# Corporate Social Responsibility:

# Doing Good or Doing Business?

## A report about the challenges of CSR for businesses in the emerging markets of the BRIC countries

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## Abstract


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| **Title:** | *Corporate Social Responsibility: Doing Good or Doing Business?* A report about the challenges of CSR for businesses in the upcoming economies of the BRIC countries. |
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| **Supervisor:** | B.A.M.M. Kuijpers |
| **Purpose:** | The purpose of this report is to analyse the presence of CSR in the emerging economic and political countries of the BRIC and the difficulties that Western corporations with a high CSR policy encounter when trying to carry out CSR related activities. |
| **Methodology:** | This research is of qualitative nature with an inductive approach - it consists of collected information and examples about both CSR and the BRIC and logical conclusion taken from it. |
| **Theoretical perspective:** | Corporate social responsibility is a theory based on the assumption that corporations in the modern economy integrate some sort of self-regulation into their business model to take into account social, environmental and economic conditions that go beyond what law requires when operating in a certain area. |
| **Empirical foundation:** | In the BRIC countries, aspects like poverty, lack of political freedom, lack of good regulation, poor working conditions and other issues cause, next to the vagueness of the concept CSR, many challenges for businesses that want to maintain or improve their CSR policy. |

## List of Abbreviations

3Ps – people, planet, profit

BP – British Petroleum

BRIC – Brazil, Russia, India and China

BSR – Business for Social Responsibility

CSO – Civil Society Organisation

CSR – Corporate Social Responsibility

EC – European Commission

EPI – Environment Performance Index

EU – European Union

GEI – Governance Environment Index

GRI – Global Reporting Initiative

ILO – International Labour Organization

ISO – International Organization for Standardization

MNCs – Multinational corporations

NGO – Non Governmental Organisation

OECD – Organisation of Economic Co-operation and Development

RoHS – Reduction of Hazardous Substances

TBL – Triple Bottom Line

UN – United Nations

UNEP – United Nations Environment Programme

WBCSD – The World Business Council for Sustainable Development

WEEE – Waste Electric and Electronic Equipment

WTO – World Trade Organisation

WWF – World Wide Fund for Nature

## Executive Summary

Corporate Social Responsibility is an emerging term often used in the globalizing world. The concept CSR has many definitions. The general idea is that companies involved in CSR improve their activities on economic, social and environmental level. This theory is called the Triple Bottom Line. Thus, a sustainable approach by a company is when the company takes full responsibility towards both society and environment of the area it operates in and at the same time sustaining its economic dimension on a voluntary basis. Companies can have different motivations for engaging in CSR practices. Some use it as a marketing tool and others focus purely on meeting the needs of its stakeholders. The general idea behind CSR is that the company gets involved in more responsible and accountable actions than law requires, because it takes into account the voices of all the different stakeholders.

Where in fact CSR started off as a voluntary principle coming from the business community, the globalization of the world and the upcoming economies of the BRIC countries introduced the 'new CSR'. New CSR can be seen as a necessary business tool for companies in order to survive in the market. Rapidly emerging institutions, regulations and other pressures in this field, ensure that CSR is changing from voluntary to mandatory. In other words, businesses cannot perform their activities in a vacuum anymore. Therefore, it can be concluded that CSR has changed from 'doing good' into 'doing business.'

This report examined the existing ideas behind CSR and placed them in the current market situation of the BRIC countries. The concept of CSR is successfully integrated in the developed countries, but still has a long way to go. Companies in the BRICs still face many environmental and social challenges in their daily operations. On one hand, the rapid economic growth of the BRIC lifted millions of people out of poverty, but on the other hand needs to keep in pace with the stricter regulations and the greater social and environmental control. This might be the greatest challenge of all.

A company its relationship with local communities and environment is an important factor in order to be able to operate effectively. Furthermore, the status of a company in relation to these two dimensions is increasingly used to measure a company's overall performance. Tools like the UN's Global Compact, ISO 26000 and sustainability reporting NGOs help businesses to improve their relationship with society and environment and their status.

However, this report describes the lack of interest under domestic companies in the BRIC multiple times. They view the concept of CSR more as an additional, sometimes unnecessary task. Naturally, for companies with a high CSR policy working together in supply chains increases the risks of unethical businesses practices. Some scholars suggest that increased foreign investment in the BRIC will lead to the utilization of CSR practices by domestic companies as well.

After analysing the current CSR situation in the BRIC countries and the pressures coming from the different stakeholders, a country ranking system was developed in order to compare the four countries among each other based on their scores on corruption, poverty, income inequality, child labour, quality of democracy, quality of life, environmental performance and environmentally active. In this ranking system, Brazil seems to score best on most of the criteria and has the highest average, but the country does not have a clear conscience either. Literature research shows that Brazil too holds many social and environmental challenges for businesses.

