CORPORATE SOCIAL RESPONSIBILITY IN EMERGING MARKETS: EVIDENCE FROM SPANISH MNCs IN LATIN AMERICA

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ABSTRACT

This paper analyses CSR initiatives in emerging markets from developed countries-based multinational companies (MNCs) vis-à-vis what is known as Instrumental Theories of CSR. The analysis is based on case studies with data collected through eight in-depth interviews with senior managers of the companies representing 85% of the Spanish foreign investments in Latin America. The results show that CSR initiatives from these companies seem to be guided by Instrumental Theories as they use these initiatives as a strategic tool to achieve economic objectives, expect a positive relation between them and their financial performance, and use them to strengthen their reputation. The findings tend to indicate that Instrumental Theories of CSR seem to apply for Western MNCs operating in emerging markets.

INTRODUCTION

Corporate Social Responsibility (CSR), defined as "the social responsibility of business [that] encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979, p. 500), has been an emerging area of research in the last years where most of the studies have had a focus on advanced economies, whether at the micro or macro levels (Carroll, 1991; Christensen & Overdorf, 2000; Freeman, 1984, 1994). Similarly, emerging markets (EM) have received attention in management academic literature in recent years (Fornes, 2009; Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005) as they have been increasing their participation in international trade and investment flows. But works on CSR in EM have received little attention (Baskin, 2006; Garriga & Melé, 2004).

In addition, recent literature on emerging markets have questioned the fit of some mainstream theories to the specific situation of EM, in particular, internationalisation (Child & Rodrigues, 2005; Fornes & Butt-Philip, 2011; Mathews, 2006), institutions (Boisot & Meyer, 2008; Del Sol & Kogan, 2007), FDI (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007), strategy (Khanna & Palepu, 1997; Rui & Yip, 2008), etc; but CSR theories have not still been widely included in this debate.

In this context the aim of this article is to stimulate a discussion in this relatively new area of study rather than to provide definitive general conclusions by analysing CSR initiatives in emerging markets from developed countries-based multinational companies (MNCs) vis-à-vis what is known as Instrumental Theories of CSR (Garriga & Melé, 2004). Instrumental Theories were one of the first theories to appear on CSR in developed countries (a seminal article on this stream was published by Milton Friedman in 1970) and include different elements such as assessments of the financial impact, potential legitimacy by the communities where MNCs operate, and potential positive reputation and visibility resulting from CSR initiatives (Friedman, 1970; Garriga & Melé, 2004; Windsor, 2001). Instrumental theories and the three areas mentioned above are used in this research as, with no previous evidence showing otherwise, it is assumed that CSR initiatives in EMs are at an early stage of development (similar to other areas of MNCs and institutions (Buckley et al., 2007)) and as a consequence more developed theories (like Political Theories, Integrative Theories, or Ethical Theories (Garriga & Melé, 2004)) may not be completely applicable.

The paper is structured as follows. A review of the literature containing the main conceptual framework along with the development of the research propositions comes after this section. The Methodology and Sample section then describes the sample used and the research method followed for the analysis of data. Third, the Results section presents the findings. A Discussion section analysing the results vis-à-vis current literature comes fourth. The paper concludes with a Summary and Conclusions.

REVIEW OF THE LITERATURE: FRAMEWORK AND PROPOSITIONS

Wright et al. (2005, p. 7) said that "firms competing within emerging economies face a 'high velocity' environment of rapid political, economic, and institutional changes that are accompanied by relatively underdeveloped factor and product markets". This changing environment presents different challenges for firms operating in these countries which have been widely documented in the literature (see for example (Filatotchev, Wright, Hoskisson, Uhlenbruck, & Tihanyi, 2003; Fornes, 2008; Fornes, 2009; Fornes & Butt-Philip, 2009;

Fornes & Cardoza, 2009; Guillen, 2000; Hoskisson et al., 2000; Khanna & Palepu, 1997; Khanna & Palepu, 2000; Peng, 2003)).

To this, Wright et al. added that emerging markets are "a new context in which to understand the relative strengths and weaknesses of the different [conceptual] perspectives" used in conventional theory (p. 2). In fact, most of the works presented above suggest that MNCs operating in these countries develop a set of specific advantages to cope with a changing environment and a relatively low development of local markets. In this context, a debate on the strengths and weaknesses of CSR frameworks and initiatives of MNCs operating in EMs seems evident.

