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Abstract

Purpose – This paper aims to discuss how multinational enterprises (MNEs) can approach corporate social responsibility (CSR) in developing countries. Such countries face challenges of low social development, income differences and weak institutional framework. The society is also characterized by greater power distance and in-group collectivism. Managers of MNEs operating in developing countries have to find ways and means to deliver CSR which is in sync with the atypical socio-cultural-political-demographical needs of the country. They cannot just concentrate on strategic CSR to create positive externalities; rather, they have to provide generic social benefits to local communities.

Design/methodology/approach – The paper examines select literature to suggest six propositions regarding CSR approaches that can be adopted by MNEs.

Findings – Managers of MNEs will concentrate on those stakeholders who have power to punish or reward, and, apart from shareholders, these are likely to be local communities. Hypernorms operating in background will be linked to emergence of macro-social contract of societal expectation to provide some support to local community, whose specific forms will be community-specific microsocial contracts. These will aim at providing generic social goods to local community, through a variety of transactional and calculative activities, high on tokenism.

Research limitations/implications – This is a conceptual work. Empirical study is not done.

Originality/value – The mainstream CSR agenda is largely driven by concerns and priorities of developed countries. It aims at universalizing a set of conditions that do not exist in developing countries, and ignores the local realities and priorities. The paper fills a gap in explaining why the concept of global CSR has its limitations, and MNEs have to concentrate on alleviating local demands.

Keywords Ethics, Stakeholders, Corporate social responsibility, Local community, Multinational enterprises (MNEs), Hypernorm, Micro-social contract

Paper type Conceptual paper

Introduction

Corporates as an organizing form are considered an oasis of wealth, power, prestige, efficiency and effectiveness leading to primacy and privilege in the society in which they operate (Bowen, 1953; Hinings and Greenwood, 2002). These have a trajectory of growing influence, where many global organizations have revenues larger than a country's GDP, which indicates that their business is one of the "institutional centerpieces of a complex society" (Carroll and Buchholtz, 2006, p. 66). Specialized forms created to efficiently manufacture and distribute goods and services have now morphed into "multipurpose social institutions" (Carroll and Buchholtz, 2006) on which multifarious groups depend for the fulfillment of their demands, expectations and interests. The complexities of the social and political landscape, historical context and long-term perspective, notions of "privilege and disadvantage, the role of factional interests, and the exercise of power" (Hinings and Greenwood, 2002, p. 417) and the

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tremendous reach of information and communication technology have ensured that various entities in the business landscape can establish a stake that can be legal (e.g. regulatory authorities), moral (e.g. environmental groups) or a form of interest (e.g. local community) (Carroll and Buchholtz, 2006). The concept of corporate social responsibility (CSR) deals with broader roles and responsibilities of business, embedded in the larger socioeconomic structure.

Critics continue to argue that business organizations tend to pay lip service to CSR, despite what they claim in their annual report. They aim for a patina of respectability in the eyes of various types of beholders, "a sort of prosthesis readily attached to the corporate body that repairs its appearance but in no way changes its actual conduct" (Roberts, 2003, p. 250). Banerjee (2008) argues that company discussions on CSR are more of an ideology intended to legitimize and consolidate the power of large corporations. Alternatively, as *The Economist* (2005) magazine puts it, CSR as an idea has won the battle but left its proponents disappointed, as they discovered it has been a hollow victory indeed. This disconnect between ideology and practice has prompted the call for abandoning official discourses on CSR, as most related activities are aimed at gaining legitimacy from key stakeholders like employees and customers and are primarily aimed at profit maximization by the company (Fleming and Jones, 2013).

