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.
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)

• Political
  – created by those in power to stay in power (Marx, Olson; cited in Börzel et al, 2012)

• Cultural
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
    - Interessment
    - Enrolment
    - Mobilization
- **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

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

1. Selected by ABB
2. Issues in "interessment"

The outcome

Blocks in mobilisation

Egels, 2005:83
### 5.2 Empirical data: ISO 14001 Diffusion

**Aseem Prakash and Matthew Potoski**

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

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

**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

Key Journals

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