

PUBLISHED VERSION

Rajeev Kamineni, Ka Chun Tsang

Multinational corporations and corporate social responsibility in transition economies

Proceedings of the ANZMAC 2006 Conference: Advancing Theory, Maintaining Relevance, 2006 / pp.1-7

Copyright of papers presented at ANZMAC conferences is retained by the authors, therefore any other use of these materials – including reproduction for purposes other than those noted above, modification, distribution, or republication – without prior written permission of the author is strictly prohibited.

PERMISSIONS

<http://www.anzmac.org/about-us>

Terms of Use

ANZMAC authorizes you to view, print, and download the materials accessed from this website for your personal, non-commercial use only, provided that you retain all copyright and other proprietary notices contained in the original materials. **Copyright of papers presented at ANZMAC conferences is retained by the authors, therefore any other use of these materials – including reproduction for purposes other than those noted above, modification, distribution, or republication – without prior written permission of the author is strictly prohibited.** If you download materials from this site to your PC, you must protect those materials from unauthorized access or misuse.

4 May 2017

<http://hdl.handle.net/2440/104794>

Multinational Corporations and Corporate Social Responsibility in Transition Economies

Rajeev Kamineni, Ka Chun Tsang, University of Western Sydney

Abstract

Many multinational enterprises have had tough experiences in learning the importance of being socially responsible. Multinational enterprises are now finally, regarding high standards of corporate behaviour as the key to success in the international market. For example, Oil company Shell lost business and declined in value due to two high profile corporate incidents in 1995. Since then, Shell has been dedicated to managing its social responsibilities as a strategic priority, aiming to build up the company's reputation, to protect its market share and to operate in a way which satisfies all of its stakeholders (McIntosh et al, 1998). There are two major objectives of this paper: (1) to answer two critical questions in relation to corporate social responsibility: (a) what is the external dimension of corporate social responsibility for multi-national enterprises in transition economies? (b) What are the consequences for multinational enterprises if they ignore the interests of their stakeholders in the transition economies? And (2) to point out the marketing paradigms with a social responsibility focus for transition economies.

Introduction

The business environment has undergone vast changes in recent years in terms of both the nature of competition and the wave of globalisation that has been sweeping across markets. Companies are expanding their boundaries from the country of their origin to the evolving markets of the developing countries which have been referred to as transition economies. The current trend of globalisation has brought a realisation among the firms that in order to compete effectively in a competitive environment; they need clearly defined business practices with a sound focus on the public interest in the market (Gray 2001). The increase in competition among the multinational companies to gain first mover advantage in various transition economies by establishing goodwill relationships with both the state and the civil society is ample testimony to this transformation. The concept of globalisation has encouraged multinational enterprises to invest in transition economies in order to increase market size, spread out risk and enhance productivity. However, how these multinational enterprises have behaved in transition economies in the past has attracted much concern from social groups in the respective host countries. According to Akinori (2004), the society perceived that self-interested multinational companies only exploit the resources of transition economies such as cheap labour and natural resources. Demanding that businesses comply with social responsibilities may be considered as orthodox from the businessmen and free market economists' points of view. Nevertheless, this is no longer the case as an increasing number of economists, businessmen and politicians have now discovered how responsible corporate behaviour assists their businesses (The Cambridge Ethical Investment Campaign, 2001).

Defining Corporate Social Responsibility (CSR) and Transition Economies

World Business Council for Sustainable development defines corporate social responsibility (CSR) as the “continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. Thus CSR exhorts firms to diverge from their sole aim of maximising profits and to lay more importance on improving the economic and social standards of the community in their countries of operation. CSR can be thus simply defined as the additional commitment by businesses to improve the social and economic status of various stakeholders involved while complying with all legal and economic requirements. As Warhust (2001) points out, the three major elements of CSR are *product use* which focuses on contribution of industrial products which help in well being and quality of life of the society, *business practice* which focuses on good corporate governance and gives high impetus for the environmental well-being and equity, and finally *distribution of profits* equitably across different societies, in particular the host community.