This extreme fatalistic view of CSR is countered by the view of CSR as an *aspirational talk* (Christensen *et al.*, 2013) which accepts a gap between CSR talk and action, and that this gap is actually a vital stimulus for change. Rather than seeing this gap as duplicity, the authors consider CSR idealization as a motivational role for change, not only for the beneficiaries but also for the organizational actors. After all, corporate giving is not insubstantial; it was estimated that FTSE 100 companies in 2004 were giving close to 1 per cent of pre-tax profit in charitable contributions (including gifts in kind, staff time devoted to charitable causes and related management costs)[1], though it has fallen in recent years due to recession[2].

For many business managers, CSR idealization is still equivalent to certain programs handled by the eponymously named department. Basu and Palazzo (2008) refer to this as content-based CSR, which focuses on inventories of CSR activities. Clarity continues to elude managers as to how and in what way to reach out to society and keep pace with the expectations of increasingly belligerent civil society activists and demanding government entities, as the manager is primarily expected to manage the business landscape to maximize shareholder's value. This tension between productive efficiency and societal well-being takes on a different tenor in the context of developing countries where CSR seems to have less traction in the corporate schema than in developed nations (Baskin, 2006). In this article, we argue that developing countries present a set of atypical challenges as a result of which the CSR approach adopted by corporates is likely to be quite different. We develop a set of hypotheses for multinational enterprises (MNEs) to select appropriate CSR policies and activities.

CSR – many definitions

CSR exemplifies the interdependent nature of business and society and the role of business for helping to create a better future. Although there are many definitions of CSR (Kakabadse *et al.*, 2007; Dahlsrud, 2008), they all share the commonality that companies cannot just concentrate on being responsible to shareholders. Carroll (1979) categorizes four types of business responsibilities; the economic component obliges a business to perform well, the legal component requires them to obey the law, the ethical component enjoins them to abide by society's ethical standards and the philanthropic component expects them to give back to the society. The components are not mutually exclusive, and the CSR perspective assumes that companies will simultaneously focus on all four as unified whole through its decisions, actions, policies and practices (Carroll and Buchholtz, 2006).

One of the durable arguments against CSR states that organizations are only responsible to the shareholders. This view was championed by Friedman (1970), who actually agreed to the first three responsibilities of the firm – economic, legal and ethical; however, he and many managers continue to find it difficult to embrace philanthropic expectations from a firm. Other primary arguments against corporate social responsibility are organizations already advance social welfare by efficiently producing goods and services, fulfill people's needs and create wealth; it may be impossible to maximize performance in more than one dimension such as fulfilling business requirements and giving something back to society (Davis, 1973; Jensen, 2002); it may be neither prudent nor permissible to devote corporate resources to redress societal ills (Friedman, 1962; Sternberg, 1997). Negating the primarily economic conceptualization of companies, the stakeholder theory (Freeman, 1984) argues that apart from shareholders, there are other legitimate parties who can affect or are affected by the firm's achievement of its objectives. Clarkson (1995) extended the concept further to include all those who claim ownership, rights or interests in a firm and its past, present and future activities, whose interests and concerns ought to orient manager's actions; this may be those who are nonhumans (e.g. the earth) as well as those not present today (e.g. future generations) (Zsolnai, 2006). The stakeholder theory was further elaborated (Donaldson and Preston, 1995) by dividing it into three parts – descriptive terms that focus on whether and to what extent managers do in fact attend to various stakeholders; normative terms that explore whether managers ought to attend stakeholders other than shareholders, and if so, why; and instrumental terms that delineate the consequences – notably financial – that follow such an engagement. One important assertion has been that instrumental considerations convince managers to engage in normative behavior (Freeman, 1999; Post *et al.*, 2002), and hence a preponderance of studies that try to justify CSR in terms of corporate financial performance (Margolis *et al.*, 2007; Orlitzky *et al.*, 2003). However, a preoccupation with instrumental consequences – whether CSR really results in superior financial performance – does not sort "the underlying tensions between the social and economic imperatives that confront organizations" (Margolis and Walsh, 2003, p. 280). In subsequent paragraphs, we discuss some of these tensions as evinced in developing nations and how managers in an MNE can reconcile the economic model of wealth creation for shareholders and that of the caring of all stakeholders implicit in the stakeholder theory.

