climate Survey* paints a similar picture.

One of the attempts to address corruption in developing countries has been the UK-led Extractive Industries Transparency Initiative (EITI), which aims to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host country governments. This is clearly a step in the right direction, but the refusal of countries like Angola to even participate shows that there is still a long way to go in embedding ethical responsibilities in developing countries.

An Ideal CSR Pyramid

The descriptive approach adopted in the previous sections was used to illustrate how CSR actually manifests in developing countries, rather than presenting an aspirational view of what CSR in developing countries *should* look like. For example, it is not proposed that legal and ethical responsibilities *should* get such a low priority, but rather that they do in practice.

By contrast, if we are to work towards an ideal CSR Pyramid for CSR in developing countries, I would argue that improved ethical responsibilities, incorporating good governance, should be assigned the highest CSR priority in developing countries. It is my contention that governance reform holds the key to improvements in all the other dimensions, including economic development, rule of law, and voluntary action. Hence, embracing more transparent, ethical governance practices should form the foundation of CSR practice in developing countries, which in turn will provide the enabling environment for more widespread responsible business.

Conclusions

To summarize, I have argued that CSR in developing countries has the following distinctive characteristics (Visser *et al.*, 2007):

- CSR tends to be less formalised or institutionalized in terms of the CSR benchmarks commonly used in developed countries, i.e. CSR codes, standards, management systems and reports.
- Where formal CSR is practiced, this is usually by large, high profile national and multinational companies, especially those with recognized international brands or those aspiring to global status.
- Formal CSR codes, standards, and guidelines that are most applicable to developing countries tend to be issue specific (e.g. fair trade, supply chain, HIV/AIDS) or sector-led (e.g. agriculture, textiles, mining).

- In developing countries, CSR is most commonly associated with philanthropy or charity, i.e. through corporate social investment in education, health, sports development, the environment, and other community services.
- Making an economic contribution is often seen as the most important and effective way for business to make a social impact, i.e. through investment, job creation, taxes, and technology transfer.
- Business often finds itself engaged in the provision of social services that would be seen as government's responsibility in developed countries, for example, investment in infrastructure, schools, hospitals, and housing.
- The issues being prioritized under the CSR banner are often different in developing countries, for example, tackling HIV/AIDS, improving working conditions, provision of basic services, supply chain integrity, and poverty alleviation.
- Many of the CSR issues in developing countries present themselves as dilemmas or trade-offs, for example, development versus environment, job creation versus higher labour standards, strategic philanthropy versus political governance.
- The spirit and practise of CSR is often strongly resonant with traditional communitarian values and religious concepts in developing countries, for example, African humanism (*ubuntu*) in South Africa and harmonious society (*xiaokang*) in China.
- The focus on CSR in developing countries can be a catalyst for identifying, designing and testing new CSR frameworks and business models, for example, Prahalad's Bottom of the Pyramid model and Visser's CSR Pyramid for Developing Countries.

Research into CSR in developing countries is still relatively underdeveloped and tends to be adhoc with a heavy reliance on convenience-based case studies or descriptive accounts. The focus is often on high profile incidents or branded companies and a few select countries (e.g. Brazil, China, India, South Africa), with a general lack of comparable benchmarking data.

Hence, there is an urgent need for further research on CSR in developing countries at the international, regional, national and sectoral levels, as well as on theoretical constructs. There is a dearth of international research which surveys the nature and extent of CSR in developing countries, as compared with developed countries. Next to this need for more data in general, there is need for more comparative work which analyses CSR between regions (e.g. Africa, Latin America, Asia) and between countries within regions. On a more national or regional level, there is need for detailed national research on CSR, especially on the more than 100 developing countries that appear to have had no academic papers published about them in CSR journals. Alongside these efforts there seems to be a specific need for more sectoral research on CSR codes and practices, especially for the lesser covered industries like chemicals, financial services, infrastructure (including construction), manufacturing (including motor), media, retail, telecommunications, and travel and leisure. Finally, all these different streams of empirical research should inform more conceptual work on CSR conceptions, frameworks, or models that are more applicable to developing countries.

What is clear from this chapter, therefore, is that CSR in developing countries is a rich and fascinating area of enquiry, which is becoming ever more important in CSR theory and practice. And since it is profoundly under-researched, it also represents a tremendous opportunity for improving our knowledge and understanding about CSR.

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