In conclusion, because CSR is a concept that is not equally applicable to every country and every industry or businesses in the world, companies that want to get involved or enhance their CSR practices really need to develop a solid strategy that includes all the areas of their activities and issues they might contribute to. The main findings resulted in a number of recommendations that companies can use to get involved in responsible activities and improve their sustainable initiatives.

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# 1. Introduction

The call for more responsible and accountable behaviour from corporations has never been louder and many businesses are trying to reach the status of corporate citizenship by taking more responsibility about their social impacts and environmental footprints and take into account the desires of all the different stakeholders. The growing population and the future of the planet are two important factors contributing to the fact that focus has shifted from just doing business to inspiring and supporting the local communities and environment. It has been said that such an approach will secure the long-term competitiveness of a company and a sustainable planet for the people (SustainAbility, 2010).

## 1.1. Problem definition

The idea of Corporate Social Responsibility (from now on referred to as CSR) is also growing in the BRIC countries. The abbreviation BRIC stands for a group of 'economic and politically emerging countries from different continents' formed in 2009: Brazil, Russia, India and China. In April 2011, South Africa put some effort to join the group, so the official term is now BRICS (Bodeen, 2011). However, in this report South Africa is excluded from the research because it is not a member of the original partnership. To limit the scope, this report only focusses on the original partnership.

The term BRIC was first officially used in 2003 in a report by Goldman Sachs, a global banking and securities corporation. It speculated that the economies of the BRIC countries together would perform better than the western economic powers of today. At the moment the BRIC countries compose forty-five per cent of the economic growth, eighteen per cent of the international trade and forty per cent of the world's population (Bodeen, 2011). Taking into account the current position and growth of the BRICs, some argue that the economies of the four countries combined could exceed the economies of the wealthiest countries of the world today by 2050 (Haub, 2012). The influence and power of these emerging markets have significant consequences for the future ways of conducting business (Ha, & Krishnan, 2011).

CSR has developed as a concept from within the Western economies, starting from a voluntary perspective and is becoming more and more guided by many supplementary regulations and obligations that businesses have to comply with. However, with the upcoming economies of the BRIC countries, several scholars (Argandona and Hoivik,

2009; Devinney, 2009; Dober, 2009; Dobers and Halme, 2009; Halme, et al., 2009) are questioning the capacity of the traditional approach to CSR for countries where authorities and economic circumstances are different from the Western world. They believe that the concept of CSR gets a different meaning and approach in the BRIC countries, where the institutions are corrupt or weak, poverty and poor working conditions are predominant and laws and regulations are arbitrary (Dobers & Halme, 2009).

World Bank accounts the BRIC countries as the 6th (Brazil), 2nd (China), 9th (India), and 10th (Russia) largest economies of the world (World Bank, 2012). Massive economic growth in these countries has led to environmental and social problems like environmental degradation and unequal distribution of incomes. For example, in India more than sixty per cent of the population still lives on less than $2 per day (World Bank, 2010). Russia is ranked 133th out of 174 countries when it comes to corruption (Transparency International, 2012). Unequal income distribution in Brazil is of the highest levels in the world (World Bank, n.d.). Additionally, democracy in China is not functioning and Russia curtails press freedom and controls Civil Society Organisations (CSOs) severely since the year 2000 (Emerald Group, 2011).

### 1.1.1. Problem statement

**Hypothesis:** Given the economic and political differences between the Western economies and the BRIC countries, the motivation for a company to carry out a good CSR policy in the emerging markets is likely to differ from the Western context and will put new perspectives on the definition of CSR. Businesses with a high CSR policy that want to do business in (one of) the BRIC countries are likely to come across several challenges before they can successfully integrate CSR into their business strategy.

**Research question:** What are the challenges of Corporate Social Responsibility for businesses with high CSR policy in the emerging markets of the BRIC countries?

### 1.1.2. Sub questions

- What is the definition of CSR?
- What is the use of CSR?
- What is the current situation regarding CSR in the BRIC countries?
- Is there any legislation involved, or is it purely coming from a business perspective?
- Which businesses are actually actively engaged in CSR?
- What are the pressures behind CSR?
- What are the challenges related to CSR in the BRIC countries?
- What can companies do to overcome these challenges?

## 1.2. Focus of the report

Within this report CSR is considered as a business strategy that companies highly value when operating in a certain area. A sustainable approach by a company is when the company takes full responsibility towards both society and environment of the area it operates in and at the same time sustaining its economic dimension. The general idea behind CSR is that the company gets involved in more responsible and accountable actions than law requires, because it takes into account the voices of all the different stakeholders. Hence, both the Triple Bottom Line concept including people, planet and profit, and the ethical theory for sustainability are important factors for defining CSR.

Furthermore, when researching and analysing the challenges for businesses in the BRIC countries, the report focusses on businesses with high CSR policies that want to contribute to the sustainable development of the area they operate in. To put the story into perspective, foreign business approaches are sometimes compared to domestic business ethics.