Challenges of CSR in developing countries

Classifying countries with the terms "developed", "less developed" or "developing" is fraught with debate; even the terminology and definition by various world bodies differ. However, the term "developing countries" continues as the common phrase for describing countries with a low per capita income and low level of human capital index. These countries have widely different levels of economic prosperity, human capital and the overall administration of the three citizenship rights, namely civil, social and political. The nature and extent of CSR in business are quite varied as well. The mainstream CSR agenda is largely driven by concerns and priorities of developed countries, that ignores the local realities of developing countries like social (e.g. poor access to capacity-building), political (e.g. poorly developed democratic institutions) and economic (e.g. tax avoidance and poor legal enforcements) priorities (Idemudia, 2011). Visser (2008) identifies six internal drivers of CSR in developing countries, namely, cultural traditions, political reform, socioeconomic priorities, governance gaps, crisis response and market access. He argues that the responsibility layers in Carroll's (1979) classic CSR pyramid are reordered when defined for developing countries, with philanthropic responsibilities getting the second highest priority, followed by legal and ethical responsibility; economic responsibility being the most emphasized in both versions.

Philanthropic responsibilities

Developing countries tend to have deep-rooted cultural traditions of philanthropy (Frynas, 2006), and the socioeconomic needs are so great that philanthropy is the expected norm from companies (Visser, 2008). In fact, a study conducted on business students regarding CSR perceptions in the USA, India and China found that Indians place more emphasis on philanthropy, compared to the other two countries (Wong *et al.*, 2009), underscoring the fact that cultural environments do influence perceptions of the role of social responsibility of business. However, such traditions may not be fully realized in actual deliverables of CSR, as Baskin (2006, p. 46) notes that CSR in developing countries seems to be "less embedded in corporate strategies, less pervasive and less politically rooted" than developed nations, and that much of the agenda is seemingly driven by expectations of the foreign customers or business partners (Frynas, 2006).

Cultural variables are likely to play a great role in influencing CSR orientation (Waldman *et al.*, 2006). Developing countries typically exhibit greater power-distance (degree to which people are separated by power, authority and prestige) and in-group collectivism (degree to which people take pride in and feel loyalty toward their families, organizations and employers). These are correlated with low social development, income differences and socio-political corruption index (Basabe and Ras, 2005; Hofstede, 1980). Managers may not consider community or societal issues important, as these appear as concerns beyond the realm of in-group, or be considerate to stakeholders who seem to lack in power (Waldman *et al.*, 2006).

Local community – solace during time of need

The essence of the stakeholder theory is an implicit contract – set of expectations – that operates between business and society. Business as an institutional centerpiece raises expectations, especially in the local community, the immediate geographic community area around the organization's headquarters or its various installations. The local community sees the wealth, power and prestige of the business first-hand. The high power-distance society accepts large inequalities of power and wealth, but there is also a preference for collectivism – an emphasis on a tight social framework where people expect others in their immediate group to look after them. Thus, in these societies, the implicit social contract will accept areas of prosperity (e.g. business organizations in sea of deprivation), and provide a peaceful environment for them to flourish. In return, the cultural landscape will expect the firm's help during times of real need. The expectations are similar to poor relatives who depend on the sole rich person in the extended family to help in a crisis situation.

For example, residents of the villages around the campus of my nationally renowned institute, in India, have very little interaction with us. However, they may take strong exception to the verdant green lawns and the well-tended flowerbeds of the campus when faced with severe water shortage during summer months. Although the 200-acre campus manages its water sources judiciously and practices rainwater harvesting, it cannot be compared to the ire-filled interests of villagers during parched months. It is also highly possible that the villagers will protest in front of the two gates of the walled campus, and completely shut down the entry and exit, bringing the institute to a grinding halt. The institute may need to send water tankers to the villages in its own self-interest to ensure peaceful co-existence.

