Corporate Social Responsibility in Emerging Markets - The Importance of the Governance Environment

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Corporate Social Responsibility in the Big Emerging Markets: The Importance of the Governance Environment

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Abstract and Key Results

- This study examines how country-level, industry-level, and firm-level factors affect the extent of corporate communication about CSR in Brazil, Russia, India, and China (BRIC). In particular, using the data of 105 largest MNCs from BRIC, we investigate the CSR motives, processes, and stakeholder issues discussed in corporate communications.

- On the country level, we use a newly developed framework of the governance environment which differentiates between rule-based and relation-based governance. Our study reveals that the governance environment of a country is the most important driving force for the communication intensity about CSR.

- Our results show that firms communicating more CSR tend to be from more rule-based societies, in the manufacturing industry, and of larger size. They also tend to have stronger corporate governance as measured by a high proportion of outside board directors and, specifically, the separation of the roles of the chairman and the CEO.

Key Words

Corporate social responsibility, governance environment, rule-based, relation-based, Emerging Markets

Short title: Importance of Governance Environment in CSR
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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/Greening 1997). Generally speaking, CSR is considered a firm’s obligation to protect and improve social welfare (Staples 2004), through various business and social actions (Sen/Bhattacharya 2001, Turban/Greening 1997), ensuring equitable and sustainable benefits for the various stakeholders. Increasingly, companies are rolling out CSR initiatives which have also shown to become key success factors and sustainable competitive advantages (Lichtenstein et al. 2004). In mature economies, such as those of the US and Western European countries, corporate communication is often used to highlight companies' commitments to CSR (Esrock/Leichty 1998, Hooghiemstra 2000), enhance marketing efforts, and legitimize a given company's corporate image in the eyes of its various stakeholders (Birch/Moon 2004, Ringov/Zollo 2007). Communications about CSR has therefore emerged as a vital and integrated part of organizational marketing, and corporate communications about CSR have become important to enhance the corporate image (Chahal/Sharma 2006).

Already more established in developed-country firms, CSR has become increasingly important also 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 the general knowledge about CSR in the developing countries can be summarized in two main points. First, the extent to which firms in developing countries adopt CSR is less as compared to their counterparts in the developed world (e.g., Welford 2004), and second, the main reason for such a gap is due to the low economic development level (e.g., Baughn, et al. 2007). Such a limited understanding on CSR in the developing economies poses an imperative challenge for the international community and the academics.

In recent years, there is a drastic increase in health and product safety issues associated with products from emerging economies such as China milk and toy scandals (e.g., New York Times 2008). This not only causes concerns in the international community, but also negatively impacts the country of origin image and the corporate reputation of firms that reside there. Therefore, the international community, multinational corporations, and the firms in the emerging economies all need to gain a better understanding on the importance of CSR and what
affects CSR in the emerging countries. From the academic research perspective, the issue of what factors influence firms to behave in a socially responsible way in the emerging economies poses a challenge to the CSR scholars. Theoretically, we also need to understand what macro factors may help determine firms’ overall CSR level in a country, other than the known factors such as the economic development level.

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 big emerging economies (BEMs): Brazil, Russia, India, and China (BRIC). While much has been written on the “economic miracles” of BRIC and the globalization of their companies (Alon/McIntyre 2008, Goldman Sachs 2003), less is known about the way these nations’ firms fashioned their corporate environments towards social responsibility. The internationalization of BRIC firms has also heightened awareness of concerned governments, groups and individuals around the world over pollution, product quality, and safety affecting the world at large (Global Information, Inc. 2006, New York Times 2008). CSR of BRIC firms is, thus, a growing concern (Baskin 2006), and scholars have begun to study them (Alon, et al. 2009). In addition to their large economies and rapid growth, BRIC represent a quite diverse group 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 2,000 world’s-largest-corporations, we will examine how BRIC multinational firms communicate CSR and how country-level, industry-level, and firm-level factors affect their CSR communication intensity. In doing so, we will not only provide a better understanding of CSR communication practices of BRIC firms, but also make a contribution to the literature by showing that, next to industry and company variables, country-level factors is an important driving force behind the intensity of CSR communications.

