Value, values and sustainability
Corporate responsibility
in emerging market companies

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Abstract

This study examines the level and extent of corporate responsibility (CR) reporting by companies based in emerging markets. Examining a range of data and using original empirical research, it looks at corporate reporting as a proxy for CR, in the subject areas business ethics, environment, human resources and community/philanthropy. It finds that while there are vast differences between countries and subject areas, the overall take-up of CR is not significantly less in emerging market than in developed market economies.

Five emerging markets are then analysed in more detail – Brazil, Russia, India, China and South Africa – to understand why CR take-up is high in South Africa and Brazil, and to some extent India, and why it is extremely low, almost non-existent, in Russia and China. It finds that CR is most likely to be found in those countries where it is internally driven (rather than externally imposed) and in countries with high levels of poverty/inequality, an active and informed civil society, companies with global aspirations, and the lack of perceived autocratic political options for organised business.

The study examines a range of secondary literature related to corporate purpose, corporate responsibility, and emerging markets, and develops a number of models for understanding the context, drivers and pressures relevant to corporate responsibility in general and the drivers of CR in emerging markets in particular.

Keywords: *corporate responsibility, CSR, emerging markets, BRICS, Brazil, Russia, India, China, South Africa, business ethics, environment, human resources, community, philanthropy*

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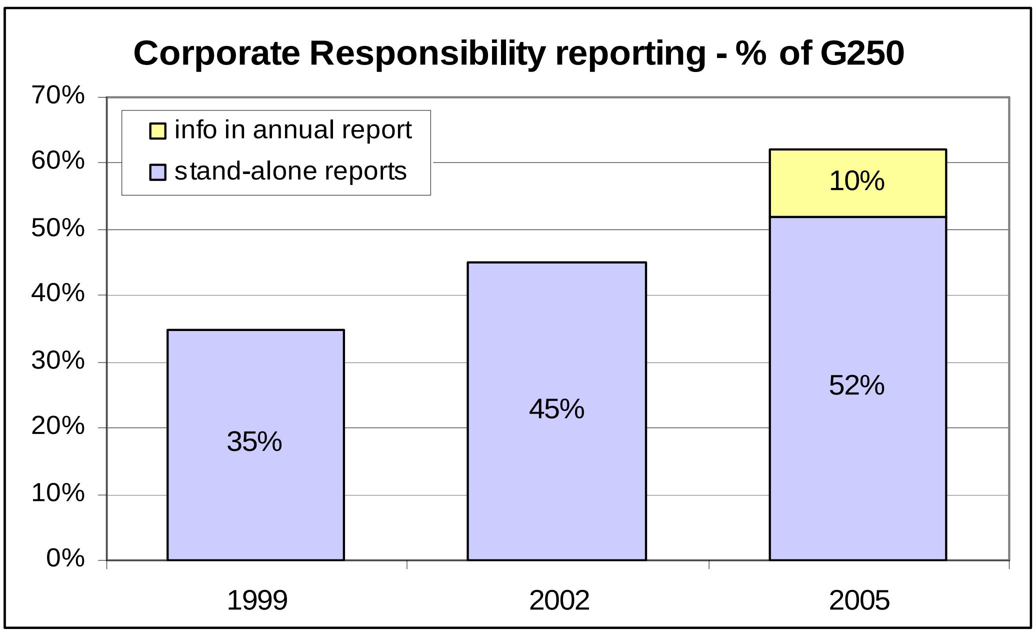
1) Introduction

In the past decade there has been a substantial increase, in developed countries, in reporting on social, environmental and 'ethical' (SEE) issues by publicly-traded corporations. A 2005 survey conducted by KPMG examined the state of global corporate reporting and compared this to early surveys. Comparing the G250 – the largest 250 companies according to Fortune magazine – it found a significant rise in corporate reporting on SEE issues.[1] As the chart below indicates, ***62% of the G250 now report on corporate responsibility issues*** either in stand-alone reports or in their annual reports. This was up from 35% in 1999, and around 13% ten years previously (KPMG, 2005: 38).

Chart 1.1 Corporate Responsibility reporting - percentage of G250



KPMG has also looked at a substantially wider spectrum of companies – the top 100 companies (N100) in each of 16 countries. In 2002, 23% of companies reported, rising to 41% only three years later (KPMG, 2005). Top Japanese companies, for example, mainly reporting environmental issues – rose from 72% to 80% of the N100. Only one emerging market economy (South Africa) was included among the 16 countries analysed by KPMG.

[1] The 2005 survey went beyond stand-alone CSR/sustainability reports, and examined the inclusion of SEE indicators in annual reports. This 'mainstreaming' of SEE reporting is a recent development, which was neither widespread nor measured by KPMG in the 1999 and 2002 studies.

Whilst these studies all indicate an increase in SEE reporting within major developed economies, there is very little comparable evidence to ascertain whether similar trends are also evident within less developed economies.

Further, if SEE reporting is also evident in emerging markets, or even if it is not, then what are the drivers of this? Are they the same as for developed country companies, or are the drivers different? And by analysing emerging market companies, can one derive any new insights into more general debates regarding corporate purpose, or concerning thinking about corporate responsibility?

Given the relatively under-developed nature of research in this area, the purpose of this study is threefold:

- to examine empirically the extent to which companies in emerging markets are engaging with corporate responsibility, and to test the hypothesis that corporate take-up of SEE issues is not substantially lower in emerging markets than in developed markets (Hypothesis 1);
- to understand, by focussing on the situation in the so-called BRICS countries (Brazil, Russia, India, China, South Africa), the relevant drivers of this take-up or lack of it, and to test the hypothesis that corporate responsibility is most likely to be found in countries with globally-active companies, democratic political structures, and active civil society organisations (Hypothesis 2); and
- to reflect upon the implications of the findings for existing thinking regarding corporate responsibility.

Outline of methodology and chapter structure

A combination of methodologies will be used to inform the analysis. Chapter 2 will review some of the key literature in the field relevant to this study. In particular it will cover the concept of corporate purpose (what companies are for), as well as literature which attempts to explain both the concept of corporate responsibility and its growth in recent years, and frameworks for understanding the drivers of corporate responsibility take-up by corporations. This chapter is not intended as a comprehensive literature review – simply reading all that has been written to date on these issues would be a life's work! Rather, a range of views have been chosen for analysis.

Chapter 3 is based on original empirical research and aims to compare emerging market and developed country companies. This includes two components. Firstly, analysis of the extent to which companies are signed up to a number of existing global initiatives, indicators of what I will call the ‘corporate responsibility climate’. Secondly, the websites and annual reports of a sample of emerging market companies are analysed to measure the extent of their corporate responsibility reporting, and the results are compared with an existing dataset of comparable developed country companies. This methodology, including the sample selection process and choice of variables, is explained more fully at the beginning of Chapter 3. The aim is to compare, overall, the extent of reporting on SEE issues in emerging markets and developed economies, as a proxy measure for the extent of interest in corporate responsibility.

Chapter 4 is based on further empirical research as well as an analysis of secondary sources – academic and practitioner literature, as well as ‘official’ statistics (such as World Bank and similar indicators). It focuses on both the extent and drivers of corporate responsibility in five specific cases – Brazil, Russia, India, China and South Africa (the BRICS countries). This chapter also summarises the relatively limited existing literature on corporate responsibility and developing countries. This approach is adopted in order to add qualitative, contextual detail and to uncover possible differences between key emerging markets and thereby gain a more specific understanding of potential drivers of corporate responsibility. The BRICS countries were chosen because they are five very distinct and substantial emerging markets on four continents, each with distinct national histories and corporate cultures. An attempt is made to triangulate the various findings and develop some credible and plausible understandings of corporate responsibility drivers in emerging markets. However the length limitations of this study mean that these five cases will not be exhaustively examined.

Chapter 5 concludes by reflecting on the various findings and their implications for the understanding of corporate responsibility.

Definition of terminology

It is necessary to define a few terms in order to clarify how they will be used throughout. The word ‘corporate’ will be used largely in its colloquial sense and mean “any larger company, publicly-traded or not”. In practice we will be examining larger companies (not small and medium enterprises) and generally those listed on a stock exchange. Where relevant to a specific dataset a more precise definition will be given. The emerging market companies examined are generally listed in and 'from' the relevant emerging market, and not subsidiaries of transnational corporations in emerging markets.

The words 'developed' and 'emerging' market/country are used throughout and should be understood in the context in which they are presented. They will be specifically defined where they are categories used in empirical data. However, as a rule of thumb 'developed' markets/countries refer to high income economies as defined by the World Bank – those with a per capita Gross National Income (GNI) in excess of $9386 or higher[2]. In practice the developed countries examined in this study are both high income and members of the OECD – an organisation whose "30 member countries share a commitment to democratic government and the market economy."[3]

The term 'emerging' market is used in this study in preference to 'developing' country. In practice many of the poorest nations do not have private companies or internal markets or stock exchanges or external investor interest of a size which enables meaningful comparison with their developed country peers. The term 'emerging markets' is intended to suggest that not all developing countries are being examined but mainly those where some comparisons can be made. In practice the very poorest so-called Least Developed Countries are not covered by this term. The term 'emerging market' is also used to accommodate some of the so-called transition economies of Eastern Europe which have moved relatively recently towards a market economy.

'Corporate Social Responsibility' or CSR is a widely used term. Various other terminology has been used by practitioners to describe largely the same phenomenon. Terms include Corporate Citizenship, Sustainable Development, Sustainability, and Corporate Responsibility. The fact that these are usually found in capital letters is suggestive of the normative overlay associated with the term. I occasionally, in an attempt to be descriptive, refer simply to corporate reporting on SEE (social, environmental an ethical) issues. But, unfortunately, this does not obviate the need to find some descriptor of the concept.

[2] This is a World Bank classification, effective 1 July 2004.
[3] For all the above definitions see glossary available at www.cyberschoolbus.un.org

A commonly-used definition is that of the European Union – "*CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis* (Ashridge. 2005: 3). I will go with this definition except in two respects. Firstly, I will generally drop the word 'social' from CSR, except where it makes sense in context, since this is both too broad and undefined in potentially encompassing any issue in society, and also too narrow in suggesting social (rather than environmental) concerns[4]. Where 'CSR' is used in the text it can be regarded as interchangeable with the term 'CR'. Secondly, I will drop the reference to voluntarism. Its inclusion is undoubtedly related to political battles within the European Union regarding whether there is a need to further regulate business behaviour.[5] Further, it confuses what is being examined with the mechanisms and drivers of corporate behaviour and the varying legal structures which govern rule-making and behaviour in various countries. It also ignores the complex relationship between 'hard' law and 'soft' law and the inter-relationship between law and voluntary practice where the latter is often adopted by companies to avoid regulation[6]. As the Ashridge study cataloguing CSR activities noted, "as legal requirements vary considerably and the purpose of this catalogue is to give a broad overview of practical CSR activities internationally, such fine points in distinguishing what is legally mandatory and what is voluntary cannot usefully be made." (Ashridge. 2005: 3).

In this study therefore, 'corporate responsibility' (CR) is used descriptively to mean "***a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders***." The concept itself will be analysed in more detail in the following literature review chapter.

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[4] Practitioners report a shift towards the term corporate responsibility – "I think (but I can speak only for companies I deal with) corporate responsibility is replacing CSR as the preferred term because CSR has become too much linked with the discredited community involvement/employee volunteering approach." (Personal communication from Fishburn-Hedges consultant. Sept 2005).
[5] see Euractiv 23 march 2006. Available from http://www.euractiv.com/en/socialeurope/open-dispute-commission-ngos-csr/article-153622. Retrieved June 20, 2006.
[6] For examples of corporate responsibility issues which lie in the space between law and voluntary practice see the Environmental Reporting Guidelines issued by the Japanese government, or the encouragement of SEE reporting by the Association of British Insurers (www.abi.org.uk), or guidelines recommended by the Norwegian Employers Organisation (see www.nho.no).

2) Review of key concepts and literature

This chapter begins with an overview of the debate around corporate purpose – what companies are for, and identifies four basic perspectives on the issue. It then goes on analyse some of the literature on the concept of corporate responsibility and CSR, both supportive and critical. Finally, the context and drivers of corporate responsibility are looked at, partly based on a review of the literature. A framework of eight key drivers is identified and partly schematised.

The aim of this chapter is both to analyse and schematise some key concepts relevant to the subject of this study and to make explicit some of the assumptions and perspectives adopted by the author which may influence the analysis.

What are companies for?

There are a range of views on corporate purpose. There are those who argue that the main, if not the sole, purpose of a company is to maximise profitability. In the oft-cited 1919 case of Dodge Brothers v. Ford Motor Company, the court argued that “a business organization is organized and carried on primarily for the profit of the stockholders” (cited in Margolis and Walsh. 2003: 271). In similar vein, Berle argued in 1931 that “all powers granted to a corporation or to the management … are necessarily and at all times exercisable only for the ratable benefit of all shareholders …” (Berle. 1931: 1049); Eisenberg saw it as “…producing and distributing goods and services and making investments … with a view to enhancing the corporation’s profit and the gains of the corporation’s owners, that is, the shareholders” (cited in Monks and Minow. 2004: 8); whilst influential Chicago-school economist Milton Friedman held that managers should “…conduct the business in accordance with [the owner’s] desires, which generally will be to make as much money as possible.” (Friedman. 1970: 32).

These perspectives are supplemented by legal contractarian approaches which see the company as little more than a nexus of contracts with residual claims being in the hands of the owners. As Bradley *et al* have shown (cited in Margolis and Walsh. 2003: 271), profit maximisation constitutes the dominant view of corporate purpose – and one I shall label ‘market fundamentalism’.

There are, of course, alternate views of corporate purpose, and three will be explored here to suggest the spectrum of views. Monks and Minow argue that companies are "… a mechanism established to allow different parties to contribute capital, expertise and labour, for the maximum benefit of them all." (Monks and Minow. 2004 :9) This approach stresses the contributions made to corporate success by, for example, managers and employees, and suggests the need for fair returns for all contributors. It can be called the 'enlightened shareholder' approach, and does not fundamentally challenge the dominant role of the shareholder.

A third approach, which can be termed the 'social market' approach, stresses that companies should be seen as public institutions. Dodd argued, in response to Berle, that companies should be seen as "…an economic institution which has a social service as well as a profit-making function…". "Business – which is the economic organization of society – is private property only in a qualified sense, and society may properly demand that it be carried on in such a way as to safeguard the interests of those who deal with it either as employees or consumers even if the proprietary rights of its owners are thereby curtailed." (Dodd. 1932: 1148). A more recent expression of this view emerges from an initiative known as Corporation 2020. This has developed six guiding principles, the first of which is that "the purpose of the corporation is to harness private interests to serve the public interest", and goes on to explain that "… all corporate actions must be consistent with the public interest, and where private and public interests conflict, the public interest must prevail." (n.d.: 2)

Finally, a fourth approach, like the first, also sees corporate purpose as profit maximization but regards this as a negative feature and an argument for significantly restricting, if not eliminating, both the market and the contemporary corporation. This can be called the 'anti-market' perspective. In its strong version this argument is rarely found in academic literature. However, the view which sees the modern corporation as a rapacious profit-maximiser which acts at the expense of the environment, labour standards and human rights, is sufficiently widely held to merit inclusion in this typology, and can be seen as the underlying perspective of authors like Naomi Klein and others associated with the anti-globalisation movement (Klein. 2000).

These four perspectives on corporate purpose span the spectrum of views on the issue. All categorizations invariably simplify the issues, and there is sometimes overlap between the various positions. Margolis, for example, has stated that "the purpose of the corporation is to produce and deliver goods and services in a manner that creates value for members of society." This is arguably a position somewhere between the enlightened shareholder and the social market perspectives. Jensen, a market fundamentalist, has conceded that managers "should pay attention to all their constituencies … [and that this] is completely consistent with value maximization", a concession to the enlightened shareholder school. And an activist writer such as Doane falls somewhere between the anti-market and the social market perspectives when she argues that it is a myth that the market can deliver both short-term financial benefits and long-term social benefits, whilst simultaneously arguing the need for company directors to have "multiple duties of care – both to their shareholders and to other stakeholders, including communities, employees, and the environment." (2005: 24-29)

It should also not be forgotten that perspectives on corporate purpose are time and context specific. It is no accident that Dodd's critique of Berle arose in the context of the Great Depression and the failure of US corporations to sustain employment levels and output. Similarly, the current resurgence of interest in the question has emerged in the era of Enron and other scandals and corporate failures. Going further back historically, whilst we now see corporations as independent of the state, their origins are as an instrument of government, with defined and time-bound charters being issued to the East India Company, railroad companies, and others. As Mickelthwaite and Wooldridge have expressed it "companies sprang from the loins of the state. Even when they were set free in the mid-nineteenth century, they still had to secure what might be called 'a franchise from society'" (2003: 174), or what is sometimes known as a 'license to operate'. And even this general pattern differs from country to country.

The four contemporary perspectives differ in a number of other respects. For example, implicit in the social market approach is the view that it is possible for a company to have multiple purposes. But others are uncomfortable with this. Jensen, for example, has argued that "multiple objectives is no objective," because it "is logically impossible to maximize in more than one dimension at the same time … [and to do so would result in] confusion and lack of purpose that will fundamentally handicap the firm in its competition for survival" (2001: 10). Other distinctions between the four perspectives are schematized in the table below and relate to the political inclinations of each, their attitude to the market, and their views of both the social implications of the dominant shareholder model and of the dominant legal view of the corporation.

Table 2.1 Four perspectives on corporate purpose

	Market fundamentalism	*Enlightened shareholder*	*Social market*	*Anti-market*
Corporate purpose (and manager's role) is/should be …	Profit maximisation	Fair returns for all contributors	To further public interest	Profit maximisation
Example authors	Berle; Friedman; Jensen	Monks & Minow	Dodd; Corporation 2020	Klein (partly)
Political inclinations	Libertarian	Liberal pragmatic	Regulated market	Collectivist / statist
Attitude to the market	Market-friendly	Market-friendly	Market-harnessing generally; market-substituting occasionally	Market-hostile
View of social implications of dominant (shareholder primacy) model	Pursuit of private gain leads to positive, unplanned, social outcomes ('invisible hand' model)	'Responsible' pursuit of private gain is socially positive, but acknowledge 'irresponsible' actions can be socially problematic	Results in socially unacceptable and unsustainable outcomes	Enables (big) business and capitalism to exploit and dominate socially and economically and ignore or manipulate citizens
View of dominant legal view of corporation (legal personality, limited liability, transferability of shares, ownership-management divide)	Correct principles, justified by residual rights, and allows single-purpose focus which enables of economic progress	Correct principles and enables of economic progress	Privileges (especially limited liability) not matched by equivalent duties. Multiple purposes needed.	Enables profiteering and unaccountable corporate behaviour

Conceptual space of for engagement with CR concept

Both the market fundamentalists (except perhaps at the edges) and those holding an anti-market perspective on corporate purpose find it difficult to engage with the concept of corporate responsibility. As we shall see in the following section, they are inclined to regard it as muddle-headed and a dangerous fad (the market fundamentalists) or as a deceptive public relations exercise to soften opposition to corporate power (the anti-marketeers).

The concept of corporate responsibility

There is a long history of expecting companies to behave in a socially responsible way, often rooted in expectations about the obligations of the rich to the poor. These range from European feudal concepts of *noblesse oblige*, to Hindu concepts of merit being earned through charity or doing good works, to Islamic concepts of *zakat*. These are generally paternalistic and pre-modern conceptions but they have contemporary manifestations and often influence the philanthropic practices of business leaders (from Cadbury in the UK, to Bill Gates in the USA and globally, to Ratan Tata in India.

The notion of business, rather than individual tycoons, having social responsibilities is of more recent origin. Carroll (1999) has argued that Howard Bowen can be seen as the father of CSR. Bowen, writing in 1953, had argued that managers should "pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of society" (1953: 6). In 1963 McGuire argued that business has "… not only economic and legal obligations but also certain responsibilities to society", and that it should act "justly" like a good "citizen" (1963: 144). Others have stressed that socially responsible businesses are those "whose managerial staff balances a multiplicity of interests" and which take into account "employees, suppliers, dealers, local communities and the nation" (Johnson. 1971: 50; see also Carroll. 1999). This approach emphasises the importance of stakeholders. It resonates with social partnership thinking in continental Europe, although these often have a more narrowly corporatist dimension and employee focus.

Most writing on CSR has stressed one of two, sometimes inter-related, approaches. The first (exemplified by writers like Bowen and McGuire) emphasizes '<u>citizenship</u>' (although doesn't always use this term) and is often associated with extensive community programmes, foundation-type work, joint business initiatives (such as BiTC in the UK) and engagement with the political process. Its roots are politically conservative. Davis has written that the "social responsibilities of businessmen need to be commensurate with their social power" and that "the avoidance of social responsibility leads to a gradual erosion of [business'] social power" (Davis. 1960: 71). Writing in the early 1970s at a time of great turbulence in developed capitalist countries, Eells and Walton argued that "insofar as the business system as it exists today can only survive in an effectively functioning free society, the corporate social responsibility movement represents a broad concern with business's role in supporting and improving that social order." (Eells & Walton. 1974: 247).

The second approach is <u>stakeholder</u> focused. Unfortunately stakeholder theory is hard to pin down as it comes in many different forms. Donaldson and Preston (1995) have distinguished three kinds of stakeholder theory:

- 'descriptive' – examining, for example, the extent to which managers engage in practice with stakeholders;
- 'instrumental' – suggesting stakeholder-engagement-type solutions to particular management challenges, such as reputation management; and

- 'normative' – dealing with more abstract ethical questions, often linked to corporate purpose, such as to whom companies should be accountable[7].

Stakeholder approaches include those making both strong claims, as well as others whose claims are more modest. With regard to the former, Evan and Freeman, in one of their best known papers argue for full stakeholder participation. Not only should the firm "be managed for the benefit of its stakeholders" and "[t]he rights of these groups . . . assured," but "the groups must participate, in some sense, in decisions that substantially affect their welfare" (1993: 82). By contrast, Donaldson and Preston, in their seminal paper make the more modest claim that "… all stakeholders are of intrinsic value… [and] each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group such as shareowners" (1995: 67).

Hendry has spoken of 'modest', 'demanding' and 'intermediate' versions of stakeholder theory (2001: 167). He has correctly pointed out that "the argument that some stakeholders should have some part to play in the governance and decision making of the firm may be contentious but it is generally accepted that it is not unreasonable" (Hendry. 2001: 172). One can see how this is an approach with which those who adopt an 'enlightened shareholder' or 'social market' approach to corporate purpose can engage. Indeed it is part of standard practice in some jurisdictions, such as Germany in relation to employees.

It is less clear if the same can be said of the demanding version of stakeholder theory, which does not even seem to arouse interest among those holding an 'anti-market' approach to corporate purpose. As Hendry has said, "the argument that all stakeholders, broadly defined, should [be involved in governance and decision making] appears to many critics just ridiculous. Perhaps a very large supplier or customer, or one heavily reliant on the firm concerned, should be so involved, but *all* suppliers and *all* customers, many of whom may be in competition with each other? If the claims are rigorously upheld they become impossible to justify, but if they are modified then, since the arguments all depend on one being a stakeholder and not a stakeholder of any particular kind, they break down." (Hendry. 2001: 172).

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[7] Of course these three variants are often interconnected. As Hendry has argued, "an instrumental theory may rest on normative precepts or a normative theory (of a consequentialist or pragmatic kind) on instrumental reasoning." (Hendry. 2001: 163)

Both the citizenship and the stakeholder approaches to corporate responsibility have their critics. There are those who dismiss CSR[8] as little more than skin-deep corporate PR, 'window-dressing' or 'greenwash'. This is the view of some NGOs – for example the NGO Corporate Watch (www.corpwatch.org) and its Greenwash awards. They will often emphasise the gap between intentions and actions, be sceptical of the voluntary dimension of CSR, and call for legislation to require responsible business behaviour and hold companies "legally accountable for their actions overseas" – the view expressed in a report by Christian Aid (2005: 57) or in the UK by those in the CORE coalition (www.corporate-responsibility.org). In this view, to the extent that CSR is supported it is because voluntary codes are seen as a gateway to binding legal regulation (Smith. 2003: 8).

