



GLOBAL JOURNAL OF HUMAN-SOCIAL SCIENCE: E
ECONOMICS

Volume 14 Issue 2 Version 1.0 Year 2014

Type: Double Blind Peer Reviewed International Research Journal

Publisher: Global Journals Inc. (USA)

Online ISSN: 2249-460X & Print ISSN: 0975-587X

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GJHSS-E Classification : *FOR Code: 140202, 160799*



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Towards a New Theory of Corporate Social Responsibility in Developing Countries

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Abstract- There have long been conflicting expectations of the nature of companies' responsibilities to society. Some businesses have been practising what might be termed "Corporate Social Responsibility" (CSR) focusing on corporate image management or other activities aimed predominantly at business benefits. This paper discusses why corporate social responsibility is no longer an option for business organisations nor is still about programmes to produce socially and environmentally friendly products. A new paradigm in corporate social responsibility for corporations in developing countries is presented in which they need to create a strategic partnership with supply chain members, support their strategic partners and understand the effect of their bought-in products on the society as a whole.

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I. INTRODUCTION

The term Corporate Social Responsibility (hereinafter CSR) has been variably used across companies, industries and even countries. For some corporations, it is synonymous with corporate image management, reputation building or just doing good business practice, (Carroll, 1999; Stark, 2009; Weyzig, 2009) while it is environmental management for others. As such, CSR has been approached from different perspectives such as 'good corporate citizenship', (Waddock, 2000); 'stakeholder relations', (Hess et al, 2002), and 'economic contribution to the economy', (Carroll, 1999) to the post-independence Africa, it means Black Economic Empowerment (BEE), (<http://www.aiccafrica.org/>).

The former UN Secretary General Kofi Annan once told the UN General Assembly that world economies were transforming, (Mike and Slocum, 2003). This is true as winds of change are blowing through the corporate world today because of the rapidly changing and increasingly complex ("raplex") environment in which they are operating. In a different forum, while addressing business leaders, Annan also said, "You do not need to wait for governments to pass new laws you can and should now act in your own interest, (Ruggie, 2002). He was hinting on the proactive roles corporations need to play to improve their relations with stakeholders. What is now needed are sustainable strategies by corporations and not the cosmetic activities.

Therefore, this paper discusses how large firms can create wealth for themselves and for the greatest majority through a new model of CSR. A new CSR model is proposed based on the concepts of the 'bottom of the pyramid' (BOP) and democratization of commerce (DOC).

II. CONCEPT OF CSR REVISITED

According to Wheeler (1996), the concept of CSR proposes that a private corporation has responsibilities to society that extend beyond making a profit. Carroll (1979) identifies these as economic, legal, ethical and discretionary responsibilities.

The firm's economic responsibilities entail the production of goods and services of value to society so that the firm is able to repay its creditors and shareholders. The legal responsibilities focus on the need of the business organization to obey laws as defined by the government. Ethical responsibilities entail following the generally held beliefs about behavior of society. For example, society expects the business organization to improve the welfare of its employees. Then, the discretionary responsibilities, in Carroll's own words, "are purely voluntary obligations" a business organization assumes. Few business organizations give attention to the discretionary responsibilities but may prioritise and fulfill economic, legal and ethical responsibilities in that order due to the fear of loss of confidence by creditors and shareholders and also fear of eminent government prosecution and social activism.

III. THEORIES OF CSR

Since the publication of the firm's responsibilities by Carroll, there has been a lot of debate on the role of CSR. These debates generated theories on which various views were grounded. Key among these theories are the instrumental theories, (Jensen, 2000; Windsor, 2001 and Garriga and Mele', 2004); political theories, (Donaldson, 1982, Dion, 2001 and Wood and Lodgeson, 2002), integrative theories, (Preston and Post, 1980 and Brewer, 1992) and ethical theories (Freeman, 1994; Donaldson and Preston, 1995 and Freeman and Philips, 2002).

Instrumental theories 'focus on achieving economic objectives through social activities', (Garriga and Mele', 2004:63). Examples of economic theories include social investments, cause-related marketing, corporate constitutionalism and other investments

focusing on the bottom of the pyramid. Political theories focus on how corporations can responsibly use their power to influence decisions. This includes strategies such as corporate citizenship. Integrative theories focus on the integration of social demands, (Garriga and Mele', 2004) through public responsibility and stakeholder management and, ethical theories focus on doing the right thing to achieve a better society.

