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The Changing Milieu of Corporate Social Responsibility in the Developing World: Issues and Challenges

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ABSTRACT

The purpose of the current article is to explore the origin and development of corporate social responsibility (CSR) in the modern world whilst analysing some of the major contributions made by scholars in the past that has led to the growth of its literature. It also reviews some of the significant definitions proposed by scholars and international development agencies defining CSR. The article also examines the changes that have occurred in the last decade in the way CSR is perceived especially in the developing world whilst arguing that aligning CSR initiatives of multinational corporations (MNCs) with the development needs of local communities is important to avoid potential corporate - community conflicts. The article adds to the existing literature on CSR and highlights the need for greater community participation in formulating CSR policies and programs by MNCs in developing economies.

Keywords: CSR, MNCs, Poverty reduction, Development initiatives, Local communities, Corporate-community conflicts, Developing countries.

1. INTRODUCTION

The current article examines the origin and development of the notion of corporate social responsibility (CSR) in modern times, reviewing some of the significant contributions made by scholars in the past towards the growth of its literature. It also tries to analyse the reasons behind CSR being increasingly considered as a tool for poverty reduction and achieving other international development goals in recent times by policymakers and development agencies whilst arguing that aligning CSR initiatives with poverty reduction and international development is going to be imperative for companies to succeed in developing countries. The paper aims to create a better understanding on CSR both for practitioners and scholars interested in the subject. The first section takes a look at the conceptual development of CSR. The next section analyses the several different definitions on CSR proposed by scholars and by not-for-profit organisations and development agencies. The following section tries to explore the reasons behind CSR being perceived as a development tool for achieving poverty reduction and other development goals and argues on why its important for companies to align CSR practices with poverty reduction and development of social opportunities in developing countries. It is followed by conclusion and contribution of the current paper.

2. CONCEPTUAL BACKGROUND

The concept of CSR has emerged out of a long standing debate over the relationship between business and society and its traces can be found in the philanthropic works of several enlightened industrialists since the early nineteenth century including Marks and Cadbury in the United Kingdom (UK), Carnegie and Rockefeller in the United States (US), and Jamsethji Tata in India amongst many others. However, formal writings on the subject began mostly in the US by early 1950s following Bowen's (1953) seminal work entitled "Social Responsibilities of the Businessman" which is arguably credited as the beginning of the modern period of literature on CSR (Carroll, 2015). Bowen offered an initial definition of the social responsibilities of businessmen "… referring to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953, pp. 6). Following Bowen's seminal book (1953) in the 1950s, there was a surge in the development of the literature on CSR in the early 1960s, which saw quite a substantial growth in attempts to formalise or more accurately state what CSR means. One of the first and most influential writers during the 1960s to define CSR was Davis (1960). According to Davis, social responsibilities refer to "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (Davis 1960, pp. 70). He set forth his now famous "Iron Law of Responsibility" which held that "social responsibilities of businessmen need to commensurate with their social power" (Davis 1960, pp. 71). He further took the position that "if social responsibilities and power were to be relatively equal, then the avoidance of social responsibilities leads to gradual erosion of social power on part of the business" (Davis 1960, pp. 73). Another important contribution towards the development in its literature came from Frederick (1960), who posited that "Social responsibilities mean that businessmen should oversee the operation of an economic system that fulfils the expectations of the public…" (Frederick 1960, pp. 60). Another person to contribute to the definition of social responsibility during the 1960s was McGuire (1963). In his book, "Business and Society" (1963), he argues that "The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations" (McGuire 1963, pp. 144).

The 1970s witnessed Carroll (1979) proposing his now famous four-part definition of CSR (Pyramid of CSR Model), which identified four categories of responsibilities: economic, legal, ethical and discretionary/philanthropic. According to Carroll (1979), These "responsibilities" are the expectations placed on the corporation by corporate stakeholders and society as a whole.

The 1980s saw a rise in the popularity of alternative themes like "stakeholders theory/management" (Freeman, 1984). According to Freeman (1984), "stakeholders are groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by corporate actions" (Freeman, 1998, pp. 174). Stakeholder theory asserts that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. Management should not only consider its shareholders in the decision making process, but also anyone who is affected by business decisions (Castelo et. al., 2007). There are five major stakeholder groups generally recognised by most firms globally including shareholders, employees, customers, local communities and society at large.

