

# Corporate social responsibility in developing nations sociology essay



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The phenomenal stretch of Globalization has touched and affected, positively or negatively as well, practically every aspect of human existence, through its varying tentacles in its ever-propagating areas of influence. The recognition and acceptance of the phenomena of Corporate Social Responsibility (hereinafter referred to as CSR), in developed as well as developing countries, is a dotting example of the same. It needs a special mention that CSR is nowhere a legally sanctioned document or observance, but it indeed, has come forth as a minimal standard as to the governance of business at global level, with international reference standards set by the United Nations, Organization for Economic Co-operation and Development (OECD) guidelines and International Labour Organization (ILO) conventions.

The primary reason as to why this phenomena is rising at such a fast pace, is the global competitiveness ensuing between the business houses of different countries. The corporates mainly demonstrate the extra responsibility to earn the goodwill of the market, and CSR helps in building loyalty and trust amongst shareholders, employees and customers. In this sense CSR denotes a voluntary endeavour by the big business houses to look into the varied issues and concerns of the public at large, apart from the profit-maximising objectives.

CSR is closely linked with the principle of sustainable development, which argues that enterprises should make decisions based not only on financial factors such as profits or dividends but also based on immediate and long term social and environmental consequences of its activities. CSR has a significant role in controlling the perils of uncontrolled development, satisfying the needs of the present generation and at the same time

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ensuring that the resources of future generations is not jeopardized.[1]The inclusion of the objective of ' sustainable development' within the CSR agenda magnifies the duties and responsibilities of the big business houses, upto a large extent, which cannot be made limited as per any parameters. The realization of the ultimate objective of sustainable development is a long and continuous process, and is rather more inclusive, which includes the interest of the developing nations also.

The impact of CSR in context of developing nations, as evident, is rather a negative impact. The primary reason as identified by the authors seems to be the inappropriate approach towards the practical applicability of the CSR in the developing countries. There is lacunae in the structural approach towards implementation of the CSR agenda within the developing countries, mainly due to the irresponsible inactiveness on the part of the government of the developing countries, in framing its policies and regulations as per the international norms and requirements, as CSR is largely a global phenomena.

In this research paper, a structural and conceptual analysis is done with regard to the difficulties faced by the developing countries in implementing the CSR initiatives. This paper is an attempt to identify such issues which attributes to the failure of CSR in developing nations, and also identify the correct possible approaches to properly reap up the benefits of the CSR agenda and initiatives evolved mainly through the internationalization of the initiatives taken in the developed countries, by various approaches to be discussed herein.

## **EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY AS A FULCRUM OF SOCIAL RESPONSIVENESS**

What exactly is inferred from the social responsibility of the corporations?

The corporations are generally expected to strengthen and mobilize the economy by enhancing profit, the social implications of which are highly overlooked. The concept of CSR refers to the general belief held by many that modern businesses have a responsibility to society that extends beyond the stock holders or investors in the firm. That responsibility, of course, is to make money or profits for the owners.[2] In 1960, Keith Davis suggested that social responsibility refers to businesses' "decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest." Also it has been argued by Eells and Walton (1961) that CSR refers to the "problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between corporation and society.[3]

The current wave of interest in CSR dates from the early 1990s.[4] However, in recent years the CSR has emerged as an inclusive and global concept to embrace corporate social responsiveness, and the entire spectrum of socially beneficial activities of businesses. It follows the trend of a diffusion process of policy instruments from North to South and therefore of a global convergence of policy structures.[5]

Now the term 'social' within the CSR is again a vague concept and enlarges the sphere of the corporate responsiveness. The social dimension of the CSR can effectively be attributed to the organizations' stakeholders, who are in

the immediate connect to the corporation. Stakeholders denote the group of persons who have a stake, a claim, or an interest in the operations and decisions of the corporation. This bond of the corporation with the stakeholders practically denotes the area of social operation of the corporations. The

The idea of CSR cannot be traced as to the place of its origin and evolution, since it is mainly a progeny of the globalization, which is encumbrancing in itself, the world at large. Therefore, the concept of stakeholder management becomes an effective instrument to analyse the social impact of the corporations. This methodology can have, or rather it has appeared to be an aberration, which practically excludes the impact on the developing nations, as it is a very common fact that the activity of the stakeholders of the developing nations cannot match upto that of the developed ones.

