

Corporate Social Responsibility In Developing Nations:
International Pressure and Response

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Section 1

The Rising Global Awareness of Corporate Social Responsibility

The growing trend of companies integrating corporate social responsibility into their business practices is changing the face of corporate business. No longer are companies expected to solely make a profit, they are expected to consider the long-term implications of their actions, both in a social and environmental context. The trend of increasing accountability for corporate social responsibility is prompting companies to develop more socially conscious business practices so that they remain viable in business market that increasingly values corporate social responsibility.

Corporate social responsibility has come into public awareness more recently as a result of several factors, most notably, globalization, advances in communication technology and media coverage and ethical investment opportunities (Panwar). Because globalization is often viewed in a negative light as a direct result of socially unethical business practices, growing discrepancies between the rich and the poor and environmental pollution, it becomes increasingly more important for organizations to consider the social and environmental implications of their actions to alleviate public concerns (Panwar). Advances in information technology has allowed for instantaneous access to information on a global scale. This means that the average consumer has access to detailed information on the impacts of corporate activities worldwide (Panwar). The Internet also provides a forum for companies to publish their business practices in a public place and to establish their social and environmental orientation to a global audience (Panwar). The Internet can aid a company in improving its identity as a socially conscious choice but it can also scar a companies' reputation if information is incorrectly reported or misinterpreted. Lastly, companies have begun to respond to the fact that many investors are more willing to seek out and invest in companies that have a positive

reputation and avoiding companies that are linked to unethical social and environmental practices (Panwar). This has acted as an incentive for companies to reform business practices to make themselves more attractive to investors.

While no country can claim CSR as integral to all business corporations, Western Europe, Australia, the United States and Japan have taken the lead in the greatest number of companies who report socially conscious corporate activities and integrate corporate responsibility into their business strategies. However, this not to say that other less-developed nations haven't also made significant strides to integrate social corporate responsibility into their business model as well. Inevitably, the trend towards rising social corporate responsibility will be most prevalent in emerging markets. The integration of corporate social responsibility into their business strategies will make these less developed nations more viable on the global market. There are several major motivating factors that will increase the prevalence of social corporate responsibility in coming years in emerging markets. Larger companies may be driven to become transnational corporations and see social responsibility as a means to attract foreign customer base and investors (Baskins). Governments may be promoting social responsibility as a source of competitive advantage or to reduce risk and attract inward investment to the country or as a way for governments to put their own stamp on an issue that they want to promote (Baskins).

In an analytical study of 127 companies in emerging markets from 21 different countries conducted in March of 2005, written by Jeremy Baskin, the development director at the Cambridge Program for Industry at University of Cambridge, 53% of emerging market companies in the study publish details on their environmental policies.

These emerging markets included companies located in Eastern Europe, Africa and the Middle East, Latin America and Asia (Baskins). This is not substantially lower than the average for high-income countries where the average reporting percentage is at 59%. The adoption of the ISO 1400, a global standard for environmental management systems is often seen as an indicator of growing corporate responsibility (Baskins). Between 2000 and 2005 there was a four-fold increase in the number of companies who received ISO 14001 certification and during the same period, there was a seven-fold increase in the number of emerging markets who adopted ISO 14001 (Baskins).

Two dominant schools of thought exist regarding corporate social responsibility practices, the proponents who are seen as individuals and companies with contemporary values and the opponents who are often seen as traditionalists in the business world. Proponents of CSR will argue that environmental management reduces energy costs, increases sales and allows companies to gain a competitive edge over their competitors (Businessline). Corporate responsibility strategies consider the past, present and future of the company. Proponents of corporate social responsibility believe that by integrating socially acceptable ethics and environmental sustainability into business practices, companies are considering the longevity of their actions and by doing so, procuring a niche for themselves in a world where sustainable practices are a necessity in the business world (Businessline). Proponents also see CSR as an opportunity to look beyond the economic returns of business and take wider social concerns into consideration. Proponents of CSR see their efforts as a way to create new forms of social capital; cooperative relations with different stakeholders provide social capital that may be integral to a company's survival (Berenbeim).

To opponents of corporate social responsibility, the nature of CSR is diametrically opposed to sound business practices and “serves to dilute its focus on wealth creation” (Jamali and Mirshak). Others, are skeptical about CSR’s potential usefulness and applicability in the business world (Jamali and Mirshak). Unfortunately, some companies fear singling them out as socially conscious or taking an ethical stance because they will face greater scrutiny from that point onward (Marketing Week). If their agendas change or they do not live up to their proclaimed standards, companies could face greater backlash from investors and consumers than they might otherwise. David Henderson, a former chief economist for the Organization for Economic Cooperation and Development, one of the most outspoken opponents of corporate social responsibility, argues that widespread adoption of CSR would undermine the foundations of the market economy. The new concept of CSR identifies an enlarged responsibility for businesses to contribute to both the wellbeing of society in general and the environment (Henderson). Henderson argues that businesses should not be making value judgments about social justice and sustainable development. Politicians, not businessmen, should tackle these issues.