Others see CSR as a self-interested strategy by global business, aimed at quelling popular discontent with corporate power and avoiding regulation. Rowe, for example, focuses on the voluntary nature of CSR activity and codes of conduct. He argues that it is no accident that corporate take-up of CSR increased in two periods – "when developing countries along with Western unions and social activists were calling for a 'New International Economic Order' … [to] more tightly regulate the activity of Transnational Corporations (1960-1976); and … when mass anti-globalization scandals are increasing the demand for regulation (1998-Present)." (Rowe. 2005: 2)

Yet other critics emphasise the need to redefine corporate purpose, rather than tinker with the existing system. Doane, for example, says it cannot be argued that CSR amounts to "a wholesale change in capitalism as we know it" – perhaps demolishing a straw man of her own creation – and that it "fails to acknowledge that ultimately, trade-offs must be made between the financial health of the company and ethical outcomes. And when they are made, profit undoubtedly wins over principles" (2005: 24). Doane argues that at root what is needed is to replace the current Western legal structure, which prioritises a duty of care to the shareholders, with one where directors have multiple duties of care to shareholders, other stakeholders and the environment (2005: 29).[9]

The above criticisms broadly come from those hostile to both the market and the corporation. Interestingly they share a lot in common with the critique of corporate responsibility coming from those with a strong market orientation.

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[8] Here I will use the terms corporate responsibility and CSR interchangeably, as the latter term is often used in the critical debates.

[9] It is important to note the normative tone adopted in many approaches to CSR – what business 'ought' or has a 'duty' to do.

David Henderson, former chief economist of the OECD, accepts that in some cases corporate responsibility can contribute to a firm's long-term profitability. But he argues that it results in negative economy-wide effects. Henderson sees CSR as "intellectually wrong, bad for business and bad for the planet." "Such a trend towards a more regulated world, with social pressures serving to weaken competitive pressures, would cause the primary purpose of business to be less well performed... The case against the general adoption of CSR by businesses... is not that it would necessarily be bad for enterprise profits, but that it would reduce welfare." (cited in *The Guardian*, August 22, 2004). It is a view echoed in the financial press. The *Financial Times* called CSR "not merely undesirable but potentially dangerous" (May 19, 2003), whilst an *Economist* special survey called it "one of the biggest corporate fads of the 1990s" (January 22, 2004).

Perhaps the most well-known criticism of CSR comes from Chicago economist Milton Friedman. As we have seen, he can be seen as a 'market fundamentalist' and emphasises that the over-riding corporate goal is, and should be, profit-maximisation. Friedman's critique of CSR, like Henderson's, rests ultimately on a 'hidden hand' view of social utility, arguing that the best economic outcomes emerge from the self-interested behaviour of economic actors. Friedman also has three specific critiques of CSR. Firstly, that only individuals, not corporations, can have moral agency and purpose. Second, that managers should focus on maximizing returns to shareholders and not divert funds to other benevolent purposes[10]. Third, that addressing social problems is the domain of the state and that managers are neither trained nor democratically elected to do so. Engaging in 'responsible' behaviour is not what companies are best at, and therefore amount to poor resource allocation[11].

In correctly arguing that corporations are not democratically elected, Friedman's view is remarkably close, in practice, to the position expounded by Rowe and outlined earlier. Friedman's critique targets both the 'citizenship' and the 'stakeholder' approaches to corporate responsibility. In his defence, Friedman recognized the existence of external constraints – and that profit maximization needed to conform "to the basic rules of the society, both those embodied in law and those embodied in ethical custom." (1970: 1-2)

[10] Margolis (2004), not an advocate of Friedman's position, has identified this as the concern that managers "will misappropriate corporate resources by diverting them from their rightful claimants, whether those are the firm's owners or, sometimes, employees."
[11] Margolis' likens this to using a dishwasher to wash clothes (2004).

A further critique comes from many developing country governments, who are sceptical of rights and code-based approaches, seeing these as disguised protectionism. They argue, for example, that some aspects of labour rights provide an excuse to erect barriers to imports of their products[12]. The International Institute of Sustainable Development (IISD) notes that "as tariff levels fall, many developing countries are concerned that protectionism will re-assert itself through a web of different standards and technical regulations. They are particularly suspicious of environmental and social requirements being imposed on them through standards and technical regulations." (see policy outline at www.iisd.org/standards)[13]

There are, then, a range of criticisms of the CR concept, both from the 'left' and the 'right'. What is striking is not so much that both the market fundamentalists and the anti-market approaches converge in being hostile, or at best sceptical, of the concept; but that they often bring similar arguments to bear. Essentially, only the enlightened shareholder and the social market approaches are able to engage with the concept of CR, rather than simply dismiss it.

What are we to make of the specific and related criticisms of self-interest, 'spin', superficiality and faddishness? The charge made by some NGOs that corporations are merely acting in self-interest will not be contested. Many of the most CR-active companies themselves argue that their actions make business sense. In fact this is a sure sign that something more significant than public relations is afoot and that some companies are seeing economic value in engaging with social, environmental and ethical (SEE) issues beyond the traditional business domain. Whilst it is undeniable that much (even most) corporate CSR is superficial, it is equally clear that a significant minority of companies are integrating a range of SEE issues into their corporate strategies and practices in substantial ways. A few companies have long put great store in such issues – The Body Shop or Ben & Jerrys being commonly mentioned examples. But something significant is happening when major, established companies (such as BP or Rio Tinto or HSBC) do so too.

[12] For example, in 2001 the Belgian parliament introduced social labeling – labeling to indicate if the manufactured import had been produced under conditions meeting international labour and other standards. This approach has been criticised as disguised protectionism by the World Trade organization (WTO), and countries like China, India, and Brazil. (see for example, Food and Agriculture Organisation (FAO). 2003; or Zheng. 2006).

[13] A UNIDO study states that "While voluntary eco-labels and other CSR initiatives have not been formally found to be 'Non-Tariff Technical Barriers to Trade' under WTO rules, concerns remain, that these standards are effectively protectionist in their impact, if not in intention." (UNIDO. 2002:49)

In developed economies corporate reporting on SEE issues[14] has not only increased in quantity but also in depth (KPMG. 2005). Voluntary codes, guidelines and similar have encouraged such reporting[15]. Whilst some regulation exists to encourage reporting[16], this has largely been light-handed and non-specific and has followed rather than preceded the growth in corporate reporting. The overwhelming conclusion is that the corporate sector itself has apparently felt a need to engage, far more than previously, with SEE issues … or at least to report on these. Even major companies previously (and perhaps still) hostile to such approaches, such as WalMart, are beginning to engage with SEE issues.[17] Those who argue that it involves little more than 'greenwash' need to ask why it is that an increasing number of companies feel impelled to engage in this greenwash, and to an increasing extent. Why are an increasing number of companies engaging with CR?

In my view Rowe comes closest to an explanation, although he perhaps attributes more conscious 'mind', and is therefore more conspiratorial about business as an entity, than the evidence allows. Arguably we are going through an historical phase (post 1990) where the relationship between business and society is being renegotiated. The dominant model of corporate purpose and corporate value is in crisis (although 'crisis' may be too strong a word), its credibility challenged, with questions repeatedly raised about its impact on society. These include the corporation's adoption and encouragement of the worst aspects of human behaviour (Bakan. 2004); its corruption, dishonesty and greed (the Enron scandal being the symbolic representative); its promotion of needless consumption and mindless consumerism (Klein. 2000); its negative environmental and ecosystem impacts and its unsustainable consumption of non-renewable resources (Porritt. 2005); its global economic weight, at least when one is looking at multinationals (Andersen and Cavanagh. 2000)[18], and its excessive influence on public policy to further its narrow interests

[14] These go by a variety of names such as Sustainable Development report, CSR report, Triple Bottom Line report and so on.
[15] For example Environmental Reporting Guidelines issued by the Japanese government, or the encouragement of SEE reporting by the Association of British Insurers (www.abi.org.uk), or guidelines recommended by the Norwegian Employers Organisation (see www.nho.no).
[16] For example the UK's Combined Code, which has regulation-like status, now encourages reporting on material non-financial issues, or France's New Economic Regulations of 2001 which make social and environmental reporting mandatory for publicly-listed companies, or the Sarbanes-Oxley provisions in the United States which require some reporting on ethical codes in the context of enhanced corporate governance reporting.
[17] see for example www.walmartfacts.com/FactSheets/7262006_Sustainability.pdf
[18] A commonly cited claim is that "of the world's 100 largest economic entities, 51 are now corporations and 49 are countries" (Andersen & Cavanagh. 2000: 3). This has been critiqued by de Grauwe and Camerman as wrongly comparing a measure of value added (GDP) with a measure of sales. They argue that "… the impression gained by the anti- globalist rhetoric is that corporations are now typically bigger than the typical country in the world. And this is manifestly incorrect." However the point being made by Andersen and Cavanagh, if not the magnitude, is somewhat

(Lascelles. 2006); its negative impact on labour standards, developing countries and their national sovereignity (Vernon. 1971; Elliot and Freeman. 2003); its effective undermining of countervailing institutions of social solidarity (Pieper and Taylor. 1998); and so on.

This is a lengthy chargesheet, and of course these criticisms are as much about the market and globalisation as about corporations, with critics seeing corporations as both the agents and the beneficiaries of the market/globalisation. In the contemporary world the two issues (corporations and globalisation) are intertwined. And there are many who regard the criticisms as unwarranted. Bhagwati provides a number of counter-arguments including that it is not the size of corporations which counts but whether there is effective competition and thereby constraints on corporate monopoly power. Weak countries can also play off one corporation against another, such as when Poland chose between Airbus and Boeing. (2004: 166) He also points out that some NGOs "seem to accuse multinationals of neglect, rather than intervention …" (169).[19] Bhagwati argues that multinationals "…bring much good to the workers they employ and to the poor nations they happen to invest in" and that if they adopt social responsibility "… they will *enhance* the social good that their economic activities promote"(190-1). It is supportive of the argument that we are going through a period of renegotiation of the corporate role that Bhagwati, who conceptually is close to Friedmanesque market fundamentalism, cannot simply dismiss CSR. Instead he argues that it must rest on a foundation of "altruism … what corporations *should* do [and] regulation … what corporations *should not* do" (191) and should rest on three complementary approaches – "…one of social-norming codes, another of a multiplicity of voluntary codes, and a third of diverse mandatory national codes… Multinationals, unfairly accused of predation, can embrace these approaches … to emerge even more effectively in the global economy and society as institutions that truly advance the economic and social good in the countries they invest in." (195)

A similar engagement with the issues, especially since the end of the Cold War, is also emerging from those with historically anti-market instincts. John Ralston Saul has argued that one should not seek in the market, which he sees as simply a mechanism, ethical qualities it simply does not possess. "However, properly regulated it is the most effective

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confirmed when de Grauwe and Camerman compare value added and conclude that "Wall Mart (sic), the biggest company measured by value added, is bigger than Pakistan, Peru and Algeria; Exxon is bigger than the Czech Republic, New Zealand, and many other small countries" (de Grauwe & Camerman. 2003: 28) and that only thirty-seven (not 51) multinationals appeared in the one hundred biggest economies in the world.

[19] Arguably this is a distinction between NGOs which adopt a social market and those which adopt and anti-market approach.

way to conduct business." (1997: 138) And Brazilian economist and social activist, Francisco Weffort, has argued, reluctantly, that "socialists must learn to live with the most advanced forms of capitalism... but they need not be identified, in their values or their movements, with the 'soul' of capitalism. Socialists should marry democracy out of love, but their union with the market need be no more than a 'marriage of convenience'." (cited in Castaneda. 1994: 432). But there are also more enthusiastic market sceptics, who now point less to the failing of the market in general than to "…today's particular model of capitalism", arguing that "like it or not … capitalism is now the only economic game in town" and that "the adaptability and inherent strengths of market-base, for-profit economic systems have proved themselves time after time…" (Porritt. 2005: xiv).

In short, one reason, or perhaps it is better seen as a favourable context, why there is increasing uptake of CR is that the relationship between business and society is being renegotiated and both market fundamentalists and anti-marketeers are being intellectually squeezed and their positions becoming less tenable.

Context and drivers of corporate responsibility

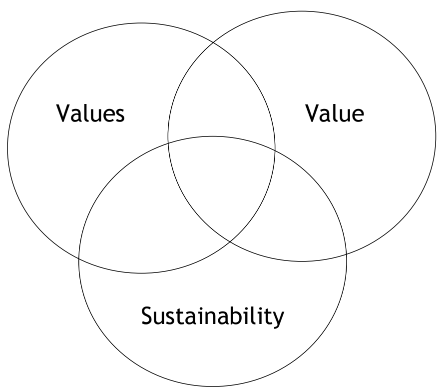
Paine describes the changing approach of business as a 'value shift'. Indeed the sub-title of her recent book is 'Why companies must merge social and financial imperatives to achieve superior performance'. She disagrees with both the 'ethics costs' and the 'ethics pays' approaches to CR. Instead she sees a partial overlap between corporate 'ethical commitment' and corporate 'economic advantage'. (Paine. 2003: 60-7).

I would use a similar, but slightly more complicated model and one which differs from Paine in two respects. Firstly, I would bring in the sustainability dimension, arguing that there are real resource pressures and ecosystem/biosphere factors which both constrain and open up opportunities for companies. Secondly, I would avoid the ethical terminology used by Paine in an attempt to reduce the normative dimension of her argument and her association of what are in reality very specific CR initiatives with 'ethics'. Rather I would conceive of there being a domain of values – socially acceptable practices which may or may not be captured in legislation.

The result is a three dimensional Venn diagram which conceives of there being some (but by no means total) overlap between societal <u>Values</u>, corporate economic pursuit of <u>Value</u>, and Sustainability considerations. This is illustrated in the chart below. The degree of overlap between each of these dimensions is context specific – and differs by time, place, industry and so on.

This is in many respects similar to the approach of Robinson and Tinker who write about three overlapping systems – the biosphere where "the ecological imperative is to remain within planetary biophysical carrying capacity"; the economy where the "imperative is to ensure and maintain adequate material standards of living for all people"; the social system where the imperative is "to provide social structures, including systems of governance, that effectively propagate and sustain the values that people wish to live by." (Robinson and Tinker. 1997: 77)

Chart 2.1 Three interlinking domains



Paine also analyses the conditions in which CR is most likely to be found when she argues that 'the financial case for values is likely to be most robust when…':

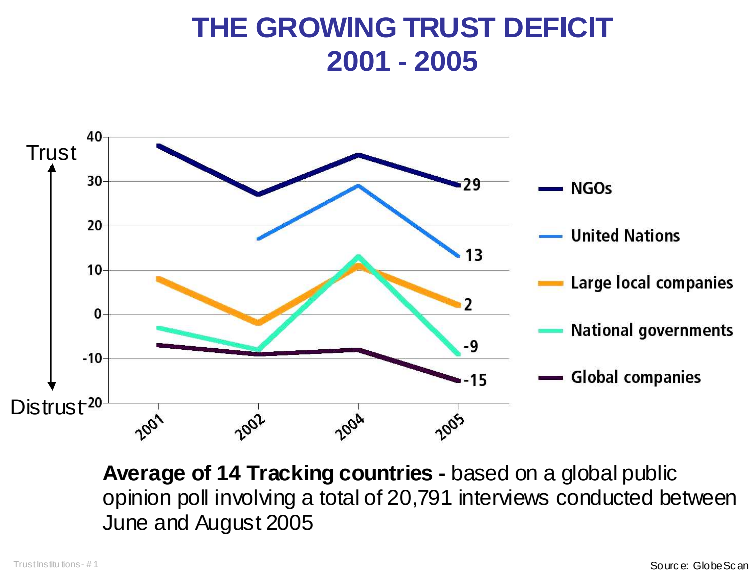
- 'information is free-flowing', and 'authority is decentralized and widely dispersed';
- 'members of the society have economic freedom' and are educated and well-informed about their choices of consumption, employment and investment;
- society expects companies to behave ethically, and has 'effective legal and regulatory systems[s] to enforce basic ethical norms'. (Paine. 2003: 76)

One purpose of this study will be to test this analysis of where (in which countries) CR is most likely to be found in relation to emerging markets. Paine's approach looks at the enabling context. Another, not unrelated, way of analysing the growth of CR is to see it as being driven by a range of pressures, to which CR is a response.

Drawing on a range of sources one can identify eight inter-related pressures which may be relevant.

a) Declining Trust

One factor appears to be the already-mentioned renegotiation of the relationship between corporations and society, and the perceived need of corporations to renew their 'license to operate'. Tomorrow's Company's Mark Goyder invites us to "think of the company as occupying a bounded space. The boundaries for its actions are set, not simply by laws and regulations, but by the combined attitudes of all those people with whom it has contact. If the company communicates its purpose and its values and increases trust in all its relationships, its room for manoeuvre grows. If it disregards the feelings of its stakeholders, its freedom of action is reduced." By how it operates and by how inclusive and integrated its practices are, it retains its license to operate. (Goyder. 2003: 6-7)



Another way of looking at this is to see the problem as stemming from a 'decline in trust' in corporations, and this can be regarded as a key driver of CR. This declining trust is evident from a number of surveys, the most frequently cited being those produced by the World Economic Forum (WEF) – see chart alongside. UNI General-Secretary, Michael Jennings, speaking in 2006 to the WEF cited a number of reasons for declining trust including increasing concentration of corporate power and influence; CEO pay and executive enrichment; weak corporate governance, with a focus on shareholders above all and corrupt practices from Enron to Tyco; and breach of fair labour standards.[20] Arguably it is only the very largest corporations that would have the resources and the social impact to attempt to address

[20] See UNI website - http://www.union-network.org/UNIsite/In_Depth/In_Depth.html

declining trust directly, but awareness of declining trust may impact on the outlook of a great many more. ‘Declining trust’ correlates most closely with the societal values dimension in Chart 2.1.

What about other factors? Vogel, in an important new work surveying much of the developed country evidence, argues that there are three key potential pressures driving companies to act more ‘responsibly’ – from consumers, from workers, and from investors. (2005b: 46). These are direct corporate stakeholders, each with a financial/market relationship with the company.

b) <u>Consumer pressures</u>

Vogel cites a number of consumer surveys which consistently show that significant numbers of consumers, when asked, state that they wish to avoid companies which behave ‘badly’ and that they are prepared to pay a premium for the products of ‘responsible’ companies (2005b: 47-8). Vogel also shows that such surveys may suffer from the so-called ‘halo effect’ as there is a gap between stated intention and action. At its most extreme, he cites a 2004 European study which found that “while 75 percent of consumers indicated that they are ready to modify their purchasing decisions because of social or environmental criteria, only 3 percent had actually done so” (48). Some niche firms which “make or sell relatively high-priced goods” have successfully linked their brand and their success to responsible behaviour, “but no ethical brand has more than a small market share” (50). Consumer boycotts have had some impact and certainly companies are concerned about negative impacts on their reputation. But, as Vogel points out, this often leads firms to keep their heads down and avoid bad publicity. “There is substantial evidence that cause-related marketing, like corporate philanthropy, can enhance a company’s reputation for CSR, even though it does not require any substantive changes in corporate policies.” (56) In short, consumer pressure is a factor, especially for some companies, but in general to a lesser extent than imagined.

c) <u>Employee or human resource pressures</u>

Looking at the literature on employee pressures, Vogel reaches a similar conclusion. He cites numerous examples which suggest “… that having a strong social commitment can help attract, retain, and motivate employees” and there is certainly a great deal of anecdotal evidence from major firms to this effect (2005b: 56-8). However, he also cites evidence from Enron indicating that it "…was highly attractive to MBAs, who were drawn to it not only by the potential financial rewards but also by its highly competitive, free-wheeling, and risk-oriented culture" (59). In short, says Vogel, "there are many ways of making a firm a desirable place to work; having a strong reputation for CSR is only one of them … Still, there is a subset of firms and employees for whom CSR has become more important" (59-60).

Referring again to Chart 2.1, both consumer and employee pressures tend to occupy the intersect between values and value – in that they provide opportunities for companies to enhance their value by engaging with particular values.

d) <u>Investor pressure and economic considerations</u>

The issue of investor pressure is more complex because contradictory pressures emerge from the financial markets themselves. Vogel cites a 2004 survey of companies conducted by AccountAbility – in which a majority of respondents felt that 'responsible business practices can be a significant competitive advantage for us', and a similar percentage also agreed that 'short-term financial targets' were the biggest constraint on implementing 'responsible' practices (2005b: 71). Vogel argues (61) that there are three ways in which investors might encourage 'responsible' corporate behaviour:

- if demand for shares in 'responsible' companies raises their share price and thereby lowers their cost of capital.
- if the overall size of SRI funds becomes large enough to "… encourage companies to change their policies in order to make their shares eligible for purchase by this pool of capital" (61).
- if the engagement activities of SRI funds, through communication with management or through proxy voting, affects corporate practice.

Vogel correctly points to the limited size of the socially responsible investment (SRI) funds, and also to the difficulties of estimating these[21]. He cites some anecdotal evidence from

[21] There has been a growing interest in recent years in socially responsible investment (SRI). This is mainly applied to equity investments, although there have been some recent moves to include both property and even hedge fund investments within the SRI ambit. SRI remains a relatively small part of total equity investment. But assessing what proportion of the total $30 to $50 trillion invested in equities globally is SRI-related is not a useful exercise. Research commissioned in 2004 by a leading European bank indicated that socially-responsible assets under management in Europe are expected to nearly double from €93bn to €173bn by 2008 (*Financial Times*, 12 October 2005). But much depends on the definition of SRI. If it is regarded as any investment that takes environmental, social and governance issues into account then the figure is substantially higher – investors now

SRI index providers (such as the FTSE4Good index) that companies have adapted their policies to be included on such indices (2005b: 64). And he mentions efforts to mainstream SRI, such as moves by the Association of British Insurers (ABI), whose members control about one-quarter of UK equities, insisting that companies actively manage their social, environmental and ethical risks and opportunities (66-7). However, he correctly concludes that "CSR investors are price takers, not price makers" and that their influence is still limited (62).

Vogel concludes that there is remarkably little evidence for the consumer, employee and investor drivers amounting to a strong business case for responsible corporate practice. "…The social and environmental practices of the vast majority of companies have not had any demonstrated effect on their sales. Nor have their responses to civil regulation affected their ability to hire and retain motivated and competent employees. Most critically, remarkably few firms have been rewarded or punished by the financial markets for their social performance." (2005b: 73)

And yet, Vogel says, "…even if the bottom-line costs and benefits of CSR are difficult to measure and are rarely material to investors, *many firms act as if CSR matters*." (73 emphasis in the original) His conclusion is that there are two overlapping categories of firms for whom responsible practice does make business sense:

- those for whom it is part of their corporate identity and business strategy, and a differentiating practice to attract and retain customers and employees – Ben & Jerry's and the Body Shop, but also Marks & Spencer and Starbucks are examples which come to mind.
- those with high brand visibility who are risk averse, and who embrace CSR for defensive reasons, "not so much to distinguish themselves from their competitors, but to *avoid* becoming distinguished" (73) – Shell, McDonalds, and Nike are examples he cites.

However one senses that Vogel is perhaps underestimating the direction of change and focusing excessively on SRI funds rather than exploring deeper changes happening within

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include governance considerations in a large number of investment decisions and they certainly take into account whether a company has legacy liabilities (such as in the asbestos industry) and the implications of regulatory obligations. For example, investors managing assets totaling $21 trillion have jointly written, under the auspices of the Carbon Disclosure Project (CDP), to the largest 500 global companies and asked that they provide information on their greenhouse gas emissions and the steps they are taking to reduce these. It is unclear what these investors do with this information – some use it in their investment decisions but most probably see it as sending a message to corporations about the management of environmental risk." (author's personal knowledge) mainstream investment. Vogel cites a 2003 World Economic Forum survey which found that 79% of CEOs and CFOs expected "increased interest in environmental, social and governance (ESG) issues by mainstream investors in the future" but Vogel emphasises that they added that "this has not yet occurred." (67) Arguably, however, both companies and investors are taking substantially greater account than previously of what are sometimes called extra-financial or SEE or ESG risks. Three trends can be mentioned – the incorporation of sustainability and SEE factors into mainstream corporate valuation[22]; the

[22] The sustainability of a company's products can play a key role in longer-term earnings. Investors are starting to recognize, for example, that auto companies have taken different approaches to the issue of climate change and that this impacts on their longer-term valuation. This helps explain why some mainstream investors have started to reward Toyota for its commitment to a range of hybrid fuel technologies and punish the share prices of some of its competitors (see for example Merrill Lynch. 2005). Another example is a study by WestLB (2005: 3) which states that 'non-financial factors are becoming ever more important to equity markets.' This stems from growing recognition that the corporate manager, especially one running a company with a high proportion of intangible assets, needs to balance the demands for short-term returns with the need to create longer-term value – and that to do this requires paying attention to human resources, product or service shortcomings, supply chain management, ethical standards and so on. Arguably we are seeing in the SEE area what has happened already in relation to corporate governance, where a number of studies, unrelated to SRI, have indicated that 'good' corporate governance is associated with enhanced value over the long term (Grandmont *et al*. 2004: 10; Cornelius. 2004: 12). For example, a Deutsche Bank study looking at both the S&P500 and the FTSE350 found that '…investments in companies with the highest quality of governance structures and behavior have significantly outperformed those with the weakest governance' (Grandmont *et al* 2004: 10). Cornelius (2004: 12) cites a 2002 McKinsey survey of 200 institutional investors which found that '… well over 70 percent of the respondents in each region were willing to pay more for a well-governed company, all other things being equal.'

growing importance of institutional investors[23]; and the associated challenge to short-termist interpretations of fiduciary duty[24].