On the other hand, CSR theories are focused on one of the following aspects of social reality: economics, politics, social integration and ethics. They have been classified into four main groups (Garriga & Melé, 2004): (i) Instrumental Theories in which CSR is seen mainly as a strategic tool to achieve economic objectives and wealth creation; (ii) Political Theories, based on the existence of a social contract between business and society, implies some indirect obligations of business towards society (later extended to "corporate citizenship" to describe a new role of business in society); (iii) Integrative Theories, which consider that business ought to integrate social demands and as a consequence business' responsibilities depends on the values of the society where they operate; and (iv) Ethical Theories, which based the relationship between business and society on ethical values.

In this context, one of the most widely studied have been the Instrumental Theories (Friedman, 1970; Garriga & Melé, 2004; Porter & Kramer, 2002b; Prahalad & Hammond, 2002; Windsor, 2001) which postulate that CSR is mainly a strategic tool to achieve economic objectives and wealth creation and is divided into three groups, (i) shareholder value maximisation, (ii) competitive advantage improvement, and (iii) cause-based marketing. In any of these cases, the idea behind the Instrumental Theories is that firms can gain unique company-specific advantages by implementing CSR initiatives (Godfrey & Hatch, 2007).

In this context, the main question seems to be how (and if) companies can get long-term competitive advantages and at the same time achieve social objectives in EMs (Husted & Allen, 2000) in a win-win situation (where both parties receive what they are looking for (Garriga & Melé, 2004)). For developed markets different alternatives have been presented, for example, Christensen & Overdorf (2000) proposed disruptive innovations in the company's technology linked to the improvement of the social and economic conditions, Vardarajan & Menon (1988) suggested a contribution from the firm to a specific cause when customers engage in resource-generation activities which at the same time strengthen the company's name/brand, and Porter & Kramer (2002a) argued that philanthropy investments could improve the competitive environment by creating greater social value than government or individuals.

However companies' options in EMs remain to be seen in a context where CSR initiatives need to cater for the needs of the bottom of the economic pyramid (a different environment than that in more developed countries) (Prahalad & Hammond, 2002). This analysis leads to the first research proposition:

Proposition 1: Developed countries MNCs follow Instrumental Theories (i.e. a strategic tool to achieve economic objectives and wealth creation) in their CSR initiatives in emerging markets.

In this context, a number of studies have shown positive correlations between social responsibility initiatives and the financial performance of corporations (Allouche & Laroche, 2005; Carroll, 1979; Griffin & Mahon, 1997; Key & Popkin, 1998; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003; Roman, Hayibor, & Agle, 1999; van Beurden & Gössling, 2008; Waddock & Graves, 1997; Wu, 2006). Similarly, studies have found a positive relationship between corporate financial performance, market value, and customer satisfaction (Goll & Rasheed, 2004; Luo & Bhattacharya, 2006), and also companies implementing CSR strategies tend to improve their differentiation and competitiveness (van Beurden & Gössling, 2008). This evidence leads to question the effect (if any) of CSR initiatives in emerging markets on MNCs' financial performance, which opens the door for the second research proposition:

Proposition 2: Developed countries MNCs expect a positive relation between their social responsibility initiatives in EMs and their financial performance.

On top of the financial performance, Instrumental Theories also recognise the need to widen the assessment of MNCs' performance as "today it is quite readily accepted that shareholder value maximization is not incompatible with satisfying certain interests of people with a stake in the firm (stakeholders)" (Garriga & Melé, 2004, p. 54). In fact, in recent years many companies have been incorporating social perspectives into their core frameworks to help in the understanding of competition and to guide their business strategy as "social dimensions of competitive context are factors in the external environment that significantly affect the underlying drivers of competitiveness in those places where the company operates" (Porter, 2006, p. 6).

Expectations from the society transmitted through stakeholders then result in commitments and corporate actions that have an indirect positive impact on MNCs' financial performance (Alon, Lattemann, Fetscherin, Li, & Schneider, 2010; Bendheim, Waddock, & Graves, 1998; Berman, Wicks, Kotha, & Jones, 1999; Freeman, 1984; McWilliams & Siegel, 2001; Wheeler, Colbert, & Freeman, 2003). In this context, some authors support the view that CSR initiatives offer a positive image to stakeholders, reinforce reputation, and provide an improved outlook in the stock market as well as are a key element to attract new clients, employees, shareholders, distributors and suppliers (Van der Laan, Van Ees, & Van Witteloostuijn, 2008). Also companies "can build reputational advantage internationally being early adopters of vanguard CSR practices" (Fombrum, 2005, p. 10). In fact, recent studies have shown a relationship between business reputation and financial performance (Fernandez & Luna, 2007).