In early 1990s, Carroll (1991) revisited his four-part definition on CSR, referring to the discretionary component as philanthropic and suggesting that it embraced "Corporate Citizenship" (Carroll, 1999, pp. 289). The "Pyramid of CSR" model as proposed by Carroll depicts the economic category as the base (the foundation upon which all others rest), and then built upwards through the legal, ethical, and philanthropic categories (Carroll, 1991, pp. 42). What needs to be particularly mentioned here is that Carroll made it clear that business should not fulfil these in sequential fashion but each is to be fulfilled at all times. Carroll summarised his concept of CSR in the following words: "The CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen" (Carroll, 1999, p. 289).

The later part of 2000s has witnessed a marked change in the way CSR is perceived. From being considered earlier as a voluntary activity on part of the companies to its supposedly recent transformation as one of the major tools for poverty reduction (Frynas, 2008), the reasons for which will be discussed in a later section.

3. CSR: EVOLUTION OF A DEFINITIONAL CONSTRUCT

Numerous definitions of CSR have been offered by scholars and by not-for-profit- organisations since Bowen (1953), however, there is no consensus when it comes to defining CSR (Argandona & Hoivik, 2010), and it remains an essentially contested concept (Matten & Moon, 2008), which "…has been conceptualised in a number of different ways which are related to differing views regarding the role of business in society" (Branco & Rodrigues, 2007). According to the World Business Council for Sustainable Development (2000), "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the life of the workforce and their families as well as the local community and society at large" whilst the European Union (2011), refers to CSR as "the responsibility of enterprises for their impact on society"[1]. One of the most widely cited definitions on CSR has been proposed by Carroll (1979), who defines it as "the social responsibility of business consisting of the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time". Whilst according to Matten & Moon (2008), "CSR empirically consists of clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good. Yet the precise manifestation and direction of the responsibility lie at the discretion of the corporation" (Matten & Moon, pp. 2, 2008). Dahlsrud (2008), who conducted a comparative analysis of 37 different definitions of CSR, refers to CSR "as a social construction and as such, its not possible to develop an unbiased definition" (Dahlsrud, 2008, pp. 2). Numerous related terms other than CSR have also come in use in the last few decades including corporate citizenship, corporate social responsiveness, corporate philanthropy, stakeholder management amongst others. As a working definition as part of the current study, CSR may be referred to as an "umbrella term" (Scherer & Palazzo, 2012; Blowfield & Frynas, 2005), for several overlapping as well as disparate theories on businesses' responsibility (Matten & Moon, 2008), "for their impact on society and the natural environment..." (Blowfield & Frynas, 2005, pp. 5).

[1] https://ec.europa.eu/growth/industry/corporate-social-responsibility_en

4. CSR: THE CURRENT SCENARIO

Today it is increasingly being expected by communities and policymakers that the large profit making multinational corporations (MNCs) should also contribute towards reducing poverty especially in developing countries (Idemudia, 2014; 2008; Amadi & Abdullah, 2012; Ogula, 2012; Scherer & Palazzo, 2011; Kercher, 2007), with arguments for CSR to be rapidly expanded to meet the challenge of shaping an inclusive and sustainable global society (Williams, 2014), as CSR is considered by some as a vehicle through which the private sector can contribute to poverty reduction and other social objectives, which will not be achieved by governments acting alone (Fox, 2004). The Government of India recently passed the "Companies Act" (2013), making it mandatory for firms making a profit of Rs five crores or more annually to spend at least two percent of their pre-tax profits for CSR activities[2]. The change in looking at CSR as something which the companies did voluntarily as part of their social and ethical responsibility (Carroll, 1991, 1979), towards their stakeholders to its supposed transformation as one of the major tools to eradicate poverty and achieve other international development goals is a very significant development (Frynas, 2008), as now businesses are not just expected to provide products and services at a profit but also contribute towards achieving sustainable development goals or SDGs (2014). There are various reasons for the shift in approach towards CSR. The global economic crisis which began in 2008, fuelled a wave of economic recession that led to protest movements such as "Occupy Wall Street" in different parts of the world (Crane, 2013) along with several other similar public movements against big businesses. It forced the MNCs to respond to the challenge by taking initiatives aimed towards the greater public good as part of their CSR initiatives, including providing healthcare and education facilities, infrastructure and community development amongst other initiatives to reaffirm their legitimacy, enhance their reputation and earn the goodwill of local communities (Muthuri et. al., 2012). In addition more recently, the view of development as being primarily about economic growth has been changing and there has been a much greater emphasis on the social dimensions of development led by the formation of UN's "Human Development Index"[3] and later to the adoption of UN's "Millennium Development Goals"[4] (Jenkins, 2005), focusing on eradicating poverty and other developmental goals. It's also widely acknowledged by development agencies that often the governments in developing countries lack the expertise and resources to deal with the complex issues of poverty, illiteracy, healthcare amongst others whilst the MNCs can contribute towards achieving these development objectives as they have the technical and managerial expertise along with massive resources[5]. As Lodge (2006), observes, "the involvement of MNCs is crucial to global poverty reduction, especially in the developing countries, because poverty reduction requires systemic change, and MNCs are the world's most efficient and sustainable engines of change…"[6]. On the other hand, failure to meet or respond to community expectations by companies may result in corporate - community conflicts as witnessed in the Niger Delta in Nigeria where local communities have on several occasions clashed with oil companies which has resulted in 'oil pipeline bunkering', protests and clashes leading to huge losses for the companies (Idemudia & Ite, 2006) or in other countries such as Peru where local communities have often clashed with mining companies for their failure to adopt responsible mining practices and act as a responsible