Dangerous stakeholder – local community

Power is the ability of an actor in a social relationship to carry out his own will despite resistance (Weber, 1947). The power of a stakeholder combined with attributes of urgency – time sensitivity and criticality – creates a "dangerous stakeholder" who lacks legitimacy but is likely to be coercive and possibly violent (Mitchell *et al.*, 1997, p. 877). The possession of power does not imply "consciousness of such possession by the possessor", or its willingness to use it (Mitchell *et al.*, 1997, p. 868); rather, the latent power may be triggered by conditions of urgency – "a socially constructed perceptual phenomenon" – and may encourage "one-sided stakeholder action" (Mitchell *et al.*, 1997, p. 870).

With special fiduciary obligation toward shareholders as well as physical proximity as guiding principles of action, based on common-sense morality (Frederiksen, 2010), managers are likely to determine that local communities are salient enough to receive their attention. To contain the potential danger, managers extend support to them by using CSR. Thus, going back to the hypothetical example of sending water tankers to parched neighborhoods, the managers in developing countries will address specific needs in a local community when they are perceived to be potentially dangerous, as urgency is seen as the best predictor of stakeholder salience (Agle *et al.*, 1999).

The urgency of expectations of the local community will achieve extreme saliency primarily during their time of crisis. Moreover, local communities can show power and destabilize business precisely because developing countries are beset with governance gaps due to weak, corrupt or under-resourced institutions, including those that are charged with protecting life and property:

P1. In developing countries, business organizations are likely to concentrate on CSR activities aimed at local community around their installations.

P2. In developing countries, local communities are likely to become dangerous stakeholders when their expectation from business organization acquires attributes of urgency.

Studies carried out in the USA have found that CSR spending is most in areas where corporate executives reside; that is, maximum fund is spent in areas around the corporate headquarter. The amount is pegged close to 80 per cent (Guthrie, 2003; McElroy and Siegfried, 1986). Our proposition argues that at least in the context of developing countries, the trend needs to be revisited.

Local community – identifying the need

The set of expectations that a local community is likely to have from business can be understood through the concept of hypernorms, which are fundamental principles that "serve as a guide to evaluate lower level moral norms" and are discernible in a convergence of religious, philosophical, political and cultural beliefs (Donaldson and Dunfee, 1994, p. 265). Deep-rooted cultural traditions of philanthropy in developing countries (Frynas, 2006) are an example of a hypernorm, and act as a background for the emergence of a macro-social contract of societal expectation from business to provide some support to the local community (Moir, 2001). The specific forms that support the local community will be community-specific micro-social contracts that help "to reduce the moral opaqueness left by the bounded nature of moral rationality" – due to the finite human capacity to assess facts (Moir, 2001, p. 262). In developing countries, which have obvious governmental failure in delivering welfare goods that allow for a dignified human existence, the expectations from the local community will be the basic amenities of life like accessibility to drinking water, education, employment and medical care. This expectation of basic needs by the local community from businesses will occupy moral free space amid the boundaries set by the hypernorm.

The inherent cultural variables of power distance and in-group collectivism (shared perceptions) constitute the identity of the organization (i.e. "who we are"), thereby driving motivation and behavior, creating basis for interacting with other entities (Basu and Palazzo, 2008). For example, individual orientation of organizations (Brickson, 2007) is nothing but dominant worldview of managers, who consider their firm as a distinct entity compared to others – us and others – with "organizational self-conception as a sole entity atomized and distinct from others" (Brickson, 2007, p. 865). Thus, community expectations will be met by CSR deliverables through a variety of transactional and calculative activities, high on tokenism[3]. Under ordinary circumstances, CSR delivery will be patchy, though the business will pitch in during a crisis situation to guard their own self-interests from a potentially dangerous situation. A unpublished study, based of top 100 companies in terms of CSR spending in India[4], finds that maximum amount is spent in the areas of primary education (79 per cent), health (74 per cent) and vocational training (69 per cent) – all generic social issues requiring immediate attention in a country coping up with challenges of providing access to dignified human life to its 32.7 per cent of its population (of 1,221 million) living below the international poverty line[5]:

P3. In developing countries, business organizations are likely to concentrate on CSR activities aimed at providing generic social goods to the local community.