The term ‘transition economy’ was originally coined to describe a fairly narrow list of middle-to-higher income economies among the developing countries, with stock markets in which foreigners could buy securities. The term’s meaning has since been expanded to include more or less all developing countries. World Bank (2002) says that developing countries are those with a Gross National Income (GNI) per capita of \$9,265 or less. The evolution of CSR in transition economies shows widely varying results. Chambers, Chapple, Moon and Sullivan (2003) evaluate the extent of CSR penetration in seven Asian countries (India, Indonesia, Malaysia, the Philippines, Singapore, South Korea and Thailand) and show that the mean value for the seven countries (even including the industrially advanced Japan) is just 41% compared to, say, a score of 98% for a developed nation like the UK. However, there are exceptions to the mean scores. India for example had an average CSR penetration of 72% compared to Indonesia’s 24%. The concept of CSR as visualised in the transition economies and the developed countries has a very different meaning.

Shareholder vs. Stakeholder Approach

It is important to gain a basic understanding of the different approaches which multinational enterprises may adopt in the different international markets. There are generally two approaches, the Shareholder Approach (internal dimension) and the Stakeholder Approach (external dimension). Carroll (1989) defined shareholders as the investors in the business, which means shareholders own a portion or a share of one or more businesses. Multinational enterprises that adopted the Shareholder Approach emphasise the principal interests of shareholders, which range from security appreciation to dividends. In other words, the profitability of the company would be the main concern. Accordingly, multinational enterprises which adopted such an approach would place lesser attention on being socially responsible in society; rather, they would attempt to focus on ways of maximising the profitability of the firm.

On the other hand, the concept of the Stakeholder Approach refers to the idea of understanding the relationships between business and society. Here, the interests of the stakeholders will be the priority (Carroll, 1989). The stakeholders can be defined as any group with direct interests in the corporation, ranging from individuals who operate inside the enterprise, to those who operate outside the enterprise (Alkhafaji, 1989). So, who are the stakeholders for multinational enterprises? McIntosh et. al. (1998) indicate two stakeholder levels, primary and secondary. There are two further stakeholder categories within these

categories, social and non-social. Primary social stakeholders are the stakeholders with whom the company can communicate with directly. Primary non-social stakeholders on the other hand cannot be reached directly. For instance, shareholders, employees and customers are considered as primary social stakeholders. Future generations or the non-human species are classified as primary non-social stakeholders, depending on the nature of the business (McIntosh, et. al., 1998). Alternatively, any other parties who do not have direct communication with the multinational enterprise are categorised as secondary stakeholders, such as government, social pressure groups, competitors or the media (McIntosh, et. al., 1998).

External Dimension of CSR in Transition Economies

This dimension relates to practices concerning external stakeholders. The significance of this dimension of CSR has come to the forefront with the advent of globalisation, leading to the development of international standards for business practices. There are three basic foundations on which the external dimension of CSR subsists in transition economies, they are: 1) Local communities; the development of positive relations with the local community and thereby the accumulation of social capital is particularly relevant for non-local companies. 2) Business partners; building long-term relationships of sound ethical foundation with suppliers, customers and sometimes competitors will enable companies to meet customer expectations better while reducing complexity and costs. 3) Human rights; in the context of transition economies, operations of companies should not impinge on the land and the human rights of the local community. In particular the multinational enterprise needs to make sure that local people are not forcibly removed from their homes and their human rights are not violated.

Table 1: Percentage of consumers who have punished companies for being socially irresponsible, by region

<i>Region</i>	<i>%</i>
North America	42
Europe	25
Latin America	23
Africa	18
Eurasia	10
Asia	8

(Source: International Institute for Sustainable Development, 2005)

Based on information from the International Institute for Sustainable Development (2005), among all the OECD countries such as the USA, Canada and Japan, high proportions of shareholders take an organisation's CSR performance into account when making investment decisions. This reflects that the conscious level of CSR in developing countries is much lower. It can be seen from the table above that countries from transition regions like, Africa, Eurasia and Asia have the lowest percentage of consumers that would punish companies which cannot commit to CSR standards. While the International Institute for Sustainable Development (2005) claimed that transition economies such as India, Russia and Nigeria can be identified as the least demanding markets for CSR. Only minimal pressure is put on corporations in Eurasia and Asia.

The reason for this phenomena in most developing countries such as India, Vietnam and China lies in the notion that many developing countries are not able to enforce existing laws and agreements due to lack of adequate legislation and experience in dealing with CSR (EUROCHAMBRES, 2004). Furthermore, the fundamental needs of developing countries are totally different from the developed nations. For example, wealthy nations are savvy enough to reject foreign investment which may damage their environment or degrade their human conditions. Unfortunately, most, if not all, of the transition economies simply cannot afford to say no to different types of foreign investment. This is because boosting economic growth is the only way out of the poverty trap. Consequently, these countries may often need to sacrifice or lower their CSR standard to attract more foreign investment.