One tangible result that has certainly been achieved by the current CSR” movement” is that it “ has got people talking about worker rights, global governance, sustainable enterprise and all manner of topics that have relevance to the well-being of the poor and marginalized”.[6]

The effective implementation of CSR in developing countries has come forth to be recognized as a challenge after the vision in the year 2000 was instilled in the Milleneum Development Goals (MDGs) as ‘ 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’.

## **CSR AND DEVELOPING COUNTRIES: IDENTIFYING THE CONNECTION**

The CSR in connection with developing countries can be considered as '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'. [7] The analysis of the effectiveness of the CSR cannot be considered to be complete unless its impact on the developing countries is identified, as they represent the most rapidly expanding economies, providing for a lucrative market for the growth of the corporate business. It is a common fact that the world's poor are distressingly plentiful, and despite of the vastness of their market, they are largely unexplored by the multinational companies, in assumption that the people of the developing countries are more busy in sustaining their normal living rather than going for any developmental incentives. Also it is assumed that various barriers to commerce - corruption, illiteracy, inadequate infrastructure, currency fluctuations, bureaucratic red tape etc, make it impossible to do business profitable in these regions.

The authors assert this fact that the above notions and assumptions are largely outdated. It is well-evident in the current scenario that the large number of corporate houses prefer the markets in the developing countries only, as it provides them with ample opportunities to maximize the profitability, and the restrictions assumed are hardly existent. Moreover, certain positive trends in developing countries - from political reform, to a

growing openness to investment, to the development of low-cost wireless communication networks - are reducing the barriers further while also providing businesses with greater access to even the poorest city slums and rural areas.[8]

Since in developing countries, rural areas represents more than half of the population, for instance in India, 60% of GDP is generated in rural areas. The critical barrier to doing business in rural regions is distribution access, not a lack of buying power, but new information technology and communications infrastructures - especially wireless - promise to become an inexpensive way to establish marketing and distribution channels in these communities.[9]

## **CURRENT STATE OF CSR IN DEVELOPING COUNTRIES**

It is argued that the practice of CSR is a work in progress. The idea of evolution of CSR as a concept clearly envisages the fact that it has mainly evolved through an active participation of the developed world, and then it got internationalized, and ultimately it is in a process of reaching to the developing ones also. In the present scenario, no matter what kind of effect it is producing, but it is propagating at a very fast pace, in the developing countries due to the ample market available therein. It has been seen that the developing countries also opened up their economy and whole-heartedly welcomed the advent of foreign companies into their territory as a part of their liberalization strategies. It has been quite beneficial for the foreign investors as well, since the developing countries enrich them with huge profitable market. With increased emphasis on the profit-making, the CSR development agenda has definitely taken a backseat in the developing

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countries. In his analysis of the relationship between companies and poorer local communities, Newell concluded that “ mainstream CSR approaches assume a set of conditions that do not exist in most of the world. CSR can work, for some people, in some places, on some issues, some of the time”[10]. And in the process, the CSR loses the connect with the real life situations of the developing world.

Following are the bases on which the CSR is rendered ineffective in context of developing countries:

### **The Stakeholder Concept**

It has been observed that, in the present time, it benefits some people and some companies in some situations. The success of CSR initiatives can be linked to the stakeholder dialogue and stakeholder engagement, who can bring together representatives of business, non-governmental and public sectors in order to identify and address aspects of social responsibility. However, in context of developing countries, this stakeholder dialogue cannot be effectively realized due to various unwanted barriers such as language, culture, education and pluralistic values, which adversely affects the negotiations and decision-making.

Moreover, one more obstacle that hampers the positive advantage of CSR in developing countries is the prioritization of the interest. As the stake-holders represents the common will of the civil society, but it depends upon their priorities and interest, the success of the CSR, for instance, those groups whose issues and problems are not taken up by the civil society organizations may also be ignored by firms. Notwithstanding the role of



organized labour, the unorganized sector can rarely present a threat to a firm's productivity, nor is the firm's dependence on them likely to be high. Elaine Sternberg alleges that stakeholding is unworkable and destroys accountability within a firm, as the stakeholders are usually seen as all those who affect or are affected by a corporation.[11] This shows that the CSR for the unorganized sector, which represents a significant proportion of the population in developing countries (more than 50% in India) is highly neglected.