This paper is structured into the following sections: Section 2 provides a review of the current literature on the determinants of CSR corporate communications, motives, processes, and stakeholder issues; Section 3 presents our theoretical framework and outlines the hypotheses; Section 4 describes the methodology and data collection process; and Section 5 presents the empirical results and findings. Finally, we conclude by summarizing and discussing our outlook for future research.
Literature Review

The literature provides a variety of CSR definitions with various underlying measurements (McWilliams et al. 2006). While there does not exist any universally accepted definition and measurement scale, some agreement exists on the potential positive impact (Branco/Rodrigues 2006, McWilliams, et al. 2006, Smith 2003). Donaldson and Preston (1995) describe CSR as a source for profits and competitive advantage, while others prescribe the integration of CSR to corporate strategy as a means for enhancing corporate image and competitiveness (Branco/Rodrigues 2006, McWilliams, et al. 2006, Porter/Kramer 2006).

Increasingly, scholars have begun to examine CSR across countries. Their studies show that the extent, the content, and the communications intensity of CSR differ among corporations, regions, and countries (Maignan/Ralston 2002). Most studies have focused on developed-country firms (Bertelsmann Foundation 2007; Society for Human Resource Management 2007), but emerging markets are receiving increasing attention in recent years (Baskin 2006, Baughn et al. 2007, Cappellin/Giuliani 2004, Chapple/Moon 2005, Ewing/Windisch 2007, Kimber/Lipton 2005, De Oliviera 2006, Qu 2007, Roper/Weymes 2007, Welford 2004). Studies have found that firms from emerging markets lag behind their counterparts in the mature economies with regards to CSR implementation and activities (Welford 2004).

Existing research suggests that the general business environment (i.e. political, economic, social, and technological) can 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 can fail in the Asian context because of cultural differences. Baughn, et al. (2007) added that CSR in Asia is characterized not only by the cultural context, but also by economic and political conditions. More specifically, economic and political freedoms as well as low levels of corruption can lead to effective CSR implementation. Relating to the economic environment, Chapple and Moon (2005) suggested that a high level of inward foreign direct investments (FDI) into a country increases the likelihood that CSR practices will be utilized by domestic companies.

While each of the above-mentioned studies has made substantial contributions in helping us understand CSR across countries, many of them merely report the state of CSR practice without attempting to identify patterns based on theory. Furthermore, they tend to focus on either
country-, industry-, or firm-level factors. Few studies attempted to collectively consider the country-, industry-, and firm-level factors in explaining cross-national CSR practices. Although some scholars have begun to pay attention to the role of 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 “hard” and “soft” institutions that shapes firms’ governance and behaviors, including ones relating to CSR, has not been examined. In this article, we propose a new approach to the study of CSR across countries by bringing the governance environment into the equation along with industry- and firm-level factors.

The Importance of the Governance Environment for CSR Communication

Motivated by the need to better understand CSR in the emerging markets and in view of the gap in the literature of a multilevel approach, we propose a model that will consider different macro- and micro-level factors that affect 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 regulate govern the interactions, behaviors and activities of organizations, such as whether firms must be socially responsible. CSR scholars have also realized that institutional theory (North 1990, Scott 2001) provides an appropriate theoretical framework for our analysis of CSR across countries (e.g., Baughn et al. 2007).

More recently, scholars have furthered the institutional theory by focusing on how the social, political and economic institutions affect the way individuals and organizations govern their social activities (Kauffman et al. 1999, Globerman/Shapiro 2003, Li/Filer 2007). Their contribution is to identify and measure the governance environment in a society that facilitate or constrain the mode in which individuals and organizations use to 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”, culture indicator), into the measure of governance environment.
(Li/Filer 2007). Using the governance environment framework, scholars have proposed a model that classifies societies into rule-based and relation-based governance environments (Dixit 2007, Li et al. 2004).

A rule-based governance exists in a society when organizations primarily rely 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, there exist checks and balances between different governmental branches, and more importantly the legal system is independent of political influence and is fair, transparent and efficient; second, there is a well developed public information infrastructure to ensure the access of high quality public information; and third, citizens and firms overall have a high level of trust on public rules (Li/Filer 2007, Platteau 1994).