### 1.3. Report structure

This Bachelor thesis consists of 7 Chapters. *Chapter 1* puts forward the scope of the research by describing the problem as a general introduction and defining the research questions.

*Chapter 2* describes the concept Corporate Social Responsibility from different perspectives by providing several definitions, explaining idea behind the Triple Bottom Line and analysing different theories for Corporate Social Responsibility.

*Chapter 3* gives a brief overview of the contemporary CSR situation in the BRIC countries. A short analysis about each of the countries is provided.

*Chapter 4* outlines the internal and external pressures on CSR, coming from both the different stakeholders and the business itself. This chapter can be viewed as a conclusion drawn from the analyses described in Chapter 3.

*Chapter 5* details the challenges that companies should take into account when wanting to do business in one of the BRIC countries. A self-designed country ranking system for the BRIC countries based on ten key challenges determines which country has the best conditions in the social and environmental spheres. Please make note that this ranking system might be perceived subjective as not all the issues are being taken into account and own conclusions are drawn.

*Chapter 6* summarizes the previous five chapters and answers the research question through the sub questions.

*Chapter 7* gives recommendations to businesses that are already operating or want to start operating in (one of) the BRIC countries based on the findings of the report.

KEY WORDS: BRIC (Brazil, Russia, India, China), challenges, corporate citizenship, Corporate Social Responsibility, driving forces, pressures, sustainable development, Triple Bottom Line

### 1.4. Research methodology

This paper explores the challenges in relation to CSR for businesses with high CSR policies, have policies on the three dimensions of the TBL and follow the ethical business approach, that are either already operating or want to operate in (one of) the BRIC countries. The content of this report is the result of qualitative research. By examining the current CSR situation from both economic and legal perspective of each country and making a comparison framework, important conclusions can be drawn for the recommendations. The focus is on companies which argue to have CSR activities high on their agenda and to find out by conducting literature research what challenges they face. A self-developed ranking system outlines some of the challenges businesses face that are highly represented in the BRIC countries.

### 1.5. Limitations to research

Remarkably, many of the reports and research that can be found on the World Wide Web in relation to this topic is written and published by Western authors, organisations or countries. Just a handful of sources are coming directly from scholars or researchers within one of the four countries. Therefore, it is doubtful if the results are always objective, since authors unconsciously place a situation into perspective and compare it to the situation in their country of origin. Of course there might be more relevant sources, but these are then published in the original language of one of the BRIC countries.

Furthermore, with the BRIC countries each being an enormous player in the world economy and all different from each other in political, economic and cultural perspective, the scope of this report is very broad and it is difficult to find and summarize the concise information necessary to answer the sub questions.

## 2. Corporate Social Responsibility

CSR has become a very important keyword in the business world, especially during the past fifty years (TRUiST, 2013). Interest in the concept is growing under businesses, authorities, academics, media and the society itself. Some even argue that understanding the economy of today is not possible without CSR. It has become a popular expression in everyday life. Just try to Google it and one will get over ninety million results.

The reason behind the CSR explosion in the modern world is the role of businesses and their huge influence and power they have in the economy. To wit, Global Trends has discovered that fifty-one out of the hundred biggest economic entities are companies and only forty-nine are countries (Keys & Malnight, 2009). The influence that these economic entities carry out is fostered by the process of globalization, the increased deregulation and privatization in nation states, the revolution in communication and the increased access to information by the general public. Furthermore, the countless amounts of scandals in the business world that have become public knowledge enlarge the call for accountability and responsible behaviour of businesses. Winston Churchill used to say that 'the more power, the more responsibility' (Mullerat, 2010).

The growing importance of CSR affects the interconnection between a company and its stakeholders. One can see that these days, not only the shareholders have to be satisfied, but all the stakeholders are forming an opinion about the way business is conducted (Fishman, Heal & Nair, n.d.). Because of the many different voices, there is little agreement on the definition of CSR. In fact, there is no worldwide accepted definition on CSR, since it has emerged before the Industrial Revolution and has evolved in different ways over time (Argandoña & Weltzein Hoivik, 2009).

The lack of consensus about the true meaning and the causes and effects results into difficulties when it comes to studies about CSR, whereas the subject seems to have different meanings for different interest groups (Fishman, Heal & Nair, n.d.). When CSR is discussed one must keep in mind that it is about the 'corporate' part of responsibility, in other words the accountability of businesses (Mullerat, 2010).

To get a better understanding of CSR, there are several popular definitions provided underneath, as well as an explanation about the Triple Bottom Line - a generally accepted idea behind CSR - and the four different approaches to CSR identified by Garriga and Melé in 2004.

### 2.1. CSR definitions

The ambiguity surrounding the subject has resulted into several different definitions on CSR. Recently, a study on CSR definitions identified thirty-seven different definitions on the concept (Carroll & Shabana, 2010). A very comprehensive definition comes from Michael Hopkins, a professor at Middlesex University and expert on ethical business practices. He divides his view on CSR into four different points:

1. "Corporate Social Responsibility is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. 'Ethically or responsible' means treating key stakeholders in a manner deemed acceptable according to international norms.
2. Social includes economic and environmental responsibility. Stakeholders exist both within a firm and outside.
3. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation or the integrity of the institution, for people both within and outside of these entities.
4. CSR is a process to achieve sustainable development in societies (Hopkins, 2011)."

