

CSR and International Business

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Key Questions

1. What are the world's key social and environmental needs?
2. Why do countries need environmental regulation?
3. With what policy instruments do national governments, other stakeholders, and the private sector achieve environmental sustainability?
4. How do national characteristics and policy instruments impact the private sector?
5. How does the private sector engage in shaping these instruments?

1. Which world's key social and environmental needs are addressed?

- **Environmental Sustainability** (Börzel et al, 2012; Prakash and Potoski, 2007)
- **Development; electrification of rural Sub-Saharan Africa** (Egels, 2005)
- **Quality of governance; reduction of corruption** (Schuler, 2012)
- **Reduction of AIDS/HIV** (Börzel et al, 2012)

3. With what policy instruments do national governments, other stakeholders, and the private sector achieve environmental sustainability and meet other public interests?

International Business and Stakeholders

- Power of the civil society in developing countries is low
- International business can increase power of stakeholders
- “Boomerang effect” (Keck and Sikkink, 1998, cited in Prakash and Potoski)
- NGOs in home countries can use their power to “lobby the corporation” while they have little power in host countries (Prakash and Potoski, 2007)
- More on NGOs and International business in the next class session

Types of CSR in today's readings

- Certifications
 - ISO 14001 and 9001
 - Process not product standards
 - Firms develop environmental policy (quantified targets)
 - Regular review process
 - External certification audit and annual rectification audits
 - Extractive Industries Transparency Initiative
 - Kimberly Certification System (diamonds)
- Cost advantages of standardization
- In-house process standards
- Providing public health services
 - Prevention, information, training of health personnel

4. How do national characteristics and policy instruments impact the private sector?

Governance

- “the crafting and implementation of collectively binding norms and rules for the provision of commons goods [CPRs and public goods] or the provision of common goods itself.”
- Note: for Börzel et al, MNCs contribute to “governance” through their CSR!!

Börzel et al, 2012:2. (parenthesis added)

- Governments with “limited statehood” fail to cast a credible “[shadow of hierarchy](#)”, i.e., the threat to enforce regulations.

Börzel et al, 2012:4.

Measuring the Quality of Governance

In general

“The Quality of Government”

(Department of Political Science at Göteborg University)

Or as it pertains to economic development

(La Porta et al, in JLEO, 1999)

Factors impacting quality of governance

- Economic
 - When benefits of creating institutions exceed the costs (Demsetz, North; cited in Börzel et al, 2012)
 - Resource curse (Karl, 1997, cited in Schuler, 2012)
- Political
 - created by those in power to stay in power (Marx, Olson; cited in Börzel et al, 2012)
- Cultural
 - Beliefs shape government (Weber, Putnam, Landes; cited in Börzel et al, 2012)

Measuring The Quality of Government

(WHAT IT IS) VARIABLES

Democracy (Freedom House/Imputed Polity
Freedom of the Press
Labor Union Power Index
Collective Disputes Index
Social Security Laws Index
Civil Rights Index
Regime Institutions
Women's Economic Rights
Women's Political Rights
Women's Social Rights
Regulation of Chief Executive Recruitment
Corruption Perceptions Index

(HOW TO GET IT) VARIABLES

Average Schooling Years (Female)
Average Schooling Years (Male)
Market Economy Status
Legislative Index of Political
Competitiveness
Parliamentary Powers Index
Size of Government
Freedom to Trade Internationally
Real GDP per Capita
Region of the World
Regime Type
Colonial Origin
Gini Index (inequality measure)
Military Expenditure (% of GDP)
Urban Population (%)

The Quality of Government (ctd)

(HOW TO GET IT) VARIABLES (Ctd)

Literates (%)

Openness to Trade, Constant Prices (%)

Daily Newspapers (per 1,000 people)

Ores and Metals Exports (% of Merchandise Exports)

Fuel Exports (% of Merchandise Exports)

WYG (WHAT YOU GET) VARIABLES

Environmental Performance Index

Failed States Index

Mortality Rate (per 1,000 Live Births)

Ratio of Female to Male Income

Population Below \$2 a Day (%)

Total Health Expenditure (% of GDP)

Respect for individual human rights

Satisfaction with the people in national office

Country is run by big interest vs. all people

Justifiable: cheating on taxes

Justifiable: someone accepting a bribe

Interpersonal Trust

Religiosity Scale

Abortion is justifiable

Homosexuality is justifiable

The Quality of government for fostering economic development

Interference with the private sector

- Property rights protection
- Business regulation
- Top marginal tax rate

Efficiency

- Corruption
- Bureaucratic delays
- Tax compliance
- Government wages/GDP per capita

Output of public goods

- Infant mortality
- School attainment
- Illiteracy rate
- Infrastructure quality

Size of the Government

- Transfers and subsidies/GDP
- Government Consumption/GDP
- State-owned enterprises as a share of economy
- Public sector employment/population

Political Freedom

- Democracy
- Political rights (Freedom house)

(La Porta et al, 1999: 235)

If not the “shadow of hierarchy”, what else motivates MNCs to engage in CSR?

