Corporate Social Responsibility in Emerging Markets

The Importance of the Governance Environment

Shaomin Li · Marc Fetscherin · Ilan Alon · Christoph Lattemann · Kuang Yeh

Abstract:

- This study examines how country-level, industry-level, and firm-level factors affect the extent of corporate communications about CSR in Brazil, Russia, India, and China (BRIC). In particular, using data from the 105 largest MNCs in BRIC, we investigate CSR motives, processes, and stakeholder issues discussed in corporate communications.
- At the country level, based on a newly developed governance environment framework that differentiates between rule-based and relation-based governance, our study reveals that a country’s governance environment is the most important driving force behinds CSR communications intensity.
- Our results show that firms communicating more CSR tend to be larger firms in the manufacturing industry in more rule-based societies. These firms also tend to have stronger corporate governance as measured by a high proportion of outside board directors and a separation of the roles of the chairman and the CEO.

Keywords: Corporate social responsibility · Governance environment · Rule-based · Relation-based · Emerging markets
Introduction

In recent years, the terms CSR (corporate social responsibility), corporate strategic volunteerism, social marketing, and strategic philanthropy have penetrated the mainstream literature and multinational practices (Turban and Greening 1997). Generally, CSR is considered a firm’s obligation to protect and improve social welfare (Staples 2004) through various business and social actions (Sen and Bhattacharyya 2001; Turban and Greening 1997), ensuring equitable and sustainable benefits for the stakeholders. Increasingly, companies are rolling out CSR initiatives that have also been shown to become key success factors and sustainable competitive advantages (Lichtenstein et al. 2004). In mature economies, such as those in the US and Western European countries, corporate communication is often used to highlight companies’ commitments to CSR (Esrock and Leichy 1998; Hooghiemstra 2000), enhance marketing efforts, and legitimize the company’s corporate image in the eyes of its various stakeholders (Birch and Moon 2004; Ringov and Zollo 2007). Communications about CSR has therefore emerged as a vital and integrated part of organizational marketing to enhance the corporate image (Chahal and Sharma 2006).

Already more established in developed-country firms, CSR has become important for firms in the developing countries. Although extensive research has been conducted on CSR in the developed countries, much less is known about CSR in the developing countries. So far general knowledge about CSR in the developing countries can be summarized by two main points. First, firms in developing countries adopt CSR less than their counterparts in the developed world (e.g., Welford 2004), and second, the main reason for this gap is due to their low economic development levels (e.g., Baughn et al. 2007). Our limited understanding of CSR in the developing economies poses a pressing challenge for both the international community and academics.

In recent years there has been a drastic increase in health and product safety issues associated with products from emerging economies, such the milk and toy scandals in China (e.g., Bogdanich 2008). This not only has caused concern in the international community, but has also negatively impacted the image of the country of origin and the corporate reputation of the firms that reside there. Therefore, the international community, multinational corporations, and firms in the emerging economies all need to gain a better understanding of the importance of CSR and what affects CSR in the emerging countries. From an academic perspective, CSR scholars are faced with the challenge of determining what factors influence firms in the emerging economies to behave in a socially responsible way. Theoretically, we also need to understand what macro factors, aside from the known factors such as the level of economic development, may help determine the overall CSR level of firms in a particular country.

In this study, we attempt to address this issue by studying the determinants of CSR communications in emerging markets using data from the four largest and rapidly growing major emerging economies (MEMs): Brazil, Russia, India, and China (BRIC). Although much has been written on the “economic miracles” of BRIC and the globalization of their companies (Alon and McIntyre 2008; Goldman Sachs 2003), less is known about the way firms in these nations fashion their corporate environments toward social responsibility. The internationalization of BRIC firms has also heightened awareness of concerned gov-
Corporations, groups, and individuals about pollution, product quality, and safety affecting the world at large (Global Information, Inc. 2006; Bogdanich 2008). Thus, the CSR of BRIC firms is a growing concern (Baskin 2006), on which scholars have begun to focus attention (Alon et al. 2009). In addition to their large economies and rapid growth, BRIC represent a diverse group of nations in terms of economic development, political system, and cultural tradition, which will help us identify the country-level factors that affect the CSR communications of their firms. Specifically, using a dataset from the Forbes world’s 2,000 largest corporations, we will examine how BRIC multinational firms communicate CSR and how country-level, industry-level, and firm-level factors affect CSR communications intensity. This will not only provide a better understanding of CSR communications practices of BRIC firms, but will also make a contribution to the literature by showing that, next to industry and company variables, country-level factors are an important driving force behind the intensity of CSR communications.

This paper is structured as follows: Sect. 2 provides a review of the current literature on the determinants of the motives, processes and stakeholder issues in CSR corporate communications; Sect. 3 presents our theoretical framework and outlines the hypotheses; Sect. 4 describes the methodology and data collection process; and Sect. 5 presents the empirical results and findings. Finally, we conclude with a summary and discussion of the outlook for future research.