2 http://www.thehindu.com/business/Industry/government-clarifies-on-csr-spending/article5320157.ece

3 http://hdr.undp.org/en/composite/HDI

4 http://www.un.org/millenniumgoals/

5 http://unctad.org/en/PublicationsLibrary/wir2011_en.pdf

6 http://yaleglobal.yale.edu/content/multinational-corporations-key-global-poverty-reduction—-part- i

corporate citizen (Triscritti, 2013). A number of studies (Ogula, 2012; Muthuri, et. al., 2012; Anguelovski, 2011; Gifford et. al., 2010; Garvin et. al., 2009) in the past have shown that integration of community expectations is integral to CSR strategy and failure to do so gives rise to corporate - community conflicts whilst recognising the host communities as stakeholders and partners when formulating the CSR policies and working towards creating an environment of mutual trust is important for companies to reduce and manage the negative impact of business. Effective community engagement becomes all the more necessary for MNCs as they often operate in regions in developing countries which have a high incidence of poverty and a lack of basic infrastructure facilities along with a weak governance structure and local communities in those regions expect the MNCs to fill the gap by addressing these developmental issues (Muthuri et. al.,. 2012). Hence its important for companies to encourage community participation and integrating genuine community concerns whilst formulating CSR policies and programs not only to avoid potential conflicts with local communities which may affect their financial bottomline but also to be recognised as responsible corporate citizens. Community engagement and managing community relations effectively thus may hold the key for the MNCs not just for managing risk and mitigating externalities but also for creating a healthy environment for doing business and in gaining their social licence to operate in the developing world.

5. CONCLUSION

The idea of CSR has come a long way since the early days of Bowen (1953) and although a lot has been written on the subject by scholars and academics since the last half decade or so, however, there has been no consensus on defining CSR as it is usually driven and shaped up by individual countries' cultural, political and socio-economic needs and conditions. However, what is commonly accepted by all is that businesses have a responsibility towards their stakeholders and it is in businesses' long term interest to contribute towards the overall wellbeing of stakeholders including local communities in regions where they operate especially in developing countries. The benefits may range from greater brand visibility and brand image, gaining a social licence to operate, greater employee retention to reduced cost and risk of doing business (Carroll & Shabana, 2010) whilst a failure to incorporate societal expectations when formulating the CSR polices and initiatives may result in corporate - community conflicts as experienced in several countries leading to negative publicity and protests by local communities, greater government control and disturbances which may adversely affect the financial bottomline of the company. So its advisable for companies to recognise local communities as partners and stakeholders when formulating the CSR policies and programs as it will not only contribute to the overall wellbeing and prosperity of communities but will also be beneficial for the companies which will create an enabling environment of growth for all.

Contribution of the Paper

The current article contributes to the existing literature on CSR by highlighting the importance to incorporate the needs and expectations of the local poor and marginalised communities to the CSR initiatives of MNCs operating in developing countries to avoid potential corporate - community clashes as witnessed in many developing countries. The paper also argues that managing community relations efficiently is vital for MNCs to do business in developing countries and emphasises the need to create an enabling environment of trust between MNCs and local communities.

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