IV. BENEFITS OF THE TRADITIONAL CSR PARADIGM

Those business organizations that have religiously adopted the traditional CSR paradigm have been able to benefit from the massive capital infusions by satisfied and confident investors; have been able to attract outstanding employees at less than the market rate and have also been able to charge premium prices because of good will. However, they have not been able to exploit a great number of the markets. A greater number of markets still remain unserved or underserved because they are looked down upon by big corporations. Prahalad (2010) described such markets as 'the bottom of the pyramid'.

V. THE NEW CSR PARADIGM

The traditional paradigm assumes that the business environment is relatively stable and predictable and so corporations will continue to make huge profits.. This is challenged by an article in HBR (2003) which observed that given the economic uncertainty and loss of faith in corporate leaders, organizations are challenging assumptions about business leaders and people who make organizations work. In fact, the Intel Chairman, Andy Grove, in his book **"Only the Paranoid Survive"** cited in James (2003) writes, "all industries will eventually face changes in their competitive environment that will result from dramatic breakthroughs in new technologies, changes in consumer demand patterns or the rise of new competitors. The pressure is on the organization to continuously learn and adapt to the changing landscape of business in light of the "inflexion points" or sudden changes in the environment that spell a major crisis for the business organization.

Due to the effect of globalization, increasing competitor activity, ever dwindling resources, and changing consumer needs, the competitive advantage gained today may not be still there tomorrow. Business organizations need to establish higher order abilities such as partnering, learning and innovation, (Baker, 2000) in order to create a sustainable competitive advantage. Baker (2000) goes on to say that firms that collaborate with suppliers, customers and even competitors will easily establish a competitive advantage. This brings in the new paradigm of CSR I will call *'CSR through democratization of commerce'* (see

fig. 1) in which priority and more resources are given to discretionary responsibilities in order to fulfill economic responsibilities in this turbulent environment. Prahalad (2010) uses the term 'democratisation of commerce' (DOC) to refer to the organisation's efforts to bring the benefits of globalization to all micro-consumers, micro-producers, micro-innovators, micro-investors and micro-entrepreneurs. This is what highly valuable figures like Annan were challenging corporations to do. Micro- firms can be indirectly exposed to global markets through intentionally established mutual linkages with large firms. A successful CSR case to demonstrate 'democratization of commerce' comes from India where Amul has become the largest processor of milk in India due to its collaborations with tens of thousands of small holder farmers in the villages (the bottom of the pyramid). The company supports the farmers to guarantee the quality of milk. Collection points were then built in the villages. Contracting small-holder farmers helped Amul increase volumes without meeting the full cost of centralized production and at the same time enhanced community participation in the supply chain management. There was a win-win situation between the large and micro-entrepreneurs.

The more a business organization prioritises the discretionary responsibilities, the more resources it allocates to meet satisfy these responsibilities, the more adaptive and competitive it becomes, the more market-share is gained, the more revenue and return on investment is generated and the more satisfied will be the shareholders and the higher will be their propensity to expand that business. There is manifestation of a "the *more-the- more*" principle.

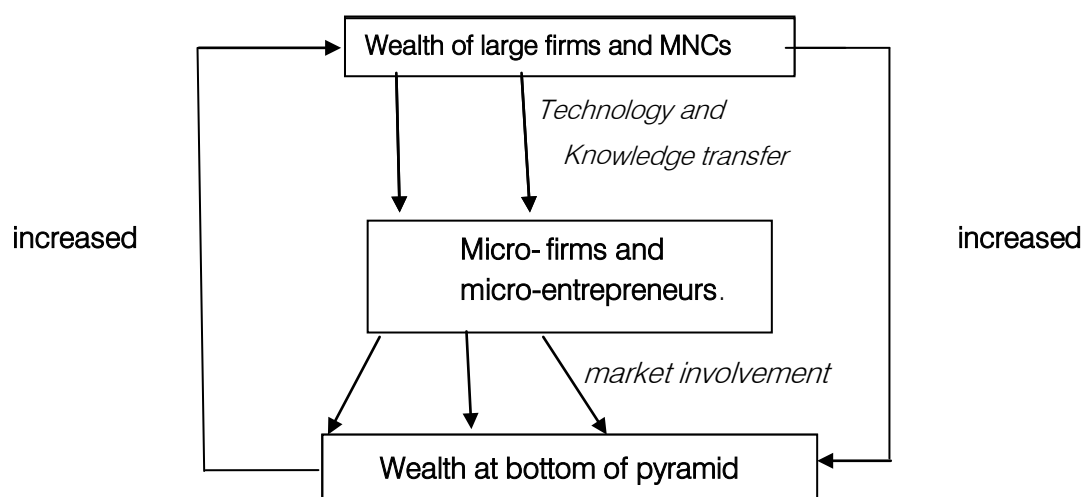


Figure 1 : The commerce democratization driven CSR model

a) *Wealth of the large firms and MNCs:*

These are the assets both financial and non-financial available to these large firms which they can use to fulfill their short and long-term goals. In order to create wealth at the bottom, these resources are used to establish sustainable supply chain synergies with the micro-firms and entrepreneurs. This can be in the form of technology and knowledge transfer, direct financial support, joint NPD and product launches, and other activities that can expose the micro-firms to the global market and increase their participation and involvement.