Literature Review

The literature provides a variety of CSR definitions and underlying measurements (McWilliams et al. 2006). Although there is no universally accepted definition and measurement scale, some agreement exists on the potential positive impact (Branco and Rodrigues 2006; McWilliams et al. 2006; Smith 2003). Donaldson and Preston (1995) describe CSR as a source of profits and competitive advantage, whereas others prescribe the integration of CSR to corporate strategy as a means to enhance corporate image and competitiveness (Branco and Rodrigues 2006; McWilliams et al. 2006; Porter and Kramer 2006). Increasingly, scholars have begun to examine CSR across countries. These studies show that the extent, content, and communications intensity of CSR differ across corporations, regions, and countries (Maignan and Ralston 2002). Most studies have focused on developed-country firms (Bertelsmann Foundation 2007; Society for Human Resource Management 2007), but in recent years the emerging markets have received increased attention (Baskin 2006; Baughn et al. 2007; Cappellin and Giuliani 2004; Chapple and Moon 2005; Ewing and Windisch 2007; Kimber and Lipton 2005; de Oliviera 2006; Qu 2007; Roper and Weymes 2007; Welford 2004). Studies have found that firms from emerging markets lag behind their counterparts in mature economies with regard to CSR implementation and activities (Welford 2004).

Existing research suggests that the general business environment (i.e., the political, economic, social, and technological environments) may impede or promote the development of CSR. CSR activities can be impeded by a lack of adaptation to the cultural context (Gerson 2007). For example, Ewing and Windisch (2007) argue that the utilization of Western CSR approaches may fail in the Asian context because of cultural differences.
Baughn et al. (2007) add that CSR in Asia is characterized not only by the cultural context, but also by the economic and political conditions. More specifically, economic and political freedoms, as well as low levels of corruption, may lead to effective CSR implementation. With respect to the economic environment, Chapple and Moon (2005) suggest that a high level of inward foreign direct investments (FDI) into a country increases the likelihood that CSR practices will be adopted by domestic companies.

Although each of the above-mentioned studies makes a substantial contribution to help us understand CSR across countries, many merely report on the state of CSR practices without attempting to identify patterns based on theory. Furthermore, they tend to focus on either country-, industry-, or firm-level factors. Few studies attempt to consider collectively the country-, industry-, and firm-level factors to explain cross-national CSR practices. Although some scholars have begun to pay attention to the role of the institutional arrangement at the country level on a firm’s CSR behavior (Baughn et al. 2007), existing country-level studies tend to focus on either the “hard” (formal) institutions, such as political and economic freedoms, or the “soft” (informal) institutions, such as culture (North 1990). The effect of the governance environment at the country level, which is a combination of both the “hard” and “soft” institutions that shape firm governance and behavior, including behavior related to CSR, has not been examined. In this article, we propose a new approach to the study of CSR across countries by adding the governance environment to the industry- and firm-level factors in the equation.

The Importance of the Governance Environment for CSR Communications

Motivated by the need to better understand CSR in the emerging markets and in view of the gap in a multi-level approach in the literature, we propose a model that will consider different macro- and micro-level factors that affect the CSR communications of firms. Our basic premise that links governance to CSR rests on institutional theory. It has been widely recognized across different disciplines in the social sciences that at the country level, the institutional settings play an important role in determining the behavior of the social elements—individuals and organizations (e.g., North 1990). According to the economic institutional theorist North (1990), institutions in a society are the rules of the game that govern the interactions, behaviors, and activities of organizations, such as whether firms must be socially responsible. CSR scholars have recognized that institutional theory (North 1990; Scott 2001) provides an appropriate theoretical framework to analyze CSR across countries (e.g., Baughn et al. 2007).

More recently, scholars have furthered institutional theory by focusing on how social, political, and economic institutions affect the way individuals and organizations govern their social activities (Kaufmann et al. 1999; Globerman and Shapiro 2003; Li and Filer 2007). They have identified and measured the governance environment factors in a society that facilitate or constrain the mode in which individuals and organizations protect and regulate economic exchange behavior. Furthermore, in addition to the commonly used political and economic indicators, they incorporate more governance-related indicators, such as accounting quality and public trust (which is a “soft” cultural indicator) into the measure of the governance environment (Li and Filer 2007). Using the governance
environment framework, scholars have proposed a model that classifies societies into rule-based and relation-based governance environments (Dixit 2004; Li et al. 2004).