P4. In developing countries, business organizations are likely to meet its CSR expectations through a variety of transactional and calculative activities, high on tokenism.

Challenges of MNEs

Being embedded entities in a larger socioeconomic structure, positive and/or negative externalities of business have ramifications. Organizations tend to cope with negative externalities through a defensive approach to minimize damage (Lankoski, 2009), and use proactive engagement with stakeholders to create positive externalities. For example, Porter and Kramer (2006) suggest a framework that categorizes social issues affecting a company into generic social issues, value chain impacts and social dimensions of competitive contexts. They argue that generic social issues have such a vast range and scope that they are "neither significantly affected by the company's operations nor influence the company's long-term competitiveness" (Porter and Kramer, 2006, p. 9). However, where a social issue is salient for many, it can be addressed through a cooperative model by all companies joining hands. On the other hand, responsive CSR deals with mitigating negative effects of value chain activities, like environment pollution. Strategic CSR deals with transforming value chain activities for the benefit of the society, as well as leverage capabilities of the firm to improve various facets of competitive landscape. Through our four hypotheses, we argue that the strategic approach may have limitations for MNEs when they enter developing markets.

MNEs in most developing markets confront tough terrain. Market potential of all such markets is tempered with varying combinations of corruption, volatility, chaos, governance issues, weak institutions and poor infrastructure. However, in the globalized world, with the proliferation of information technology and media accessibility, MNEs are required to be mindful of the societal expectations. Typically speaking, population of all developing countries, based on annual income data, can be stratified as a flattish pyramid with a fat base. There is a very small affluent segment at the top, followed by various sizes of middle class (based on economic-growth trajectory of the country) and a fat bottom of the pyramid, comprising people barely eking out a living. MNEs aim to earn their profit by selling to the affluent and middle market, and are expected to reach out to the poorer section of the society through CSR to earn trust and goodwill.

MNEs have to contend with mitigating negative externalities of business in developing countries. However, because of the inability of the government to provide for a dignified human existence to a large part of its population, MNEs have to also get involved in generic social causes as well. However, a comparatively recent study on CSR as practiced by international companies in India found that:

> […] profoundness of the commitment varies according to their experience and knowledge of the issue, and a lack of coherence among companies and stakeholders regarding the understanding of, and engagement in, the issue is evident. In its contemporary stage, the development impact of the CSR strategies can be seen as rather modest (Shankar *et al.*, 2011, p. 97).

The challenges confronting such societies are enormous, and MNEs may be at a loss to find out where to start. An appropriate approach may be to study the micro-social contract (Donaldson and Dunfee, 1994) that operates in the geographical or economic/industrial sphere where the MNE is located (Moir, 2001). Such a contract is likely to be underscored by the norms, expectations and traditions that operate in the sphere. For example, in a country like India with its greater emphasis on family responsibility, where offspring are expected to take care of their aged parents, it is but natural that medical insurance facilities extended to employees' need to provide coverage for their parents as well:

P5. In developing countries, business organizations are likely to identify CSR activities based on micro-social contracts that operate in the geographical area where they operate or the economic/industrial space that they occupy.