At a global summit conference in 2001 in San Francisco, delegates discussed the future of corporate social responsibility and what the next step is in terms of addressing current concerns. Two major concerns were discussed including whether corporate social responsibility could survive in a business world that thinks about morality and social responsibility as separate from economic value and advantage (Strategic Direction). This is a fundamental way of thinking that must be addressed if social corporate responsibility is successful in the future. The answer may be to find

some form of middle ground where the emphasis would change from taking actions because they are deemed right to taking actions because they will assist in the pursuit of competitive advantage; in this way a company would be seen as socio-economic unit in which wealth is created through stakeholder collaboration (Strategic Direction). The other major concern being how value from corporate social responsibility can be clearly and accurately measured (Strategic Direction). Delegates suggested that media evaluation and stakeholder studies may be the most effective tools for measuring corporate social responsibility (Strategic Direction).

Overall, few individuals in the business world will argue that corporate responsibility will not continue to be a growing concern for stakeholders and consumers in the future. Business colleges have begun to respond by integrating curriculum that addresses CSR. The Association to Advance Collegiate Schools of Business, the world's leading international body for accreditation of the quality of business school education voted in April 2003 to approve new standards giving ethics education more prominent placement (Sleeper). Universities has begun to recognize the need for students to have training in sustainability, social marketing and community development in a world where companies are expected to take actions to make positive impacts on society and the environment (Sleeper).

Issues of sustainability, labor reform and community involvement will continue to grow as the world's resources continue to dwindle and leading activists and whistleblowers bring corporate irresponsibility into the public arena. Companies must make the decision to reform practices or suffer the consequences of decreasing shareholders and loss of customer base. Both stakeholders and consumers are beginning

to monitor corporate activities and base investment upon a company's sustainability practices and corporate reporting. This shift towards social accountability in the business world will benefit both the environment and labor practices in industry.

Section 2

The response of the Textile Industry to Growing Awareness of Corporate Social Responsibility in India

As India becomes a leader in the manufacturing of textiles, environmental impacts of the growing industry will be of increasing concern to local communities, India's government and trans-national corporations that have a stake in India's booming textile export industry. The rising international pressure to institute corporate social responsibility practices has led to the reformation of Indian textile manufacturing environmental practices. Corporate social responsibility has been implemented to attract foreign and domestic investors, maximize energy resources and profits and to satisfy local and international standards. By improving environmental conditions, textile companies have directly impacted the health and safety of local communities that surround the manufacturing facilities. Reforming environmental practices has also differentiated Indian companies as 'team players' in the global movement towards integrating socially conscious practices into corporate strategies.

Historically in India, corporate responsibility has had a significant influence on business, government and societal relationships (Balasubramanian, Kimber and Siemensma) but since 1999, several changes have "influenced the way corporations are perceived in India" directly and indirectly (Balasubramanian, Kimber and Siemensma). One of the most important shifts came as a result of the decline of the dot com boom in the late 1990s. After the decline, the dot com business model that was driven towards technology-driven "export-oriented, cost-advantage-focused strategies" shifted towards long-term business development strategies that are supported by "government, financial markets and multinational corporations" (Balasubramanian, Kimber and Siemensma). With corporations investing in more long-term strategies, social responsibility became a

more pertinent topic in relation to sustainability (Balasubramanian, Kimber and Siemensma).

Religious traditions in India have also always influenced business practices. Traditionally, religion encourages “business benevolence,” giving back to the community, whether it is through improvement of infrastructure, education or other ventures. Much of the connection between social responsibility and companies is representative of Gandhian values that purport the necessity of social improvement, ethics and values and a need to care for society as traits of the model business (Balasubramanian, Kimber and Siemensma).

Corporate social responsibility is being developed as a strategic move in some new companies in India as a marketing tool. Because poverty, pollution and other problems are themes the public scrutinizes in India, foreign as well as local customers are attracted to corporations that uphold corporate responsibility standards that seek to eliminate, improve or alleviate these problems. (Balasubramanian, Kimber and Siemensma) Multinational clients who own factories, service headquarters, etc. are also interested in reputation building for both themselves and their Indian counterparts (Balasubramanian, Kimber and Siemensma). This is seen as a valuable aspect of working in India today over other less socially conscious developing nations (Balasubramanian, Kimber and Siemensma).