A *rule-based governance* environment exists in a society in which organizations rely primarily on public rules to govern their interest in socioeconomic exchanges. In order for this governance type to prevail, the society must meet the following conditions: first, checks and balances must exist between different governmental branches and, more importantly, the legal system must be independent of political influence and be fair, transparent, and efficient; second, a well-developed public information infrastructure must exist to ensure the access of high-quality public information; and third, citizens and firms must have a high level of overall trust in the public rules (Li and Filer 2007; Platteau 1994).

The opposite type of governance environment is *relation-based*, where people tend to use private means—such as personal connections or private forces—for self-protection and to settle disputes. A relation-based governance dominates in a society when checks and balances do not exist (or are weak) between the branches of the government, thus rendering the public rules (i.e., the legal system) unfair and opaque. As a result, the courts are influenced by politicians and public information tends to be controlled by the state and is usually untrustworthy.

In economies in which market exchanges are local and limited in scope and scale, a reliance on relation-based governance can be efficient since it does not require huge investments to develop the infrastructure necessary for a rule-based governance system. It has been argued that some economies that have achieved a “catching up” period of rapid growth (Abramovitz 1986), such as Japan, Taiwan, and South Korea in the past, and China today, successfully relied on relation-based governance in their early stages of development (Li 2003). However, as the economy expands, firms must deal with an increasing number of new players whom they do not know well. Under such a situation, relation-based governance becomes inefficient and costly. The increasing marginal costs of dealing with new players will render relation-based firms unable to compete with firms from rule-based economies. Once relation-based economies reach this point, they must adopt rule-based governance, otherwise they will lose their competitive advantage (Li et al. 2004).

The Effect of the Governance Environment on CSR

CSR is a reaction to public concerns about business pursuits of profits at the cost of social and environmental degradation. CSR communications by firms is a reaction to the call by various stakeholders for more transparency and greater firm involvement in community welfare. Intrinsically, CSR is about firm actions that have social consequences and result in public attention, and thus should be publicly conveyed through corporate communications. The effect of institutional factors at the country level on CSR is beginning to be recognized (Husted and Allen 2006; Baughn et al. 2007). Lattemann et al. (2008), applying the governance environment approach to compare CSR communications between Chinese and Indian multinational firms, find that the governance environment affects the CSR communications of firms in the two countries. By extending work on CSR to the
BRIC countries, we hope to validate theoretical speculations with wider application to the MEMs.

As mentioned earlier, in rule-based societies the public rules, such as the laws, are fairly made and openly accessible to all. As a result, citizens have a higher level of trust in publicly available information, such as corporate communications in general and annual reports in particular. In relation-based societies, the government controls the flow of information and decides what information citizens can have and what information should be suppressed. As a result, people tend to distrust publicly released information and resort to private information (such as rumors) to make decisions about their economic activities (Li et al. 2004). Furthermore, drawing on Amartya Sen’s argument about non-democratic governments, a relation-based government (a type of non-democratic regime) tends to be less concerned with social issues due to the lack of checks and balances in the political system, and citizens tend to have less say in social issues and less ability to influence social issues (Sen 1999). Therefore, businesses face few government pressures to behave responsibly. Under this institutional environment, firms feel neither obligated to communicate their social responsibility, nor compelled to act in the interest of public order (Lattemann et al. 2008). The above discussion leads us to the first hypothesis:

**Hypothesis 1:** Firms in more rule-based (or less relation-based) societies tend to have a higher intensity of CSR communications.

The Effects of Industry- and Firm-level Factors on CSR

Previous studies have shown that the type of the industry affects firm CSR behavior (e.g., Husted and Allen 2006). Cooke (1992), in a study of Japanese firms in the 1980s, finds that manufacturing industry firms are inclined to disclose more information to the public. He argues that the reason for this is “Japan’s unparalleled economic growth and the extraordinary efficiency and productivity of Japanese manufacturing […] together with the international exposure of the manufacturing sector may have an effect on the extent of disclosure […]” (p. 232). Given the recent ascendancy of BRIC nations in the manufacturing sector, similar to Japan in the 1980s, we control for possible industry differences.

Historically, in the developed countries, issues in the manufacturing sector, such as product safety and environmental pollution, brought to the surface public debates and pressure to regulate this sector (Marlin and Marlin 2003). Firms in developed countries were compelled to behave socially responsibly or to risk enduring public outrage. Manufacturing firms in the BRIC countries today face similar issues, with China and India in the spotlight, as reported in both academic studies and the popular press (Global Information, Inc. 2006; Lattemann et al. 2008; Bogdanich 2008). Based on the literature, we will test the following hypothesis:

**Hypothesis 2:** In BRIC nations, firms in the manufacturing industry tend to have a higher intensity of CSR communications than those in other industries.