Organizations possess a certain stock of stakeholder influence capacity (SIC) (Barnett, 2007, p. 803) that epitomizes "the ability of a firm to identify, act on, and profit from opportunities to improve stakeholder relationships through CSR". SIC stock gets enhanced via absorptive capacity that allows a firm to build on its initial CSR activity, and gets amplified through evidence of its effect on social welfare. Stakeholders, due to bounded rationality, rely on perceptual filters of SIC to create their overall impression of the firm. CSR activities aimed at local communities will create the SIC stock of MNEs operating in developing countries. Path-dependent nature of firm–stakeholder relations means that initial acts of CSR are likely to create general goodwill and trustworthiness. Such citizenship acts could elicit contingencies that augur well for business, and build SIC stock over a period. And, acts of responsive and strategic CSR will help in gaining stakeholder favor with relatively small addition to SIC stock (Barnett, 2007). Almost all developing nations were under Western foreign power (political and/or economic) till a few decades back, and the society continues to carry *angst* and suspicion against MNEs. It is argued that CSR activities aimed at the local community will create SIC stock for MNEs.

Based on our earlier argument, CSR actions of an MNE, aimed at the local community, will lead to a "degree of isomorphism, or prevalence of a particular form, focus, or level of corporate social action" – that over time gets hardwired such that new firms entering the locality follow the template (Marquis *et al.*, 2007, p. 926). Thus, in time, all MNEs are likely to practice similar set of CSR activities in a given locality:

P6. In developing countries, the initial CSR activities of a business organization, aimed at the local community, will create its SIC, that will generate goodwill and trustworthiness about the organization, and other organizations entering the geographical area later will follow the CSR activities already prevalent.

Future research agenda

Developing nations are not a set of unique block – they share many similarities, but they also have distinctive characteristics based on the country's historical–cultural–demographical–political experience. There is also large variation in the level of economic and institutional development. The propositions suggested in the article need empirical support from various developing nations. It is likely that subgroups of developing countries may show similarities, and there may be differences among different subgroups. Also, experience of CSR expectations may be different across developing countries, as their presence has followed variable contours. In some, they have been present for close to a century (e.g. India), whereas in some, they are recent entrants. The present study strongly suggests that MNEs ought to concentrate on delivering generic social goods as compared to strategic CSR; obviously, firms will have to find an appropriate balance between both, and studies can link such balance to geography and/or industry.

Conclusion

CSR is most often seen through an instrumental perspective in organizations (Berman *et al.*, 1999). Thus, the "concerns of stakeholders enter a firm's decision-making processes only if they have strategic value to the firm" (Berman *et al.*, 1999, p. 492), and these strategic CSR activities do improve a firm's financial performance, but similar support for normatively driven stakeholder commitment is not seen. To encourage the orientation of managers toward a CSR approach, the insistence of special obligations toward key stakeholders in identified geographical and social impact areas is likely to be more acceptable rather than haranguing CSR orientation for altruistic reasons. This is specifically true in developing countries, where cultural variables impact the CSR orientation adversely. The local community is identified as a potentially dangerous stakeholder whose good-will is needed to smoothly run a business. The social outreach may be perfunctory and calculative, with ameliorative measures during times of dire need. Using the example of a local community, we argue that the relationship with stakeholders will be based on instrumentality and characterized by weak ties. The CSR deliverables in developing countries will be fragmented and opportunistic, and social output will be more of a collateral gain. However, society will still be better off with this schema rather than no help whatsoever from the business, as government initiatives to improve living conditions are patchy at best and non-existent at times.

Notes

1. www.theguardian.com/society/2004/nov/08/ethicalbusiness.money6 (accessed 1 April 2014).
2. www.independent.co.uk/news/business/analysis-and-features/charities-hit-by-corporate-stinginess-2205572.html (accessed 1 April 2014).
3. A recent mapping done of CSR performance of top 500 companies of India against Global Reporting Initiative (GRI) standards shows that tokenism is rife, and CSR funds are spread thinly across many activities (Gautam and Singh, 2010).
4. *Forbes India* Magazine, 2013. CSR report card: where companies stand. 22 March.
5. http://povertydata.worldbank.org/poverty/country/IND (accessed 28 February 2014).

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