MNCs, as part of the global business operations, extend their CSR initiatives to host countries where stakeholders should also be actively managed in order to influence the company´s performance in a positive manner (van Tulder & van der Zwart, 2006). Then, dialogue with local stakeholders becomes key in corporate strategy to increase the internal and external visibility and therefore creating economic value for firms (Van der Laan et al., 2008). This analysis leads to the third proposition:

Proposition 3: MNCs actively manage stakeholders in EMs as part of their CSR initiatives to strengthen their reputation as a means to improve their financial performance.

As previously discussed, within Instrumental Theories CSR initiatives tend to make MNCs more competitive in their home and host markets while creating economic value and reputation. For this reason, it is in the MNCs' interest to give visibility to their commitments with stakeholders and to communicate their actions. For example, companies develop annual CSR reports and post relevant information on their corporate website. In this sense, a recent study by Chiu & Sharfman (2009) has shown that best practices in the community, corporate governance, human rights, and products have a positive impact on CSR initiatives while increasing the companies' visibility. This higher visibility then is transformed into legitimacy in the community.

In this context, MNCs attempt to take all the necessary steps to increase their visibility and therefore improve their legitimacy as, within Instrumental Theories, mitigating risks and reducing the potential negative impacts of their activity is one of the main objectives for the development of a CSR strategy. In this sense, civil organisations like NGOs, for example, appear as important players and are key stakeholders. Then firms operating in EMs need to develop specific strategies to deal with local stakeholders to reduce risks and increase their potential positive impact and legitimacy to operate (Van der Laan et al., 2008). In this context, the fourth research proposition appears.

Proposition 4: MNCs develop CSR initiatives with the aim of increasing their legitimacy in EMs' local communities as a means to improve their financial performance.

METHODOLOGY AND SAMPLE

The research is based on case studies (Yin, 1994). This methodology was chosen as this is a relatively new area of research and also because one of the aims of this study is getting a better understanding of the characteristics of MNCs' CSR initiatives in developing contexts and their fit with existing theories (Eisenhardt, 1989; Eisenhardt & Graebner, 2007); also, because this methodology is better suited to examine subjective features of the research propositions (like strategic motives, subjective measures of performance, reputation and legitimacy, etc).

The theoretical sampling (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Pettigrew, 1990) was built with the eight largest Spanish investors in Latin America, these companies account for over 85% of the European country's investments in the South American region (Arahuetes & Casilda, 2004; Fornes & Cardoza, 2009). This sample is relevant as Spain's MNCs are the first European investors in the region, second after US companies. In addition, to be in the sample, Spanish companies should have invested in Latin America before 2004 to have an established local operation and have an income of at least 30% of total sales from the region to give subsidiaries an important weight in the firms' balance sheet. The companies in the sample operate in the following industries, Banking and Insurance (Co1, Co4, and Co7), Tourism (Co2), Energy (Co3, Co5, and Co8), and Telecommunications (Co6).

The data was collected through in-depth interviews, similar to many previous studies on emerging markets' MNCs (Fornes & Cardoza, 2009; Ge & Ding, 2008; Rugman & Li, 2007; Rui & Yip, 2008; Yamakawa, Peng, & Deeds, 2008). These interviews were conducted with the companies' CSR Presidents (or equivalent position) of the parent firm. All the interviews were conducted in Spain. Data was also collected from other reputable sources like official websites, annual reports, newspaper articles, databases from international organisations, etc.

RESULTS

Proposition 1

Interviewees were asked to rank the main reasons to invest in CSR initiatives in the particular case of emerging markets from a list of 9 options (plus "others"). The options with the highest number of responses ranked as the main three reasons were (i) Increase customer satisfaction (4 responses), (ii) Increase legitimacy (4 responses), (iii) Increase value for shareholders (3 responses), (iv) Increase differentiation (3 responses).

On top of this; Co1 added that "CSR is a good business, we do it because it is profitable"; for Co2 CSR is a commercial tool "that helps repetition of purchases"; Co3 stated that "CSR is a business and as such it grows with the rest of the company's operations"; Co4 ranked Increase market value and Increase value for shareholders as their first and second reason respectively to invest in CSR, the only firm with this pattern of responses; Co5 added that "a company that incorporates requirements from the society becomes more attractive to investors, retain employees, etc" and this is their reason to invest in CSR; Co6 have been investing in CSR in Latin America since 1999-2000 "with the aim to minimise the risks of our business"; Co7 said that CSR "is good for differentiation, especially during the current crisis"; and Co8 ranked first Increase customer satisfaction. It is also of interest to note that the eight companies in the sample actively monitor what their competitors are doing in CSR and make strategy decisions based on these movements.

