An empirical analysis of the relationship between Corporate Social Responsibility and development

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Year of award: 2015

Key words: knowledge management, entrepreneurship and innovation, CSR, development, developing and emerging countries

ABSTRACT

This study addresses the question whether Corporate Social Responsibility (CSR) contributes to development in emerging and developing countries. Based on the CSR performance of nearly 500 publicly traded firms, national CSR scores were calculated for 26 developing countries for the years 2010–13. The relationship between national CSR performance and development indicators was statistically assessed by applying panel data regression techniques. The results indicate that there is a statistically significant and positive linear relationship between the two variables.

This research makes an original contribution by demonstrating how micro and macro data can be successfully linked and how the impact of firm CSR activities can be quantified at the national level. Furthermore, it suggests a new model of analysis that has not been previously applied in this line of research. Finally, the set of comparative national CSR scores provides a more in-depth understanding of CSR drivers and circumstances under which CSR can prosper.

CONTEXT & AIMS

During the past decade corporate social responsibility (CSR) has emerged as one of the most vibrant movements for institutional reform attempting to reshape the role of business in society. Propelled by the acceleration of globalisation, the 1990s saw the dramatic rise of multinational enterprises (MNEs) and the emergence of global supply and production chains. The surge in major corporate scandals and environmental disasters, the emergence of so-called sweatshops as well as other examples of corporate neglect and malfeasance have sparked calls for greater social responsibility by consumers, civil society groups, NGOs, governments and international organisations. Technological progress, the rise of social media and extended coverage of some of the consequences of globalisation have increasingly sensitised the Western world on issues like poverty and soaring inequality in the Global South and North alike. MNEs' corporate conduct is increasingly scrutinised and on the radar of civil rights organisations, Western consumers and that of the burgeoning middle classes in developing and emerging nations. As a result, the role of business in society is experiencing a complex, transformational shift that goes beyond its responsibility to create jobs and pay taxes and towards contributing to sustainable social and economic development. The debate is especially vigorous in most parts of the Global South which despite decades of development aid and international development cooperation has seen failing states, conflict, further fragmentation and impoverishment of communities. Consequently, an interest in CSR in the Global South started to develop in the mid-2000s that has begged the question to what extent the private sector is able to foster development and alleviate poverty. The quest for Southern CSR models quickly began to challenge the conventional wisdom that Western perspectives were transferable to developing and emerging countries. This research has sought to further explore this contested relationship by providing compelling evidence that challenges the camp of CSR sceptics while delivering fresh insights into the private sector's role in development in the Global South.

METHODOLOGY

In order to align micro with macro level data, the CSR performance of nearly 500 publicly traded firms in 26 different developing nations was converted into national CSR scores for the years 2010-13 using Thomson Reuters' ASSET4 ESG database.

The 26 national CSR scores were regressed against the development indicator HDI whereby a Random Effects longitudinal regression model (REM) was fit to the data. The regression was run using generalised least squares (GLS) estimators.

RESULTS

The time series analysis of national CSR performance shows that CSR diffusion is CSR diffusion is specific to firm, national, transnational and institutional factors and may vary noticeably across countries. There is no distinct pattern which further documents that CSR in the developing world is highly dependent on national, firm and transnational factors.

Furthermore, there is a statistically significant positive linear relationship between national CSR performance and development as measured by the HDI. Firm-level CSR efforts have been confirmed to be an important contributor to enhanced development in developing and emerging nations. Subsequently, the findings refute the mainstream argument that CSR is not an effective development tool.

CONCLUSIONS, IMPLICATIONS & SUGGESTIONS FOR FUTURE RESEARCH

The emergence of this new evidence justifies further research using similar models of analysis which should decisively advance the CSR and development debate as well as bolster the emergence of indigenous CSR perspectives. The results also underline CSR's ability to serve as a multi-functional and multi-purpose concept which begs the question as to what extent it also constitutes a new tool in development aid and other areas of development. Applying a CSR lens to development aid could help expand the knowledge and understanding of the development effects of multi-stakeholder partnerships. Against the backdrop of this new evidence firms should drop philanthropy altogether and channel their CSR efforts to maximise CSR innovation and transformation leading a win-win situation. Being able to quantify CSR's impact on a macro-scale not only presents a compelling argument for companies to actively get involved in development but also for local governments to enter public-private partnerships. The findings also have implications on NGO policies as they justify and pave the way for more intense and fruitful partnerships with businesses. Existing NGO and international development projects could be linked to corporate CSR strategies more extensively in order to increase the multiplier effect now that there is more certainty around CSR's potential as a development tool. The CSR route could be a way in which major global problems could be resolved.

One of the gaps currently unaddressed in the literature is the lack of knowledge on CSR in SMEs. An ESG benchmark dedicated to SMEs could be a step in the right direction and could complement the slowly growing number of case studies targeting SMEs. Also, there are currently no CSR indices for non-traded companies or non-corporate entities such as quangos or corporatised government organisations. There is an urgent need for more meaningful insights into how CSR can flourish in the supply chains and how CSR measures can impact on the informal sector where the majority of people in developing and emerging countries are employed. Once it has been established how CSR can improve those people's lives, it will be a more vigorous and robust development tool. Further research should also focus on innovative business models developed by social entrepreneurs. Their knowledge could inform the practices of multi-stakeholder partnerships. Besides, the debate should be extended to include relevant theories from the areas of development and geography especially with regards to project impact assessment. There is a need for more bottom-up case studies or socio-economic surveys which feature beneficiary perspectives rather than a description of firm CSR programmes. This will hugely inform any relevant impact measurement tools. Also, little is currently known about processes that might help raise the scope of local CSR activities and increase the multiplier effect. This goes hand-in-hand with the quest for the ultimate external enabling environment and factors that not only propel CSR adoption but maximise social impact.