An opposite type of governance is a relation-based governance, in which people tend to use private means – such as personal connections or private forces – to protect themselves and to settle disputes. The relation-based governance dominates in a society when checks and balances do not exist (or are weak) between the branches of the government, which renders the public rules (the legal system) unfair and opaque. As a result, the courts are influenced by politicians. 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, relying on the relation-based governance can be efficient since it does not require huge investments in developing the infrastructure necessary for the rule-based governance system. It has been argued that some “catching up” economies, such as Japan, Taiwan, South Korea, and China, successfully relied on relation-based governance in their early stage of development. However, as the economy expands, firms must deal with an increasing number of new players whom they do not know well, and relying on the relation-based way will become inefficient and costly. The increasing marginal costs of dealing with new players will make the relation-based firms unable to compete with firms from rule-based economies. Once relation-based economies reach this point, they must adopt the rule-based governance or lose their competitive advantage (Li, et al. 2004).

*The Effect of Governance Environment on CSR*
CSR is a reaction to the public’s concerns about businesses’ pursuit of profit at the cost of social and environmental degradations. CSR communications by firms is a reaction to the various stakeholders’ call for more transparency and greater involvement of the firm in the communities’ welfare. Intrinsically, CSR is about a firm’s action that has social consequences and causes public attentions, 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/Allen 2006, Baughn, et al. 2007). Lattermann at al. (2008) have applied the governance environment approach to compare CSR communications between Chinese and Indian multinational firms, and found that the governance environment affects CSR communications of firms in the two countries. By extending the works on CSR to the scope of BRIC countries, we hope to validate theoretical speculations with wider application to the BEMs.

As mentioned earlier, in rule-based societies, the public rules, such as the laws, are fairly made and are openly accessible by all. As a result, citizens have a higher level of trust in publicly available information, such as corporate communication such as annual report. 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 government, 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 little government pressure to behave responsibly. Under this institutional environment, firms might feel neither obliged to communicate their social responsibility, nor 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 CSR communication intensity.

**Industry- and Firm-Level Factors**
Previous studies have shown that the type of industry affects the firm’s CSR behavior (e.g., Husted/Allen 2006). Cooke (1992) studied Japanese firms in the 1980s and found that firms in the manufacturing industry incline to disclose more information to the public. Cooke argued that the reason 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’s in the 1980s, we control for possible industry differences.

Historically, in the developed countries, the manufacturing sector’s issues, such as product safety and environmental pollution, brought to the surface public debates and pressure to regulate this sector (Marlin/Marlin 2003). Firms in developed countries were compelled to behave socially responsibly, or suffer public outrage. Today’s BRIC countries’ manufacturing firms 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, New York Times 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 CSR communication intensity.

That firm-level factors affect CSR has been well documented in the literature (Black/Härtel 2004, Hart 1995, Lattemann/Kupke/Schneider 2007, Sharma/Vredenburg 1998). Sharma and Vredenburg (1998) depict, for example, that a proactive corporate environmental strategy can be associated with the development of unique organizational capabilities. With more scrutiny, we can see that CSR communications are actually part of corporate disclosure, or more precisely, 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/Jensen 1983) in a sense that the board represents the interests of 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, directors who are outsiders or independent are important for corporate legitimacy (Birch/Moon 2004, Ringov/Zollo 2007). For example,
Chen and Jaggi (2000) found that the proportion of independent board members is positively associated with mandatory disclosure. Similar pattern was found by Lattemann et al. (2008) on 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 CSR communication intensity.

Another measure of the board’s role in representing outsiders is whether the chairman of the board is also the Chief Executive Officer (CEO), which is also known as CEO duality. It has been argued that if the chairman is also the CEO, then conflicts of interest can arise. Gul and Leung (2004) show that CEO duality is associated with a lower level of voluntary corporate disclosures. 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) found that CEO duality lowered 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 found 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 the big firms. In other words, the social pressure is higher for big firms to be socially responsible and market pressure may also push firms to be socially responsive. Firms with large sales volumes, taken as a proxy of firm size (Cooke 1992) are more exposed to market pressure and thus more prone to communicate more CSR. Lattemann et al. (2008) found that larger firms in China and India were 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 communication intensity.