Another important definition on CSR comes from the European Commission. As mentioned before, CSR is becoming a more and more important item on the agenda in the business community. In 2011 the Commission published a new policy on this topic. They define CSR as follows:

"CSR is the responsibility of enterprises for their impacts on society. In order to meet this responsibility, enterprises should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders (European Commission, 2013)."

A third definition to give a detailed overview of CSR is provided by The World Business Council for Sustainable Development (WBCSD), which offers business solutions for a sustainable world:

"Corporate Social Responsibility is the continuing commitment by businesses to contribute to economic development while improving the quality of life of the workforce and their families as well as that of the community and society at large (WBCSD, n.d.)."

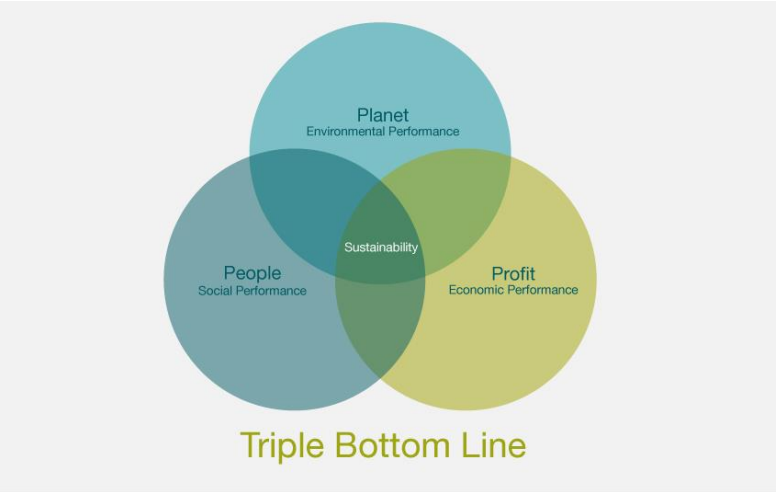
From the definitions above, one can imagine that CSR can be interpreted in many different ways, but there is some criticism on the concept as well. CSR has often been described as ‘vague and ill-defined’, ‘lacking a dominant paradigm’ and ‘susceptible to subjective and value-laden judgements’. Although there is no worldwide accepted definition on CSR, all definitions agree that the general idea behind it is that a company has to increase the wellbeing of all its stakeholders on economic, environmental and social level (Jamali, 2008). It might be important to mention that some definitions make the important remark that the activities have to be on a voluntary basis.

Next to CSR there is the concept of corporate citizenship. Many people use the terms corporate citizenship and CSR equally. Ramón Mullerat describes the concept corporate citizenship in his book International Corporate Social Responsibility in Practice (2010). He mentions that businesses need to reform into corporate citizens by taking more responsibility about their social and environmental footprints and communicate with all the stakeholders instead of just with the shareholders. Some argue that corporate citizenship has the same meaning as CSR; others believe that corporate citizenship gives the company a better understanding of its role in society. However, Mullerat argues that “CSR is the activity of a good corporate citizen (Mullerat, 2010).”

### 2.2. The Triple Bottom Line

Continuing on the previously described idea that CSR is about doing good on economic, environmental and social level, the Triple Bottom Line concept is explained in this section. The idea of the TBL comes from John Elkington who described the concept in his work *"Cannibals with Forks"* in 1994 (SustainAbility, 2010). It is a worldwide generally accepted theory about CSR which takes into account the three dimensions of the TBL: people, planet, profit – the 3Ps.

The 3 Ps provide a tool for companies, governments and non-profit organisations to measure their performance. Next to that, the TBL can be adapted to the specific needs of each institution or organisation (Slaper & Hall, n.d.). To take into account the three dimensions of the TBL within CSR has become a strategic tool for many enterprises and smaller businesses alike. The idea behind it is that a sustainable company creates both profits for its shareholders, protects the environment and improves the lives of the community (Brande, 2010).




Jeffry Immelt, CEO, General Electric

*"It's up to us to use our platform to be a good citizen. Because not only is it a nice thing to do, it's a business imperative… If this wasn't good for business, we probably wouldn't do it."*

(Quoted in "Money and Morals at GE," by Marc Gunther, Fortune, Nov. 15, 2004, p.176)

### 2.3. Four approaches to CSR for businesses

A company can have multiple reasons for getting involved with CSR (Mullerat, 2010). An intensive debate about the 'business case' for CSR has led to four approaches to sustainability described by Garriga and Melé:

(1) Instrumental theory: the company views its CSR practices as a wealth creator and an image improver; social actions are only executed to gain economic successes;
(2) Political theory: political entities use corporations to express their responsible use of their power;
(3) Integrative theory: the company focuses on meeting the needs of its customers and create satisfaction;
(4) Ethical theory; the company takes all the ethical responsibilities towards the society into account when conducting its activities.