That firm-level factors affect CSR has been well documented in the literature (Black and Härtel 2004; Hart 1995; Lattemann et al. 2007; Sharma and Vredenburg 1998). For example, Sharma and Vredenburg (1998) show that a proactive corporate environment strategy
may be associated with the development of unique organizational capabilities. With more scrutiny, we see that CSR communications are actually a part of corporate disclosure, or more precisely, a part of voluntary corporate disclosure. There is also a rich literature on factors determining corporate disclosure. For example, Xiao and Yuan (2007) show that corporate governance is positively associated with voluntary disclosure.

Based on agency theory, the board of directors plays an important role in corporate governance (Fama and Jensen 1983) in the sense that the board represents the interests of the various stakeholders. The main role of the board is to monitor the “insiders”—the managers—for the outsiders. To fulfill this role, researchers have argued, independent outside directors are important for corporate legitimacy (Birch and Moon 2004; Ringov and Zollo 2007). For example, Chen and Jaggi (2000) find that the proportion of independent board members is positively associated with mandatory disclosure. A similar pattern is found by Lattemann et al. (2008) in China and India. We therefore state the following hypothesis:

**Hypothesis 3:** In BRIC nations, firms with a higher percentage of outside board members tend to have a higher intensity of CSR communications.

Another measure of the board’s role in representing outsiders is whether the chairman of the board is also the Chief Executive Officer (CEO)—known as CEO duality. It has been argued that if the chairman is also the CEO, then conflicts of interest may arise. Gul and Leung (2004) show that CEO duality is associated with a lower level of voluntary corporate disclosure. Following the logic that the separation of the chairman and the CEO will enable the firm to have greater corporate transparency and responsibility, Lattemann et al. (2008) find that CEO duality lowers CSR communication intensity in China and India. We thus develop the following hypothesis:

**Hypothesis 4:** In BRIC nations, firms with CEO duality tend to have a lower CSR communication intensity.

The research on corporate voluntary disclosure also finds that large firms tend to be more inclined to disclose more information to the public. The reason, as argued by Firth (1979), is that the public pays more attention to these firms. In other words, social pressures are greater for large firms to be socially responsible. Furthermore, firms with large sales volumes, taken as a proxy for firm size (Cooke 1992), are more exposed to market pressures and thus are more likely to communicate more CSR. Lattemann et al. (2008) find that larger firms in China and India are more likely to communicate CSR. Extending their study, we state the following hypothesis:

**Hypothesis 5:** In BRIC nations, larger firms tend to have a higher CSR communications intensity.

**Methodology**

Following Chapple and Moon (2005) who suggest that large corporations tend to be precursors to the integration of CSR, we took as a starting point the *Forbes’ 2,000 world’s-
largest-corporations ranking (Forbes 2007) to collect our data. Altogether, 22 Brazilian, 20 Russian, 34 Indian, and 44 Chinese (a total of 120) corporations were selected for the analysis. Second, we further limited our sample only to those firms with English-language Web sites. English is the lingua franca of international business, providing a common language for analysis and also eliminating any translation biases. Of the 120 potential companies, 105 provided information in English, representing 87.5% of the initial sample. Therefore, 105 companies remained in our sample for this study (Brazil 18, Russia 19, India 33, and China 35).

The Dependent Variable: Corporate Communications about CSR

In measuring CRS, like other studies (Maignan and Ralston 2002; Alon et al. 2009), we use the intensity of corporate communications about CSR as our dependent variable. Although this measure may not capture the “real” or “realized” CSR activities, it does measure the image the company wants to portray to the various stakeholders. Moreover, the corporate communications strategy, which is an integral part of organizational marketing (Hooghiemstra 2000), serves as an effective marketing tool to promote the company’s engagement in the community and with its various stakeholders. Moreover, the corporate communications strategy, which is an integral part of organizational marketing (Hooghiemstra 2000), serves as an effective marketing tool to promote the company’s engagement in the community and with its various stakeholders. A lack of corporate communications about CSR can be interpreted as a missed opportunity or a lack of awareness among managers about the importance of CSR in the global environment. Large companies on the Forbes’ 2,000 list are not only globally engaged, but they may also be influenced by others’ perceptions of their CSR practices. Sources for CSR communications include corporate Web sites, annual reports, and CSR reports, if available (Esrock and Leichty 2000). Adams et al. (1998) and Esrock and Leichty (1998) show that corporations broadly communicate their CSR activities, approaches, and processes in order to achieve a positive public image and to gain legitimacy and support from various stakeholders. A lack of corporate communications about CSR can be interpreted as a missed opportunity or a lack of awareness among managers about the importance of CSR in the global environment. Large companies on the Forbes’ 2,000 list are not only globally engaged, but they may also be influenced by others’ perceptions of their CSR practices. Sources for CSR communications include corporate Web sites, annual reports, and CSR reports, if available (Esrock and Leichty 2000).