Vogel, therefore, probably underestimates the business pressures on companies. The KPMG study referred to earlier asked G250 companies what the drivers for increased reporting were, and found that ***three-quarters (74%) cited economic considerations*** with some also specifically mentioning risk management (47%), access to capital or increased shareholder value (39%), reputation/brand (27%), and cost saving (9%). Findings like these need to be taken seriously. (KPMG. 2005)

Three other categories of stakeholders, not explored by Vogel, such as business partners, NGOs and regulatory authorities, as well as the peer pressure effects of a range of self-regulatory initiatives, may also be drivers of the increasing take-up of corporate responsibility.

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[23] There has been a growth in institutional investment globally. Boehmer *et al* (2005: 1) cite statistics from the Securities Industry Association, a proxy of institutional investment, indicating that the percentage of U.S. equities held by members of the Association rose from 16% in 1965 to 61% in 2001. This trend, if not always to the same extent, is occurring in all developed economies. According to a report produced in October 2005 for the United Nations Environment Programme Finance Initiative (UNEP-FI) by Freshfields Bruckhaus Deringer, 'the current value of assets managed by the investment industry worldwide is estimated at over US$42 trillion. Pension fund investments in the US and the UK alone total around US$7.4 trillion, while assets under management in the global mutual fund industry stood at $14 trillion at the end of 2003.' (Freshfields *et al*. 2005: 6) In short, institutional investors – such as pension funds and related savings or insurance schemes – are becoming increasingly important.

Institutional shareholders are, in reality, investing the pensions and savings of large numbers of ordinary citizens – the ultimate owners. They need to ensure sustained returns to meet their long-term obligations. They have a fiduciary responsibility, often via trustees, to pursue the best interests of their clients. They will often minimise risk by investing in a broad range of stocks, or in index-linking their investments. The rise of institutional investment has thrown up a number of challenges to traditional concepts of shareholder return. For example 'universal owner' theory argues that as they hold a broad selection of companies and assets their performance is effectively tied to the performance of the whole economy, and this gives them long-term interests and makes them interested in the health of the economy as a whole. 'Universal owners' will be concerned where one company or sector acts in ways which could be negative for the rest of the economy as a whole, and they may view externalising practices less tolerantly than individual investors with shares in only a few companies. (Hawley & Williams. 2000).

[24] Institutional investors, and trustees, have long understood that their fiduciary responsibility required them to take a narrow view of the need to maximize returns. In practice the notion of fiduciary responsibility has been used to discourage investors or trustees from taking into account, for example, environmental and social concerns – concerns which are only likely to be material when adopting the longer time horizon of, for example, a pension fund. A major study of the issue (Freshfields *et al*. 2005), examined the situation in both common law and civil law jurisdictions and found both had similar requirements to act prudently and loyally (in accordance with the purpose for which the powers were granted). The report's primary author concludes that "institutional investors who hide behind profit maximisation and the limits supposedly placed by their legal duties do so at their own peril. There is no legal bar to the integration of [environmental, social and governance] considerations into decision making (provided the focus is always on the beneficiaries' best interests), and indeed failure to have regard for such considerations may itself amount to a breach of duty."

e) <u>Business partners</u>

There are indications that a variety of pressures are exerted on suppliers of large corporations to meet environmental and social standards (Impactt. 2005). This ranges from multinational corporations influencing their emerging market subsidiaries to incorporate or report on sustainability issues (for example British American Tobacco, many of whose subsidiaries in emerging markets actively report on their SEE impacts); to large global companies, especially in the consumer-goods sector, requiring improved corporate responsibility practices from their suppliers (for example Adidas); to similar pressures from joint venture partners (such as joint ventures in the extractive industry involving global oil majors and national petroleum partners).

The supply chain management systems of major consumer products companies (especially in clothing, footwear, textiles and food products) often include a requirement that supplier companies in developing countries meet a range of environmental and social standards.

The effect is that one of the drivers of corporate responsibility, perhaps especially significant in emerging markets, is external pressure. The evidence from emerging markets themselves is limited but suggestive. An opinion survey of 265 Czech businesses published in early 2004, found a substantial 64% claiming familiarity with the concept of CSR. In general, companies which were foreign-owned or which were larger were more acquainted with the CSR concept. (Trnková. 2004: 13) When asked why, a small but significant 19% answered that ‘our mother company (foreign partner) requires us to do it’. According to a study of companies across Eastern Europe, conducted by the East-West Management Institute (EWMI), foreign ownership (either of a strategic investor or though investment funds) is a key driver influencing a company's disclosure policies and practices. A September 2004 survey by ACCA Malaysia looked at all the listed companies on the Bursa Malaysia. It found an increase, compared to a previous survey, in the number of companies reporting on social and environmental performance. A secondary, but significant driver of this was held to be creating business partnerships. (ACCA. 2004)

f) NGOs

NGOs have been particularly effective in campaigning against particular companies and putting their practices under the spotlight. There are numerous examples of this, including Rainforest Action Network's campaigns against major financial institutions, which has led to a number (most recently JP Morgan) revising their forestry investment policies substantially[25]; campaigns against Shell's impact in the Niger delta[26]; or the oil industry's in the BTC pipeline across central Asia[27]. In short, there has been growing pressure on companies from civil society with regard to their behaviour, environmental impacts, honesty and business practices, product standards and so on, alongside the emergence of increasingly sophisticated and effective local and international NGOs.

Such campaigns are often associated with vocal consumer groups and consumer pressures (such as the boycott Coca Cola or Nestle boycott campaigns), although, as Vogel has noted (2005b: 48), these are generally more damaging to corporate reputation and long-term brand value than to immediate sales.[28] In the internet era, information on corporate activities is easily obtained and distributed and NGO activities are symptomatic of a wider pressure on companies – that of being in the public spotlight.

g) Regulation

There has long been regulation requiring companies to meet laid down standards on a range of issues such environmental emissions, labour standards, occupational health and safety and so on. These have invariably applied within specific national jurisdictions.

[25] In 2005 JP Morgan Chase agreed, among other things to convene a financial industry coalition to push the US government for a national global warming policy; to add carbon disclosure and mitigation to its regular client review process, asking borrowers to report their climate impacts as a potential liability; to initiate "no-go zone" restrictions in lending criteria for areas with high ecological values, where they will finance only preservation/nonextractive projects; and to support the rights of all indigenous peoples and require full consultation with communities before projects are approved. The Wall Street Journal noted that "a shift in tactics by the environmental movement is paying off. Green groups have largely failed in efforts to lobby the Bush administration on oil drilling and other issues. So they are pressuring corporations directly, hoping to counter to business activity that could harm the environment." (Rainforest Action Network website. www.ran.org, visited August 25, 2006.)

[26] see www.essentialaction.org/shell/NigerianGroups.html

[27] see www.bakuceyhan.org.uk

[28] Brand value is often extremely large. Interbrand, for example, estimated Coca Cola's brand value in 2006 to be $67 billion, making it the world's leading brand by value. This is over two-thirds the company's total market value of just under $100 billion. See *Business Week*, August 1 2005 for valuation assessments of Top 100 global brands.

Various corporate scandals have prompted regulators to make explicit provision for more extensive reporting, especially of governance and business ethical issues. Improved accounting standards have often been accompanied by explicit provisions regarding the need to account for all material factors including social and environmental. For example, the European Modernisation directive 78/660/EEC requires corporate annual reports from 2005 to include a description of risks and uncertainties including non-financial key indicators relevant to the business. It does not specify the indicators but says these are expected to include environmental and employee matters. This directive has not always been translated into national law but it has placed pressure on companies. There are also a range of specific regulations about previously unregulated issues which have emerged in recent years – such as the Foreign Corrupt Practices Act and similar anti-bribery legislation covering most OECD countries.

ABI Guidelines

1. Has the company made any reference to social, environmental and ethical matters? If so, does the board take these regularly into account?
2. Has the company identified and assessed significant risks and opportunities affecting its long and short-term value arising from its handling of SEE matters?
3. Does the company state that it has adequate information for identification and assessment?
4. Are systems in place to manage the SEE risks?
5. Are any remuneration incentives relating to the handling of SEE risks included in risk management systems?
6. Does Directors' training include SEE matters?
7. Does the company disclose significant short and long-term risks and opportunities arising from SEE issues? If so, how many different risks/opportunities are identified?
8. Are policies for managing risks to the company's value described?
9. Are procedures for managing risk described? If not, are reasons for non-disclosure given?
10. Does the Company report on the extent of its compliance with its policies and procedures?
11. Are verification procedures described?

There have also been lighter forms of regulation – sometimes called soft regulation (Sisson & Marginson. 2001). In 2001 the Association of British Insurers (ABI), published a set of guidelines calling on companies to report their social, environmental and Ethical (SEE) risk – see box for guidelines. Whilst not a legal requirement the standing of the ABI has encouraged compliance – an unpublished end of 2004 review stated that "as in previous years, significant improvements were witnessed in the quality of company disclosure across the board. This can be seen from the number of companies with at least a moderate level of disclosure rising by 10% to 44% of the FTSE All share." The figures are 80% for the largest companies (those on the FTSE 100).[29] Another example concerns companies listing on the London Stock Exchange. They are expected to include an evaluation of SEE risk within their IPO documentation.[30]

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[29] Various documents and statistics in the author's possession. For public information see ABI website (www.abi.org.uk) and the publication *Risks, returns and responsibility* (ABI. 2004).

[30] A few Asia-Pacific countries have regulations which encourage corporate reporting directly or indirectly. These include Australia's Financial Services Reform Act which came into operation in 2002 and required investment fund managers to report "the extent to which labor standards or environmental, social or ethical considerations are taken into account in the selection, retention or realization" of investments. Japan has regulations requiring certain companies to publish an

Finally, there are a range of self-regulatory initiatives which amount to peer pressure between major global companies to improve their corporate responsibility. Examples of such initiatives include the Equator Principles (requiring project finance institutions to conduct social and environmental impact assessments before approving major loans), the Ethical Trading Initiative (setting a range of labour standards for supply chains which signatories agree to apply), the Extractive Industries Transparency Initiative (encouraging companies and host governments to disclose the financial transactions between them, with the aim of discouraging corruption and misspending), and the more aspirational, but poorly monitored, Global Compact (with its ten principles committing to environmental, labour, human rights and anti-corruption policies).

In short, regulation, soft regulation and self-regulation have been factors in requiring and encouraging corporations to take SEE issues into account. These are generally an attempt to impose societal values on corporate behaviour through compulsory, semi-compulsory and voluntary measures – measures which are justified by reference to norms and standards that are not always in harmony with business case arguments.

h) Sustainability pressures

A combination of factors including growing resource shortages (such as energy or water), resource depletion and irreparable eco-system damage, and growing awareness of the interconnection between corporate performance and societal conditions, have led many companies to revisit their practices. The case of Coca Cola in India is instructive. The company's bottling plants require large amounts of water and this competes with the water needs of local farmers and growing water shortages in the country. Whilst NGO campaigns and lack of trust in foreign companies have been contributing factors, at root there are real issues of limited resources, and these interact with social conditions. (*The Guardian* July 25, 2003).

Scarcity of resources (such as energy and water), combined with regulations which bring in 'polluter pays' principles, and growing public awareness of sustainability problems, have placed pressure on companies to manage such issues. There are also cost-saving possibilities for companies where input use can be reduced or other eco-efficiency gains

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environmental report annually and the government provides guidelines on what to report (www.env.go.jp), but this does not cover social or labour considerations.

achieved, and opportunities to create new products and services (such as carbon trading or new energy technologies). Other companies have explored what CK Prahalad has called 'the fortune at the bottom of the pyramid' and begun exploring new products for the world's poorer 4 billion inhabitants, or new ways of managing their value chain (Prahalad. 2005).

The Table below summarises these eight inter-related pressures on corporations to engage with the corporate responsibility concept. A point made earlier needs to be reiterated – that these pressures affect different companies in different ways and are context specific.

Table 2.2 Eight corporate responsibility pressures faced by companies

Pressure point	*Transmission mechanism*	*Impact on corporate value*
Declining trust	makes regulation more likely; increases ability of civil society to 'hurt' corporations; encourages defensive self-regulation	Important in setting the long-term 'rules of the game'
Consumers	consumers withdrawing their custom or switching to other companies and products	Occasionally important, but generally not yet very significant in practice for most companies
Employee and human resources	skilled employees avoiding companies with negative image or practice	Important for some companies, but not generally a major pressure
Investor / economic considerations	investors with longer-term interests encouraging long-term approaches to maximizing value	Growing in importance but impact still relatively limited
Business partners	Larger corporations imposing requirements on suppliers & business partners to meet specified standards	Important for supplier companies whose clients have significant CR requirements
NGOs and civil society	campaigns threatening damage to brand value or raising the costs of doing business	Can be very significant for specific companies
Regulation and self-regulation	rise in 'responsibility' regulation (especially ecological) even in wider context of de-regulation; peer pressure to meet standards	Depends on the details of the regulation. Can be very demanding for some companies
Sustainability	resource scarcity encouraging eco-efficiency and rethink of future product design and resource input assumptions	Major for companies in energy-intensive and consumer goods sectors

Summary

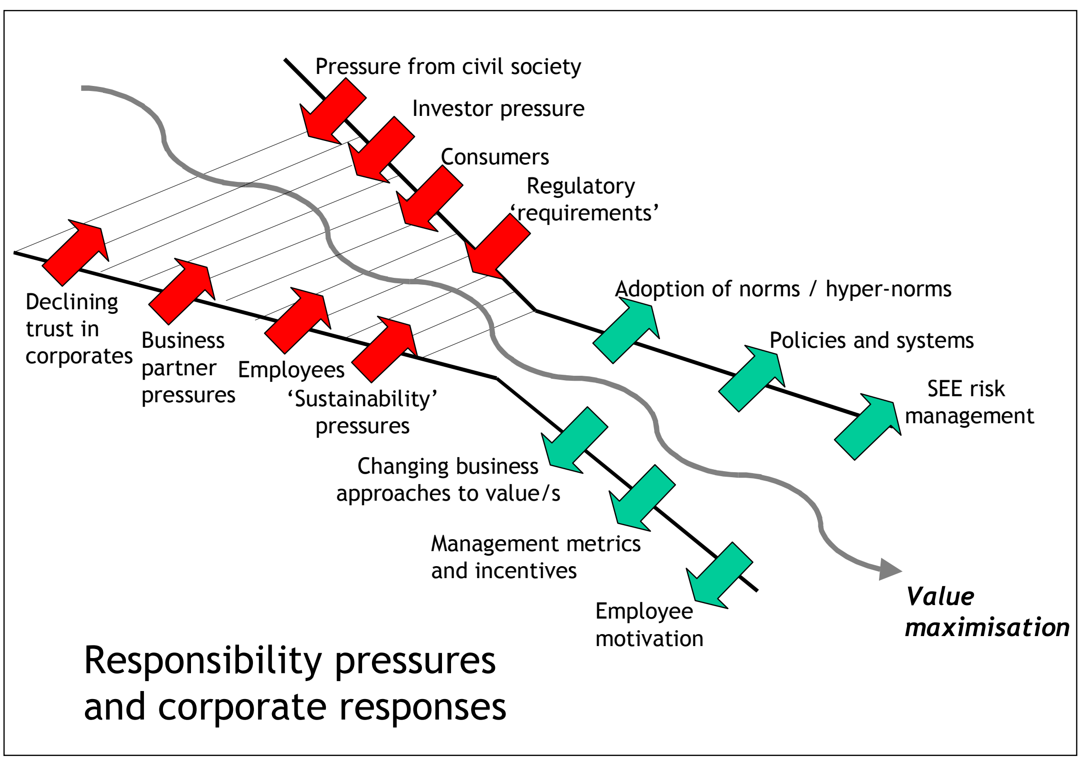
To summarise the approach adopted so far in this chapter:

- Corporations primarily aim, as a matter of fact, to maximise value and returns to shareholders;
- This aim is frequently incompatible with broader societal goals and normative expectations of what corporate purpose should be, and how it should accommodate non-investor stakeholders;

- Society is currently in a phase where the relationship between business and society is being 'renegotiated';
- There are tensions, but also elements of common ground, between the corporate drive to maximize value, societal expectations regarding ethics and values, and the biophysical constraints of sustainable practice;
- The aim of maximizing value is under pressure in eight broad respects, and these pressures are constraining corporations and driving them to engage with the corporate responsibility concept – with SEE issues and with the 'contract' between business and society; and
- The adoption of various CR approaches is an attempt to widen corporate scope for action to enable more effective focus on maximizing corporate value.

The pressures/drivers can be seen as narrowing the freedom and ability to continue 'business as usual'. The corporate responses are attempt to widen that freedom in new ways. The chart below illustrates this.

Chart 2.2 Responsibility pressures and corporate responses



3) The state of corporate responsibility in emerging markets

This chapter presents and analyses original data comparing corporate responsibility (CR) in emerging markets with that in developed countries.

It begins by analysing three generic indicators:

- the composition of the Dow Jones Sustainability Index (DJSI) by country of corporate headquarters;
- a similar analysis of Global Reporting Initiative (GRI) reporters; and
- the levels and trends of ISO14001 certification.

These are meaningful indicators of leading practice drawn from the fields of socially-responsible investment (SRI), corporate reporting benchmarking, and environmental management systems best practice, respectively. They are indicators of what I will call the 'corporate responsibility climate'.

The chapter will then examine empirical research undertaken in 2005 into 127 emerging market companies (companies based in emerging markets and not transnational subsidiaries located there), and compare this with available research into a larger sample of comparable developed economy companies.

A major purpose of this chapter is to test the hypothesis that corporate take-up of SEE issues is not substantially lower in emerging markets than in developed markets

Generic indicators of corporate responsibility climate

What do three generic indicators reveal about the relative take-up of corporate responsibility by firms in emerging and developed markets?

For the purpose of these indicators the standard international country income classifications are used (see for example UNDP. 2005: 212). All countries classified as Low or Middle Income countries are regarded as emerging market economies. These are countries with a 2003 Gross National Income (GNI) per capita of less than $9386. The Table below, taken from the 2005 Human Development Report, indicates which countries fall into which categories (UNDP. 2005: 364).

Table 3.1 – Countries by income category

High income (GNI per capita of $9,386 or more in 2003)	Middle income (GNI per capita of $766–9,385 in 2003)		Low income (GNI per capita of $765 or less in 2003)	
Andorra	Albania	Maldives	Afghanistan	Sudan
Australia	Algeria	Marshall Islands	Angola	Tajikistan
Austria	Antigua and Barbuda	Mauritius	Bangladesh	Tanzania, U. Rep. of
Bahamas	Argentina	Mexico	Benin	Timor-Leste
Bahrain	Armenia	Micronesia, Fed. Sts.	Bhutan	Togo
Belgium	Azerbaijan	Morocco	Burkina Faso	Uganda
Brunei Darussalam	Barbados	Namibia	Burundi	Uzbekistan
Canada	Belarus	Northern Mariana Islands	Cambodia	Viet Nam
Cyprus	Belize	Occupied Palestinian Territories	Cameroon	Yemen
Denmark	Bolivia	Oman	Central African Republic	Zambia
Finland	Bosnia and Herzegovina	Palau	Chad	Zimbabwe
France	Botswana	Panama	Comoros	(61 countries or areas)
Germany	Brazil	Paraguay	Congo	
Greece	Bulgaria	Peru	Congo, Dem. Rep. of the	
Hong Kong, China (SAR)	Cape Verde	Philippines	Côte d'Ivoire	
Iceland	Chile	Poland	Equatorial Guinea	
Ireland	China	Romania	Eritrea	
Israel	Colombia	Russian Federation	Ethiopia	
Italy	Costa Rica	Saint Kitts and Nevis	Gambia	
Japan	Croatia	Saint Lucia	Ghana	
Korea, Rep. of	Cuba	Saint Vincent and the Grenadines	Guinea	
Kuwait	Czech Republic	Samoa (Western)	Guinea-Bissau	
Luxembourg	Djibouti	Saudi Arabia	Haiti	
Malta	Dominica	Serbia and Montenegro	India	
Monaco	Dominican Republic	Seychelles	Kenya	
Netherlands	Ecuador	Slovakia	Korea, Dem. Rep.	
New Zealand	Egypt	South Africa	Kyrgyzstan	
Norway	El Salvador	Sri Lanka	Lao People's Dem. Rep.	
Portugal	Estonia	Suriname	Lesotho	
Qatar	Fiji	Swaziland	Liberia	
San Marino	Gabon	Syrian Arab Republic	Madagascar	
Singapore	Georgia	Thailand	Malawi	
Slovenia	Grenada	Tonga	Mali	
Spain	Guatemala	Trinidad and Tobago	Mauritania	
Sweden	Guyana	Tunisia	Moldova, Rep. of	
Switzerland	Honduras	Turkey	Mongolia	
United Arab Emirates	Hungary	Turkmenistan	Mozambique	
United Kingdom	Indonesia	Ukraine	Myanmar	
United States	Iran, Islamic Rep. of	Uruguay	Nepal	
(39 countries or areas)	Iraq	Vanuatu	Nicaragua	
	Jamaica	Venezuela	Niger	
	Jordan	(91 countries or areas)	Nigeria	
	Kazakhstan		Pakistan	
	Kiribati		Papua New Guinea	
	Latvia		Rwanda	
	Lebanon		São Tomé and Principe	
	Libyan Arab Jamahiriya		Senegal	
	Lithuania		Sierra Leone	
	Macedonia, TFYR		Solomon Islands	
	Malaysia		Somalia	

a World Bank classification (effective 1 July 2004) based on gross national income (GNI) per capita. Excludes Nauru and Tuvalu because of lack of data.

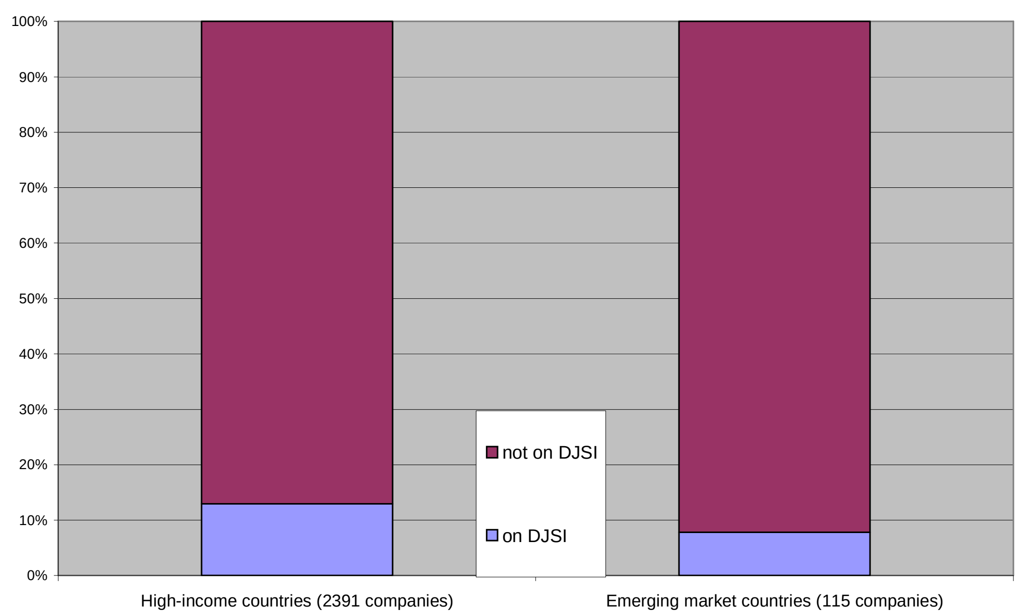
DJSI

The Dow Jones Sustainability Index regularly analyses each of the approximately 2,500 companies on the Dow Jones World Index. Using a relatively demanding sector-based methodology, it identifies the most sustainable companies on a range of environmental, social and management/strategic criteria. The approximately 10% of companies assessed as most sustainable are included on the DJSI. In short it is a 'best-in-sector' measure comparing the largest global companies in all major sectors.[31]

An analysis of the index in 2005 showed that, while 4.6% of the eligible companies (those on the DJ World Index) are from emerging markets, a small but still significant 2.8% of the 318 companies which make it onto the DJSI come from emerging markets.