b) *Micro-firms and micro-entrepreneurs:*

These are market participants with limited resources to compete with MNCs particularly in the face of globalization. As a defensive strategy, they resort to underserved or unserved markets by the MNCs, and ironically, this is the larger market. Through democratization of commerce these micro-firms are mentored and incubated by large firms in preparation for global participation. This can be done through backward or forward integration, transfer of technology as well as general collaboration between the firms. The increased market presence of micro-firms will correct market failures, maximize employment of local people and enhance welfare. This will improve the perceived image of large firms and MNCs and will gain a good reputation. Positive image and good reputation will breed brand trust and affect which lead to loyalty. Loyalty is the ultimate desire of all firms in the global market as repeat purchases, market share gains and positive net profit contributions are registered.

VI. IMPLICATIONS OF THE NEW CSR MODEL TO DEVELOPING COUNTRIES

There is a myriad of factors that make this new paradigm of CSR very relevant to developing countries such as Zimbabwe. First, there is limited accessibility of

capital particularly to the small business organizations. Secondly, the forces of globalization have exposed local business organizations to the dictates of the global companies. Consumers are now not only able to compare the quality of locally produced products with those from foreign companies, but can also access them as they are exposed to new global communications technologies. Third, there is a shortage of locally produced basic commodities due to scarcity of resources and low production capacity which is below 50% in certain sectors. Therefore, the following questions would need to be answered. Is it not the time for the bigger corporations to realign and build a watertight image with respect to stakeholders by supporting the smaller firms? Is it not the time to establish higher order abilities such as partnerships and collaborations with smaller firms, particularly suppliers to guarantee sustainable procurement of high quality inputs?

A greater part of the economy is in the hands of SMEs. These employ over 70% of the workforce in a wide spectrum of the economy ranging from horticulture to steel production. These SMEs face various constraints such as limited financial, technical and human resources as well as inadequate infrastructure. Most of these SMEs can be more active players if they are supported by the bigger business organizations.

The strategic responses of bigger business organizations could include supporting linkages through partnerships and stronger supply chain, sharing technology, joint product development and provision of finance (from seed investment to equity stakes). These are the discretionary responsibilities of business organizations.

Suppose each bigger business organization identified key SMEs in its supply chain and directed its discretionary responsibilities to them and established strategic alliances with them, what will happen to the

growth of these SMEs? The bigger business organization can also identify its core and non-core activities of its operations and assign the non-core activities to the SMEs. The SMEs will produce high quality products due to expertise and resource sharing; will learn responsible business practices and consequently will become more competitive and expand. On the other hand, the bigger organisation is assured of a constant supply of high quality inputs and enhanced reputation. It will also become more competitive as it will be performing core-functions only, and therefore, enough resources will be left for these core-functions to be performed within the organisation. This will lead to enhanced performance through specialisation.

Most SMEs employ locally and purchase locally. Therefore, the realignment of bigger business organizations will benefit the whole society in that more job opportunities are created and economy becomes stronger. Michael Armstrong, Chairman and CEO of AT&T summarized it all when he said, "In the 21st century, the world won't tolerate businesses that don't make partnerships seriously, but will eventually reward companies that do so," (James, 2003). The bigger business organizations can help the "small stand tall and the dying get life". This will only be realized with the realignment of bigger business organizations, and when they go beyond the traditional CSR.

VII. CONCLUSIONS

This paper has proposed a new focus of CSR which will not only improve the image and reputation of the large firms, but create wealth for the large firm, SMEs and micro-enterprises and the consumers in general through exposure to global markets exposure to global markets and increased product demand, efficient management of the supply chain and employment creation.

VIII. RECOMMENDATIONS

This paper recommends that large corporations could identify those SMEs that complement their businesses and match their functional strengths and business orientations. They could then enter into a business alliance with them, taking into consideration the needs and requirements of one another. Core operations could remain with the bigger business organization while the non-core areas are given to the alliance. In the case of SMEs forming the supply chain, capital and human resources could be availed to ensure continuous supply of high quality materials. The paper also recommends that Government could establish a framework to foster these business partnerships and also give incentives to companies to encourage establishment and sustenance of the partnerships.

Finally, the proposition needs to be validated through empirical testing and future researches on CSR could take this route.

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