Following the approach developed by Maignan and Ralston (2002), we measure the intensity of CSR based on corporate communications about CSR originating on corporate Web sites, annual financial reports, and CSR reports. Although they need to be examined with some degree of caution, they are still among the best and most reliable sources of information about companies’ CSR activities (Chapple and Moon 2005). According to Maignan and Ralston (2002), three CSR categories can be distinguished: (1) motives for CSR activities; (2) managerial CSR processes; and (3) stakeholder issues.

First, the motives for the implementation of CSR were coded and classified into three different items: (a) value-driven; (b) performance-driven; and (c) stakeholder-driven. According to Swanson’s (1995) findings, the value-driven view suggests that corporations are self-motivated to implement CSR initiatives regardless of external and social pressures. Following a utilitarian perspective, CSR is implemented in a corporation to achieve performance objectives, such as profitability, returns on investment, or sales volume. This view assumes a strong relationship between CSR and financial performance. The stakeholder view suggests that corporations adopt social responsibility initiatives due to pressures from various stakeholders (Swanson 1995). The positive-duty view suggests that businesses may be self-motivated to adopt social responsibility initiatives regardless of social pressures. Both the negative duty and the utilitarian approaches suggest that
CSR can be used as a tool employed to make an impression on the stakeholders’ perceptions of the corporate image, which is an important component of organizational marketing (Hooghiemstra 2000).

The second category measuring CSR is described by the “processes” designated to the managerial procedures and instruments employed by the companies to put their motivational principles into practice. CSR processes consist of programs or activities that foster the realization of CSR within a corporation. Based on Maignan and Ralston (2002), the following seven CSR process items are differentiated for our analysis: (1) philanthropy programs; (2) sponsorships; (3) volunteerism; (4) implementation of a code of ethics; (5) quality programs; (6) health and safety programs; and (7) management of environmental impacts. These seven processes are not mutually exclusive.

Stakeholder issues constitute the third measurement category for CSR initiatives. Considering Clarkson’s (1995) stakeholder classification, five items are relevant for this study: (1) community; (2) customers; (3) employees; (4) shareholders; and (5) suppliers.

We operationalize our CSR dependent variable as follows: If a firm discusses any CSR motives outlined above in one of its corporate communication outlets we assign it one point for the category. Similarly, a firm will receive one point for a discussion of any CSR processes or stakeholder issues. This results in an overall CSR communications intensity with possible points ranging from 0 to 21.

Independent Variables: Country-level

*Governance Environment Measurement*

To conduct our empirical test, we need a variable that measures the degree to which a country’s governance environment is rule-based or relation-based. Li and Filer (2007) develop a Governance Environment Index (GEI) to measure the degree to which a country is based on public ordering (rule-based) versus private ordering (relation-based). The GEI consists of five indicators: political rights; rule of law; quality of accounting standards; free flow of information; and public trust. Each of the five components of the GEI is standardized to a mean of zero and a standard deviation (SD) of one by subtracting the mean from the value and then dividing by the SD of the values. The standardized components are then totaled to calculate the GEI for each country. A high GEI indicates a country is more rule-based whereas a low GEI indicates a country is more relation-based. Li and Filer (2007) calculate the GEI for 44 countries for which all five indicators are available. Their GEIs, measuring the governance environment in these countries in the late 1990s and early 2000s, range from 6.02 (Norway), the most rule-based country, to −7.26 (China), the most relation-based. Among the BRIC countries, India (−1.48) and Brazil (−3.17) have higher GEIs whereas Russia (−6.23) and China (−7.26) have lower scores.

An advantage of using the GEI is that it summarizes the overall governance environment by including both the “hard” and “soft” institutional factors, namely, the political, legal, economic, and cultural dimensions, such as public trust, which is an important variable in cross-cultural studies and is commonly viewed as a key dimension to measure social capital and social development such as democracy (see the world value surveys and
related studies by Inglehart and associates, e.g., Inglehart and Welzel (2005). Moreover, the GEI includes the quality of the national accounting standard, which is a key determinant of corporate governance (Bushman et al. 2004).

Using an aggregate index such as the GEI may help mitigate measurement errors by reducing the reliance on a single variable. It also achieves parsimony in the number of variables in our multivariable models (Hair et al. 1998, pp. 116 et seq.). In addition, as these dimensions tend to be highly correlated, using a single comprehensive index is an effective solution for potential multicollinearity in multivariate analyses (Center for Statistical Computing Support). This measure has been used as a predictive variable in previous research in which Li and Filer (2007) examine how the governance environment affects the mode of investment across countries.

**Economic Development**

We use the 2006 GDP per capita data, in international dollars adjusted by purchasing power parity, as reported by the United Nations (2008). Several studies document the positive relationship between the level of economic development, often measured by the GDP per capita, and CSR (Baughn et al. 2007). The basic argument for the positive relationship is that a higher level of wealth enables citizens to be more concerned about the non-economic welfare of the society and thus puts more pressure on corporations to be socially responsible (Baughn et al. 2007). We include GDP per capita (GDP_capita) as another independent control variable in our study.