Put another way, and as Chart 3.1 indicates, 309 (or 12.9%) of the companies listed in high-income countries make it onto the DJSI, compared to a respectable 7.8% of emerging market companies. This suggests a smaller gap than might be expected between emerging market and developed market companies, a gap which would be smaller still if adjusted to take company size into account. Not only are some emerging market companies taking an active interest in corporate responsibility/sustainability, but a number (especially in South Africa and Brazil) are among the global leaders.

Chart 3.1 – Percentage companies on DJSI by country category



Source: Sustainable Asset Management website. www.sustainability-index.com . 2005.

GRI reporters

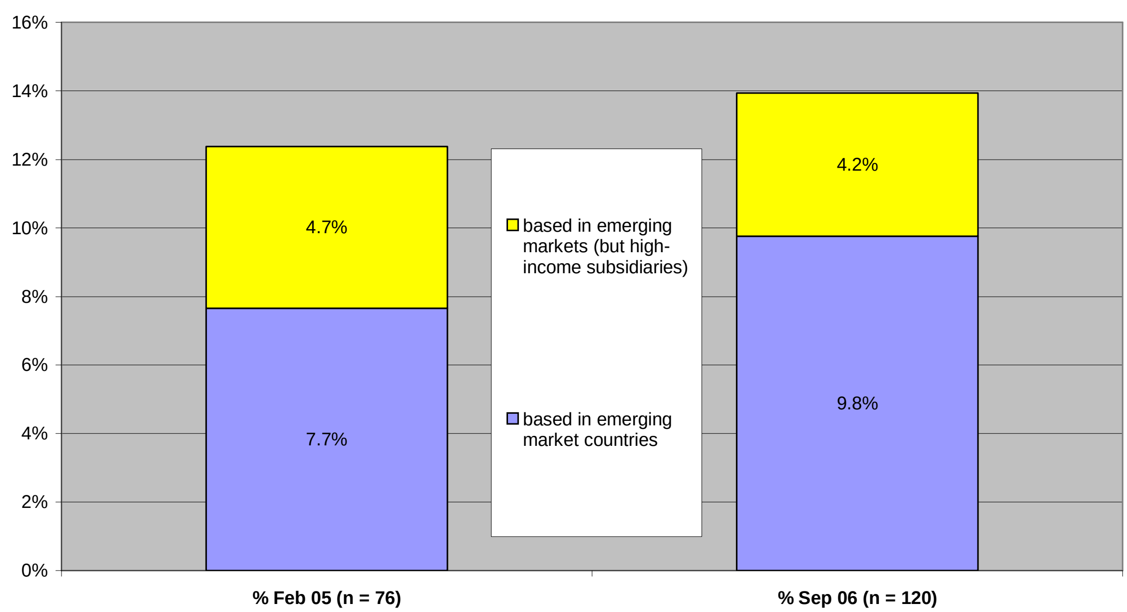
The Global Reporting Initiative (GRI) asks reporting organisations (mainly companies) to register with it when they use GRI indicators in their reporting. Whilst there is no auditing

[31] see www.sustainability-index.com for details of the methodology.

of compliance, it is a useful measure of companies which are engaged with best practice global reporting standards and tends to include leaders in corporate responsibility.[32]

The GRI's database of reporters (www.globalreporting.org/reportsDatabase) was analysed in February 2005 and again in September 2006. All reporters which were not companies – universities, public agencies and non-profits – were excluded from the analysis. Companies were then classified according to whether they were in emerging markets or high income countries, and those in emerging markets were further classified into whether they were subisidiaries of companies based in high income countries. The results indicated that of the 861 companies registered with GRI in September 2006, a surprisingly high 14% were based in emerging markets (up on 12.4% 18 months previously). As Chart 3.2 indicates, even after subsidiaries or companies closely associated with parent companies in the developed world are removed, 9.8% of GRI companies were based in emerging markets. This is impressive given that major world indices show a much lower percentage of emerging market companies in their universe – 4.6% as we have seen in the case of the Dow Jones World Index.

Chart 3.2 – Percentage GRI reporting companies by country category



Source: GRI website. www.globalreorting.org. Feb 2005 and Sept 2006.

[32] According to the GRI, companies are encouraged to register where they "… have referred to or followed the Sustainability Reporting Guidelines in preparing their sustainability, social, or environmental report". They are not obliged to do so as GRI is a voluntary initiative and "inclusion in the database does not certify the report's conformance to the Guidelines". (www.globalreporting.org)

Table 3.2 – GRI reporters for selected emerging markets

	Sep 2006	Of which high-income subsidiaries[33]
China	4[34]	2
Brazil	19	6
India	9	1
South Africa	28	3
Russia	4	1

Source: GRI reporters database

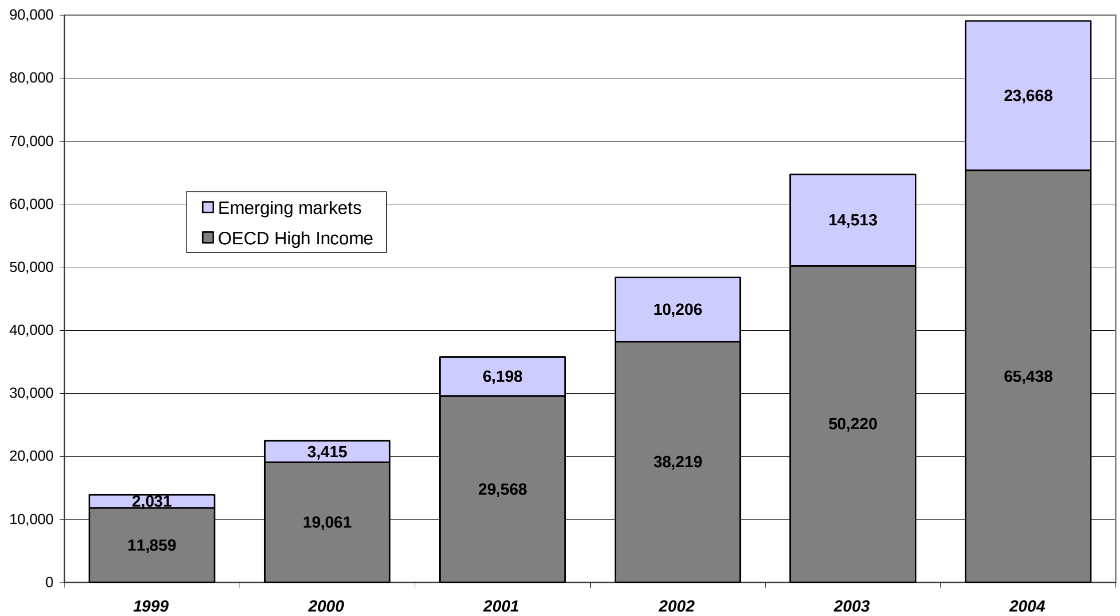
In the five key emerging markets, the so-called BRICS countries, it appears that GRI interest, is most apparent in South Africa, followed by Brazil, and to a lesser extent India. Russia and China show significantly less interest.

ISO 14001

Another generic indicator is ISO 14001, the dominant global standard for environmental management systems. The past six years have seen a significant increase in the uptake of ISO 14001 certifications, especially in emerging markets. Chart 3.3, drawing on another study (Baskin. 2006) shows how certifications in high-income OECD countries have increased almost six-fold over this period, whilst in emerging markets there has been an eleven-fold increase. In part this may be because emerging markets are growing from a lower base. It may also reflect the growing interdependence of the world economy. Many emerging market companies want to have globally-recognised management systems, so they can be global players. They depend on export markets and they know that certified systems enhance their ability to access these. Whatever the reason, involvement with best-practice environmental management is growing rapidly in emerging markets.

[33] Some judgement has been applied in making these classifications although generally self-classification by the companies themselves has been the guiding factor. Companies listed or traded, for example, on the London Stock Exchange, are not treated as high-income subsidiaries, if their assets and origins are in emerging markets. For example Lukoil is treated as Russian and AngloGold Ashanti is treated as South African. But companies linked to Ford or British American Tobacco (for example) are treated as high-income subsidiaries.
[34] Two of these companies are Hong Kong based.

Chart 3.3 - Growth in ISO14001 certifications worldwide



Source: ISO Survey, 2005.

Note: Figures for December of each year. OECD members which are not high income are included under emerging markets

Table 3.3 shows the growth in certification in selected emerging markets. The Chinese figures have grown especially sharply, and have risen since China's State Environmental Protection Agency started promoting ISO in 1996.[35] The figures show that Russian companies are noticeably behind the others, even the much smaller South African economy.

Table 3.3 - ISO 14001 certifications for selected emerging markets

	1999	2000	2001	2002	2003	2004
China	222	510	1,085	2,803	5,064	8,862
Brazil	165	330	350	900	1,008	1,800
India	111	257	400	605	879	1,250
South Africa	82	126	169	264	378	393
Russia	0	3	12	23	48	118

Source: ISO Survey, 2005. Figures for December of each year

[35] The Chinese figures have been qualified by some observers. For example, ASRIA, in a report on SRI in Asian emerging markets, states that "verification of the quality of these standards in China is still an issue." (ASRIA. 2003: 17)

What all these generic indicators show, especially when taken together, is that there is significant, although uneven, emerging market interest in sustainability issues, in improved environmental management, and in reporting on social and environmental aspects of firm performance.

Comparing emerging markets and high-income countries – methodology

Sample selection

A number of leading emerging market companies were analysed to assess their reported social, environmental and ethical policies, systems and practices. The methodology used is presented below, before moving on to presenting the findings.

The study commenced by identifying the universe of potential companies to analyse – those on the FTSE All World (AW) index. In the version used (October 2004) this covered 2,879 companies based in 47 countries/markets.[36] The index was then divided into three categories:

- companies based in the key developed economies of North America (the United States and Canada), Japan, and Western Europe, for which the author had existing data on the reported CR practices of 1,583 out of 1,639 companies (or over 96%) in 17 countries.
- companies in other high-income countries – companies based in Australia, New Zealand, Korea, Singapore, Hong Kong, Taiwan and Israel were ignored for the purposes of this study.
- companies based in emerging markets – the FTSE AW index included 586 companies in 21 emerging markets.

All of the companies on the FTSE AW can be regarded as substantial in size.[37] All are publicly traded companies. This means unlisted private companies were not included. The emerging markets covered in the FTSE AW are essentially those with more substantial economies and with listed firms likely to be of interest to global investors. 'Emerging markets' in this section of the paper means Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Morocco, Mexico, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Thailand and Turkey.

[36] Dual lines of stock and investment trusts were excluded.
[37] For example, 138 UK companies were on the index, the smallest at the time being Matalan with annual sales worth over £1bn and over 17,000 employees.

Time and resources precluded an analysis of the reported CR practices of all 586 emerging market companies. 127 (approximately 22%) were analysed for this study. The emerging market companies were selected using the following rule of thumb – the publicly-listed companies with the largest market capitalization (after investibility weighting) from the FTSE All World index – basically the largest 20% of companies from each country, but not less than 3 and not more than 20 companies from each country. For practical reasons only 2 Russian companies were finally included. Table 3.4 summarises the number of eligible companies and the number analysed, by category – Western Europe, North America, Japan, and Emerging Markets.

Table 3.4 – Number companies per category analysed

Country category	# companies listed on FTSE All World index (B)	# companies dual-listings or investment trusts (C)	Balance (B minus C = D)	# analysed (E)	% analysed (E/D)
Western Europe	493	32	461	455	98.7%
North America	705	7	698	689	98.7%
Japan	480	0	480	439	91.5%
Emerging markets	586	26	560	127	22.7%
Totals	2264	65	2199	1710	79.0%

The emerging market companies were then analysed using a comparable methodology to the high-income country companies for which the author had access to existing data.[38] This involved analysing publicly-available information (such as websites, annual reports, corporate responsibility reports and similar) to assess the quality and extent of reported CR practice across a range of social, environmental and ethical issues.

Chart 3.4 presents a breakdown by economic sector of the emerging market companies analysed and shows that the overwhelming number of emerging market companies analysed come from four sectors – Financials, Resources, Basic Industries and non-cyclical services (basically telecommunications). The balance of companies is different in high-income countries.

[38] Data was kindly made available by the Ethical Investment Research Services (EIRiS). This data, produced for use by around 70 clients in the investment community and for developing the FTSE4Good index, was generated using a defined methodology by analysts based in 9 different countries.

Chart 3.4 – Companies analysed, by economic group

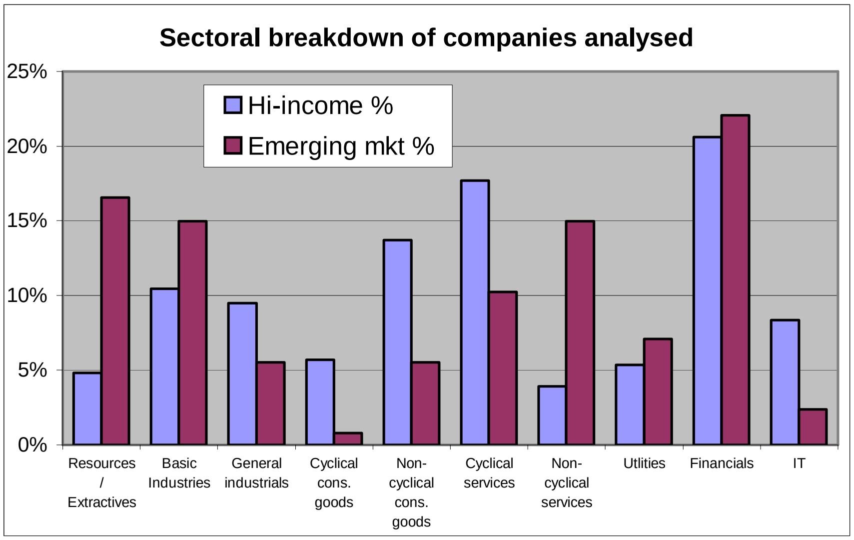


Table 3.5 presents a breakdown by country of the companies analysed.

Table 3.5 – Companies analysed, by country

Emerging market countries	
Morocco	3
Argentina	3
Brazil	11
Chile	5
China	19
Colombia	2
Czech Republic	3
Egypt	3
Hungary	3
India	10
Indonesia	3
Malaysia	12
Mexico	6
Pakistan	3
Peru	3
Philippines	3
Poland	3
Russia	2
South Africa	16
Thailand	9
Turkey	5

High-income countries	
Belgium	16
Denmark	13
Finland	9
France	59
Germany	49
Italy	44
Netherlands	21
Norway	8
Austria	8
Portugal	8
Spain	29
Sweden	24
Switzerland	29
UK	138
Japan	439
Canada	70
USA	619

The sample size and stratification meant that it is not possible to assess whether sectoral bias impacted on the results. However, from the author's experience[39] the sectors which were significantly overrepresented in the emerging market sample included a sector which is generally speaking globally a poor reporter (Telecommunications) and one which is an advanced reporter (Resource and Extractives). Conversely sectors which are underrepresented include IT (regarded as a poor reporter generally) and non-cyclical consumer goods such as food (generally regarded as good). In short, experience suggests that the different sectoral compositions should not be expected to distort the findings substantially.

Criteria measured

The emerging market companies were analysed for whether they had any form of corporate responsibility or sustainability reporting. In addition the emerging market companies were analysed for the extent of their reporting in four categories, each with one or more element:

- Corporate social investment / Philanthropy
- Business ethics
- Environment
- Human Resources

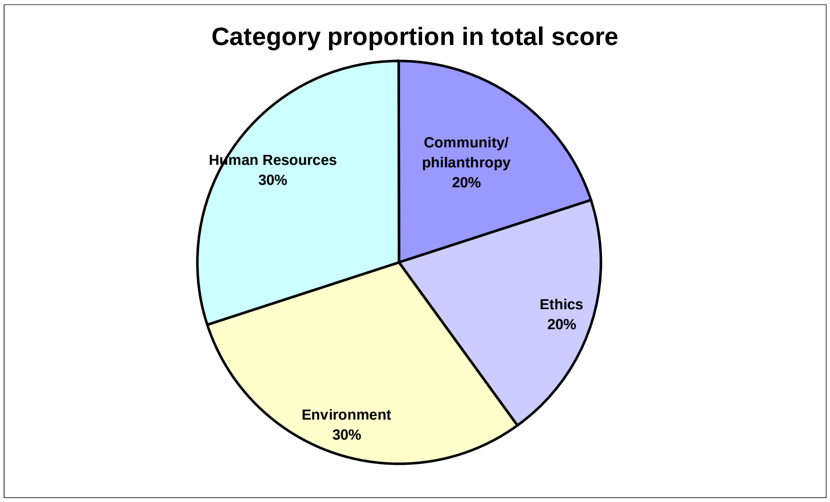
As indicated previously, data and ratings for companies from high income companies were available to the author. The 127 emerging market companies were then analysed for the extent of their corporate responsibility reporting (little or nothing; partial; more extensive), in a manner that this could be compared with the high income countries. This meant that the methodology for assessing each category was given, but did build upon an established methodology used among socially-responsible investment practitioners. Table 3.6 describes the definitions used for rating and scoring each element.

Once analysis was completed then a score was allocated to each company, both emerging market and high income, against each element. The scores for each company were then combined without weightings to create a score for each category and converted into a 0-10 score to enable comparability between categories.[40]

[39] The author worked for 3.5 years in the area of corporate sustainability analysis and index design (2001-2005).
[40] For example, the environment category score for each company was arrived at by adding the score for each of the three elements and dividing the total by three.

In addition, companies were given a total score based on adding all scores for each element (and with a maximum score of 10), and weighting the scores to ensure that each category received adequate weight. Chart 3.5 below illustrates this weighting.

Chart 3.5 – Overall scoring weightings



The company scores were then averaged for each of the four country categories (emerging markets, Japan, North America, and Europe). A sectoral analysis was not possible because of the limited emerging market sample size. However, some analysis of high impact sectors was conducted for the environmental category. These will be defined later in the text.

Table 3.6 below summarises the criteria definitions and scoring system.

Table 3.6 Categories, elements, scoring system and criteria definitions

Category	Element	Points allocated: Little or nothing	Points allocated: Partial	Points allocated: More extensive	Criteria definitions: Partial	Criteria definitions: More extensive
Community / Philanthropy	Corporate social investment	0	0.5	1	Some evidence of donations to charitable causes or a community project.	Evidence of involvement in a wide range of projects, involving significant sums of money. In developing countries this typically includes involvement in education & healthcare projects
Ethics	Ethics policy	0	0.5	1	a statement that a code of ethics exists, or a published code of ethics but one with minimal details or minimal coverage: such as a generic commitment to comply with laws and regulations, or a code with only partial applicability (for example applying only to board members but not to employees), or a code with only 2 or 3 substantial provisions.	a published code of ethics, applicable to all employees and containing a range of provisions: on issues such as bribery, facilitation payments, gifts, conflicts of interest, unfair competition, and so on.
	Ethics systems	0	0.5	1	company reports on its ethics management and claims that one or more of the following exist: employee training, 'whistleblowing' procedures/hotlines, compliance monitoring, or regular review of the code.	company reports on its ethics management and claims, that at least three of the following exist, and provides credible supporting material or examples of : employee training, 'whistleblowing' procedures/hotlines, compliance monitoring, or regular review of the code.
Environment	Environ-mental policy	0	0.5	1	A range of essential and desirable indicators are looked for, namely: Essential indicators: reference to key environmental issues facing the sector; allocated responsibility for the policy; commitment to using targets; to monitoring/audit; and to public reporting. Desirable indicators: association with globally applicable standards (such as UNEP); commitment to involving stakeholders; addressing product or service impact; and to strategic moves towards sustainability. The company should show evidence of some of these but less than those in the 'more extensive' category.	Not less than all essential and 1 desirable indicator OR not less than 4 essential and 2 desirable indicators (see box above). This, and the EMS definition below, is not especially onerous.
	Environ-mental manage-ment systems (EMS)	0	0.5	1	ISO certification is looked for, or a meaningful equivalent covering: having a policy; impact identification; setting targets in all key areas; documented structures and procedures; auditing; internal reporting and review. The proportion of the company covered by the system affects its rating.	Not less than a third of the company covered by ISO14001 certified systems (or an equivalent combination of key indicators.
	Environ-mental reporting	0	0.5	1	Any evidence of reporting of environmental issues	Reporting, including relevant quantitative key performance indicators (KPIs).

Category	Element	Little or nothing	Partial	More extensive	Partial	More extensive
Human Resources	Occupational Health & Safety	0	0.5	1	At least one of the following is publicly reported by the company: o senior responsibility assigned for OHS o one or more significant H&S awards o details of H&S training o key OHS indicators (such as accident rates)	Two or more of these are publicly reported.
	Equal Opportunities policy	0	0.5	1	A published policy which generally refers to equal opportunity, or which refers to non-discrimination on the grounds of gender and race.	A published policy which is more elaborated regarding equal opportunities, such as one going beyond race and gender and including aspects such as disability or age referred to in ILO standards, or a policy which explicitly covers company's global operations
	Equal Opportunities systems	0	0.5	1	Any one of the first three elements listed in the 'more extensive' definition.	A system which includes more than one of the following: o publishing some information on workforce composition (by gender or race etc) o indicating that over 10% of managers are women, or a significant percentage from ethnic minorities o publishing details of flexible or family-friendly working arrangements, such as childcare, flexitime, or family benefits beyond statutory requirements o a senior person or section within the company responsible for equal opportunities.
	Training	0	1	n.a.	Some reported details of training provided to employees	*'More extensive' category not available in respect of training*

Comparing companies - Results of analysis

The data results are contained in an annexure and the original raw data is available as a separate spreadsheet from the author on request.[41] The research showed that over two-thirds of emerging market companies in the sample either produce a sustainability report or have a specific section on their website or in their annual report covering one or more categories of corporate responsibility. Whilst precisely comparable data for high-income countries is not available, this is a high figure and suggests that emerging market companies do not see corporate responsibility as the preserve of companies in developed

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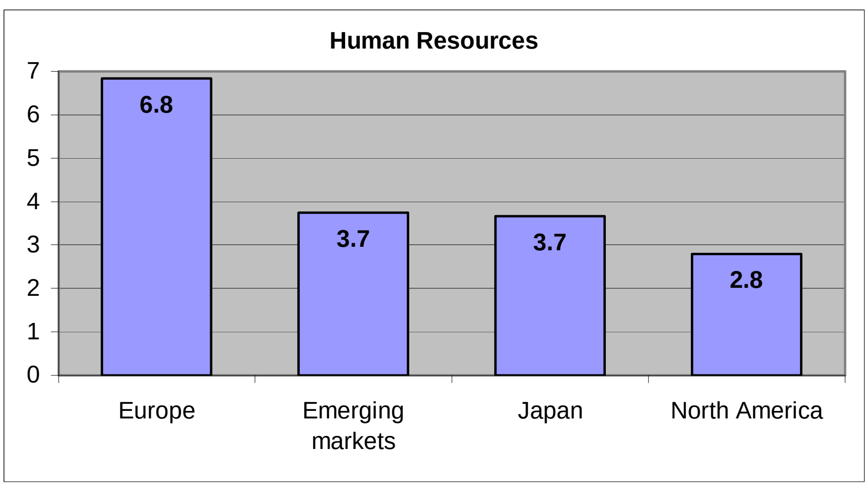
economies. A KPMG study, cited in an earlier chapter, found 62% of G250 companies (basically global developed country multinationals) having a sustainability report, although its criteria for inclusion were arguably stricter. (2005: 36). Key findings are presented below.

Human Resources

Analysing the Human Resource category, with a maximum possible score of 10, one finds that the average score for European companies (6.8) is significantly higher than all other country clusters. Emerging market companies rank second with an average score of 3.7, slightly higher than Japanese companies (3.7). Both score higher than their North American counterparts.

As Chart 3.6 indicates – when it comes to reporting equal opportunities policies and systems, health and safety issues, and employee training, emerging markets score relatively poorly but are by no means global laggards.