### **The CSR business case**

It is a common practice that the companies are generally meant for their profit-maximising attributes based on the competitive advantage, and to maintain corporate reputation, the beneficial impact on staff morale, etc, and thereby the lessening the involvement of theirs in developing countries. The business case is simply the arguments and rationales as to why business people believe these concepts bring distinct benefits or advantages to companies, specifically, and the business community, generally. One of the possible explanation to the business case of the corporate is given by Simon Zadek, who says that the corporate follow the defensive approach, i. e., companies should pursue CSR to avoid the pressures that create costs for them.[12] The second approach identified by Zadek is the cost-benefit approach, which holds that firm will undertake those activities that yield a greater benefit than cost. The third approach can be that the firms will recognize the changing environment and engage in CSR as a part of a deliberate corporate strategy. As a consequence, CSR is commonly focused on add-on measures and technical solutions, to a certain extent neglecting

the contextual environment or even the intended beneficiaries that are addressed by the CSR measures. In this sense, the big business-hubs only act so as to maintain their healthy reputation, and thereby neglecting their social responsibilities, and even if they pursue their social responsibilities, the interest of the developing countries is even not represented there, as the issues are normally evolved in the developed world, which are quite different to that of the developing world.

### **The inappropriate CSR agenda**

Though CSR has evolved as an umbrella concept, but still there many issues which are left unaddressed under the ambit of CSR, and which renders the effective applicability of CSR in developing countries, a potentially difficult task to achieve. The CSR agenda are mainly framed in developed countries, and hence they could not identify the practical situations faced by the developing world, like tax avoidance and transfer-pricing problems, the resource curse effects of the influx of the foreign aid or revenues, etc. This problem is ever-propagating since there is inactiveness on the part of the developing countries, mainly represented through the very few stakeholders, who do not at all represents the actual situation. The appropriateness of the CSR agenda can be ascertained once the representation of the developing countries is adequately ensured while framing the agenda, so that a more inclusive approach can be taken into consideration, including the varied concerns of the developing countries, ab initio.

## **POSSIBLE APPROACHES TO EFFECTIVELY IMPLEMENT THE CSR IN DEVELOPING COUNTRIES**

So far, the concept of CSR has mainly evolved through the concerns and interest of the investors, companies, campaign groups and consumers based in the developed countries. As a result of this, the CSR agenda with regard to the developing countries is very difficult to realize. It has been observed that the impact of CSR in context of the developing countries is rather negative, due to various conceptual as well as structural inadequacies. However, as observed, the developing countries are a potential hub for the growth of CSR accordingly to achieve its ultimate cherished goal of sustainable development. Although the CSR is a global phenomena, its implications can very well be sensed at the local boundaries of the individual States as well. Due to various structural differences within the developing countries, the 'State Activism' needs to be enhanced to properly harvest the ripe benefits of the CSR initiatives. The States need to mould the national policies so as to recognize the concerns of the stakeholders of the developed countries. The following initiatives could go a long way for procuring the positive outcome of the CSR in developing Countries:

### **Free acces to market**

As it is well-known that the markets in the developing countries provides for a potential market and the CSR mainly acts through the stake-holders, the CSR objectives can be effectively realized by making possible maximum number of participation from the consumers, so that minute interest of the consumers which are often neglected being unidentified, can be given due consideration. The market policies of the States should be so formulated, as

to promote extended participation from the consumers. This becomes 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.

## **Socio-Political Reforms**

The Government of the developing countries should induce political reforms so that the problems and issues at the ground level can be identified, and then only the CSR initiatives could be effectively realized forthwith. 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.[13]

## **Enhancing the investment incentives**

It is a common assumption that there is not much scope for investment in the poorer countries as they are largely occupied by the fulfilling of their basic requirements. There comes the responsibility of the concerned Government to frame policies so as to promote ' socially responsible investment' (SRI), so that the corporate houses could be attracted to invest in the developing countries. For instance, 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'  
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social, ethical, and environmental performance (Visser, 2005a).