India has become more viable competition in the textile industry since the end of the quota system in 2005 under the Multi-Fiber Agreement Act. After the dismantling of the quota system, India's textile exports to the US went up by 34 percent and to Europe by 30 percent (Brown). Currently, the country exports textiles and apparel worth \$14

billion and the Government has set a target of \$50 billion by 2010, (Brown) while the domestic market continues to grow as well. During the inauguration of the 4th National Apparel Summit, organized by the National Institute of Fashion Technology (NIFT) and the Assocham, Indian textile companies were called upon to “fill up the existing gaps to improve the environment for increased investments in the textile industry”. Building a reputation of sound business practices encourages multinational corporations to do business with firms in India. Socially conscious programs also build relationships with local employers, vendors and businesses to set up internal networks.

Within the past 7 years India has made significant strides in fighting the water pollution that is a direct result of effluents from manufacturing, of which the textile industry is a major contributor. Much of this reformation has come as a direct result of the government lacing pressure on the industry to improve pollution. The first breakthrough in fighting water pollution from industries in India came in May 2000, when the Supreme Court stepped in to ban factories from discharging untreated industrial effluents into the Yamuna river (Babu). Today, India is now building new textile plants with independent effluent treatment plants with "zero" discharge of water (Kumar) and in other states improvements have been made to existing water treatment facilities. In the state of Tirupur, the textile industry has been violating environmental regulations by discharging harmful chemicals and effluents into the Noyyal River for years (Babu). Tirupur is home to more than 600 dyeing and bleaching units, whose effluent has resulted in colored groundwater in the area (Babu). But in July of 2005, the Madras High Court, mandated that the plants must install reverse osmosis plants for treating effluents or be required to shut down (Babu). Shortly after in 2006, the Tirupur Water And Wastewater

Treatment Project, a public-private partnership, was set up that provides potable water and treats domestic sewage (Babu). The Indian dyestuff industry is currently undertaking major restructuring and consolidating with an “emphasis on product innovation, rebuilding and environmental friendliness...(and) is increasingly moving towards greater customer orientation” (Bandyopadyay and Mukhopadyay).

India began implementing and planning for renewable energy needs a decade ago and therefore has had the infrastructure in place to utilize renewable energy sources for energy consumption (Watts, Linfen and Ramesh). In 2006, the Indian president, Abdul Kalam, called for 25% of power generation to come from renewable sources by 2030 (Watts, Linfen and Ramesh). Increasing fuel costs have forced the textile industry to seek alternative sources of energy, most notably wind power (Krishnan). Setting up wind energy farms has had positive financial outcomes for the textile industry and benefited the environment in the process. Banswara Spinning, Rajasthan Spinning Mills, Sangam Spinners, Sutlej Textiles and Nahar Industries are the most recent to join the movement in renewable energy sources and several textile firms in the south are now exploring the option of setting up wind energy farms as well (Krishnan). SV Arumugam, chairman of South India Mills Association, and Bannari Amman Spinning has estimated that the, "cost of power accounts for at least 12- 13 percent of the total sales value for spinners. Setting up wind energy farms are reducing this cost by at least half." Consequently, the textile industry has great incentive to utilize alternative energy sources and support continued research and construction of wind farms. Because the Indian government is also a proponent of the use of renewable energy sources, funding for projects and implementation is more attainable for companies that are seeking to transfer to renewable

energy sources.

In India, the role of corporate social responsibility has been a topic of increasing concern for at least a decade. As a result of rising concerns surrounding corporate practices that affect the environment, companies have begun to seek out socially conscious practices that benefit themselves as well as surrounding local communities. Indian companies have begun to recognize the benefits of using lower cost energy sources that are renewable. At the same time, the Indian government has been taking a stand to enforce one of the countries most severe environmental problems, water pollution, by mandating that companies install water treatment plants that eliminate the release of effluent into city water supply. By utilizing sustainable practices, India is benefiting local communities by bringing in alternative sources of energy and supplying clean water to urban areas. As India's textile manufacturing becomes an outstanding competitor in the global market, India's environmental practices will continue to improve as a result of growing awareness of corporate social practices.

Section 3

The Response of China and Mexico to Rising Corporate Social Responsibility and Their Similarities and Differences in Relation to India

Other developing nations are responding to rising international pressures to institute social corporate responsibility practices in a similar manner to India. Overall, motivation to improve labor and environmental reforms is prompted by the hopes of securing contracts from industrialized nations. China and Mexico's business practices vary from India largely because of their political and religious context but overall all three developing nations are transitioning towards a business model that is geared towards satisfying stakeholder interests. The textile industry in developing nations is responding to international pressure to institute corporate social responsibility practices in order to secure contracts with foreign companies.