Chart 3.6 Human Resource scores by country category



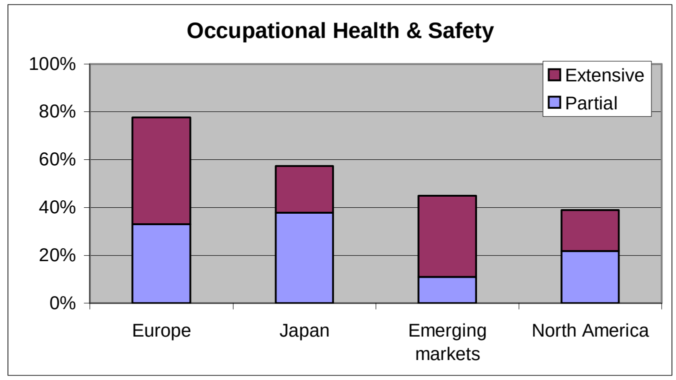
Not part of this category score, but also relevant, the number of women on the boards – a reflection of attitudes towards equal opportunities within the company – was also measured. On this dimension, as Chart 3.7 (next page) indicates, North American companies score well. Emerging market companies are not substantially worse than their European counterparts, whilst Japanese companies remain extreme laggards.

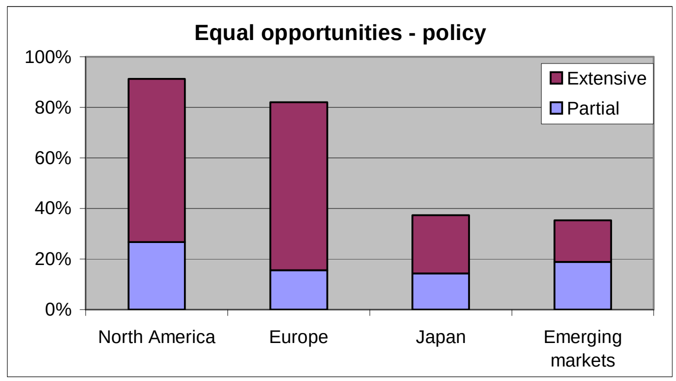
Chart 3.8 presents the more detailed data on the specific elements which contributed towards the Human Resources score.

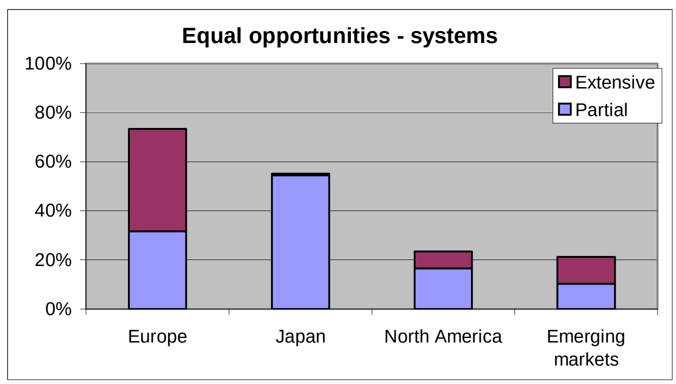
In relation to Occupational Health and Safety, a significant minority (44.9%) of emerging market companies reported some details on the subject. Interestingly, of those that did report, a relatively high proportion (one-third of the total) reported 'more extensive' details.

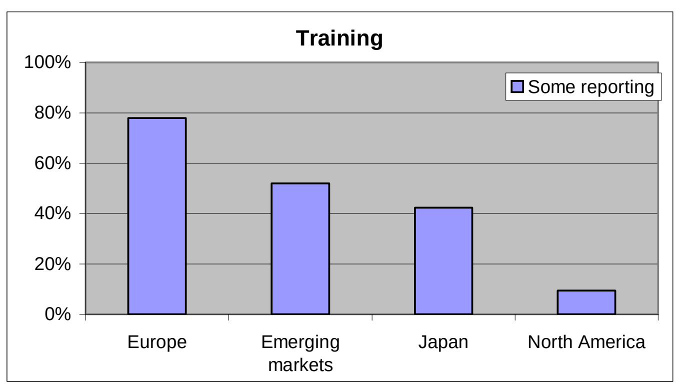
In relation to equal opportunities, both reported policies and systems were measured. In both areas, emerging market companies lagged behind. Just over one-third (35.4%) reported any equal opportunities policy, and around one-fifth (21.3%) reported having matching systems for measuring non-discrimination.

Chart 3.8 Human Resource Elements



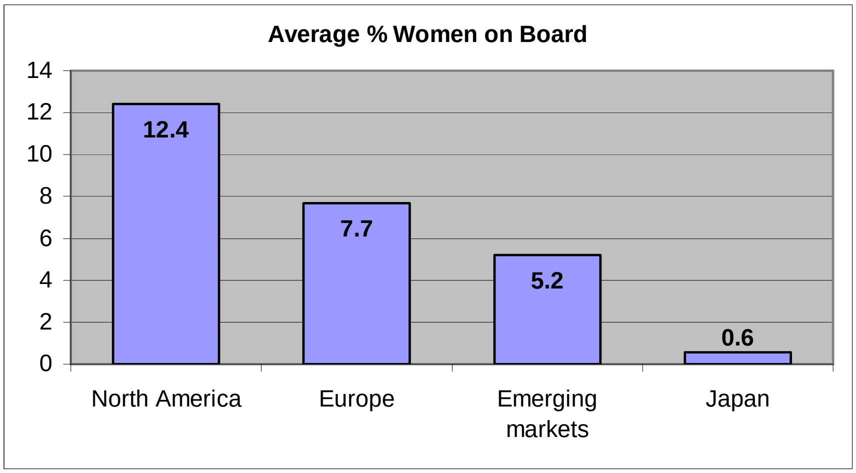






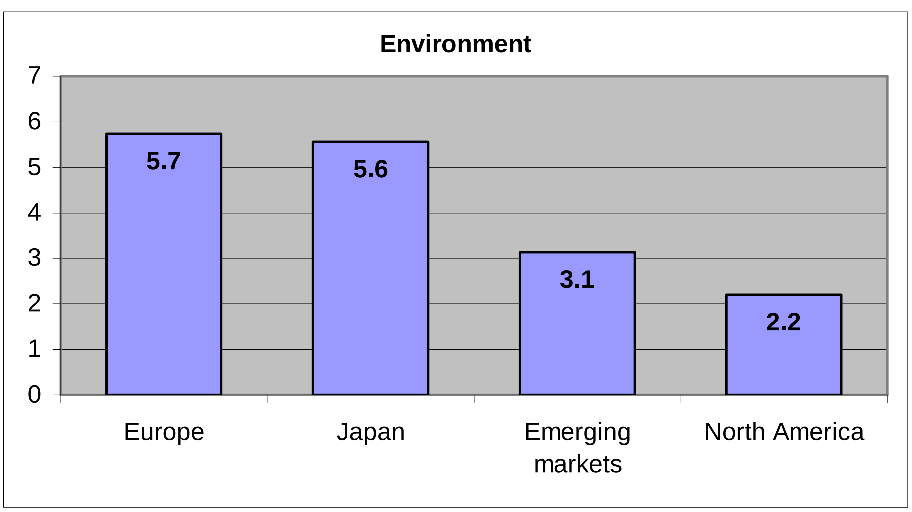
In relation to reporting on employee training, European companies were most likely to do so (78%). Slightly over half the emerging companies analysed (52%) reported on this issue, a higher proportion than either Japanese (42%) or North American companies (9%).

Chart 3.7 Average percentage of women on corporate boards



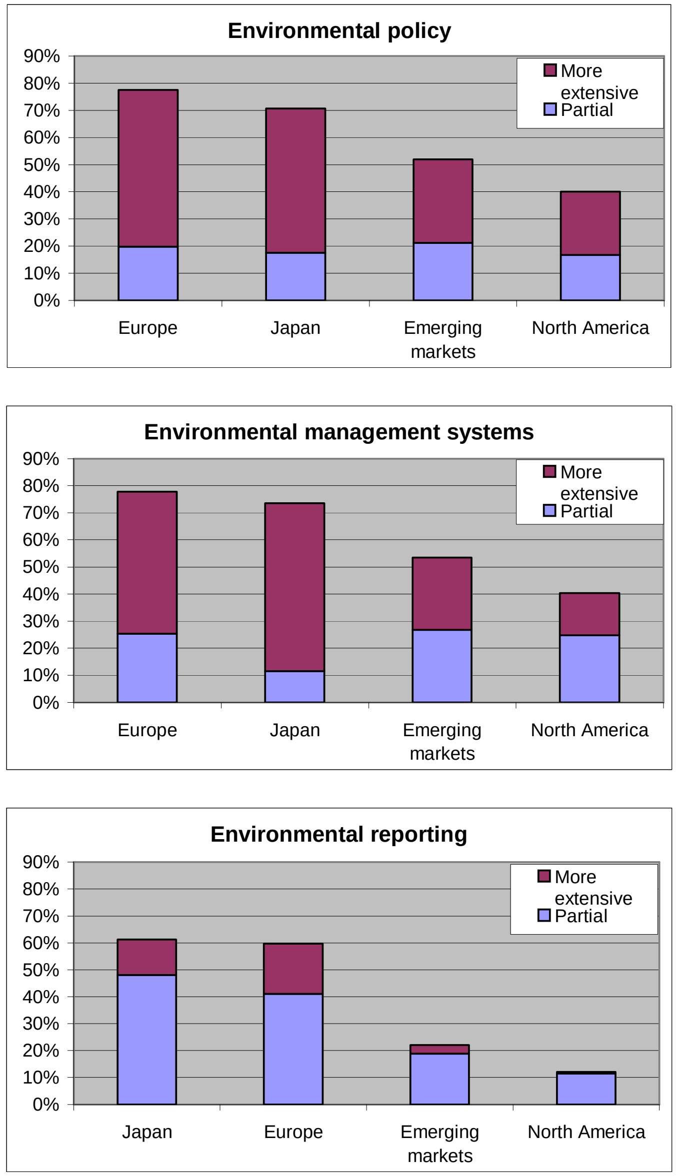
Environment

Chart 3.9 Environment elements



Whilst there are minor variations in approaches to environmental policy, management systems and reporting, the basic picture that emerges from the data is a relatively high level of awareness of the issue in Europe and Japan. Emerging market companies lag significantly behind with an overall score on environmental elements of 3.1. North American companies are the laggards in relation to the environment.

Chart 3.10 Environment Elements



The detailed data shows that, for example, 62% of Japanese companies have an extensive environmental management system in place – arguably the most important element when it comes to environment. This compares to 53% of European companies reporting a 'more extensive' environmental management system, 27% of emerging market companies and a low 15% of North American companies.

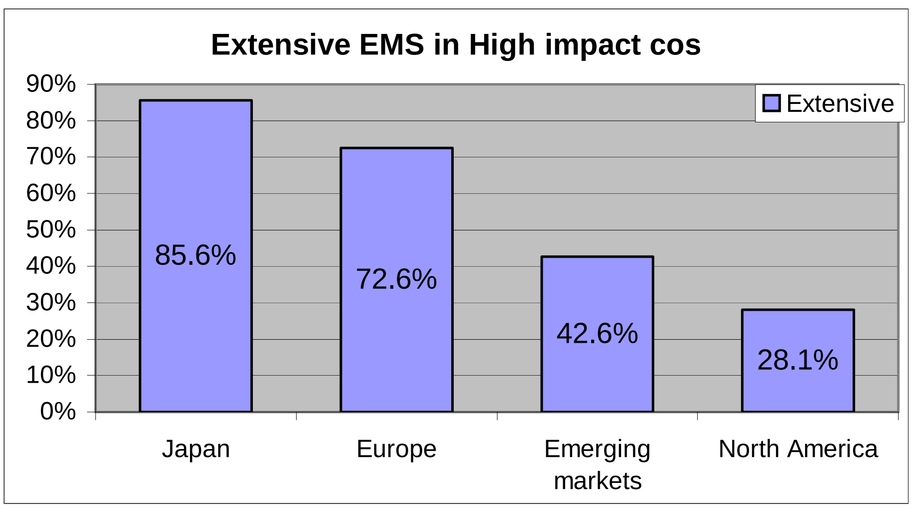
Arguably, however, the most important thing is that companies which have the highest impact on the environment are those which most need detailed policies and extensive systems in place. For example, an oil company without such a system poses severe threats to society and the environment, whereas an IT company without extensive environmental management systems may pose fewer threats as they have a lesser risk of because of their lower impact.

The data was further analysed, therefore, by examining that subset of companies which can be regarded as having a higher environmental impact. Because of the different sectoral composition of the high income and emerging market companies, this approach is also a way of removing potential sectoral bias. The subset of companies chosen were from sectors generally regarded as higher risk using commonly used guidelines[42]. These were sectors such as Oil and Gas, Mining, Automobiles, Transport, Steel, Beverages, Construction and so on. A total of 655 companies were classified as high risk, of which 58% reported a 'more extensive' environmental management system – see Table 3.6 below. Whilst under 15% of Japanese high-impact companies and over a quarter of European companies fell short of this expectation, emerging market companies were below average performers but still significantly better than their North American peers. Chart 3.11 illustrates this.

Table 3.6 High-impact companies with extensive EMS

	# high impact cos.	# with 'more extensive' EMS	% with 'more extensive' EMS
Japan	180	154	85.6
Europe	186	135	72.6
Emerging markets	68	29	42.6
North America	221	62	28.1
Grand Total	655	380	58.0

Chart 3.11 High impact companies with extensive EMS



[42] The FTSE4Good index classifies certain sectors and activities as high impact. This approach has been used here. Details available from www.ftse.com/Indices/FTSE4Good_Index_Series/Downloads/FTSE4Good_Inclusion_Criteria_Brochure_Feb_06.pdf .

Community / Philanthropy

As Chart 3.12 indicates emerging market companies score relatively well overall regarding their reported community social investment and philanthropic activities. Chart 3.13 also shows that where they do report, emerging market companies are more likely than other categories to report more extensively – and to report that they undertake a wide range of philanthropic activities.

Chart 3.12 Community or philanthropic activities - overall score

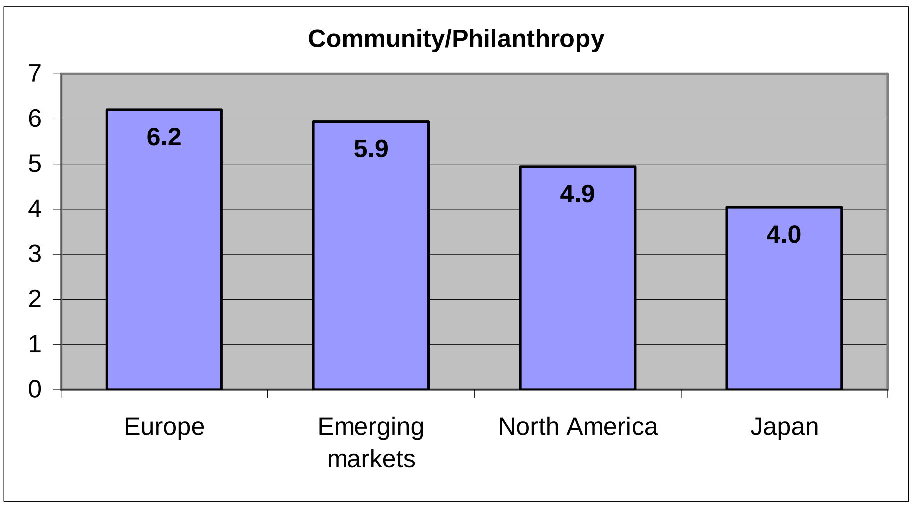
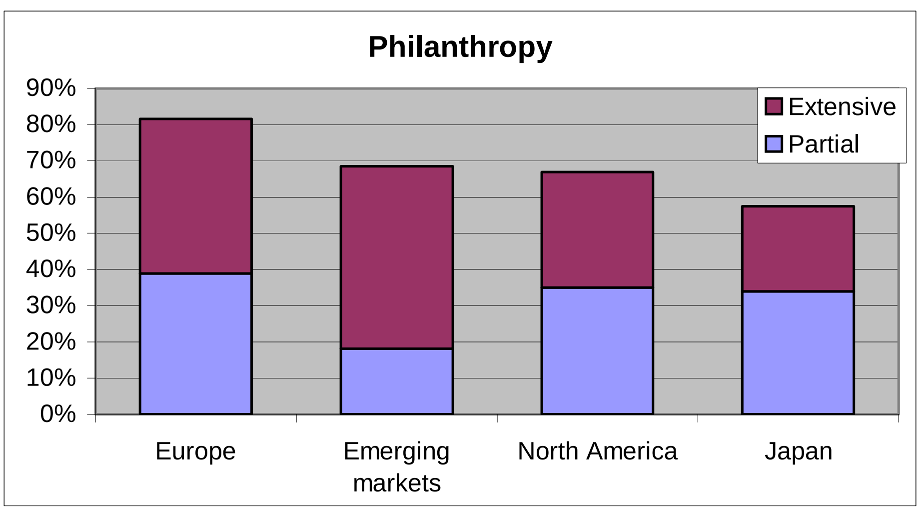


Chart 3.13 Community or philanthropic activity – by extent



These figures are, I will argue later, important in understanding the drivers of CR take-up in emerging markets. Whereas the environmental, human resource and business ethics areas are often regulated in high-income markets, the community social investment area is not generally regulated in either emerging markets or developed countries (although there may, of course, be indirect regulation such as tax breaks).

Business ethics

The final category of business ethics is hard to analyse. In this area North American companies are more likely than any other category to have an ethics policy in place. This could, arguably, simply be a consequence of recent regulations brought in by the Security and Exchanges Commission (SEC) in the wake of the Enron scandal.

Chart 3.14 Business ethics – overall score

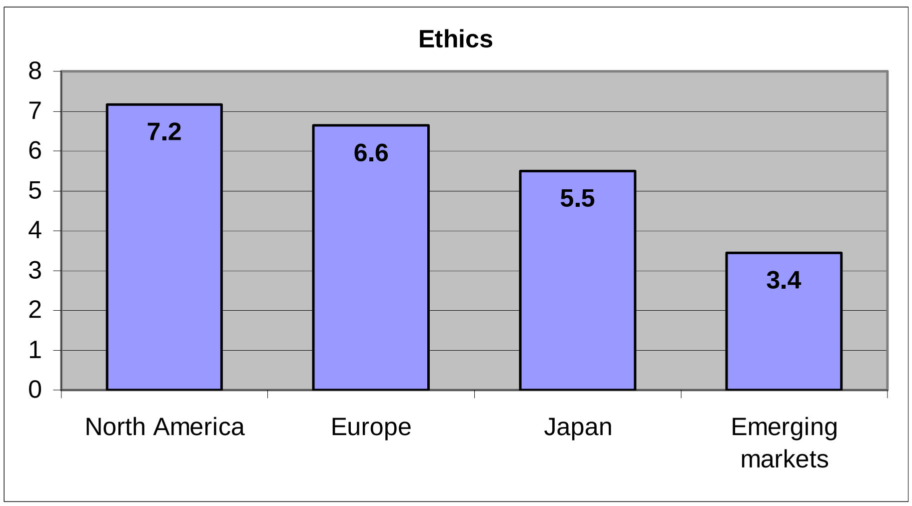
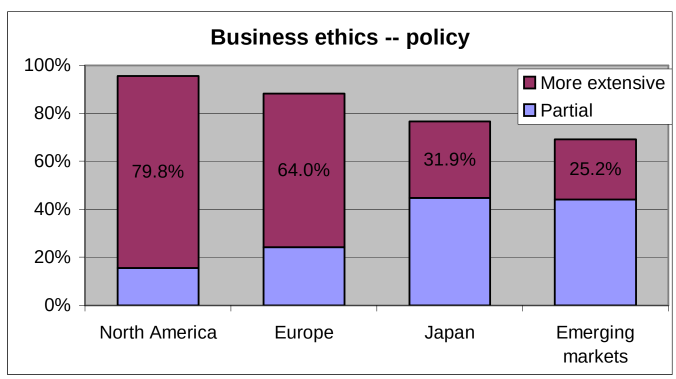
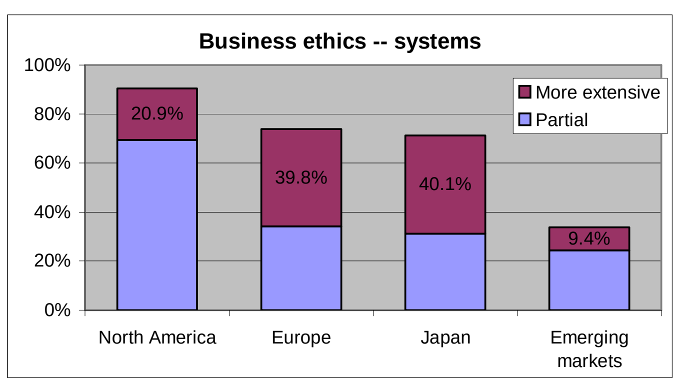


Chart 3.15 Business Ethics Elements





As analysis of the elements in Chart 3.15 shows, in all regions companies are more likely to have an ethics policy than to have systems in place for policing and enforcing it. This difference is most apparent in relation to emerging market companies.

Almost 70% of emerging market companies have some form of business ethics policy, but only a quarter of companies (25.2%) have policies which could be regarded as ‘more extensive’. Only one-third (33.9%) report having any form of management system in place.

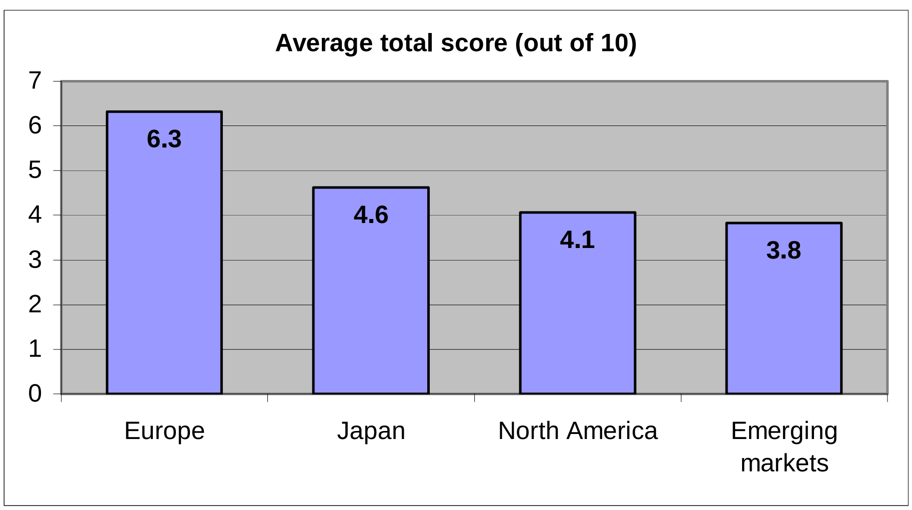
On business ethics emerging market companies are clear laggards.

Overall assessment

Overall, take-up of CR issues, when compared to three other developed country/regions, is low on business ethics but by no means the worst in relation to environment, human resources, and emerging market companies are among the leaders in the area of social investment/philanthropy.

When assigning an overall weighted score, and using the methodology outlined earlier, European companies emerge as clear leaders whilst North American and emerging market companies are laggards. Chart 3.16 presents these scores in graphic form, using the scoring and weighting system outlined earlier.

Chart 3.16 Overall combined score



This chart, combined with the detailed analysis of each of the four elements, and the earlier analysis of generic indicators of corporate responsibility climate, suggests that we can consider one of the hypotheses of this paper proven – that corporate take-up of SEE issues (at least as measured by reported performance) is not substantially lower in emerging markets than in developed countries.

Clearly, however, there are country differences, within both developed and emerging markets. This will be examined further in the next chapter.

4) Analysing the BRICS countries and drivers of CR take-up

This chapter looks more closely at corporate responsibility in five key emerging markets – Brazil, Russia, India, China and South Africa (abbreviated as the BRICS countries). It begins by looking at the data presented in the previous chapter, as it relates to the BRICS countries. Then a range of secondary sources are examined to see what, if anything, the existing literature says about drivers of corporate responsibility in the BRICS countries. Finally, the evidence is pulled together to explore the extent to which a range of contextual factors and potential drivers of CR, as outlined in Chapter 2, hold in relation to emerging markets. The hypothesis that CR take-up is most likely to be highest in countries with globally-active companies, democratic political structures, and an active civil society, will be explored.

Table 4.1 below outlines a few basic population and economic facts about the BRICS countries. All, except South Africa, have very large populations and large internal markets. Inequality, as the GINI index indicates[43], is most extreme in South Africa and Brazil. Put another way, the richest 10% of the population in Brazil and South Africa account for 47% and 45% of total income/consumption respectively, whilst the poorest 10% account for 0.7% and 1.4% respectively (UNDP data 2005). So whilst GDP per capita appears relatively high in South Africa and Brazil, it is very unevenly shared. By contrast India, by far the poorest of the BRICS countries, whilst less unequal, has the highest level of absolute poverty – 80% of its population live on less than $2 per day. Over the past decade inequality has been increasing rapidly in India, China and Russia.