**Independent Variables: Industry-level**

Our industry variable is derived from the industry classification in the *Forbes* database (Forbes 2007). The following are the six industries in our dataset (with the corresponding variable names in parentheses): (1) banking and insurance (Bank_Ins); (2) capital goods (Cap_Goods); (3) chemical (Chemical); (4) consumer goods (Cons_Goods); (5) technology; and (6) others. We use the five industry variables (1) to (5) as dummy variables in the industry-factor-only model, with the “others” as the baseline (see model 3 in Table 3). In order to test H2, we create a new dummy independent variable, “Manufacturing_ID,” representing firms in the manufacturing industry, by combining capital goods with chemical and consumer goods.

**Independent Variables: Firm-level**

We use three firm-level variables: total sales; CEO duality; and percentage of outside board members. The source for total sales is the Forbes database (2007), the sources for the other two variables are Reuters (2007) and the companies’ Web sites. For each company, we determine whether the chairman of the board is also CEO. If s/he has a dual role, we code it as “1”; if not, we assign a value of “0”. For the percentage of outside board members, we first count the total number of board members for each company, then count and calculate the percentage of outsiders (e.g., non-executive directors, independent directors, government directors, or independent non-executive directors).
Regression Models

We employed multiple regression analyses to examine the data and to test the various hypotheses. We first ran three sets of regressions to assess individually the explanatory power of the country-level (model 1), industry-level (model 2), and firm-level (model 3) independent variables. In the country-level model, we also ran two specifications, one with country dummy variables, and another with two independent variables at the country level, namely GEI and GDP per capita (model 1a and 1b in Table 3). In the industry-level model, we treated the industry-level effect as a dummy variable (model 2 in Table 3). The firm-level model includes corporate governance variables and firm size (model 3 in Table 3). Finally, we ran a regression model that includes all three levels of the independent variables (model 4 in Table 3). Using this multiple model approach, we are able to discern country-, industry-, and firm-level impacts individually and then collectively.

Results

Overall, only eight of the 105 BRIC firms in our sample do not provide any CSR-related information in their corporate communications (China 6, India 1, Brazil 1). Although the number of non-reporting firms is small, most non-reporting companies are from China (six out of eight), suggesting that these companies have not realized the advantages of such communications to improve their corporate images. To measure the relevance of CSR reporting for the analyzed companies, we counted and summarized the number of companies that provide one or more CSR motives, CSR processes, or stakeholder issues in their corporate communications. Table 1 provides the descriptive results on the CSR corporate communications for the BRIC firms.

Table 2 presents the basic statistics of the independent variables, including the means, SD, and correlations between the variables. Although there is no correlation higher than (−) 0.676, which is well below the threshold of 0.9 for multicollinearity concerns (Hair et al. 1998, p. 191), we nevertheless further investigate a potential multicollinearity problem with more advanced statistics, such as the variance inflation index (VIF).

Table 3 summarizes the regression analyses of the five model specifications: model (1a) and (1b) examine the country effect; model (2) the industry effect; model (3) the firm-level effect; and model (4) includes all three levels of the independent variables. As the VIF values are all substantially below the cutoff threshold of 10 (Hair et al. 1998, p. 193), the existence of multicollinearity can be ruled out.

Model (1a) can be viewed as a “random effect” model in the sense that we are interested in the effect of “country,” representing any number of variables associated with CSR. In other words, we are interested in the extent to which the random factor—country—accounts for the variance in the dependent variable—the firm’s CSR communications intensity—across countries. As can be seen from column (1a), all the country dummy variables are highly significant, suggesting a strong country-level effect. The model shows that by merely controlling the country’s random effect explains 21.7% of the variation in CSR across BRIC.
We note that Brazilian firms have the strongest intensity of CSR communications, Russian firms rank second, Indian firms third, and Chinese firms fourth. This pattern, along with the fact that China has the lowest GEI (i.e., the least rule-based country) among the four, and Brazil and Russia have higher incomes indicate that the governance environment and economic development may explain, in part, the variation in CSR communications intensity across countries, as investigated in model (1b). This model can be viewed
as a “fixed effect” model in the sense that we are interested in comparing the scores on CSR communications intensity among two specific country-level factors developed in our hypotheses: GEI and GDP per capita. More specifically, we want to assess in what direction, positive or negative, these independent variables affect CSR communications intensity across the four countries. The results show that both GEI and GDP per capita positively and significantly affect firm intensity in CSR communications. It is also worth noting that the adjusted r-square of model (1b) with a value of 21% is quite close to that of model (1a) at 21.7%, implying that the country effect is relatively well captured by the governance environment (GEI) and economic development (GDP per capita).