"Some theories combine different approaches and use the same terminology with different meanings (Garriga & Melé, 2004)." When analysing the activities of a company it is important to take a look at their CSR strategy first and see how the company in question has incorporated CSR policy in its business philosophy.

## 3. Background - Corporate Social Responsibility in the BRIC countries

The growing importance of the BRIC economies is changing the future of CSR. As mentioned before, the BRICs together are expected to become a major economic force and they cannot ignore CSR practices as it is becoming more and more important. One must keep in mind that CSR is often viewed as an activity that transcends existing legislation and is adapted to the social problems and needs that exist in a specific country. In other words, CSR is not a 'one-size-fits-all' concept that can be applied equally to each country.

Globalization and international business promote the implementation of CSR activities in the BRIC countries. However, some argue that CSR approaches are subject to the cultural environment in a country or region. For example, CSR approaches in Western economies can fail in the emerging economies of the BRIC. Baughn et al. (2007) added that not only the cultural dimension is of great influence, but also the political and economic dimensions play an important role (Alon et al., 2009). The political input about what is expected from companies differs per country, based on the relationship between the local government and the companies, the social problems that are given priority and the role of the local society (Greenleaf Publishing, n.d.).

To illustrate the differences between the BRIC countries, a brief analysis of each country is provided underneath. For each country the general economic and political facts are outlined in a textbox in order to visualize the size of the country and define its political status. This might help putting the country analysis into perspective. Please note that not all different influencing aspects and factors on the situation are touched. However, the general situation should give a reasonable overview of the situation per country for the purpose of this report.

### 3.1. CSR in Brazil

Country facts Brazil:

- 6th largest economy in the world
- Largest country in area and population in Latin America and the Caribbean
- Federal, presidential, representative, democratic republic
- Political regime of democratic nature

Source: World Bank, 2013[a], Brazil Overview

Brazil has a long history when it comes to CSR. Brazil is the only country with significant economic growth in South America (Belal, 2008). The concept CSR already emerged in the sixties when it became a part of the public discussion and many companies started to engage in social activities. Although it is not a new concept in this country, the meaning behind CSR has evolved as time passed. It started off as philanthropy, but nowadays the efforts that companies make, focus on activities that have long-term effects on social life and the environment (CSR WeltWeit, 2012[a]). This interest in improving social and environmental conditions began to grow extensively in the 1980s because of different domestic concerns and more actors involved.

The Insituto Ethos is a not-for-profit organisation that consists of a network of some 1,300 companies that aim to raise ethical standards and increase social responsibility in the market (Ha & Krishnan, 2011). Although companies in Brazil are leading in CSR practices in the sub-hemisphere due to the presence of highly developed businesses from the western countries, there are still major social and economic inequalities. Next to the highly developed companies mentioned before, one can find others that still make use of child labour and even slavery and contribute to environmental degradation (Scharf, n.d.).

In Brazil, the focus lies on the social dimension. Issues like income inequality, discrimination against minorities on the work floor, poor working conditions, corruption, crime, poverty and payment of taxation are getting a lot of attention from the government. Former president Luiz Inácio Lula da Silva (2003 – 2011) said: “Being a good employer is perceived as the basis of corporate social responsibility.” He organised initiatives such as the ‘No More Hunger’ campaign and received a lot of support during his period of reign. Regulation and legislation on social and environmental matters and the enforcement

system are developing fast, because the government wants foreign companies to invest in the country (Greenleaf Publishing, n.d.).

As Brazil grows as a major economic entity, pressures coming from the international community, political parties and local governments, NGOs, the media, trade unions, consumers and shareholders also increase the will of companies in Brazil to engage in CSR activities (Cappellin & Giuliani, 2004). However, all stakeholders have a different interest and approach to the topic. For example, the international community thinks that Brazil's focus lies too much at the social dimension, while Brazil holds the Western economies responsible for the environmental degradation in the country. Brazil's nationalistic culture and proudness leads to double standards because if something goes wrong within a Western company in Brazil it is on the front-page the next day, while a mistake by a Brazilian company might not even be mentioned (Greenleaf Publishing, n.d.).

### 3.2. CSR in Russia

Country facts Russia:

- 10th largest economy in the world
- Largest country in the world in terms of size
- Federal, semi-presidential republic
- Political regime with communist traits and former socialist state

Source: OECD, n.d., Russian Federation

"In Russia, the issue of social responsibility of business – in other words, its responsibility towards the society as a whole – has in recent years been the subject of quite a substantial, albeit not uncontroversial, evolution (Kostin, 2007)." - Alexey Kostin, Executive Director, Corporate Social Responsibility Russian Ctr.