Rates of economic growth have been especially high in India and China for over a decade. Russian growth rates, whilst high since 2000, follow a decade of stagnant and negative growth. Politically, as we will explore later, India, Brazil and South Africa and, to a

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[43] The GINI co-efficient measures "the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The GINI index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. A value of 0 represents perfect equality, a value of 100 perfect inequality" (www.undp.org). In short, a high score means high levels of inequality. Not all countries have been analysed. Among those that have, Denmark is currently ranked as most equal (with a score of 24.7) and Namibia as most unequal (70.7). See http://hdr.undp.org/statistics/data/indicators.cfm?x=148&y=2&z=2 retrieved October 26, 2006.

significantly less meaningful extent, Russia, can be regarded as multiparty electoral democracies[44].

Table 4.1 Basic data on BRICS countries

	Total population (millions) (2003)	*GDP ($ billions) (2003)*	*GDP per capita (PPP $) (2003)*	*% growth rate p.a. (2000-4)*	*GINI index*	*population < $2 per day (%)*
China	1300	1417	5,003	9.4	44.7	46.7
India	1070.8	600.6	2,892	6.2	32.5	79.9
Brazil	181.4	492.3	7,790	2.0	59.3	22.4
Russia	144.6	432.9	9,230	6.1	31	n.d.
South Africa	46.9	159.9	10,346	3.2	57.8	34.1

Source: UNDP database. http://hdr.undp.org/statistics/data/ ; Growth rate data from World Bank database. http://devdata.worldbank.org/wdi2006/contents/cover.htm Accessed 1st October 2006

Comparing generic indicators and company data

The data presented in the previous chapter can be re-examined but with a focus on the BRICS countries. Looking at indicators of the corporate responsibility climate, and as Table 3.2 of the previous chapter indicated, companies from South Africa, followed by Brazil, are most likely to be GRI reporters, followed to a lesser extent by India. Russian and Chinese companies are almost entirely absent as GRI reporters.

Looking at the ISO14001 certification data presented in table 3.3, and adjusting it by the size of each country's economy we find China leading, followed by Brazil and South Africa and India, with Russia very far behind. However ISO certification is probably not matched by corporate reporting on the environment as we shall see shortly, and in China has been strongly driven by government promotion of compliance, rather than by companies themselves (ASRIA. 2003: 17).

It is also possible to compare the company specific data analysed in the previous chapter, whilst remembering that the sample sizes are small. Because the Russian sample size was only 2 companies, an additional 13 Russian companies were analysed in February 2006 using the same methodology as outlined in the previous chapter. The average results for

[44] Freedom House (www.freedomhouse.org) does an annual assessment of political rights and civil liberties around the world. This classifies Brazil, South Africa and India as 'Free', and both China and Russia as 'Not Free', but with Russia scoring higher on each key variable than the Chinese. The 2006 assessment is available from www.freedomhouse.org/uploads/fiw/SubScoresFIW2006.xls. Freedom House is a conservative thinktank with a Cold War history and its findings are presented here as indicative rather than absolute 'truth'. Retrieved October 26, 2006.

the 11 Brazilian, 15 Russian, 10 Indian, 19 Chinese, and 16 South African companies is summarised in Chart 4.1 below. The data is contained in an Annexure to this study.

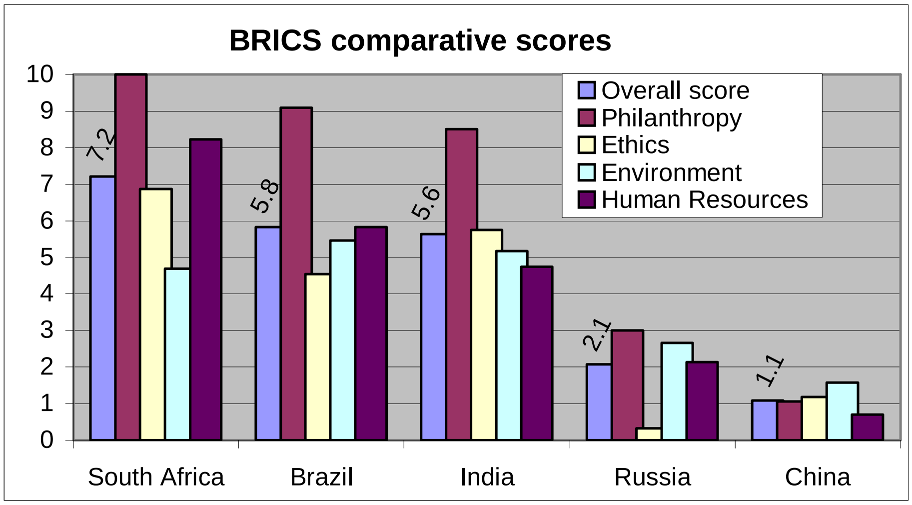

Chart 4.1 Comparative BRICS scores

What the data on corporate reporting on SEE issues by major companies from the five BRICS countries shows is:

- South African companies score highest overall (7.2) and on all indicators other than environment.
- Brazilian companies score second best (5.8), closely followed by Indian companies (5.6)
- Russian and Chinese companies lag significantly behind with scores of 2.1 and 1.1 respectively.

Whilst not strictly comparable, because of sample size issues, it should be noted from data presented in the previous chapter that:

- the average overall score of European companies was 6.3 – lower than South Africa, whilst the average overall scores of Japan (4.6) and North America (4.1) were lower than the sample of Brazilian and Indian companies looked at.
- the average Human Resources scores paint a similar picture – Europe (6.8), Japan (3.7) and North America (2.8).
- in relation to Business Ethics the average scores of North American (7.2) and European companies (6.6) are close to the average South African score, whilst the average Japanese score (5.5) is similar to that of India.

- the average Environmental score of European (5.7) and Japanese (5.6) companies is close to the Brazilian and Indian scores, whilst the North American average score (2.2) lags all the BRICS countries other than China.
- the average Philanthropy scores of South Africa, Brazil and India are substantially higher than those of all the high income country averages – Europe (6.2), North America (4.9) and Japan (4.0).

In all cases the small sample size of BRICS companies mean that the picture presented by the largest companies in these countries may not hold over a larger sample size. It is clear, for example, that there are a small number of leading Indian companies (such as Wipro and Tata) which apply relatively high standards of CR, which may not be found among other slightly smaller, but still large, Indian companies.

There are a few anomalies within the BRCS countries which deserve mention. For example, the overall environmental reporting scores recorded for both Russian and Chinese companies, are at odds with the ISO14001 data reported above. The findings suggest that Russian companies are less likely than Chinese to certify their facilities but more likely to report on their environmental activities.[45]

A similar pattern emerges when looking at specific indicators. For example, a recent study of occupational health and safety indicators indicates that accident and fatality ratios in the BRICS countries are well above the average in developed countries[46]. Whilst fatality rates in developed economies are 4.2 per 100,000 employees, they range between 10.5 and 19.2 in the BRICS countries[47] (Hämäläinen *et al*. 2006: 144-153).

Chart 4.2 indicates the relative scores for industrial fatalities and OHS reporting. It can be argued, in this case, that the chart shows some relationship between the two variables with companies in countries having the highest fatality rate being more likely to report on OHS issues. The same cannot be said looking at a comparable environmental measure.

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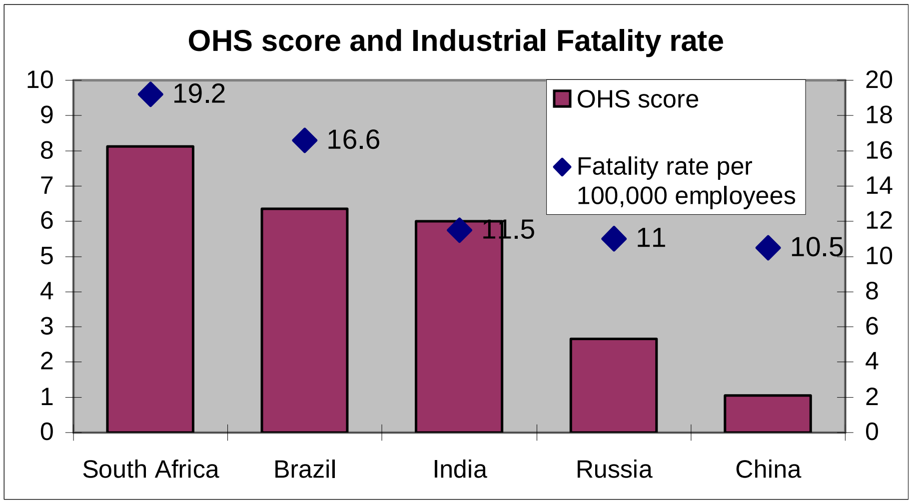
[45] This can perhaps be explained by the fact that almost all the big Russian companies analysed were in the mining and energy sectors and were seeking foreign listings of their stock – and hence aware that as high environmental impact companies they would need to report on their mitigation activities.
[46] The authors call these 'established market economies'.
[47] Accident rates are also higher, averaging 3,240 per 100,000 employees in developed economies, but between 2.5 and 4 times higher in the BRICS countries. (Hämäläinen *et al*. 2006: 144-153)

Chart 4.2 OHS score and fatality rate



As Table 4.2 and Chart 4.3 show, there is no obvious relationship between the proportion of companies having ANY environmental policy or management system, and the percentage of companies analysed which can be regarded as having a high environmental impact (as defined in the previous chapter) or the environmental challenges facing that country (as measured by carbon emissions per capita).

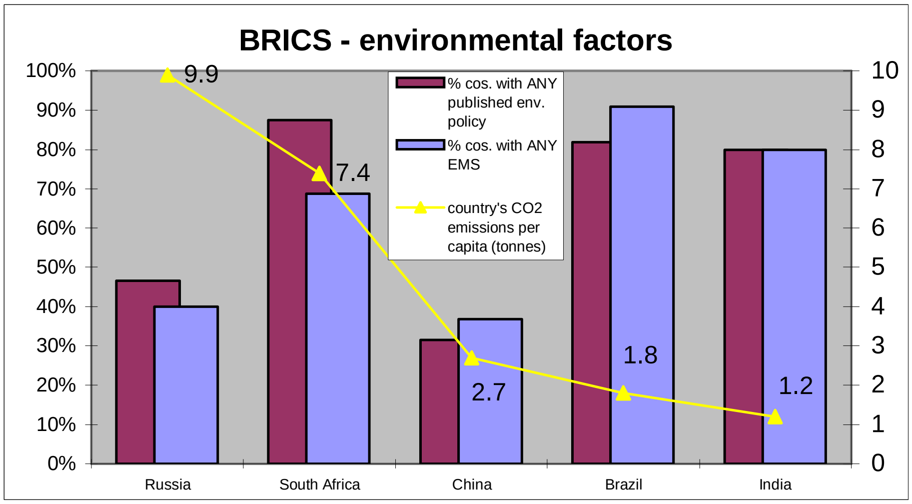
Table 4.2 BRICS companies and environmental indicators[48]

	CO2 emissions per capita (tonnes) (2002)	***# cos. assessed***	***% high impact***	***% cos. with ANY published env. policy***	***% cos. with ANY EMS***
Russia	9.9	15	100.0%	46.7%	40.0%
South Africa	7.4	16	43.8%	87.5%	68.8%
China	2.7	19	84.2%	31.6%	36.8%
Brazil	1.8	11	63.6%	81.8%	90.9%
India	1.2	10	60.0%	80.0%	80.0%

Clearly the Russian companies have the biggest environmental challenges, but also the weakest level of response. Brazilian and Indian companies, by contrast show greater awareness of environmental issues, whilst operating in an environment which is less pressured on the indicator mentioned.

[48] All data from earlier analysis of corporate reporting, except for CO2 emissions per capita from UNDP database, accessible at http://hdr.undp.org/statistics/data/ . Retrieved October 26, 2006.

Chart 4.3 BRICS - environmental factors



Even after analysis of specific elements (OHS and environment in this case), the overall picture remains that companies are reporting on CR issues to a significant degree in South Africa, Brazil, and to a lesser extent India; and companies in China and Russia are not.

We can conclude from the evidence that CR take-up would appear to be (in order from highest take-up to lowest):

- South Africa
- Brazil
- India
- … then a big gap, then …
- China, and finally …
- Russia.

We can also tentatively conclude that CR take-up in South Africa, Brazil and India is not significantly different from key high income economies. This adds nuance, but also supports, Hypothesis 1 outlined earlier.

Drivers of CR in emerging markets and developing countries

We now turn to an analysis of the existing literature on corporate responsibility relevant to the BRICS which might help us understand better why CR take-up is high in South Africa (indeed comparable to key developed markets), Brazil and India, and why it is low in Russia and China.

CR in specific emerging markets has only recently received attention from both academics and practitioners. Recent editions of the *Journal of Corporate Citizenship* (JCC) have cast a spotlight on Latin America (JCC 21), Africa (JCC 18) and Asia (JCC 13). Most work has been country specific, including studies on India (see, for example, Mohan. 2001; Brown. 2001; Kumar *et al*. 2001; SustainAbility. 2005), South Africa (for example Visser. 2005; Malan. 2005; and KPMG. 2004), Brazil (SustainAbility. 2006), Malaysia (see for example Ramasamy and Ting. 2004; ACCA. 2004), Mexico (see, for example, Gundermann. 2004), Russia (ARM /UNDP. 2004), and Czech Republic (e.g. Trnková. 2004) among others. In addition literature and practice emerging from 'socially responsible' investment (SRI) analysts has thrown light on CR in emerging markets – for example work emanating from the Asian Corporate Governance Association/CLSA, the International Finance Corporation (IFC), and the Association for Sustainable and Responsible Investment in Asia (ASRIA).

A relatively limited number of studies have emphasised comparative cross-country analysis (see, for example, Chambers *et al*. 2003; Welford. 2005; Peinado-Vara. 2004; KPMG. 2005; OECD. 2005; East-West Management Institute. 2004; and Baskin. 2006), although these have largely been region specific or covered a relatively limited number of emerging market economies.

Based on a reading of the literature, the current state of CR in a number of emerging markets has been summarised by Baskin (2005) and his conclusions are contained in Table 4.3 below. His generalisations are made with the strong caveat that each region is large and contains a wide variety of countries, histories and experiences.

Table 4.3 Existing trends and drivers in key emerging markets – by region

Region	*Current state of CR*	*Key drivers*
Central & Eastern Europe	• Companies from Poland, Slovenia, Hungary and Czech show most evidence of incorporating CR approaches • Pockets of interest in many other states • Disclosure is increasing overall • Russia, Bulgaria and Estonia show least interest	• Foreign ownership • Accession (or the goal of accession) to EU membership • Competitive advantage • Influence of corporate governance codes
Africa & Middle East	• South Africa has the most developed CR situation and SRI interest • Minimal interest in CR elsewhere	• Domestic pressure for CR • Threat of regulation • Significant SRI market • Influence of corporate governance code
Latin America	• Most activity in Brazil, Mexico, Chile, Uruguay, Argentina • Focus is on CSI/philanthropy • Some SRI funds emerging	• Nascent public interest and domestic inequalities • Regulatory pressures
Asia	• Companies from India and Malaysia beginning to incorporate CR • Pockets of interest elsewhere • China has especially low take-up of CR	• Global pressures • Strategy for competitive advantage • Strong external investor interest in corporate governance and SRI in Asia

Existing research on BRICS countries

We now look briefly at the literature on the BRICS countries, to see what can be learned about the drivers of CR.

<u>Brazil</u>

Schmidheiny notes that Brazil has “become the regional powerhouse of CSR, with about 500 companies there issuing citizenship reports following the guidelines of Brazil’s Ethos Institute… [and where] the São Paulo stock exchange has also created an evaluation of quoted companies’ corporate citizenship.” (2006: 22) He acknowledges that a key driver has been pressure on companies which export from Latin America, whether local or multinational. These have “…promoted CSR as a risk management tool, decreasing the risks of a scandal in the end market owing to bad behaviour by themselves, their subsidiaries or their suppliers.” (2006: 21) Nevertheless, he argues that CR is a home-grown phenomenon arising from a combination of factors – “a fairly healthy economy”; “a huge divide between rich and poor” and a need to be seen as part of the solution; continuing pressure by civil society “to meet needs that governments are not meeting”;

and eagerness "to distance themselves from the reputation for corruption that still haunts the country". (2006: 22)

Schmidheiny, a former GrupoNueva business executive, argues that internal and external pressures overlap – that companies "exporting to the wealthier regions are battling a preconception there that companies in the South are more likely to be dirty, to be sweatshops, to be employing children, etc. So in a global, transparent market, companies in the South must be seen to be cleaner than their Northern competitors and able to prove their virtues. They then find that this even helps them do better business … to be more a part of the solution than the dramatic problems. Many also find that CSR leads to better productivity, efficiency and employee morale. Being socially engaged improves business intelligence", assisting them to develop new products and services. (2006: 22)

The editor of the Latin American special edition of the *Journal of Corporate Citizenship*, Jose Antonio Puppim de Oliviera, refers to the "common myth … that CC [corporate citizenship] in developing countries, particularly in Latin America, comes through multinational foreign companies operating in the region." (2006: 18)

A country survey published by SustainAbility reported further examples of CR being nationally rooted – in 2004, "442 companies completed the 'Ethos Indicators' – a [local] self-assessment tool for companies to evaluate their CR efforts. The indicators ask companies to assess their performance in seven areas: values and transparency, workers and staff, environment, contractors and suppliers, consumers and clients, community, and government and society. Brazil's national standards body has created its own CR standard: NBR 16001, one of the few national norms for CR in the world." (2006: 30)

Araya has analysed the social and environmental reports of the largest 250 companies in Latin America (both local and foreign companies). She finds that reports are "… more common in internationally oriented and socially and environmentally sensitive industries, but, surprisingly, companies from … Brazil are more likely to disclose non-financial information than companies from developed countries (American or European) established in the region." (Araya. 2006: 36)

Cappellin and Giuliani, in a study of CR in Brazil, argued that "interest in improving the social performance of firms in Brazil increased significantly in the 1980s", and that it "was driven to a large extent by domestic concerns, actors and contexts", and that "the process of democratization of the 1980s was the main driver that guided some business leaders to form networks specifically committed to the social role of firms. (2004: vi)

They argue that democratization "… paved the way for the expansion of civil society organizations and social movements concerned with the social and environmental impacts of business" (2004: vi). "The process of democratization of the 1980s was the main driver that guided some business leaders to form networks specifically committed to the social role of firms." (2004: 55) NGO pressures grew too. This momentum "was reinforced by international influences and pressures associated with cross-border management of transnational corporations, global civil society activism, environmental certification, and international social, environmental and human rights norms and law." (2004: vi)

For Cappellin and Giuliani corporate social and environmental responsibility "became part of a broader strategy to gain legitimacy; a way of cleaning up the soiled image of entrepreneurs and companies that were regarded by many as responsible for the concentration of wealth and growing speculation in financial investment. [It could be used] as a tool to restore the climate of trust among workers, enhance their competitive strategy and, above all, increase consumer loyalty and community acceptance. In the context of flexible labour markets and the deregulation of labour costs, corporate social responsibility became a means of partially mitigating the social effects of these policies and processes." (2004: vi) Using the framework outlined in Chapter2, this is a clear example of the convergence, from a business perspective of 'values' and 'value' – a business case for responsible behaviour.

Gutierrez concurs with his approach, and generalizes it to Latin America when he argues that "with more than 60% of its population living on less than one dollar a day in Latin America, governments in the region are often not meeting the basic needs of their communities…. Corporations in Latin America are investing in communities in order to have a stable society where they can produce and sell their products. A community investment has a direct positive impact on their bottom line as much as it has on improving the lives of those in these communities. Doing good beyond law requirements is more important where limited legal frameworks and weak enforcement exist." (2004: 6)

Russia

Given the low level of CR take-up in Russia revealed earlier, it is not surprising that there is almost no publicly available research on corporate responsibility in Russia. A study was undertaken in 2004 by the Association of Russian Managers (www.amr.ru) in conjunction with the United Nations Development Programme (UNDP). This concluded that "there is still lack of understanding of its integral concept, use-proven practices, and usefulness. CSR has been and continues to be oriented towards the closest circle of stakeholders – the Government, the owners and the employees. A wider circle of stakeholders (local communities, suppliers, etc.) is not considered so far." (ARM/UNDP. 2004: 8). The report also argued that "…Government does not create efficient legal and social institutions, and the business structures have to offset 'failures' of the Government by making substantial social investments and thus 'substituting' the Government in the public service sector" (2004: 9).

One part of the ARM study explored the drivers of CSR in Russia and contrasted these to the drivers in most of Western Europe, and summarised this in a Table (reproduced below). Notably, NGOs and civil society are not identified as drivers, and the public (or 'community') are not seen as an interested stakeholder.

Table 4.4: Distinction between Russian and European CSR

Comparative indicators	UK and Continental Europe	Russia
Target Stakeholders the CSR Policies are Oriented to (by rank)	• Employees • Customers • Community • Shareholders	• Government • Owners • Employees • Customers
Drivers of CSR Development	• Corporations • NGOs and community • State	• State (High executive bodies) • Corporations • Local authorities
NGO Role	• Large in number and profiles • Considered to be among the principal CSR drivers that pressure/encourage businesses for cooperation in CSR related issues (Greenpeace, BITC, etc.); • Have high influence on public opinion and possess pressure mechanism on business (e.g., Shell and Brent Spar case)	• Relatively few in number • Considered to be facilitators rather than drivers for CSR • Relatively unknown in society and lack real influence on CSR decisions
Social Reporting (SR) Development	• SR is being initiated by businesses • SR is well adopted and widely used • Oriented to all/most stakeholders	• SR is at a very early stage • Rarely properly understood as concept and long-term utility • Mainly oriented to the State and shareholders (less to the society)

Source: ARM/UNDP, 2004

A study of data available from the ARM's website and other sources concluded that "… the in-house 'social'/community/employee aspects of corporate responsibility in Russia are not usefully labelled as 'corporate responsibility' as they are specific to the transition from planned to market economy … [and that] whilst a significant number of the companies undertake community and employee related activities, very few are active in relation to environmental matters, codes of business conduct or the production of a sustainability report" (Baskin. 2006: 33).

There are indications that an increasing number of leading Russian companies are reporting more than previously on socal, environmental and ethical issues. However, anecdotal evidence suggests that this is often driven by the reporting requirements and investor expectations associated with listing on the London Stock exchange, and associated Initial Public Offering (IPO) documents.

India

A study by SustainAbility identifies four types of Indian company engaging with corporate responsibility, namely:

- Industrial dynasties – such as the Tatas, which focused on concepts of nation-building and trusteeship long before CR became popular.
- Indian companies with strong international shareholdings – such as Hero Honda, Hindustan Lever Ltd, and Maruti Udyog, which adhere to the business standards of the parent or partner.
- Public sector enterprises – such as BHEL (Bharat Heavy Electricals Ltd), HDFC (Housing Development Finance Corporation), NTPC (National Thermal Power Corporation), and ONGC (Oil and Natural Gas Corporation), which have social obligations as part of their business despite growing privatisation.
- Knowledge based enterprises – such as Dr Reddy's, Infosys, Ranbaxy, and Wipro, which focus less on minimising negative impacts and more on maximising the positive spill-over effects of corporate development. (Sustainability. 2005: 24)

This suggests that, given the relatively limited size of the second category, CR uptake is mainly internally driven. Balasubramanian *et al* refer to "a well-established tradition in a number of organisations, particularly family-based companies with a strong community ethos. Historically it has been a significant influence, impacting on business, government and society relationships" (2005: 80). Mohan (2001) makes points in similar vein.