The answers under Proposition 1 tend to show that the companies in the sample have a clear strategic focus when investing in CSR in emerging markets: to achieve economic objectives and wealth creation. These are the main principles behind the Instrumental Theories and therefore Proposition 1 is confirmed by the evidence.

Proposition 2

As it was assumed that MNCs from developed countries invest in CSR in EMs guided by what is known as Instrumental Theories (which was confirmed in the previous Proposition 1), it was thought that firms expect a relation between social responsibility initiatives in EMs and financial performance as shown in Proposition 2.

In this context interviewees were asked about this possible relation, Co1 said that "they have developed a new tool to measure the return of investments in CSR that provides information about impacts and risks, but it is currently being applied in Spain only"; Co2 said that "although we find it difficult to have an objective measure we think that returns from CSR contribute to un important percentage of the company's profits"; Co3 stated that "we estimate that CSR has a positive impact on profits although we have not found an efficient way to measure its impact yet"; Co4 said that "they do not look for a direct relation between RSC and financial performance as it is difficult to measure and demonstrate"; Co5 added to their comment on becoming more attractive to investors and employees (Proposition1) that "they do not know how to measure it" suggesting that some kind of relation is expected; Co6 said that they are "currently developing a methodology to measure this relation"; Co7 stated that "they have a clear measurement of returns in CSR"; and Co8 added that "the relation between CSR and financial performance is included in the annual objectives for managers".

From the answers received in this section it is possible to say that Proposition 2 is confirmed by the evidence. And what it is more important is that these findings complement and strengthen what was previously found in Proposition 1; companies in the sample invest in CSR in EMs with a strategic focus to achieve economic objectives, a strategy expected to generate positive financial returns shown in the balance sheet.

Proposition 3

Interviewees were asked to choose from a list of 8 options the CSR areas where their companies will be investing. The answers were, community actions (Co2 and Co3), talent management and conciliation (Co1, Co3, Co4, and Co5), corporate governance and ethics management (Co3, Co5, Co6, and Co7), environment (Co1, Co2, Co3, and Co5), equal opportunity programmes (Co3, Co4, and Co8) and corporate volunteering (Co1 and Co8). On top of this, five companies explicitly stated that they develop active strategies to deal with local stakeholders (Co2, Co3, Co6, Co7, and Co8), some of them recognised that they measure their impacts in the community (Co2 and Co3) and most of them measure the potential risks posed by their operations (Co1, Co3, Co4, and Co6).

In summary, from these responses it seems that there are two areas of actuation. The first area appears to be the joint work with external stakeholders to minimise the risk of the operations (for the community and at the same time for the company) which include community actions, environment, and ethics management. The second area seems to be strategies focused at internal stakeholders probably to increase employee morale and retention, like talent management, corporate governance, equal opportunity programmes, and corporate volunteering. In any of the two cases, these initiatives seem to have the purpose of strengthening the company's reputation and as a consequence improving its financial performance. This confirms Proposition 3.

Proposition 4

The eight companies in the sample said that they are improving the legitimacy in the markets where they operate by giving visibility to their CSR initiatives. These companies decided to increase their visibility/legitimacy through their participation in international, European, and/or domestic rankings/indexes like the Dow Jones Sustainability Indexes[1], RepTrak[2], and MERCO[3]. In this sense it is important to highlight that the eight firms in the sample score relatively high in these rankings/indexes.

What is interesting for the purpose of this research is how they seem to leverage this legitimacy in EMs. The eight companies claim to give medium-high decision making attributes to their subsidiaries in EMs to develop their own CSR initiatives adapted to the local needs, but always within the umbrella of the firm's position in the rankings/indexes creating, thus, a top-down strategy.

This centred-orientation of CSR activities can be seen in the annual reports posted on their websites (as at June 2010). Most of them have a clear focus on the MNC's total CSR activities, Co1 and Co4 do not even post information related to CSR. Co5, Co6, Co7, and Co8

[1] Dow Jones Sustainability Indexes http://www.sustainability-index.com/
[2] RepTrak http://www.reputationinstitute.com/advisory-services/reptrak
[3] MERCO http://www.merco.info/es/countries/4-es

offer information on their CSR activities divided by region/country/community (including EMs) only from 2004-2005.

The evidence from this section tends to suggest that the legitimacy is sought for the MNC as a whole, without a differentiation for local communities or grassroots involvement. This rejects Proposition 4.