**Methodology**

Following Chapple and Moon (2005), who suggested that large corporations tend to be precursors to the integration of CSR, we take 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 (in sum 120) corporations were selected for the analysis. Second, we further limited our sample to only those firms with English-language websites. English is the lingua franca of international business and provides a common language for analysis, also eliminating translation bias. Of 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, we use the intensity in corporate communications about CSR as our dependent variable. Multiple CSR studies have used the same dependent variables (Maignan/Ralston 2002; Alon et al., 2009). While 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 communication strategy, which is an integral part of organizational marketing (Hooghiemstra 2000), serves as an effective marketing tool to promote the company’s engagement in its communities and with various stakeholders (Bondy et al. 2004, Husted/Allen 2006, Logsdon/Wood 2005). Adams, Hill, and Roberts (1998) as well as Esrock and Leichty (1998) show that corporations broadly communicate their CSR activities, approaches, and processes in order to accomplish a positive public image and to gain legitimacy as well as support from various stakeholders. Lack of corporate communications about CSR can be interpreted as a missed opportunity or a lack of awareness among managers for the importance of this task in the global environment. Large companies on Forbes 2,000 list are globally engaged and may be influenced by others’ perceptions of their CSR practices. Sources for CSR communications include corporate websites, annual reports, and other publicly available documents which are available from the Internet and which all target a wide variety of stakeholders (Esrock/Leichty 2000).

Following the approach developed by Maignan and Ralston (2002), we measure the intensity about CSR based on corporate communication about CSR originated from corporate websites and annual reports. While 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/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, return on investment, or sales volume. This view assumes a strong relationship between CSR and financial performance. The stakeholder view suggests that corporations are adopting social responsibility initiatives in order to face pressures from various stakeholders (Swanson 1995). The positive-duty view suggests that business may be self-motivated to have a positive impact regardless of social pressure. Both the negative duty and the utilitarian approaches suggest that CSR can be used as an impression tool employed to influence stakeholders’ perceptions of the corporate image, which is an important component of organizational marketing (Hooghiemstra 2000).

The second category measuring CSR can be described by the “processes” designated to the managerial procedures and instruments employed by companies to bring 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 the analysis: (1) philanthropy programs; (2) sponsorships; (3) volunteerism; (4) implementation of code of ethics; (5) quality programs; (6) health and safety programs; and (7) management of environmental impacts. These seven processes are not mutually exclusive and overlaps may occur.

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 discussed any CSR motives in one of its corporate communication outlets, such as the website, annual report or CSR report, we assign one point to it. Similarly, a firm will get one point for a discussion on any CSR
processes or any CSR stakeholder issues addressed. This results in an overall CSR communications intensity with total 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) developed 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 of one by subtracting the mean from the value and then dividing by the standard deviation 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 while a low GEI indicates a country is more relation-based. Li and Filer (2007) calculated the GEI for 44 countries for which all the five indicators are available. Their GEI, measuring the governance environment in these countries in the late 1990s and early 2000s, ranges 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 while the scores are low for Russia (-6.23) and China (-7.26).

An advantage of using the GEI is that it summarizes the overall governance environment by including both “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/Welzel 2005)). Moreover, the GEI includes the quality of national accounting standard, which is a key determinant of corporate governance (Bushman/Piotroski/Smith 2004).

Using an aggregate index such as the GIE may help mitigate the measurement error 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. 116-117). In addition, as these dimensions tend to be highly correlated and may cause multicollinearity in multivariate analyses, using a single comprehensive index is an effective solution (Center for Statistical Computing Support 2007). This measure was used in previous research as a predictive variable where Li and Filer (2007) examined how the governance environment affects the mode of investment across countries.

Economic Development

We use the 2006 GDP per capita data reported by the United Nations, which are in international dollars adjusted by purchasing power parity (United Nations 2008). Several studies have documented the positive relationship between the level of economic development, measured often with 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 puts more pressure on corporations to be more 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 Forbes’ database (Forbes 2007). There are six industries in our data set (with corresponding variable names in the following 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 will use the five industry variables (1) to (5) as dummy variables in the industry-factor-only model, with the “others” as baseline (see model 3 in Table 3). In order to test H2, we will 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 have used three firm-level variables: total sales; CEO duality; and percentage of outside board members. The source for the sales is from the Forbes database (Forbes 2007), the
source for the other two variables were from Reuters (Reuters 2007) and the companies’
websites. For each company, we have assessed whether the chairman of the board was also Chief
Executive Officer (CEO). If s/he has a dual role, we have coded it “1”; if not, we have assigned a
value of “0”. For the percentage of outside board members, we first counted the total number of
board members for each company, then counted and calculated the percentage of outsiders (e.g.,
non executive director, independent director, government director, independent non executive
director).