Consequences of Being Socially Irresponsible

In the business world, the concept of “no free lunch” is well known; therefore, multinational enterprises would tend to expect a return for being socially responsible. In fact, the core concept of being socially responsible is to build up brand image of product as well as the reputation of the organisation. McIntosh et. al. (1998) suggested that brand image and reputation is regarded as a strategic priority in a global economy where one product can be sold in more than one market. Miles and Covin (2000) defined reputation as the set of perceptions held by people inside and outside a company, and stressed that superior corporate reputation is vital for success and creating value in the long term. Among all the sources of reputation, CSR plays an important role in building up an enterprise’s reputation and brand image. Because of CSR, enterprises can enjoy better pricing concession, better morale, reduced risk, increased strategic flexibility and enhanced financial performance by having reputation advantage (Miles and Covin, 2000). For example, empirical data showed that 86 percent of consumers are more likely to buy environmentally friendly products and that 33 out of 52 studies found a positive relationship between CSR and financial performance (Markets Initiatives, 2004). Therefore, it can be seen that it is crucial for multinational enterprises to engage in CSR practices in order to obtain such benefits.

So, what are the possible consequences when multinational enterprises adopt the shareholder approach instead of stakeholder approach and act in a socially irresponsible manner in the developing countries? As discussed, the emphasis of the shareholder approach is on a company’s profitability, therefore, the tendency for these multinational enterprises to add additional costs in order to improve the CSR of the company is lower, particularly when the CSR standards are relatively lower in most transition economies. Accordingly, if multinational enterprises only focus on shareholder benefits and ignore stakeholder values, the reputation of the company may be damaged as the company would probably have behaved in a relatively socially irresponsible fashion by adopting a pure shareholder approach (Merrill Lynch Investment Managers Limited, 2003). Once the reputation is damaged, several negative consequences may arise such as lower stock market valuation, lower consumer loyalty, shrinking markets or even consumer boycotting (International Institute for Sustainable Development, 2005).

CSR and Marketing Paradigms for Transition Economies

According to Dawar and Chattopadhyay (2000), local operations now realize that the three to five percent of consumers in transition markets who have global preferences and purchasing power no longer suffice as the only target market. Instead, they must delve deeper into the local consumer base in order to deliver on the promise of tapping into markets with more than

a billion consumers. Batra (1999) argues that the usual business strategy of using products that have been historically successful in developed nations will not work in transition markets. Prahalad and Lieberthal (1998) point out that companies must make the transition in their business strategy of 'thinking globally' to 'thinking locally' as each of the transition markets represent an intriguing challenge for marketing with its vast diversities existing across nations and even within nations in cultural and socio-economic conditions. It is in marketing across such diverse cultures and varying conditions that the concept of corporate social responsibility becomes critical to success. Two main paradigms of marketing in which CSR plays an important part are presented here.

- a) **Customer segmentation and consumer behaviour---** There is an argument for modifying currently existing customer segmentation techniques. While segmentation based on finer product features may have been successful in the industrially advanced nations, such fine distinctions may not strike a chord with consumers in the transition economies. This is amply demonstrated in the case of consumer products like toilet soaps where market segmentation techniques in the developed nations are based on value provided by products, like fragrance, anti-aging etc. However, the mass market in emerging economies with lesser sophisticated consumers may not be compliant to such fine segmentation. Dawar and Chattopadhyay (2000) point out that consumers in transition economies dislike products that evolve rapidly, making their recent purchases obsolete. Instead, the need is for basic, functional, long lasting products. Thus clearly, in depth analysis of consumer behaviour is necessary in transition economies although the level of consumer sophistication may be less.
- b) **Distribution---** Transition economies, especially those in Asia have posed significant distribution challenges to multinational companies. Often companies have had to abandon distribution systems tried and tested in developed nations and start developing a customised distribution mechanism specific to the country of operation. CSR is instrumental in relationship building with retailers. Building relationships in a fragmented retail environment requires an understanding of retailers' interests. Successful manufacturers creatively develop new revenue activities for the retailer (Batra 1999).