In Chinese society, ethics and social responsibility are not seen as necessary practices to achieve success in the business world. China's social and legal infrastructure is oriented towards a socialist economy and China's transition to a free market economy has been profitable but not ethical in many ways. Recent findings show that Chinese societies place very little importance on ethics and social responsibility as necessary practices of business success (Shafer). In India, however, historically, corporate responsibility has had a significant influence on business, government and societal relationships. The concept of corporate social responsibility is a much more foreign concept to most Chinese firms and thus companies have been responding more slowly than India to international pressures to reform.

China's driving motivation to implement more socially conscious practices has largely been driven by the desire to establish outside contracts with foreign investors. India is similar to China in that both countries are using corporate social responsibility as

a marketing tool to attract foreign investors as well as consumers in the local domestic market. India, however, is more socially conscious of the impacts of the industry on the environment and social practices and considers giving back to the community as an integral part of the role of corporations. Many Chinese executives consider the adoption of corporate codes an additional burden they must bear to be competitive in the international marketplace. Business owners know that without the implementation of an internationally acceptable code of conduct, bargaining power with transnational corporations would be lost but without these outside pressures little reform would be put in place (Ngai).

The textile industry in China is one of the key industries that has been affected by rising international pressure to reform labor practices because it is the industry that is most closely associated with unethical labor practices. Two specific examples of China's attempts to improve working conditions to attract foreign contracts are discussed below. China Miracle, a corporation owned by a Taiwanese company and a private businessman, built a new 40 acre factory in 2000 in hopes that their new facilities would improve working conditions and as a result would attract more production orders from foreign transnational corporations (Ngai). Another company who has invested a significant amount of money towards improving working conditions is China Galaxy, company that produces sportswear for American name-brand companies (Ngai). In 1999, China Galaxy invested 5 million Yuan to build a new dormitory to house its workers, complete with recreation areas, dining hall, dance hall and clinic. Both China Miracle and China Galaxy set up a trade union branch to meet the requirements of SA 8000, a standard set by Social

Accountability International, which they perceived to be important to secure orders from American clientele and to meet China's Labor Law (Ngai).

As China's economic growth continues, setting standards for accountability and responsibility in both business and social practices has become increasingly more important for Chinese companies to secure contracts from Western companies. As a result, China has been attempting to implement labor laws that address worker's rights and compensation as well as policies that hold executives more accountable for working conditions, environmental impacts and corporate policies. Ultimately, foreign dependency on cheap goods in China, produced using socially acceptable labor practices, is responsible for fueling the reformation of social, environmental and individual rights in China.

Mexico is another country that has been improving corporate social responsibility practices as a result of growing international pressures. The motivations for increased corporate social responsibility in Mexico stem primarily from two factors. The first factor is business incentives such as the benefits of an increasingly positive reputation globally that ultimately leads to foreign investments, which is also a primary motive in Indian industries (Weyzig). The second driving factor is coming from external pressures such as strikes and regulations from the government and international non-governmental groups (Weyzig). However, the issue of CSR and upholding environmental standards is less important for a company's reputation in Mexico at the local level and practices are largely implemented to satisfy foreign companies. In Mexico, ethical incentives are more important and as a result individual responsibilities become more important than

corporate responsibilities. This differs from the attitudes in India where local communities uphold corporations to resolve environmental issues.

Mexico's concept of social corporate responsibility is based around cause-related marketing,, "the promotion of a product by allocating a share of revenues to a social causes" (Weyzig). This may be largely true because of the dominant Catholic population and the influence of US business culture in Mexico (Weyzig). Mexico's traditional model of CSR emphasizes the expanded goals of business beyond short and long-term profit generation (Weyzig) and focuses on the "contribution of business to sustainable development and poverty reduction" (Weyzig). This is similar to India in that religious traditions also play a prominent role in influencing business practices. Catholic values that stress the value of social improvement and a need to care for society are very similar to the Gandian values in India that once were pervasive in the business world.

Historically, Mexico's political climate has not encouraged trust and cooperation between different parts of society; in this way Mexico does not have a history of an alliance culture and therefore are tentative towards stakeholder engagement in considering aspects of how corporate social responsibility affects civil society (Weyzig). However, both India and Mexico have begun to move away from a business model that is focused on the contribution of corporations to society towards a business model that directs social ventures towards stakeholders' interests. This shift in can be described as a transition towards a core business perspective that emphasizes that the scope of company responsibilities is determined by considering the relations between a company and its stakeholders (Weyzig).

As developing nations begin to institute corporate social responsibility policies as a result of rising pressure from foreign investors in the West, policies begin to reflect stakeholder interests and giving back to local communities becomes increasingly less important. While rising awareness of CSR is improving environmental conditions and helping to reform labor practices, it is also creating a homogenized business model across the globe in both developing and industrialized nations. Countries are focusing less on internal benefits and more so on creating wealth through foreign contracts.

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