- Market strategy (standards enhance product quality and market shares)
- Reputation (segment of consumers)
 - Positive reflection: competitive advantage, loyalty
 - Negative: NGO and community campaigns
 - Negative: peers concerns this will trigger industry wide repercussions
- “shadow of anarchy” motivates them to provide common good that they need
- Home country’s “shadow of hierarchy”

Is there a minimum threshold of governance required?

- When reputation is not important, NGOs and consumers may invoke the state to regulate (this involvement is not systematic, but focused and requires lower resources by the state)
- For complex, cross-functional common goods

Would a state obstruct MNCs who engage in CSR?

- Yes if
 - The CSR activity contradicts its political agenda
 - it threatens its sovereignty
 - the state fears “agency capture”

5. How does the private sector engage in shaping these instruments?

Types of International Business

- Balancing investment, cost, risk, and control
- Licensing
- Franchising
- Exporting/importing
- Contract Manufacturing
- Joint ventures
- Outsourcing
- Offshoring
- MNCs
- FDI

5.1 Theory

- Stakeholder Theory
- Action Network Theory-ANT (Egels, 2005)
 - Process of Translation of CSR in low-income, developing countries
 - Problematisation
 - Interestment
 - Enrolment
 - Mobilization
- Club Theory (Potoski and Prakash, *Voluntary programs: A club theory perspective*, 2009; used in Schuler, 2012)
- Convergence theories
 - “Competition, imitation, diffusion of best practices, trade, capital mobility.. lead to convergence across countries in
 - Structures of production
 - Relationship between state and firms “ (Prakash and Potoski, 2007; 727)
 - How does this relate to VOC literature?
 - Therefore, which countries’ and firms’ practices are diffused given that they differ!?
- International Diffusion of CSR
 - Bilateral factors: Diffusion of home country’s institutions and practices to host countries
 - “Trading up” (Vogel, 1995, cited in Prakash and Potoski, 2007)
 - “Investing up” (Prakash and Potoski, 2007)
 - Convergence or divergence? Adaptation to developing countries’ institutions
 - Diffusion beyond subsidiaries (mandating local suppliers, demonstration effect, training of labor) (Prakash and Potoski, 2007)

5.2 Empirical Data: ANT

2. Issues in “interestment”

1. Selected by ABB

The outcome

Issue	ABB	International stakeholders	Tanzanian stakeholders	Village stakeholders	Outcome	Values enforced	Values neglected
Power source	Low initial investment, i.e. bias towards diesel	Renewable sources	Slight preference for renewable sources	Indifference between sources	Diesel and feasibility study of wind	Electricity provided	Carbon dioxide emissions and electrification of additional houses (due to additional cost of feasibility study)
Generation equipment	Unclear	Environmentally friendly (WWF)	Unclear	No extra equipment	Environmentally friendly	Carbon dioxide emissions	Electrification of additional houses
Provision of electricity	Highly desirable	Highly desirable	Highly desirable	Disagreement among villagers	Installed electrical system	Electricity provided	Traditional values of some villagers
Distribution cables	Above ground	Unclear	Below ground (WWF TZ)	Below ground	Below ground	Protection of wildlife	Electrification of additional houses
Digging trenches	No unofficial payments to villagers	No unofficial payments	No unofficial payments (WWF TZ)	Unofficial payments	Some unofficial payments	Traditional Ngarambe culture and security	Fairness
Village technicians	Know-how	Know-how	Know-how	'Know-who'	Know-how	Skills, fairness	Traditional Ngarambe culture based on tribal and family affiliation
Operation financing	No subsidies for operations	No subsidies for operations	No subsidies for operations	Subsidies for operations	No subsidies for operations	Prioritisation of wealthy villagers	Equal right to, and need of, electricity



Blocks in mobilisation

5.2 Empirical data: ISO 14001 Diffusion

ASEEM PRAKASH AND MATTHEW POTOSKI

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TABLE 1. Country-Wide ISO 14001 Adoption Levels, 1996–2002