Conclusion

After the colonial era, which tapped many transition economies' natural resources, it's now the turn of these erstwhile colonies, somewhat better off economically, to draw the descendants of the erstwhile colonial powers to the vast markets that await the benefits that are on offer from the developed world. Therefore transition economies have attracted the attention of large MNCs on account of the vast potential market growth. These markets are relatively untapped and offer new domains for marketing operations. However, many MNCs also take the markets for granted and exploit the laxity in the norms of operations to their advantage. The lack of concern for the local community, the consumers and the environment by these corporations has created large scale public debate and action. It is important in this context to understand that the sustainable business growth is associated with care for the community and the markets these corporations operate in. Negative publicity caused by the actions of MNCs has led to suspicion about their motives while operating, in the minds of the general public in these markets. Irresponsible corporate behaviour by MNCs can have severe repercussions throughout their global markets.

References

- Akinori, T., 2004. Globalization for Development? Inward FDI and the Size of the Market. *Southern Business Review*, Fall.
- Alkhafaji, A.F., 1989. *A Stakeholder Approach to Corporate Governance*. Quorum Books, New York, NY, USA.
- Batra, R., 1999. Marketing Issues and Challenges in Transitional Economies. *Marketing Issues in Transitional Economies*, Kluwer Academic Publishers, Boston, MA, 3- 35.
- Carroll, A.B., 1989. *Business & Society: Ethics and Stakeholder Management*, 2nd edition. South-Western Publishing Co., U.S.A.
- Chambers, E., Chapple, W., Moon, J., Sullivan, M., 2003. *CSR in Asia: A Seven Country Study of CSR Website reporting*. www.nottingham.ac.uk/business/ICCSR/09-2003. PDF.
- Chan, A., 2005. China Says No To Developed Countries' Corporate Social Responsibility. *Asian Analysis*, Contemporary China Centre, Australian national University, Canberra, Australia.
- Dawar, N., Chattopadhyay, A., 2000. *Rethinking Marketing Programs for Emerging Markets*. Davidson Institute Working Paper Series, <http://eres.bus.umich.edu/docs/workpaper-dav/wp320.pdf>.
- EUROCHAMBRES., 2004. *EUROCHAMBRES' position on corporate social responsibility* (online). Available from: http://www.eurochambres.be/PDF/pdf_CSR/position_10_05_04.pdf (Accessed 29-09-05)
- Gray, R., 2001. *Social and Environmental Responsibility, Sustainability and Accountability, Can the Corporate Sector Deliver?* Centre for Social and Environmental Accounting Research, University of Glasgow, UK.
- International Institute for Sustainable Development., 2005. *Corporate Social Responsibility Monitor* (online). Available from: http://www.bsddglobal.com/issues/sr_csr.asp (Accessed 29-09-05).
- Lingga, V., 2005. Serving both stockholders and stakeholders. *The Jakarta Post*, Jakarta, Indonesia, 12th September.
- Markets Initiative., 2004. *Why Go Ancient Forest Friendly?* (online). Available from: http://www.oldgrowthfree.com/why_go_aff.html (Accessed 29-09-05)
- McIntosh, M., Leipziger, D., Jones, K., Coleman, G., 1998. Corporate Citizenship: Successful strategies for responsible companies. *Financial Times Professional Limited*, London, UK.

Merrill Lynch Investment Managers Limited., 2003. *Socially Responsible Investment Statement* (online). Available from: <http://www.mlim.co.uk/shared/pdfs/ib/sri.pdf> (Accessed 29-09-05).

Miles, M.P., Covin, J.G., 2000. Environmental Marketing: A Source of Reputational, Competitive, and Financial Advantage. *Journal of Business Ethics*, 299 – 311.

Murray, S., 2004. Developing countries: Social issues gain more importance. *Responsible Business 2004/Business Reports, Financial Times*, 29 November.

Prahalad, C. K., Lieberthal, K., 1998. The end of corporate imperialism. *Harvard Business Review*, July-August, 68-79.

The Cambridge Ethical Investment Campaign., 2001. *The financial case for Socially Responsible Investment* (online). Available from: <http://www.cusu.cam.ac.uk/campaigns/ethical/financial.html#top> (Accessed 29-09-05)

Warhurst, A., 2001. Corporate citizenship and corporate social investment: drivers of tri-sector partnerships. *Journal of Corporate Citizenship*, Spring, 57-73.

World Bank., 2002. <http://www.worldbank.org/data/aboutdata/errata04/Class.htm>.