Regression Models

We employ multiple regression analyses to examine the data and to test the various
hypotheses. We first ran three sets of regression to assess individually the explanatory power of
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 independent variables (model 4 in Table 3). Using this multiple model
approach, we were 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 present any CSR-related
information in their corporate communications (China 6, India 1, Brazil 1). While 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 image. 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 descriptive results on CSR corporate communications for the BRIC firms.

Table 1: Inclusion of CSR

<table>
<thead>
<tr>
<th></th>
<th>Brazil (n=18)</th>
<th>Russia (n=19)</th>
<th>India (n=33)</th>
<th>China (n=35)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Discussing at least one CSR motive</td>
<td>17 (94%)</td>
<td>14 (74%)</td>
<td>27 (82%)</td>
<td>11 (31%)</td>
</tr>
<tr>
<td>2. Discussing at least one CSR process</td>
<td>17 (94%)</td>
<td>19 (100%)</td>
<td>31 (94%)</td>
<td>26 (74%)</td>
</tr>
<tr>
<td>3. Discussing at least one stakeholder issue</td>
<td>17 (94%)</td>
<td>19 (100%)</td>
<td>31 (94%)</td>
<td>28 (80%)</td>
</tr>
</tbody>
</table>

Industry

4. Discussing CSR [1]

<table>
<thead>
<tr>
<th>Industry</th>
<th>Brazil (n=18)</th>
<th>Russia (n=19)</th>
<th>India (n=33)</th>
<th>China (n=35)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.) Banking &amp; Insurance</td>
<td>4 (4)</td>
<td>2 (2)</td>
<td>13 (13)</td>
<td>9 (9)</td>
</tr>
<tr>
<td>b.) Materials</td>
<td>5 (5)</td>
<td>7 (7)</td>
<td>3 (3)</td>
<td>4 (7)</td>
</tr>
<tr>
<td>c.) Oil &amp; Gas Operations</td>
<td>1 (1)</td>
<td>7 (7)</td>
<td>5 (5)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>d.) Utilities</td>
<td>4 (4)</td>
<td>1 (1)</td>
<td>1 (2)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>e.) Transportation</td>
<td>1 (1)</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>4 (5)</td>
</tr>
<tr>
<td>f.) Capital Goods</td>
<td>0 (0)</td>
<td>0 (0)</td>
<td>3 (3)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>g.) Service [2]</td>
<td>0 (1)</td>
<td>2 (2)</td>
<td>5 (5)</td>
<td>1 (1)</td>
</tr>
<tr>
<td>h.) Other [3]</td>
<td>2 (2)</td>
<td>0 (0)</td>
<td>2 (2)</td>
<td>5 (7)</td>
</tr>
</tbody>
</table>

[1] Number of companies mentioning at least one CSR motive, one CSR process or one stakeholder issue.

Table 2 presents the basic statistics of the independent variables including the means, standard deviations, and correlations between the variables. As there is no correlation higher than (-) 0.676, which is well below the threshold of 0.9 for the concern of multicollinearity (Hair/Anderson/Tatham/Black 1998, p. 191), we will nevertheless further investigate a potential multicollinearity problem with more advanced statistics, such as the variance inflation index (VIF).

Table 2: Basic Statistics of Independent Variables in Models 1b, 3 and 4

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D.</th>
<th>Perc_external</th>
<th>Sales ($bil)</th>
<th>Manufacturing_ID</th>
<th>GEI</th>
<th>GDP_Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duality</td>
<td>.32</td>
<td>.47</td>
<td>.335</td>
<td>-.144</td>
<td>-.176</td>
<td>.343**</td>
<td>-.519**</td>
</tr>
<tr>
<td>Perc_external</td>
<td>44.65</td>
<td>33.01</td>
<td>-.053</td>
<td>-.070</td>
<td>-.040</td>
<td>-.441**</td>
<td>.188</td>
</tr>
<tr>
<td>Sales ($bil)</td>
<td>10.23</td>
<td>15.63</td>
<td>.208*</td>
<td>-.153</td>
<td>.119</td>
<td>.210*</td>
<td></td>
</tr>
<tr>
<td>Manufacturing_ID</td>
<td>.49</td>
<td>.50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GEI</td>
<td>-4.56</td>
<td>2.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP_capita</td>
<td>7510.48</td>
<td>2949.96</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
Table 3 summarizes the regression analyses of the five model specifications: model (1a) and (1b) examine country effect; model (2) industry effect and model (3) firm-level effect; and model (4) includes all three levels of 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 – firm’s CSR communication intensity – across countries. As can be seen from the 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, it can explain 21.7 percent of the variation in CSR across BRIC.