<i>Independent Variables</i>	<i>All Countries</i>	<i>Developing Countries Only</i>
Overall FDI	-1.248e-11 (4.644e-11)	-1.061e-11 (5.019e-11)
Bilateral FDI weighted by ISO adoption	0.302** (0.075)	0.202** (0.064)
International Controls		
Exports	-0.046 (0.598)	-0.179 (1.020)
Bilateral exports weighted by ISO adoption	0.143* (0.081)	0.191* (0.091)
Language	0.018 (0.016)	0.015 (0.015)
Neighbor	-0.010 (0.27)	-0.014 (0.026)
IGO (intergovernmental organizations)	-0.321 (0.341)	-0.298 (0.387)
INGO (nongovernmental organizations)	0.175 (0.188)	0.259 (0.257)
Domestic Controls		
GDP	0.771 (0.593)	0.972 (1.030)
Per capita GDP	1.986e-4* (8.677e-5)	0.00,018** (0.00,010)
Per capita GDP ²	-3.144e-9** (1.248e-9)	-2.739e-9** (1.217e-9)
Pollution	-0.016 (0.015)	-0.017 (0.021)
Regulations	0.167* (0.087)	0.153 (0.117)
ISO 9000	0.354** (0.141)	0.531** (0.104)
Fixed effects	Yes	Yes
Constant	-22.139 (14.832)	-28.906 (26.373)
<i>n</i>	98 countries, 6 years	74 countries, 6 years
χ^2	1007	463

** $p < .01$, * $p < .05$, one-tailed test.

5.2. empirical data on EITI costs and benefits (Schuler, 2012)

- COSTS: Relatively low (requires only reporting), but
 - Host country government's opposition may cause them to lose ability to operate in the host country
 - Target of social ridicule for “social greenwashing”
- BENEFITS: MNCs obtain benefits from
 - Complying with the home country governments' “long arm”
 - Modest social branding benefits (legitimacy, reputation)
 - NGO relations; especially for MNCs without direct NGO partnership
 - Customers (home country and others); but customers have little info
 - Institutional and social investors
 - Competitive positioning
 - Top management orientation
 - Sense of “social belonging”

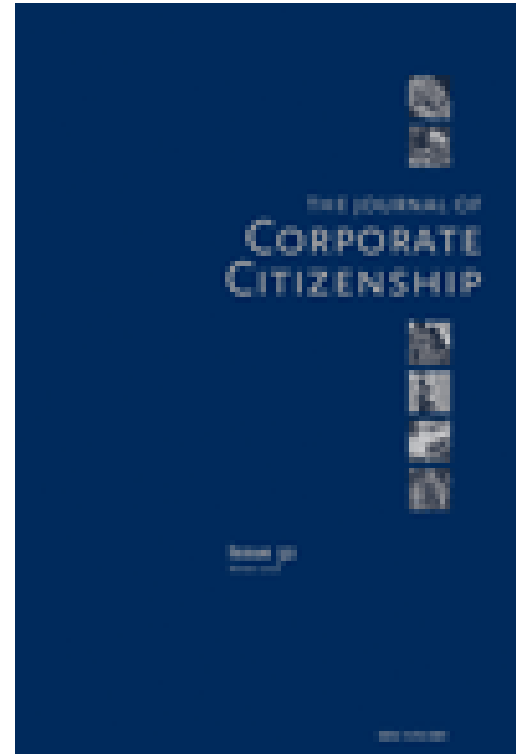
Research design and methods

- Research design
 - Comparative case study (Börzel et al, 2012; Egels, 2005)
 - Case study (Egels, 2005)
 - Cross-sectional, time series (Prakash and Potoski, 2007)
- Research methods
 - Descriptive, qualitative analysis of interviews; key variables identified and observed across firms; non-random sample (Egels, 2005; Schuler, 2012)
 - Comparison of the cases on the pre-determined variables based on a well-established framework (Börzel et al, 2012)
 - Regression model for a “count” dependent variable; panel data set; lagged independent variables; stocks vs. flows; sensitivity test for model specifications (Prakash and Potoski, 2007)

Required Readings

- Börzel, Tanja A., Jana Honke and Christian R. Thauer. 2012. Does it really take the state? Business and Politics, 2012; 14(3).
- Schuler, Douglas A. 2012. A club theory approach to voluntary social programs: Multinational companies and the extractive industries transparency initiative. Business and Politics, 2012; 14(3).
- Egels, Niklas. 2005. CSR in Electrification of Rural Africa: The Case of ABB in Tanzania. Journal of Corporate Citizenship, 18: 75-85.
- Prakash and Potoski, 2007. Investing Up: FDI and the Cross-National Diffusion of ISO 14001. International Studies Quarterly, 51(3): 723-744.

Key Journals



Check out other journals on CSR at the site below!
<http://sotoncsrcommunity.wordpress.com/csr-journals/>