The SustainAbility study reports that "as of October 2004, 65 companies in India were SA8000 certified about half of which are from the apparel industry." (Sustainability. 2005: 28) What is striking is how low this figure is, and how few such certifications existed, an indication that external pressure on suppliers was not a major factor. Another study conducted by CSM asked business respondents to rank the main factors driving the changing attitudes to social and environmental responsibility. " 'Increasing awareness' and 'Reputation' topped the list." (Sustainability. 2001: 17)

The SustainAbility study cites an opinion poll which showed that "most companies have policies on labour issues, community relations and environmental practices (many of which reflect the legal requirements) but they lack comprehensive implementation and monitoring systems. Employees are seen as being the most important stakeholder group followed by local community." (2005: 25) Indeed "employee care in India goes far beyond typical conventions in the absence of a government funded safety net or benefit scheme. For example the townships set up by large conglomerates like the Tata Group includes the provision of housing, water, electricity, medical care and education." (2005: 27)

There is a long history of NGOs dating back to the 19th century, and an estimated 2 million NGOs in India today! Generally, unlike in Brazil, Indian NGOs are strongly hostile to business in general and multinational corporations in particular, and run many active campaigns on issues ranging from water quality in beverages, to GM crops, to dam-building. There is great emphasis by Indian companies on philanthropy and investing in the community. (Sustainability. 2005: 28)

China

China is a clear example of CR, to the limited extent it exists, being externally driven. And this is hardly surprising given the country's significance as 'workshop of the world' and leading manufacturer not only, as is well-known, of textiles, clothing and footwear, but also, for example, over 50% of the world's cameras, 30% of air conditioners and televisions, and 25% of refrigerators (ORSE. 2006: 5).

A study by Stephen Frost, looking at the issues facing socially-responsible investors, notes that "some companies are already involved in path-breaking programmes [to improve labour standards], and the Chinese Government itself has recently started to focus on improving workplace conditions." (2002: 4) But Frost is referring to foreign companies (such as Nike) and the gist of his detailed study is that most Chinese manufacturers adopting codes of practice, do so in response to pressure from the companies they are supplying.

This is reinforced in a case study Frost relates, which quotes one Chinese human resources manager saying that "… the company had around 25 company codes of conduct to which they were requested to comply. Most codes expected similar things, but on not one single occasion had any of the foreign companies sat down with them to discuss or negotiate contentious issues…. There was a strong level of resentment at the implications that the Chinese workplace was inadequate and required foreign intervention to bring it up to scratch." (2002: 43) In short, the implication is that pressure for responsible corporate behaviour occurs largely in the export supply chain sectors, and is largely externally-driven, and compliance-focused with the aim of the foreign company avoiding reputation damage.

An ORSE study concludes that CSR in China is external in origin and started with "the introduction of the SA8000 [labour audit standard] and the extension of its scope of application standard to local companies." (ORSE. 2006: 4)

According to Zheng and Chen, the Chinese government has started taking an interest in CSR in 2006 and is now "… actively engaging in an international campaign on CSR for both domestic firms and MNCs, especially in key areas of labour, consumer protection, tax and the environment." (2006: 6)

They cite a study of the issue commissioned by the Chinese government.[49] This locates the problem of irresponsibility at the door of the multinational companies themselves, rather than their local suppliers, and cites a number of breaches of responsible behaviour by Nestle, KFC, Mitsubishi, Toshiba and others. They argue that "MNCs have strong incentives from many perspectives to reduce and even abandon CSR" but concede that "… China offers them plenty of opportunities to do this" (Zheng & Chen. 2006: 10).

[49] The original is accessible in Mandarin from http://news.xinhuanet.com/fortune/2006-02/17/content_4190736.htm. Zheng and Chen's summary (2006) is relied on here.

Their study is an extremely interesting perspective from a major developing country government and this merits quoting it at some length. Zheng and Chen argue that “the concept of CSR was introduced from the west and has not been well integrated into China’s corporate practices and culture. CSR was seen simply as a curb on economic behaviour within firms or between firms and their suppliers and clients. Most Chinese firms had to accept CSR simply because it was a condition on obtaining business orders from foreign clients, and their adoption of CSR was enforced rather than voluntary.” (Zheng & Chen. 2006: 8)

“MNCs have undoubtedly played an important role in promoting CSR in China. [The Chinese government] has also recognised that the frequent lack of CSR on the part of MNCs is linked to its [the Chinese government’s] singleminded pursuit of GDP growth. MNCs, together with China’s domestic firms, have driven the country’s explosive growth. However, such one dimensional growth is not a positive force for sustainability. (Zheng & Chen. 2006: 11)

“CSR can be used by MNCs as a concealed barrier for Chinese firms to participate in fair competition. Some CSR rules that are common in developed countries may not be suitable for Chinese firms under current market conditions. For example, many MNCs have established standards to check operations, safety and labour conditions of their Chinese partners’ factories, which often incur high fees and other costs for the Chinese firms. This can further narrow the profit margins of China’s labour intensive industries, which already earn extremely low profits. Some MNCs set strict labour rules restricting workers’ weekly working hours for their Chinese suppliers. However, in many Chinese factories whose products are highly seasonal, both management and workers prefer to work overtime in busy seasons and work less in slack periods, since this will enable firms to maintain profits and workers to protect their incomes.”(Zheng & Chen. 2006: 12)

Another study by Zheng argues that before economic reforms were introduced into China, there was “no functional differentiation and no boundaries between the state, companies and society. Firms had to perform social functions, and were responsible for looking after their workers from the cradle to the grave.” Corporatisation and privatisation have pushed Chinese firms to “make profit maximization their only goal without considering the externalities of their behaviour. Increasingly intensive competition among firms and among local governments has worsened the situation. Interfirm competition has not led Chinese firms to be socially more responsible. Although in the long run, CSR can enhance firms' competitiveness and make their development sustainable, it still remains a concept alien to most firms in China." (Zheng. 2006: 8)

Interestingly, in 2005 China developed a CSR management system (CSR9000T) which emphasises the management of labour standards and is aimed at companies in the consumer-facing export-oriented manufacturing sectors. (see *www.csc9000.org.cn*) This locally-developed system has echoes of Brazil's indigenous standard.

Corporate philanthropy is not widespread. China Charity – China's largest charity organization – reported that 70% of the donations it received came from outside China, and less than 15% came from domestic firms. Of the over 10 million registered domestic firms in China, less than 100,000 firms (1%) had made charitable donations.(Zheng. 2006: 8)

Relatedly, according to Zheng, "most domestic NGOs in China remain governmental or semigovernmental… [and] can hardly play an independent role. Without autonomy, NGOs are not empowered to have a meaningful impact on corporate behaviour." (2006: 10)

An ORSE study concurs that NGOs are also relatively under-developed in China. The majority of existing local NGOs are Government Organised NGOs (GONGOs) because they must be approved by the state, often emanate from it, and only one per field can be registered in any one region. "Grassroots" organizations exist which are "the result of popular initiatives" and generally registered as companies, not NGOs, with the Ministry of Industry and Trade. (2006: 26) International NGOs started operating in China in the 1990s. Today, according to ORSE, there are 100 carrying out "significant work and benefiting from sizeable budgets" and their status is dependent on state goodwill (26).

In short, despite recent interest from the Chinese government, it is clear that CR in China has been largely externally driven, that it is not emerging from Chinese business itself, nor as a result of NGO or civil society pressure. On the other hand there is some interest in the concept emerging from Chinese companies with aspirations towards, or in the process of, becoming global brands – for example Lenovo. These signs of change are also manifested in the Chinese government's latest five year plan, which has concluded that "to promote CSR, the state has to regulate firms' behaviour". (Zheng. 2006: 14)

South Africa

As we have seen, CR reporting (as a proxy for take-up) is relatively high among leading South African companies. It is partly driven by legislative pressure – both post-apartheid equity legislation and the so-called King II corporate governance code, which whilst voluntary is regarded as a listing requirement by the Johannesburg Stock Exchange[50]. The global business consultancy KPMG has conducted eight studies to date on the extent of CR reporting in South Africa. Their most recent study, published in December 2004, looked at the extent of sustainability reporting in all 154 independent companies listed on the Johannesburg Securities Exchange (JSE). 65% of these reported on sustainability-related issues annually. Chart 4.4 includes some of the detailed issues reported on. It shows South African companies to be global leaders on CR reporting regarding social issues, but to be far less advanced in relation to environmental matters. This is consistent with the original research findings, based on a more limited sample, presented earlier.

Visser has pointed out that whilst "legislation seems to have been an acknowledged driver for change… more recently, however, the business case seems to have become a more dominant rationale."(2005: 31) He cites a 2003 Trialogue survey of the JSE's top 300 companies which found that "only 10% cited 'abiding by laws and regulations' as their one principal motivation for pursuing corporate citizenship (CC), compared with 38% who reasoned that 'it makes good business sense'." (2005: 31) Visser argues that other drivers include:

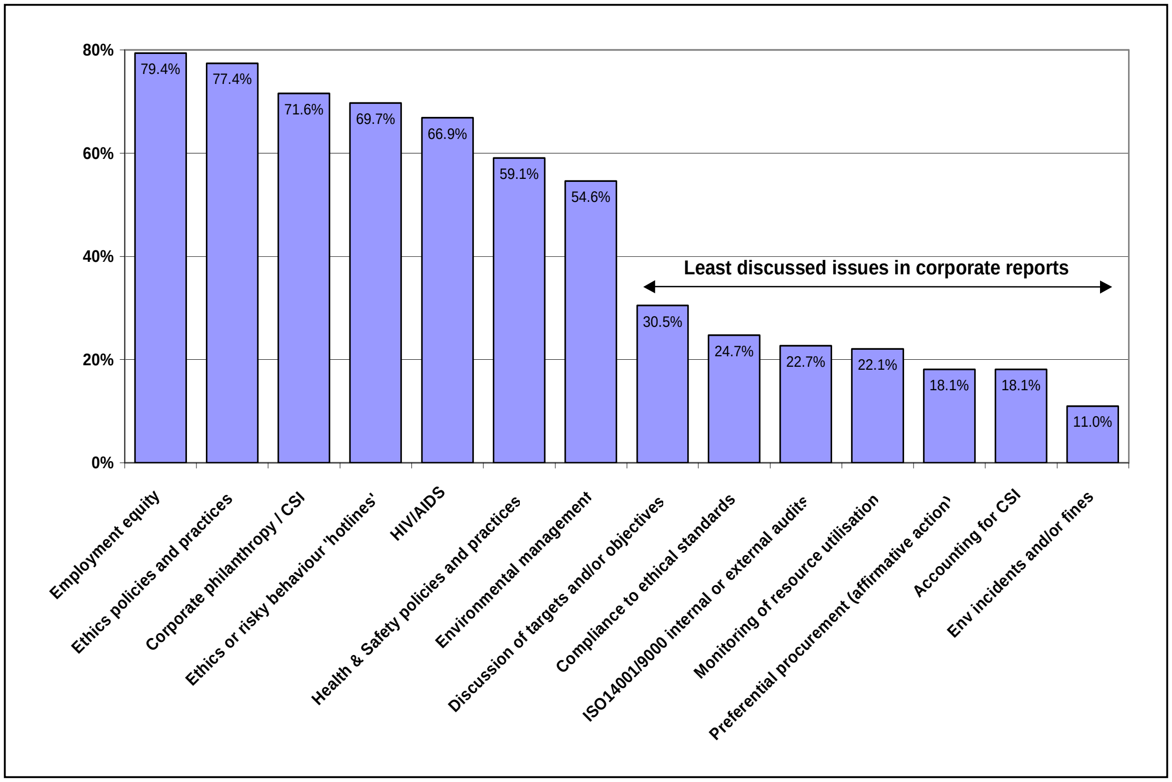
- <u>global aspirations of domestic companies</u> – "a number of home-grown companies globalising and listing internationally, including, for example, Anglo American, BHP Billiton, Dimension Data, Lonmin, Old Mutual and SABMiller"
- <u>inward investment by MNCs</u> – with "multinationals from abroad investing or reinvesting in South Africa instituted CC improvements at their local operations to be consistent with their international standards".

[50] The King code makes provision for specific sustainability disclosures by companies. These include:

- occupational health and safety matters, inclusive of AIDS;
- environmental matters;
- social investment prioritisation, including black economic empowerment initiatives; and
- human capital development, inclusive of employment equity.

- stakeholder pressure – "… manifested mainly through community groups challenging companies on whether they are upholding the constitutional rights of South Africa's citizens". (2005: 32-33)[51]

Chart 4.4 – Percent South African companies reporting on CR issues



Source: KPMG South Africa, 2004 Notes: survey covered all 154 independent listed companies listed on JSE

Ironically, given its poor environmental record today, CR in South Africa "developed from an initial focus on environmental responsibility, to an inclusion of health and safety, and social and economic issues." (Visser. 2005: 34)

Philanthropic giving, or corporate social investment in community activities, has long been a feature of the South African corporate scene. It partly emerged in the 1970s and 1980s as part of corporate efforts to create some space between themselves and the apartheid regime, and to combat the growing tide of financial and economic isolation. But it has remained significant, in part to create goodwill in the communities within which the

[51] It can also be mentioned that post-apartheid South Africa has made some attempts to institutionalise NGO and trade union involvement in policy-making, with the result that companies know they are expected to engage with both NGOs and local communities, and organized business knows it must do likewise as well as participate in multipartite bodies such as the National Economic, Development and Labour Advisory Council (NEDLAC). (Baskin. 2000)

companies operate. Visser cites a Trialogue estimate that "the total corporate expenditure on corporate social investment (CSI) in South Africa for the 2003 financial year amounted to R2.35 billion[52]. (2005: 35)

Like Brazil, and now India, there is a small but growing socially-responsible investment presence. In South Africa, "SRI has not been driven by the informed and aware consumer or investor, but rather by the demand placed on business by government and labour to contribute to this transformation [in the direction of black economic empowerment]" (de Cleene and Sonnenberg. 2004: vii). The Johannesburg Securities Exchange also runs an SRI index similar to the FTSE4Good.

Explaining differential CR take-up in emerging markets

How does one explain the high levels of interest and take-up in some emerging markets, but not in others? A number of authors have explored macro-economic, cultural and institutional explanatios.

Chambers *et al*, in a study of CSR in fifty leading companies in seven Asian countries (both high income and developing), explored this issue in some depth. They report a significantly higher level of CSR take-up in India than in the six other countries they examined[53], but lower CSR take-up in all seven countries than in the two high take-up comparator countries (the UK and Japan). In an attempt to explain this Chambers *et al* analysed a number of potential correlations and found:

- No statistically significant correlation between national per capita GNP and CSR penetration.
- No relationship between CSR penetration and the broad sectoral makeup of the economies studied[54].
- No statistically significant relationship to levels of social development, using life expectancy and adult literacy as proxies.
- No pattern of relationship linked to either levels of foreign direct investment (FDI) or to the identity of major trading partners.
- Slightly higher levels of take-up by international companies (45%) than their Asian domestic company counterparts (33%)[55] (Chambers *et al*. 2003: 18-26)

[52] About £180 million.
[53] Singapore, Malaysia, Indonesia, the Phillipines, South Korea, and Thailand.
[54] Based on the percentage of the workforce in agriculture, industry and services.

Overall Chambers *et al* argue that "in the absence of any apparent relationship between CSR level and national economic, social and governance data, we can only conclude that patterns of CSR are explained by nationally distinctive features." (2003: 21) In other words no patterns or common drivers can be discerned, with the implication that each country is a 'special case' (which is, of course, always true to some extent). However, this conclusion may be premature, and assumes, perhaps, that macro-economic correlations are the most meaningful ones to look for.

Others have referred to nationally distinctive 'cultural' explanations. Gutierrez, has argued that "altruism and solidarity have been significant drivers in the Latin American private sector, resulting in large part from the tradition of charity derived from the region's Catholic background."[56] (2004: 4) Phoon-Lee (2006) has referred, in an article on CR, to the idea of *ren*, derived from Buddhist, Confucian and Taoist values, and "understood practically as 'being a human being and behaving like a human being'. Others have referred to relations of trust or *guanxi*, a Confucian concept and part of a moral system under which governance by ethics is traditionally preferred over governance by law (Cai & Wheale. 2004: 515). There are also Islamic concepts of *zakat* and Hindu concepts of achieving merit in the next life through doing good works in this life.[57] South African CR practitioners, in the author's knowledge, frequently refer to '*ubuntu*', a foundational concept within African culture and captured in the Zulu proverb *umuntu ngumuntu ngabantu* (a person is a person because of other people). This both challenges individualistic approaches to moral philosophy, and roots humanity in notions of community and reciprocity.

But cultural explanations seem not entirely convincing. The concepts elaborated are not exclusively non-Western[58] and span both developed and developing countries. All countries have within their cultural pantry, a range of concepts of altruism or reciprocal obligation or charity which can be drawn upon to legitimate CR. And whilst they may be illuminating

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[55] Leading the authors to conclude that "CSR is positively associated with globalisation" and that "globalisation (and not Westernisation) is a key CSR driver." (Chambers *et al*. 2003: 24-6)
[56] In fairness to Gutierrez he does not argue that cultural factors are the main explanation.
[57] See for example Pio. 2005.
[58] Some contemporary European continental philosophers have founded an ethics on the basis that we are never alone before we are together. On this view, theories which posit an autonomous individual prior to social relations, and in which sociality consists precisely in the conflict between the two are phenomenologically wrong. Nancy, for example, offers a notion of 'being' as always 'being-with' and argues that 'being cannot be anything but being-with-one-another, circulating in the with and as the with of this singularly plural co-existence.' (Nancy. 2000: 3)

regarding the specific forms of take-up, it is hard to see cultural factors explaining why takeup is higher in some countries than others.

Kemp has argued, although without providing evidence, that CSR is weak in developing countries because "the institutions, standards and appeals system, which give life to CSR in North America and Europe, are relatively weak." (Kemp 2001, cited in Chambers *et al*. 2003: 2). For Kemp, weak governance and regulatory systems limit CR take-up. One can concede that, there is a logic to the argument that the voluntary initiatives which are often associated with CR can only be strengthened if underpinned by regulation which is both strong and enforced. But this does not explain the higher level of takeup of CSR in South Africa and Brazil than in North America, despite the former having weaker institutions and often weakly enforced regulations. Kemp's argument is premised on the assumption, undermined by the evidence we have seen so far, that developing countries have uniformly weaker CR than high income countries. This is the Western developmentalist argument which assumes that developing countries are on a path to eventually becoming like developing countries – that their desired and probable destination is to become 'like us'.

In short, explanations based on macro-economic correlations, on cultural and national specificity, and on weak national institutions have either been researched and disproved, or else are not persuasive.

Developing an alternative explanation

The evidence presented in this study is, arguably, compatible with the following explanatory framework, partly outlined in Chapter 2. This sees CR as <u>one</u> response to growing pressures on corporates; as <u>one</u> 'solution' in the current era of renegotiation of the relationship between business and society; and as a solution which generally emerges in developing countries where a number of key, primarily internal, factors are in place.

Broadly speaking one can conceive of three systemic <u>inter-related</u> pressures impacting on major global companies. These can be seen as constraints but also as potential opportunities too. They are:

- Biosphere pressures – associated with environmental **sustainability** and manifest in rising energy and input costs, globally unsustainable use of natural resources such as water, and dependence on unsustainable carbon-based energy and transport systems.
- Legitimacy pressures – associated with societal **values**, and manifest, for example, in declining trust in business, market-constraining regulation, consumer preferences and NGO pressures.
- Market pressures – associated with the traditional business priority of maximising **value** and returns, and manifest in investor pressures, the costs of meeting regulatory requirements, consumer behaviour, employee attitudes, supplier behaviour and similar.

These pressures manifest in many different ways, some of which may be currently strong, and others not. They also manifest in often contradictory ways. Market pressures, for example, to grow and maximise profitability, typically operate with a short-term horizon, whilst biosphere pressures unfold over a longer timeframe. Some factors, such as consumer pressure, may be strong in one context and not another. And the pressures are inter-related. Legitimacy, or lack of it, may undermine value. Biosphere pressures, when converted to business opportunities, may lead to enhanced value. Investor pressure may, as in the case of many institutional 'socially-responsible' investors, place a premium on companies which are committed to sustainable practices or which build their social legitimacy. But other investors may reward ignoring sustainable or 'ethical' practice in pursuit of short-term returns.

It is probably true to say that the current renegotiation of the relationship between business and society is marked by a greater degree of intrusion (even some convergence) of the traditional domain of value (and the pursuit of profit) by the values and sustainability drivers/pressures. But this is not equally the case in all countries. Whilst most major global companies are feeling the effects of sustainability pressures, not all are feeling legitimacy/values pressures impeding their pursuit of value.

Companies which are reflecting on and adapting to these three pressures, whether as risks or opportunities, will be thinking about CSR and sustainable development and how these relate to their business strategies, and are more likely to show CR take-up. But, of course, not all companies engaging with CSR will be engaging with these pressures, as the many examples of superficial CR provide testament – the 'greenwash' response. There are also a number of countries, such as China and Russia, where business does not respond to these pressures by engaging with or adopting CR, suggesting that CR is only one potential response.

This is the context. But what are the specific conditions which make it more likely for companies in one emerging market, but not in another, to be drawn to CR? In short, what do Brazil, South Africa and India have that China and Russia do not? Certainly some socio-political facts are suggestive, and have been mentioned or alluded to above. As Table 4.5 summarises:

- The GINI index, a measure of inequality, shows Brazil and South Africa to be easily the most unequal. Whilst India's co-efficient suggests much lower inequality, it is also the country with by far the largest percentage of its citizens living in absolute poverty (at least when defined in $ income per day at purchasing power parity).
- Brazil, India, and South Africa have in common an active and informed civil society, manifested in NGO activity and other social movements, such as of landless and homeless people.
- Again, all three countries, have democratic political systems. Arguably, organised business does not have a viable option of arguing for or promoting an autocratic political alternative. By contrast, the autocratic route has been adopted in China, and the presidency of Putin in Russia signifies a major step in a similar direction.
- India, Brazil and Russia all have patchy or non-existent provision of basic social services (such as education, healthcare and social security), although Brazil and South Africa have taken some steps in the direction of more effective provision in recent years.

Table 4.5 Summary of some socio-political features of BRICS countries

	GINI index	***population < $2 per day (%)***	***active & informed civil society***	***autocracy seen as a viable option by business?***	***basic state social provision***
China	44.7	46.7	No	Yes - currently	extensive
India	32.5	79.9	Yes	No	scarce
Brazil	59.3	22.4	Yes	No	patchy
Russia	31	n.d.	No	Yes	adequate
South Africa	57.8	34.1	Yes	No	uneven

These facts are suggestive. When combined with the review of literature on the BRICs already presented, and the empirical evidence gathered from the survey of CR reporting, we can reach three tentative conclusions:

- CR take-up will only arise if it is internally, rather than externally, driven. The Chinese example, where CR practice has largely been associated with pressure from external business partners, is the extreme case. There one finds limited take-up and internal 'ownership' of the concept. Supply chain CR is more akin to IMF conditionality than to corporate embrace of CR. Not surprisingly, a culture of 'audit' and compliance (as well as its counterpart of data fabrication and evasion) predominates. Similarly, the recent slight increase in CR reporting in Russia can be largely linked to the desire of leading companies to gain listings on the London Stock Exchange.
- CR take-up is most likely when the following specific factors are in place – high levels of poverty/inequality; an active and informed civil society; state 'failure' with regard to social provision; business leaders with viable global aspirations; and business organisations receptive to engaging with responsibility and sustainability issues (rather than with, say, autocratic political agendas). It is, of course, necessary that there are available existing philosophical and cultural traditions which can be drawn in constraining standard market approaches to profit maximisation – but the assumption is made that such traditions exist in all cultures.
- CR take-up is most likely where there are no realistic business alternatives – in particular where business does not see autocracy as a viable option for maintaining political order.

The Table below lists a range of factors. The extent to which these factors exist will affect the level of CR take-up in emerging markets. But, arguably, unless six key factors are in place one is unlikely to find significant levels of CR interest, which no amount of normative argument as to why CR or 'values' or 'ethics' 'should' be important, is likely to change.

Table 4.6 Key internal and external factors affecting CR take-up in emerging markets

		Internal	External
Social context	*high levels of poverty and inequality*	☑	
	active and informed civil society	☑	
Company and business leaders	*corporate HQ encourages CR (if a subsidiary)*		✓
	leading corporates with global aspirations	☑	✓
	peer pressure / 'soft' regulation	✓	✓
	receptive to engagement with issues (farsighted?)/ don't see autocratic alternatives	☑	
Government	*encourages (or doesn't discourage)*	✓	
	regulation	✓	
	state 'failure' re social provision	☑	
Market	*investor pressure*	✓	✓
	employee attraction and retention	✓	
	supply chain pressures		✓
	sustainable and responsible practice rewarded	✓	✓
Cultural	*available philanthropic traditions / ideologies*	☑	

☑ = *factors associated with emerging markets with high levels of take-up*

To a significant extent these factors exist in South Africa, India and Brazil. But not all exist in Russia and China.

We can regard the following hypothesis as being substantially supported – that ***CR is most likely to be found in emerging markets where it is internally driven, with high levels of poverty/inequality, an active and informed civil society, companies with global aspirations, and the lack of autocratic political options for organized business***. Only in this context is CR likely to make sense to business.