Table 3: Results of Regression Models

<table>
<thead>
<tr>
<th>Model specifications</th>
<th>(1a)</th>
<th>(1b)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<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>
</tr>
<tr>
<td>(Constant)</td>
<td>6.429***</td>
<td>8.378***</td>
<td>7.500***</td>
<td>9.331***</td>
<td>6.400***</td>
</tr>
<tr>
<td>GEI</td>
<td>H1</td>
<td>1.451***</td>
<td>.001***</td>
<td>6.400***</td>
<td></td>
</tr>
<tr>
<td>GDP_capita</td>
<td>Russia</td>
<td>5.098***</td>
<td>.001***</td>
<td>3.158***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>3.481***</td>
<td>.001***</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>8.071***</td>
<td>.001***</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td></td>
<td>China (baseline)</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Manufacturing_ID</td>
<td>H2</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td>Non-Manufacturing (baseline)</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>-.008</td>
<td>.042**</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Sales ($bil)</td>
<td>H5</td>
<td>.122***</td>
<td>.113***</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Bank_Ins</td>
<td></td>
<td>-.107</td>
<td></td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Cap_Goods</td>
<td></td>
<td>3.638**</td>
<td></td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Chemical</td>
<td></td>
<td>6.937***</td>
<td></td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Cons_Goods</td>
<td></td>
<td>1.667</td>
<td></td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td>2.100</td>
<td></td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Others (baseline)</td>
<td></td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>
Adjusted R-square (%)  21.7  21.0  14.0  13.4  42.2  
F-Statistics  10.6***  14.8***  4.388***  5.97***  12.69***  
N  105  105  105  97  97

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).

We noted that Brazilian firms have the strongest intensity in CSR communication, Russian firms ranked the second, Indian third, and firms from China fourth. This pattern, along with the fact that China has the lowest GEI (the least rule-based country) among the four, and Brazil and Russia have higher income indicate that the governance environment and economic development may explain, in part, the variation in CSR communication intensity across countries, which is 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 communication intensity among the levels of 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 communication intensity across the four countries. The results show that both GEI and GDP per capita positively and significantly affect firm intensity in CSR communication. Also worth noting is that the adjusted r-square of model (1b) with a value of 21 percent is quite close to that of model (1a) with 21.7 percent implying that the country effect is relatively well-captured by governance environment (GEI) and economic development (GDP per capita).

Model (2) estimates the “random effect” of industry on firm’s CSR communication intensity. The adjusted r-square of the model is 14 percent. 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 statistically significant in the model at all. The explanatory power of model (3) is 13.4 percent, which is lower than those of country- and industry-level models, was surprising.
Our final model (4) takes into account all three levels of independent variables: country; industry; and firm. The overall explanatory power of the model is improved over previous models, with an adjusted r-square of 42.2 percent. GEI is highly positively correlated with firm’s CSR communication 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 expected relationships with the dependent variable as we conjectured in our hypotheses, at the 5 percent significance level (two-tailed test), lending support to H3 and H4. Interestingly, the two corporate governance variables that were 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. Total sales volume of a firm shows a highly significant positive relationship with its CSR communication intensity; therefore, H5 is supported. Finally, model (4) shows that being in the manufacturing sector makes a firm communicate more CSR, which supports H2.