Alexey Kostin has written an article about the evolving landscape of CSR in Russia in which he explains the situation in Russia. He mentions that on one hand, many voluntary actions with regard to the society have been carried out (Kostin, 2007). However, on the other hand, these actions are mainly the initiative of a small group of businesses realizing

the importance of CSR for their strategy because of their overseas investors. A group of American scholars, Alexander Settles, Olga Melitonyan and James Gillies, have spent a considerable amount of time in Russia and explored the development of CSR in Russia. They conclude that domestic companies have limited interest in such a concept and the ones that do show responsibility, primarily focus on domestic issues and ignore important global issues like global warming, environmental degradation and fair trade (Mallin, 2009).

After the collapse of the Soviet Union in 1991, an economic restructuring lead to the fact that individuals and cooperatives could own their business privately for the first time since the 1920s. The leader at that time, Gorbachev, believed that 'the best way to revive the Soviet economy was to loosen the government's grip on it ("Fall of the Soviet Union", n.d.).' It resulted into a command economy, but recent events and global orientation have transformed the economy of Russia into a market economy.

The current economic status and the fact that Russia is an emerging marketplace in combination with international influences from developed countries, increase the call for responsible and accountable actions from businesses (CSR WeltWeit, 2012[b]). As mentioned briefly before, especially larger companies in Russia are already involved in the concept of CSR because social and environmental issues are becoming increasingly important. These companies already see the value of CSR as a competitive and long-term strategy and publish yearly CSR reports that fill 'the gap' for investors (Kostin, 2007). Also on political level, CSR is argued a necessity by the current president Vladimir Putin (Klimova, 2013). It can be considered an indication that companies in Russia and the Russian government are ready to embrace the ideology and strategic advantage of CSR – just as it happened in the developed countries before.

### 3.3. CSR in India

Country facts India:

- 9th largest economy in the world
- 2nd most populous country in the world and predicted to be the world's most populous country by 2025
- Parliamentary republic with multi-party system
- Democracy

Source: World Bank, 2013[b], India Overview

In India, society has always and probably will continue to value family a lot. The country has a long tradition of large companies owned by families carrying out philanthropic activities for the local communities. An example comes from the Tata family, which started a big steel plant in 1907 and built a whole city for its workers around it with broad lanes and trees, schools, a hospital and large areas reserved for practising sports or city parks. Nowadays, the city has a population of 1.3 million and is one of the cleanest and wealthiest in whole India (India Knowledge @ Wharton, 2011). However, although it is the right thing to do, one can argue that such a form of doing-good is not self-sustainable.

Next to the example of Tata there have been more such initiatives in India, mostly by a few public companies. In spite of these success stories, the concept of CSR is still in its infancy in India as it is one of the least understood ideas in the developing stage the market is in at the moment. Mainly companies with international connections or investors integrate CSR in their practices, but follow the strategies of their home countries (Jain, n.d.). This is not always functioning effectively, as it is already internationally agreed that CSR is not a matter of 'one-size-fits-all'. Thus, the situation regarding CSR practices from businesses is not nearly perfect due to a lack of understanding of the concept.

Furthermore, poor environmental conditions like water and air pollution, over-population, widespread poverty, high level of illiteracy, high infant mortality, medical issues, bad infrastructure and lack of regulation from the government (Ha & Krishnan, 2011) contribute to the malfunctioning of Indian companies getting involved in CSR.

However, the situation is slowly changing as India's economy is of great importance for the world and due to globalisation, companies are no longer stuck within the boundaries of their own country. Globalisation, liberalisation and the communication revolution are creating a new way for businesses to operate, in which they have to take note of the challenge to maintain a sustainable and viable social and natural environment (Samuel & Saari, n.d.). Also in India people are realising that "CSR is coming out of the purview of 'doing social good' and is becoming a 'business necessity' (Jain, n.d.)."

### 3.4. CSR in China

Country facts China:

- 2nd largest economy in the world
- Largest of BRIC in population and 2nd largest to Russia in size
- Single-party socialist republic
- Political regime with communist traits

Source: Ha, C. & Krishnan, P., 2011, Chapter 2.4 BRICS

China plays an important role for the CSR industry because of its size and global economic activities. Nonetheless, Aron Cramer, CEO of the Business for Social Responsibility lobby group in San Francisco, said that "Chinese companies serve the home market and the relentless focus on growth leaves little room for worrying about the niceties of corporate citizenship and the lack of political freedom means that there is no network of NGOs to persuade them to do more (Mullerat, 2010)." Regardless, the pressure to take CSR activities more in earnest is growing significantly (Ha & Krishnan, 2011).

Some argue that the concept of CSR is in its infancy for businesses in China, since most of the companies are still at the beginning of their developing stage and struggling to survive. They do not see much value in CSR practices and consider it an extra, even unnecessary activity. However, the industry in China is developing rapidly and the sense of CSR is emerging more and more. Gary Dirks, president of BP China until 2009, has pointed out that "CSR goes beyond simply charitable efforts and addresses more fundamental questions of profit-making; therefore, it should be mainstreamed into a company's business model from the start, not considered as a luxury to add on later (WorldWatch Institute, 2013)."