This is a more specific conclusion than that reached by Paine. She argues, as already mentioned in Chapter 2, that the key conditions[59] are where:

- 'information is free-flowing', and 'authority is decentralized and widely dispersed';
- 'members of the society have economic freedom' and are educated and well-informed about their choices of consumption, employment and investment;

[59] Paine is not specifically referring to emerging markets.

- society expects companies to behave ethically, and has ‘effective legal and regulatory systems[s] to enforce basic ethical norms’. (Paine. 2003: 76)

This enquiry suggests that the issue of economic freedom does not seem to be a key factor, nor does a high degree of education about consumption, employment and investment. Finally, the evidence presented suggests that effective legal systems (which often do not exist in South Africa, Brazil or India) are not a necessary condition for CR take-up, indeed that CR may be a self-interested corporate response in a context of weak institutions and weak social provision.

5) Conclusion

This study provides an initial insight into corporate responsibility in emerging markets. It suggests one should treat with scepticism the developmental paradigm and missionary/advocacy approach which often accompanies analysis of CR. The research indicates that it is not a question of developing countries 'catching up'. Nor are they at a 'lower' stage of development in relation to responsible practice, and simply require urging, education and encouragement. Rather, ***take-up is as high in some emerging markets as it is in leading developed markets, but only where it makes domestic business sense***. And it is more likely to make business sense in countries where the particular circumstances outlined in the previous chapter, apply.

Government regulation may encourage CR take-up or make some issues material which were not previously, but fundamentally it requires a change of strategic outlook by business, and this is only likely where it makes business sense. By this is meant it makes sense as an approach by business to the renegotiation of its relationship with society, and makes sense as a way of enhancing legitimacy, finding opportunities as well as managing risks.

This is a different argument from the oft-cited 'business case' argument. Companies will invariably find sound business case reasons to improve specific aspects of their performance – by introducing environmental management systems, increasing their eco-efficiency, reducing their input costs, even donating to charity, or complying with the audit demands required by those one supplies. One can expect these business case reasons to grow to the extent that values and sustainability pressures become more 'material' and value connected. But these are largely reactive and cost-saving measures. They will remain ad-hoc responses and at the more limited end of a spectrum whose most extreme end is incorporating sustainable and responsible practices into core business strategy.

The research contained in this study could be taken forward in two ways – further research to test the hypotheses presented and partially proven; and theoretical research to test some existing models of CSR and develop new modes of theorising capable of being applied to both developed and emerging markets.

The field would undoubtedly benefit from more in-depth research into a larger sample of companies in key emerging markets – going beyond the BRICS countries and including a larger number of companies from each country analysed, a sample large enough to analyse for sectoral, size or other possible correlations. Further research could combine, as this study has, both data collection and analysis of secondary literature.

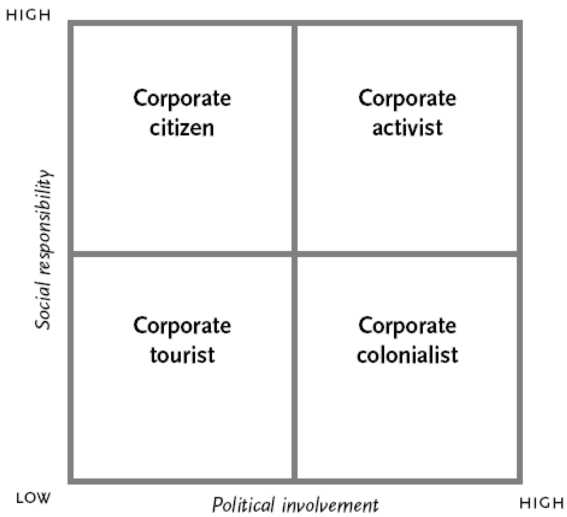
Further research would need to overcome the limitation of the current work, of being unable to distinguish fully between the strategic and the ad-hoc adopters of responsible corporate practice. Certainly the approach used in this study, assesses not only whether companies report on various issues (health and safety, environment etc), but also the extent to which they do – basically whether the company is doing nothing, a little or a great deal. Whilst this is a first step, future research needs to go beyond this.

The study argues that CR take-up is likely to be highest in countries where it is internally driven (and not the result of external 'conditionality' imposed on suppliers or local subsidiaries of trans-national corporations). In short, ***CR take-up will be highest and meaningful only where it has a business logic for domestic firms … and this will generally be where there are high levels of poverty/inequality; an active and informed civil society; companies with global aspirations, and the lack of autocratic political options for organized business***. It should be possible, through further research, to test the predictions implicit in this assertion and see whether it holds in Chile, Mexico, Venezuela, Morocco, Turkey, Thailand, Bulgaria, Vietnam, and other key emerging markets.

At a more theoretical level, further work could be fruitful and would involve challenging the approaches to CR adopted by some established writers. Some thought has been given to the study of transnational CR (Arthaud-Day. 2005; van der Putten. 2005), but this invariably involves the study of the operations of transnational companies (TNC) in emerging markets, rather than treating emerging market companies as key actors in their own right. This is not to argue against there being merit in looking at the operations of TNCs, but perhaps such studies need to assume a more interactive dimension and examine the inter-related impacts and interests of companies and the markets within which they operate.

In this regard a model developed by Malan (2005) may be worth revisiting. His approach, whilst limited to the operations of South African companies elsewhere in Africa, could be fruitfully generalised. Malan looks at how balancing "their primary economic roles with their social involvement (e.g. through local corporate social responsibility programmes) and their political involvement (e.g. through using direct access to government ministers or even heads of state) has an impact on how they will be viewed by the different stakeholders in host countries.” (2005: 54).

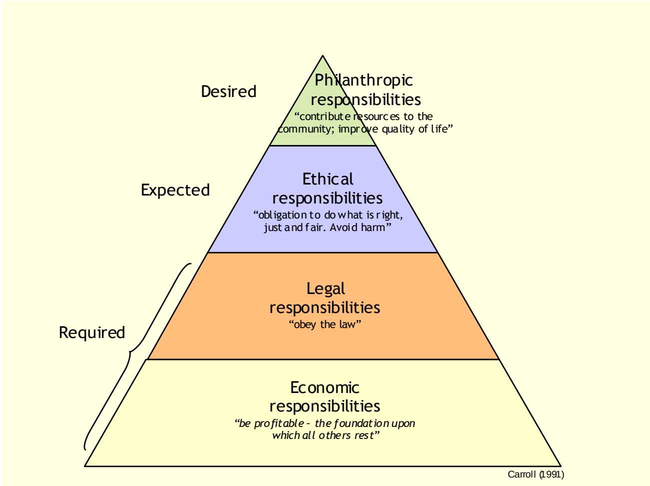
Chart 5.1 Malan’s model



As summarised in Chart 5.1, ‘corporate citizens’ “have high levels of social involvement, but stay away from involvement in the political process. Their intention is to profit from new markets, but they enter into such markets with a sense of humility and respect for local customs, traditions and even competitors… ‘Corporate colonialists’ follow strategies similar to the doctrine of economic colonialism: that is, acquiring ‘colonies’ or regions as a source of profit, without any real regard for the well-being of those regions…. ‘Corporate tourists’ are companies that establish a quiet presence in host countries without much social or political involvement. This approach could be the result of a specific conservative strategy to ensure an easy exit if things go wrong or could be as a result of a lack of strategy altogether… ‘Corporate activist[s]’ [arguably have] a moral *obligation* … to become involved in the political process”, although he concedes it is not always clear when this should occur (Malan. 2005: 56). One of the implications of this study is that the ‘conditionality’ approach to CR may be found in both the ‘colonialist’ and ‘activist’ quadrants.

Carroll’s well-known work (1991; 1999) contains an implicit explanation (or at least description) of CR. In one respect his thinking is close to the position adopted in this study – that the emergence of CR was driven by the confluence of organised business awareness of the need to behave responsibly and pressure/high expectations from civil society for corporate accountability.

Chart 5.2 Carroll's four-part pyramid model of CSR



But his four-part pyramid model (1991: 42), illustrated in Chart 5.2, clearly needs rethinking when it comes to emerging markets. In part it already has been, and not only for its omission of the environmental/sustainability dimension. Visser, analysing issues such as HIV/Aids and corporate philanthropy from an African perspective, has argued that "the relative priorities of CSR in Africa are likely to be different from the classic, American, ordering" (Visser. 2006: 48).

Paine's work is especially interesting in its argument that there is "an emerging new standard of corporate performance – one that encompasses both moral and financial dimensions" (2003: ix). Her approach which contrasts the 'ethics costs' and 'ethics pays' arguments and finds a partial overlap (61), is broadly similar to the three-part approach of value, values and sustainability adopted in this study. But Paine, as I have argued in the previous chapter, needs to rethink the applicability of her explanatory model in relation to emerging market companies.

In short, there is room for further conceptual and empirical work arising from the findings of this study.

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Annexure 1 – Data used in analysis of emerging markets

Area	Category	Extent	Emerging markets	Europe	Japan	North America
Ethics	Business ethics policy/code	Little or nothing	39	54	103	31
		Partial	56	110	196	108
		More extensive	32	291	140	550
	Business ethics management system	Little or nothing	84	119	126	66
		Partial	31	155	137	479
		More extensive	12	181	176	144
Environment	Environment policy	Little or nothing	61	103	129	413
		Partial	27	90	77	116
		More extensive	39	262	233	160
	Environment management system	Little or nothing	59	101	116	411
		Partial	34	115	51	171
		More extensive	34	239	272	107
	Environmental reporting	Little or nothing	99	183	170	606
		Partial	24	187	211	79
		More extensive	4	85	58	4
Human Resources	Equal opportunity (EO) policy	Little or nothing	82	82	275	60
		Partial	24	71	63	185
		More extensive	21	302	101	444
	EO management systems	Little or nothing	100	121	197	528
		Partial	13	144	239	114
		More extensive	14	190	3	47
	Occupational Health & Safety (OHS)	Little or nothing	70	102	187	421
		Partial	14	150	166	150
		More extensive	43	203	86	118
	Employee training	Little or nothing	61	100	253	624
		Partial	66	355	186	65
		More extensive	n.d.	n.d.	n.d.	n.d.
Community	Community/philanthropy	Little or nothing	40	84	187	228
		Partial	23	177	149	241
		More extensive	64	194	103	220
Other	% women on the board	%	5.2	7.7	0.6	12.4

All data above refers to number of companies with indicated extent of activity, by category. All data (except % women board members), used, as per methodology, to created a consolidated average score out of 10 by area and overall. For details see methodology section. All data below refers to consolidated average score by country and area.

	# companies	Overall score	Philanthropy	Ethics	Environment	Human Resources
South Africa	16	7.2	10.0	6.9	4.7	8.2
Brazil	11	5.8	9.1	4.5	5.5	5.8
India	10	5.6	8.5	5.8	5.2	4.8
Russia	15	2.1	3.0	0.3	2.7	2.1
China	19	1.1	1.1	1.2	1.6	0.7

Annexure 2 – FTSE economic group and sector classifications

ECONOMIC GROUPS	SECTORS	SUBSECTORS
00 *RESOURCES*	04 MINING	**043 Gold Mining** Prospectors for, extractors and refiners of gold bearing ores.
		045 Mining Finance Finance houses engaged in financing and developing mining interests or deriving an income from mining interests.
		048 Other Mineral Extractors & Mines Companies engaged in the exploration, extraction and/or refining of minerals other than gold.
	07 OIL & GAS	**073 Oil & Gas - Exploration & Production** Companies engaged in exploration for, and production of, mineral oil and gas.
		075 Oil – Services Providers of services, including drilling, for oil and natural gas exploration and production. (NB: As distinct from "Gas Distribution" in the Utilities Economic Group - 730).
		078 Oil – Integrated Companies engaged in the exploration for, production, refining, distribution and supply of mineral oil and gas products.
10 *BASIC INDUSTRIES*	11 CHEMICALS	**113 Chemicals – Commodity** Producers of commodity and industrial chemicals, industrial gases and fibres.
		116 Chemicals - Advanced Materials Producers of cellular polymers and specialist plastics. Manufacturers of polystyrene and other plastic packaging materials.
		118 Chemicals – Speciality Producers of fine chemicals, dyestuffs and chemicals for specialised applications.
	13 CONSTRUCTION & BUILDING MATERIALS	**131 Builders Merchants** Wholesalers of building materials and timber importers
		132 Building & Construction Materials Producers of materials used in the construction and refurbishment of buildings and structures (e.g. cement, glass and flooring materials other than carpets - not classified in 'Furnishings & Floor Coverings' - 342 in the 'Cyclical Consumer Goods' Economic Group) and refractory materials.
		134 House Building Constructors of residential buildings.
		137 Other Construction Constructors of non-residential buildings. Infrastructure contractors and providers of services to construction.
	15 FORESTRY & PAPER	**153 Forestry** Owners and operators of timber tracts, forest tree nurseries and sawmills.
		156 Paper Producers, converters and merchants of all grades of paper.
	18 STEEL & OTHER METALS	**186 Non-Ferrous Metals** Metal traders or producers of primary non-ferrous metal products, encompassing all processes from smelting to alloying, rolling and drawing.
		188 Steel Steel stockholders or manufacturers of primary iron and steel products, encompassing all processes from smelting in blast furnaces to rolling mills and foundries.
20 *GENERAL INDUSTRIALS*	21 AEROSPACE & DEFENCE	**215 Aerospace** Manufacturers and assemblers of aircraft, equipment and aircraft parts primarily used in commercial or private air transport.
		216 Defence Producers of components and equipment for the defence industry.
	24 DIVERSIFIED INDUSTRIALS	**240 Diversified Industrials** Industrial companies engaged in three, or more, classes of business that differ substantially from each other, no one of which contributes 50%, or more, of pre-tax profit, nor less than 10%.
	25 ELECTRONIC & ELECTRICAL EQUIPMENT	**252 Electrical Equipment** Producers and distributors of industrial electrical components and equipment.
		253 Electronic Equipment Producers and distributors of industrial electronic components and equipment not classified elsewhere (e.g. in 'Aerospace & Defence' - 215 & 216, 'Household Appliances & Housewares' - 345 - or the 'Hardware' sector of the 'Information Technology' Economic Group - 932, 936 and 938.
	26 ENGINEERING & MACHINERY	**263 Commercial Vehicles & Trucks** Manufacturers of commercial vehicles, railway rolling stock and heavy agricultural and construction machinery and their parts.
		264 Engineering – Contractors Designers, manufacturers and installers of industrial plant and pollution control equipment.
		266 Engineering Fabricators Producers of castings, pressings, welded shapes; fabricators and erectors of structural steelwork.
		267 Engineering – General Engineering companies not classified elsewhere, making or distributing a variety of products.

30 ***CYCLICAL CONSUMER GOODS***	**31 AUTOMOBILES & PARTS**	**311 Automobiles** Companies which manufacture and assemble passenger automobiles and motorcycles. **313 Auto Parts** Manufacturers and distributors of auto parts other than those classified elsewhere (e.g. in "Tyres & Rubber" - 317). **317 Tyres & Rubber** Tyre manufacturers and distributors. Tyre treaders for automobiles, trucks, tractors and aircraft. **318 Vehicle Distribution** Distributors, sellers and/or servicers of vehicles.
	34 HOUSEHOLD GOODS & TEXTILES	**341 Clothing & Footwear** Manufacturers or wholesalers of all types of clothing and footwear, including those for sportswear. **342 Furnishings & Floor Coverings** Manufacturers and distributors of furniture (including office furniture) and furnishings, carpets and other materials for covering floors. **343 Consumer Electronics** Manufacturers or distributors of consumer electronic and electrical equipment. **345 Household Appliances & Housewares** Manufacturers or distributors of domestic appliances, lighting, tools for use in the home, hardware, cutlery, tableware, giftware, jewellery and watches. **347 Leisure Equipment** Manufacturers or distributors of leisure equipment not classified under 'Clothing & Footwear' – 341. **349 Other Textiles & Leather Goods** Manufacturers or distributors of textile materials and goods other than clothing and of leather goods other than footwear. Processors of hides and skins.
40 ***NON-CYCLICAL CONSUMER GOODS***	**41 BEVERAGES**	**415 Beverages - Brewers** Manufacturers and shippers of malt and malt liquors such as beer, ale and stout (NB: brewers are classified in 'Beverages - Brewers' - 415 or in the 'Restaurants and Pubs' subsector - 539 of the 'Cyclical Services' Economic Group). **416 Beverages - Distillers & Vintners** Distillers, blenders and shippers of alcoholic beverages such as whisky, brandy, rum, gin or liquors. Producers of wine and cider. **418 Soft Drinks** Manufacturers of non-alcoholic beverages including carbonated mineral waters.
	43 FOOD PRODUCERS & PROCESSORS	**433 Farming & Fishing** Crop growers, excluding forestry. Companies which raise livestock, commercial fishers and manufacturers of livestock feeds. Owners of plantations. **435 Food Processors** Processors and wholesalers of food.
	44 HEALTH	**443 Health Maintenance Organisations** Owners and operators of health maintenance organisations. **444 Hospital Management & Long-Term Care** Owners and operators of hospitals, clinics, nursing homes, rehabilitation and retirement centres. **446 Medical Equipment & Supplies** Manufacturers of medical equipment, devices and eye care products. **449 Other Health Care** Diversified and other healthcare companies not classified elsewhere (e.g. "Education, Business Training & Employment Agencies" - 583).
	47 PERSONAL CARE & HOUSEHOLD PRODUCTS	**475 Household Products** Producers and distributors of detergents, soaps and polishes. **477 Personal Products** Producers and distributors of toiletries, cosmetics and hygiene products.
	48 PHARMACEUTICALS & BIOTECHNOLOGY	**482 Biotechnology** Companies, the majority of whose research and development involves the use of living material as its means of drug discovery and diagnostics development. The majority of its revenue is derived from either the sale or licensing of these drugs and/or diagnostic tools. **486 Pharmaceuticals** Companies involved in drug research, development, exploitation and distribution other than those classified elsewhere (e.g. "Biotechnology" – 482)
	49 TOBACCO	**490 Tobacco** Cigarette or tobacco manufacturers and wholesalers.

50 ***CYCLICAL SERVICES***	**52 GENERAL RETAILERS**	**524 Discount & Super Stores & Warehouses** Shops concentrating on mass distribution of both hardlines and soft goods at discounted prices due to volume.
		525 Retailers e-Commerce Retailers conducting the majority of their business on the Internet or other electronic systems (e.g. digital TV). Retailers also conducting business by traditional means will be classified under other retailing sub sectors until published figures reveal that over 50% of their business, as measured by profit or turnover, is derived from e-commerce related activities.
		526 Retailers – Hardlines Shops and wholesalers concentrating on the sale of a single class of goods, not classified elsewhere.
		527 Retailers - Multi Department Retail outlets with more than one department, selling a varied range of goods not classified elsewhere (e.g. 'Discount & Super Stores and Warehouses' - 524).
		528 Retailers - Soft Goods Shops concentrating on the sale of a single class of soft goods - clothing, etc.
	53 LEISURE & HOTELS	**532 Gambling** Providers of gambling and casino facilities.
		536 Hotels Hoteliers and hotel service companies.
		538 Leisure Facilities Providers of leisure facilities.
		539 Restaurants and Pubs Operators of restaurants and pubs, including integrated brewery companies.
	54 MEDIA & ENTERTAINMENT	**542 Television, Radio & Filmed Entertainment** Independent radio and television contractors, not classified elsewhere, (e.g. "Subscription Entertainment Networks" - 543). Companies providing facilities and/or programmes for contractors. Film production.
		543 Subscription Entertainment Networks Providers of television, media services and programming facilities driven by subscriptions.
		545 Media Agencies Advertising, marketing and public relations agencies and consultancies.
		546 Photography Manufacturers of photographic equipment for use by the general public. Operators of photographic studios and film development companies.
		547 Publishing & Printing Publishers of information via printed or electronic media. Printers or distributors of printers' requisites and artists' materials.
	58 SUPPORT SERVICES	**581 Business Support Services** Providers of non-financial services to a wide range of industries which could have been provided "in house" excluding those activities classified elsewhere.
		582 Delivery Services Couriers and providers of non-contractual mail and package delivery services.
		583 Education, Business Training & Employment Agencies Providers of education, business and management training courses and employment services.
		584 Environmental Control Providers of solid and hazardous waste management, recovery and disposal services. Funeral directors, cemetery and crematorium operators.
		587 Transaction & Payroll Services Providers of financial administration services.
		588 Security & Alarm Services Companies installing, servicing and monitoring alarm systems and those providing security services.
	59 TRANSPORT	**591 Airlines & Airports** Air transport companies and operators of airports and related facilities and services.
		596 Rail, Road & Freight Land transport and related facilities and services, including road and tunnel operators, vehicle rental and agencies which undertake the transportation of goods from shippers to receivers.
		597 Shipping & Ports Water-borne transport and related services and terminal facilities.
60 ***NON-CYCLICAL SERVICES***	**63 FOOD & DRUG RETAILERS**	**630 Food & Drug Retailers** Retailers of food and drug products.
	67 TELECOMMUNICATION SERVICES	**673 Fixed-Line Telecommunication Services** Operators of fixed-line telecommunications networks.
		678 Wireless Telecommunication Services Operators of mobile (cellular and satellite broadcast) telecommunications networks.
70 ***UTILITIES***	**72 ELECTRICITY**	**720 Electricity** Generators and distributors of electricity.
	77 UTILITIES - OTHER	**773 Gas Distribution** Distributors of natural and manufactured gas.
		775 Multi-Utilities – Other Companies where the majority of total profits arise from the provision of utilities, where no single utility accounts for greater than 80% of the profits arising from utilities.
		778 Water Companies responsible for the provision of water and the removal of sewage.

80 *FINANCIALS*	81 BANKS	**810 Banks** Banks providing a broad range of financial services, with significant retail banking and money transmission.
	83 INSURANCE	**833 Insurance Brokers** Insurance and life assurance agencies. **834 Insurance - Non-Life** Companies engaging principally in accident, fire, marine and other classes of insurance business not classified elsewhere. **837 Re-insurance** Re-insurance companies. **839 Other Insurance** Insurance companies with life assurance, non-life insurance and re-insurance interests, no one of which predominates.
	84 LIFE ASSURANCE	**840 Life Assurance** Companies engaging principally in life assurance and/or disability business.
	85 INVESTMENT COMPANIES	**850 Investment Companies (eligible for index inclusion)** Companies engaged primarily in owning stakes not giving control in a diversified range of companies which are FTSE Index eligible subject to passing the relevant entry criteria.
	86 REAL ESTATE	**862 Real Estate Holding & Development** Companies specialising in the ownership and/or development of property assets not classified elsewhere. **864 Property Agencies** Estate agents and surveyors. **867 Real Estate Investment Trusts** Real Estate corporations or trusts registered in the United States approved under s.856 of the United States Code Title 26, Subtitle A, Chapter 1, Subchapter M, Part 2, or registered in other countries under similar distinguishing legislation.
	87 SPECIALITY & OTHER FINANCE	**871 Asset Managers** Asset managers. **873 Consumer Finance** Credit card companies, providers of personal finance services (i.e. personal loans) not classified under 'Mortgage Finance' – 877. **875 Investment Banks** Banks providing a range of specialist financial services, primarily to corporate Clients and stockbrokers. **877 Mortgage Finance** Institutional providers of mortgages and mortgage insurance not engaging in other types of retail or commercial banking. **879 Other Financial** Financial holding companies, security and commodity exchanges and companies engaged in financial activities not specified elsewhere.
	89 INVESTMENT ENTITIES	**890 Investment Entities (ineligible for index inclusion)** Companies ineligible for inclusion in FTSE Indices due to their being engaged primarily in owning stakes not giving control in a diversified range of companies. These include open-ended investment companies, currency funds and split capital investment trusts in which two or more classes of capital have different entitlements to assets and/or income after meeting the requirements of any other capital classes or borrowings.
90 *INFORMATION TECHNOLOGY*	93 INFORMATION TECHNOLOGY HARDWARE	**932 Computer Hardware** Manufacturers and distributors of computers and associated electronic data processing equipment and accessories. **936 Semiconductors** Semiconductor capital equipment, wafer and chip manufacturers and distributors. **938 Telecommunications Equipment** Manufacturers and distributors of digital equipment used in telecommunications, including mobile telephones, exchanges and microwave systems.
	97 SOFTWARE & COMPUTER SERVICES	**972 Computer Services** Providers of computer services. Consultants for information technology not classified elsewhere (e.g. Education, Business Training & Employment Agencies - 583). **974 Internet** Access providers, internet software, on-line service providers. **977 Software** Producers, and distributors of computer software.