DISCUSSION

The results of the analysis presented in the previous section seem to suggest that the companies in the sample tend to follow the pattern described in the Instrumental Theories of CSR. This is mainly because the eight companies in the sample appear to be using CSR as a strategic tool to achieve economic objectives. Examples of this can be found in the data shown in Proposition 1 like companies actively monitoring competitors' CSR initiatives, or by investing in CSR to increase customer satisfaction or to increase value for shareholders. This is complemented by the companies' intention to measure the returns of their investments in financial terms (Proposition 2).

Also, the data presented under Proposition 3 and Proposition 4 continue strengthening this finding by showing that their engagement with local stakeholders is mainly to protect their operations or to improve employees' morale and retention, as well as that companies in the sample intend to show a their CSR credentials by scoring high in rankings/indexes but in general do not engage at the local level.

The fact that these companies are following the principles of Instrumental Theories of course is not a problem. The point is, as argued at the beginning of the paper, that these findings tend to suggest that CSR initiatives in EMs are at an early stage of development, similar to what has been found in other areas of MNCs and also on institutions (Buckley et al., 2007; Del Sol & Kogan, 2007; Fornes, 2009; Hoskisson et al., 2000; Khanna & Palepu, 2000; Wright et al., 2005).

In the particular case of CSR the reason may be that the civil society in Latin American EMs has a lower level of association, has a more hierarchical structure, and its influence on the countries' affairs is limited (Fornes & Cardoza, 2010). This could explain why Political Theories of CSR may not be applicable to these emerging markets as they assume "interactions and connections between business and society" and a discussion of the relative power of business and their responsibility (Garriga & Melé, 2004, p. 55). Something similar could be said about the Ethical Theories as "they are based on principles that express the right thing to do or the necessity to achieve a good society" (Garriga & Melé, 2004, p. 60). None of the assumptions/principles of these theories seem to be present in the findings of this research.

On the other hand, companies in the sample may be following some of the principles behind Integrative Theories of CSR as they consider social demands "to be the way in which society interacts with business and gives it a certain legitimacy and prestige" (Garriga & Melé, 2004, p. 57) but only in their global operations and with a focus on image and reputation for the company as whole. The evidence suggests that they are not attempting to engage with local communities/societies, at least yet.

Finally, the findings of this work attempt to contribute to the ongoing debate in the literature on the fit of mainstream theories for the case of emerging markets (Boisot & Meyer, 2008; Buckley et al., 2007; Child & Rodrigues, 2005; Del Sol & Kogan, 2007; Fornes & Butt-Philip, 2011; Khanna & Palepu, 1997; Mathews, 2006; Rui & Yip, 2008). From what has been found in this research it is possible to say that Instrumental Theories of CSR seem to apply to the case of EMs. However, it is important to mention that this apply for Western MNCs operating in EMs; the case for emerging markets-based firms' CSR initiatives remain to be seen.

SUMMARY AND CONCLUSIONS

This work has attempted to analyse CSR initiatives in emerging markets from developed countries-based multinational companies (MNCs) vis-à-vis what is known as Instrumental Theories of CSR. The analysis was based on data collected from eight interviews with companies representing 85% of the Spanish foreign investments in Latin America.

The focus of the research was the fit of the Instrumental Theories of CSR for the case of EMs, in this sense (i) if companies are using CSR as a strategic tool to achieve economic objectives (the main principle behind Instrumental Theories), the evidence seems to suggest that this is the case; (ii) if MNCs expect a positive relation between CSR initiatives in EMs and their financial performance (also a key principle within Instrumental Theories), the evidence here also supports this expectation; (iii) if MNCs actively manage stakeholders to strengthen their reputation as a means to improve financial performance, the evidence again appears to support this idea; and (iv) if companies in the sample develop CSR initiatives to increase their legitimacy in EMs' local communities, the evidence here tends to show that the main objective is their global reputation rather than their local legitimacy.

All in all, Instrumental Theories of CSR seem to apply for Western MNCs operating in emerging markets. These findings highlight the need to continue the study of CSR from Western MNCs in EMs as the vast majority of academic literature relates to the characteristics of social responsibility initiatives in developed economies.

Unfortunately, this study cannot go beyond the objective of stimulating the discussion in this emerging area of research due to the limitations given by the small size of the sample and by the cross-sectional nature of the analysis. In future, and when enough evidence could be collected, larger samples along with time series analyses will be needed to give extra support to the findings and especially to develop more robust theoretical frameworks.

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