An interesting difference between China and most of the other developed or developing countries is how the politics regulate the industry standards for businesses. In other countries, regulations are usually made after consulting a very wide range of different businesses. China on the other hand, drafts its setting of industry standards to the advantage of domestic businesses. Multinationals and other foreign businesses are being left out whereas local companies help drafting the rules. MNCs in China are estimated to account for $1.3 trillion. One of the complaints from foreign multinationals is, therefore,

that they have largely been left out in governmental decisions and regulation making (The Economist, 2012).

An absence of good regulation and laws in the sustainability field from the government results into voluntary actions by businesses on social and environmental issues. However, as mentioned before, Chinese companies on the other hand focus mainly on profit maximization and accidents like food-poisoning and incidents like industrial pollution still happen frequently (WorldWatch Institute, 2013). People argue that, with China being the second largest economy in the world and the business transition from a planned economy into a market economy (Ha & Krishnan, 2011), CSR needs to become incorporated in the Chinese corporate strategy in order for the economy to strive and survive.

### 3.5. Similarities and differences

From the country analysis can be concluded that CSR is a relatively newly emerging and developing concept in each of the BRIC countries, for both the business world and the politics. It is mainly the international dimension leading in CSR activities; large foreign companies are mostly involved in social and environmental activities that increase the competitiveness of the company and the living standards of the local communities. They already value CSR as a business necessity which results in long term advantages for the company itself. It seems that domestic companies in each of the four countries still show little interest in the concept of CSR and view it more as an additional, sometimes unnecessary task.

In Brazil, CSR practices exist already for a longer period of time, but a long road still lies ahead for businesses and politics in the country. Challenges like income inequality, poor working conditions, corruption, crime, poverty and even child labour still make it difficult for businesses with high CSR standards to truly make a contribution to a better world.

In China and Russia socially responsible actions really started off from the 1990s on, after their political regimes changed and becoming a world player in the market forced them to incorporate CSR into their strategies. However, since the concept is so new and there is no internationally agreed definition on it, it is poorly understood and both governments do not make efforts to make new regulation regarding sustainability and responsibility. In China especially regulation is drafted after consulting only domestic corporations, leaving the MNCs and international companies on the side. A lack of cooperation between the business world and the government contributes to the fact that CSR seems to be in a phase that still needs a lot of work and development.

In India, CSR could be found back in the long tradition of philanthropic actions by big family owned businesses, which made an effort to improve the lives of its employees and the local community. However, it seems like India still has to deal with many social and environmental challenges before being able to incorporate and harmonize good CSR practices. Because the economy is growing so fast, it seems that the transition from philanthropic actions to truly responsible and sustainable practices integrated in their strategies is moving very slowly.

## 4. The pressures behind CSR in the BRIC countries

By now it can be concluded that, next to new national regulations, the globalizing world makes CSR awareness and involvement a necessity for businesses in the BRIC countries. Although there is a general trend of self-interest to maximize their profits first, many organisations and corporations have started to realize the long term advantages for themselves when they get involved in CSR. In addition, pressures are coming from all different groups of stakeholders to take social and environmental responsibility more serious. To determine the challenges for businesses with high CSR standards in the BRIC countries, this chapter outlines the pressures coming from the political, economic and social dimensions, divided into institutional pressures, business pressures and society pressures.

### 4.1. Institutional pressures

It was identified before that the upcoming economies of the BRIC countries put CSR in a different perspective. CSR is an approach coming from the business community facing many challenges and the international community has responded fast and firm. Especially from the Second World War on all kinds of international organisations popped up and the concept CSR is becoming increasingly important on their agendas.

#### 4.1.1. International level

One of the most important recently established international standards for responsible business is called the ISO 26000. It was developed by the International Organization for Standardization (ISO) in 2010, after five years of consultation and negations between different stakeholders around the world. “ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way. This means acting in an ethical and transparent way that contributes to the health and welfare of society (ISO, n.d.).” As it serves as a guideline, it is not mandatory for businesses to follow the ISO 26000 instructions. However, James M. Roberts and Andrew W. Markley argue in their article about opposing CSR, that CSR is not a matter of voluntary actions in line with the TBL anymore, but rather a required necessity for businesses to survive under the pressure of rapidly growing international regulations (Roberts & Markley, 2012).

Some scholars argue that the focus should be on the cooperation between the World Trade Organisation (WTO) and specialized agencies of the United Nations (UN), like the International Labour Organization (ILO) and the United Nations Environment Programme

(UNEP) (Geneva Social Observatory, n.d.). All four countries of the BRICs are members of the WTO (Brazil and India since 1995, China since 2001 and Russia since 2012 (WTO, 2013)) and of the UN (all since 1945 (UN, n.d.)).