## **Propagating Stakeholder Activism**

As discussed earlier, that the CSR mainly works with respect to the stakeholders, who have certain pecuniary interest in the whereabouts of the business house, and they represent a very segregated part of the actual mass of population, and hence, the interest of the large part of the developing world could not be identified. The stakeholders are generally confined in the furtherance of their own petty interest, and therefore, it becomes impossible for the Corporate to identify the interests of the consumers at large. And hence, the onus shifts on the concerned government to initiate such policies to enhance stakeholder activism. In the developing world, the stakeholders agencies such as NGOs, Trade Unions, International Business Associations could be mobilized to ensure their participation in CSR activities, as they represent the class of stakeholders who mainly work at the primary level and are well aware of the existing issues and circumstances. Newell identifies the Stakeholder Activism in developing countries as civil regulation, litigation against companies, which go a long way in procuring the interest of the developing world. There are numerous examples of civil regulation in action in the developing world of which South Africa is a rather striking case in point. 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 <https://assignbuster.com/corporate-social-responsibility-in-developing-nations-sociology-essay/>

towards encouraging CSR, through groups like the National Business Initiative and partnerships between business and NGOs.[14]

### **The theory of ‘ Organizational Legitimacy’ as a possible solution the implementation of CSR in developing Countries**

This theory of ‘ Organizational Legitimacy’ can have various dimensions, but through a strategic view-point, the focus rests on the organization and assumes a relatively high degree of managerial control over the legitimating process. In the institutionalist tradition, a broader perspective is taken (“ society looking in”), focusing on how organisations or groups of organisations adapt to their institutional environments in order to manage legitimacy. Here, legitimacy is not seen as an operational resource, but rather as a set of external constraints, forming the actions of the organization.[15]Therefore, this theory of organizational legitimacy imposes upon the business houses, a certain kind of ethical constraints, to be complied with, for effective implementation of the CSR agenda. Suchman defined Legitimacy “ as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. This definition denotes the principle of moral legitimacy which the organizations follow to appear consistent with one’s external expectations in order to be able to continue business as usual. This theory need not be made universally applicable as in the judgment whether an organization and its actions are legitimate or not, is rather socially construed, and therefore subject to change depending upon the socio-political environment, the organization is established into.

## CONCLUSION

In view of the above discussion, it is well-evident that the CSR has not been able to properly stretch its tentacles in the developing world, due to various conceptual and structural obstacles. The reason could be primarily attributed to the fact that mostly the issues are not recognized and thus have not come forth within the ambit of the CSR agenda, due to the shortcomings in the policies of the developing countries.

It is pertinent to observe the conceptual aspects of the CSR beyond the customary approaches being carried thereon. It cannot be necessarily assumed that CSR is ineffective in context of developing countries, rather there is problem with the identification and acknowledgement, of the issues which needs to be addressed. If the CSR standards with respect to the worker's right and natural resource management are looked into, it is observed that for people in developing countries, it has been inadequately addressed. This issue of identification of the problems at the ground level can be mainly attributed to the fact that the stakeholders, who are primarily in touch with the CSR agenda, represent a very minimal proportion of the actual working population, and also the stakeholders are primarily bothered about their own self-interests. The policy of Stakeholder Activism initiated by certain States is a welcome move in this regard, and this could go a long way in ensuring the representation of the larger mass of population in the mainstream CSR agenda.

Thus it is inferred that the failure of CSR agenda in the developing countries is a mainly a structural inadequacy rather than any practical or procedural aberration. However, regarding CSR in the context of developing countries, <https://assignbuster.com/corporate-social-responsibility-in-developing-nations-sociology-essay/>

the explanatory power of organizational legitimacy goes beyond its customary tradition. The institutional array of organizational legitimacy proves as a useful body of theory to inform CSR in a developing country context, since it is able to address cultural factors and goes beyond business case considerations. Therefore, the CSR initiatives being seen through the organizational legitimacy theory can effectively solve the problem of non-implementation of the CSR policies in the developing world.

It is pertinent to observe at this juncture, that ' State Activism' is urgently required to mobilize the dormant effect of the CSR policies, in the developing countries. The State needs to frame regulations and policies, in their municipal laws so that CSR initiatives could reach to the people at large, rather than being confined to the minor stakeholders. The ineffective realization of the CSR policies is mainly a structural aberration, which needs to be solved by taking into consideration the issues and problems at the ground level.