Table 3: Results of the regression models

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<tr>
<th>Model specifications</th>
<th>(1a)</th>
<th>(1b)</th>
<th>(2)</th>
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<td>Description</td>
<td>Country dummies</td>
<td>Country factors</td>
<td>Industry dummies</td>
<td>Firm-factors</td>
<td>Full Model (country-, industry- firm-level)</td>
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<td>(Constant)</td>
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<tr>
<td>Manufacturing_ID</td>
<td>H2</td>
<td>3.158***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-manufacturing (baseline)</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duality</td>
<td>H3</td>
<td>–1.936*</td>
<td>–2.477**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perc_external</td>
<td>H4</td>
<td>–0.008</td>
<td>0.042**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales ($bil)</td>
<td>H5</td>
<td>0.122***</td>
<td>0.113***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank_Ins</td>
<td>–</td>
<td>–0.107</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cap_Goods</td>
<td>3.638**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical</td>
<td>6.937***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cons_Goods</td>
<td>1.667</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>2.100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (baseline)</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-square (%)</td>
<td>21.7</td>
<td>21.0</td>
<td>14.0</td>
<td>13.4</td>
<td>42.2</td>
</tr>
<tr>
<td>F-Statistics</td>
<td>10.6***</td>
<td>14.8***</td>
<td>4.388***</td>
<td>5.97***</td>
<td>12.69***</td>
</tr>
<tr>
<td>N</td>
<td>105</td>
<td>105</td>
<td>105</td>
<td>97</td>
<td>97</td>
</tr>
</tbody>
</table>

Dependent variable = SUM_CSR (total score of CSR)

***Estimate is significant at the 0.01 level (2-tailed)
**Estimate is significant at the 0.05 level (2-tailed)
*Estimate is significant at the 0.10 level (1-tailed)
Model (2) estimates the “random effect” of the industry on a firm’s CSR communications intensity. The adjusted r-square of the model is 14%. The industry classification by itself can explain a good portion of the variation in CSR intensity among the studied countries.

Model (3), the firm-level effect model, shows that the most significant independent variable is total sales, whereas CEO duality is only significant at the 0.10 level in a one-tailed test; the proportion of outside directors is not at all statistically significant in the model. The explanatory power of model (3) at 13.4%, which is lower than those of the country- and industry-level models, is surprising.

Our final model (4) takes into account all three levels of the independent variables: country, industry, and firm. The overall explanatory power of the model is improved over the previous models, with an adjusted r-square of 42.2%. The GEI is highly positively correlated with a firm’s CSR communications intensity, strongly supporting H1. Examining the roles of the corporate governance variables, CEO duality and proportion of outside board members, we find that both variables demonstrate the expected relationships with the dependent variable as we conjectured in our hypotheses, at the 5% significance level (two-tailed test), lending support to H3 and H4. Interestingly, the two corporate governance variables that are not highly significant in the firm-level model (model 3) become significant in the full model, suggesting that the full model (model 4) may be more correctly specified. The total sales volume of a firm shows a highly significant positive relationship with its CSR communications intensity; therefore, H5 is supported. Finally, model (4) shows that being in the manufacturing sector makes a firm communicate more CSR, thus supporting H2.

Concluding Remarks

CSR initiatives have shown to be a key success factor and to provide a sustainable competitive advantage for companies (Lichtenstein et al. 2004; Godfrey 2005). CSR has thus become an integral part of organizational and social marketing, significantly enhancing the corporate image (Branco and Rodrigues 2006). In most cases, corporate communications are used to highlight a company’s commitments to CSR. Thus far, CSR studies have focused on developed-country firms in North America and Europe, and little effort has been made to systematically study determinants of corporate communications about CSR that consider multilevel factors in the emerging markets. This article examines how country-level, industry-level, and firm-level factors affect the intensity of corporate communications about the CSR of multinational corporations in emerging countries, using data from BRIC. In particular, we investigate the CSR motives, processes, and stakeholder issues discussed in corporate communications. At the country level, we use a newly developed framework of the governance environment which differentiates between rule-based and relation-based governance. Our results show that the most important driving force for communications intensity about CSR are the country factors, followed by the industry- and firm-level factors, which are almost equally important.
At the country level, we show that in the four largest emerging societies, the governance environment (the political, economic, and cultural institutions that facilitate or constrain a firm’s governance behavior) exerts the greatest influence on firms’ CSR communications intensity. This result suggests that as the emerging countries develop economically and their governance environments are transformed in the direction of more transparency, accountability, and public ordering at the macro level, we can also expect their firms to improve their CSR. This finding is further supported by the previous observation that firms in developed (mostly rule-based) countries have a higher level of CSR practices (e.g., Welford 2004). Emerging country governments wishing to improve their companies’ CSR must realize that in addition to pushing individual firms to adopt higher CSR standards, improving the business environment, especially the governance environment, is a necessary precondition for raising the level of CSR communications in their country. More specifically, governments in more relation-based societies should facilitate a transformation toward more rule-based governance that respects political and civil rights, international standards, and checks and balances on power.