**Concluding Remarks**

CSR initiatives have shown to be a key success factor and to provide a sustainable competitive advantage for companies (Lichtenstein/Drumwright/Braig 2004, Godfrey 2005). It has become an integrated part of organizational and social marketing, and thus has significantly enhanced the corporate image (Branco/Rodrigues 2006). In most cases, corporate communication is used to highlight companies’ commitments to CSR. So far, CSR studies have focused on developed-country firms from North America and Europe, but little effort has been made to systematically study the determinants of corporate communications about CSR in emerging markets that consider multilevel factors. This article examines how country-level, industry-level, and firm-level factors affect the intensity of corporate communications about the corporate social responsibility (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. On 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 the
communications intensity about CSR are the country factors, followed by the industry- and firm-level factors, which are almost equally important.

On 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 firm’s governance behavior) exerts the largest influence on firms’ CSR communications intensity. This result suggests that as the emerging countries develop economically and transform their governance environments towards more transparency, accountability, and public ordering at the macro level, we can also expect their firms to improve their CSR. (This finding can be further supported by the previous observation that firms in the developed (mostly rule-based) countries have higher level of CSR practice (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 condition for raising the CSR communications level in their country. More specifically, governments in more relation-based societies should facilitate the transformation towards 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 when it comes to CSR communications. We demonstrate that industries in the manufacturing sector, which faces more environmental, labor and societal issues, are more likely to address CSR issues in their corporate communications than companies from other industries. However, country-level explanations seem to be more powerful than industry-level, as mentioned earlier. In this regard, we may say that CSR can be better explained by knowing which country the firm is from than by knowing to which industry it belongs. Simply put, the governance environment matters for CSR. Using country- and industry-level variables may explain why firms from some industries and countries communicate and hence may behave socially responsibly, but do not explain why firms within a certain industry or country show differential reporting of CSR. For this reason, we also included firm-level variables.

Our models show that firm-level variables are significant too. Knowing about the firm’s size and firm’s corporate governance provides useful information in predicting its use of CSR communication tools. More specifically, our results show that firm-level factors, including CEO
duality and firm size, influence the degree to which a firm engages 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 level: the more government transparency and checks on government power, the greater the intensity of CSR communications for firms.

From these findings, several implications to managers of CSR can be drawn. First, companies should evaluate the country’s governance environment, and not only rely on crude indicators of GDP per capita for their evaluations. The GEI offers a means to systematically evaluate the overall governance environment in a target market. Secondly, a communications strategy should be developed that takes into account country’s governance environment, industry type and the company’s intended strategy. For instance, a company’s weak internal governance, such as an insider-dominant board and CEO duality, increases the likelihood that a company will not 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 to bring outsiders to the board who will bring varied experiences, more objective evaluation and best practices.

A unique insight from our study for MNCs, especially the ones from 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 several-fold. First, when a rule-based MNC sets up operation in a relation-based country, it may be difficult for it to uphold its CSR standard in the host country due to the macro institutional environment that does not favor or facilitate high-level CSR practice. Similarly, a rule-based MNC doing business in a relation-based country may find that it is difficult to require its local partner to adopt as high a CSR standard as the rule-based MNC’s. Vice versa, a relation-based firm entering a rule-based market may find the latter’s CSR requirement difficult to meet. Understanding the friction between the rule-based and relation-based countries in terms of CSR level and expectation will help firms navigate across countries to minimize unnecessary negative public image and unrealistic expectation in CSR. More importantly, our study may help MNC executives better understand the roles of macro governance environment in shaping corporate policy and behavior in CSR.

Governance environment, in general, evolves slowly. If it is a major factor that shapes how firms set their CSR policies in a country, we should not expect drastic changes in CSR.
communications intensity of BRIC firms in the very near future. If we further examine the
dimensions of 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 or social trust. According to institutional theory, formal institutional
constraints can 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 is limited to formal institutions at first. More research is needed on
the role of formal and informal institutions on 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. While 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 their governance
environment is relatively high, the rate of CSR implementation may have a faster pace as well.
This, however, needs to be formally tested. Our study has some limitation which further studies
should address. For example, we were only able to measure CSR communications as a proxy for
firms’ CSR initiatives. While this is common in the CSR literature, other measures and data on
CSR might be used. Also, while we were looking at the most important emerging markets, future
research should examine other emerging markets firms and compare BRIC and non-BRIC firms
in order to assess their similarities and differences. Hence, given data limitations, replication of
our study in other regions and/or over a larger number of countries and over time is encouraged.
References


United Nations, GDP per Capita, Current International Dollars (PPPs),