We further show that industry also matters with respect to CSR communications. We demonstrate that industries in the manufacturing sector, which face more environmental, labor, and societal pressures, are more likely than companies in other sectors to address CSR issues in their corporate communications. However, as noted earlier, country-level explanations are more powerful than industry-level explanations. In this regard, we can say that CSR is better explained by knowing the country in which a firm resides rather than knowing to which industry the firm belongs. Simply put, the governance environment matters for CSR. Using country- and industry-level variables may explain why firms in some industries and in some countries communicate and behave socially responsibly, but it does not explain why there are CSR differences among firms within a certain industry or country. For this reason, we also include firm-level variables.

Our models show that firm-level variables are significant as well. Knowing a firm’s size and its corporate governance provides useful information to predict its use of CSR communications tools. More specifically, our results show that firm-level factors, including CEO duality and firm size, influence the degree to which a firm engages in and communicates about CSR. From a governance perspective, the country-level and firm-level CSR factors are closely linked in the sense that together they shape governance from the macro to the micro levels: the more government transparency and checks on government power, the greater the intensity of firm CSR communications.

From these findings, we can draw several implications for managers of CSR. First, companies should evaluate the country’s governance environment, instead of only relying on crude indicators of GDP per capita. The GEI offers a means to systematically evaluate the overall governance environment in a target market. Second, a communications strategy should be developed that takes into account a company’s governance environment, industry type, and the intended strategy. For instance, weak internal governance, such as an insider-dominant board and CEO duality, decreases the likelihood that a company will communicate CSR extensively. To more effectively communicate CSR managers should consider separating the role of the CEO from the head of the board of directors and place outsiders on the board who will bring varied experiences, more objective evaluations, and best practices.
A unique insight from our study for MNCs, especially those in more rule-based societies such as Western Europe or North America, is a better understanding of the CSR issue in relation-based countries. This understanding is multifold. First, when a rule-based MNC sets up operations in a relation-based country, it may be difficult for it to uphold its CSR standards in the host country due to the macro institutional environment that does not favor or facilitate a high level of CSR practices. Similarly, a rule-based MNC doing business in a relation-based country may find that it is difficult to require a local partner to adopt CSR standards as high as those of the rule-based MNCs. By the same token, a relation-based firm entering a rule-based market may find it difficult to meet the latter’s CSR requirements. An understanding of the frictions between rule-based and relation-based countries in terms of CSR levels and expectations will help firms navigate across countries and will minimize unnecessary negative public images and unrealistic CSR expectations. More importantly, our study will help MNC executives better understand the roles of the macro governance environment in shaping corporate policy and behavior with respect to CSR.

In general, the governance environment evolves slowly. If it is a major factor that shapes how firms establish their CSR policies in a country, we should not expect drastic changes in CSR communications intensity of BRIC firms in the near future. If we further examine the dimensions of the governance environment, we find two types of institutional constraints: formal institutional constraints, such as laws, regulations, and state policies; and informal institutional constraints, such as culture and social trust. According to institutional theory, formal institutional constraints may be changed relatively quickly by the state, whereas informal constraints, such as culture and social institutions, change more slowly. In this regard, we believe that governments in BRIC can use their legislative power and enforcement capability to actively effect change and promote CSR, but this change will at first be limited to the formal institutions. More research is needed on the role of formal and informal institutions in the development of CSR.

Studies examining CSR over time may be able to differentiate the relative impact of country factors in developing CSR across countries. Although our study is not dynamic in the strict sense since we do not have longitudinal data, it is reasonable to argue that in transitional economies such as Russia and China, where the speed of change in the governance environment is relatively high, there may be a faster rate of CSR implementation as well. This, however, needs to be formally tested. Furthermore, the limitations of our study should be addressed in future work. First, we were only able to measure CSR communications as a proxy for the CSR initiatives of firms. Although this is common in the CSR literature, other measures and data on CSR might be used. Second, instead of looking at the largest emerging markets, future research should examine smaller emerging markets to assess their similarities and differences. Third, our sample is limited in two ways: the number of observations is relatively small, which limited the degree of freedom in our analysis as to the number of independent variables we could consider simultaneously and the observations are drawn only from the largest companies in BRIC. Opportunities also exist to investigate SMEs that may behave differently than their larger counterparts. Finally, we encourage researchers to go beyond emerging economies to replicate our study in other economies over a larger number of countries and over time.
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References