Indeed, there are some pressures coming from these organisations for companies in the BRIC countries. To illustrate this statement, the United Nations, for example, have developed the Global Compact, which exist of ten principles in the fields of 'human rights, labour, environmental protection and anti-corruption' that are embraced universally and are derived from different international declarations. The UN asks businesses to "embrace, support and enact, within their sphere of influence, this set of core values (United Nations, n.d.)":

- Human Rights
  - Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
  - Principle 2: make sure that they are not complicit in human rights abuses.
- Labour
  - Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
  - Principle 4: the elimination of all forms of forced and compulsory labour;
  - Principle 5: the effective abolition of child labour; and
  - Principle 6: the elimination of discrimination in respect of employment and occupation.
- Environment
  - Principle 7: Businesses should support a precautionary approach to environmental challenges;
  - Principle 8: undertake initiatives to promote greater environmental responsibility; and
  - Principle 9: encourage the development and diffusion of environmentally friendly technologies.
- Anti-corruption
  - Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: United Nations, n.d.

As one can conclude from the country analyses, many of these issues, like corruption, child labour and environmental degradation, are still represented in the BRIC countries.

The European Union (EU) has also been busy developing legislation in regard to CSR for businesses. Two examples that benefit the environment are the Waste Electric and Electronic Equipment (WEEE) and Reduction of Hazardous Substances (RoHS) from 2003. It is mandatory for businesses in the BRIC countries to follow these regulations when trading within European borders (Ha & Krishnan, 2011).

#### 4.1.2. National level

A study from the German Institute of Global and Area Studies (GIGA) on CSR effectiveness shows that national governments play, next to the economic factors, a very important role in carrying out CSR implementation (Peetz, 2010). Governments have the power to force businesses to implement certain policies and activities, whereas companies tend to follow paths that only benefit themselves.

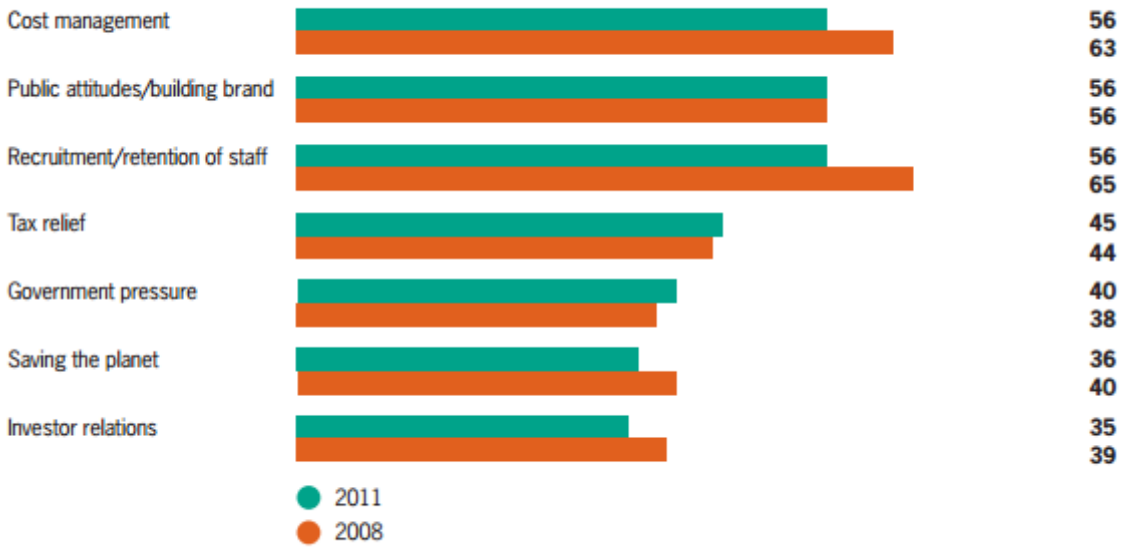
To measure how national governments act and monitor organisations and businesses in their countries, Li and Filer developed a Governance Environment Index (GEI) in 2007. The GEI is used to "measure the degree to which a country is based on Public Ordering (rule-based) versus Private Ordering (relation-based) and consist of five indicators: political rights, rule of law, quality of accountings standards, free flow of information and public trust." Countries with a high GEI score are more rule-based and countries with a low GEI score are more relation-based. The latest measures result from the early 2000s and vary from 6.02 (Norway) to -7.26 (China). All the BRIC countries are considered to have more relation-based governance. India and Brazil score relatively close to the standardized mean of zero (-1.48 and -3.17), but Russia scores -6.23 and China scores -7.26 (Fetscherin et al., 2010).

Relation-based governance or Private Ordering "is the process of setting of social norms by parties involved in the regulated activity (in some manner), and not by the State." The advantage of Private Ordering is that the rules are set by players who are actually active in the market field. However, Private Ordering has the disadvantage that power might end up in the wrong hands. Dominant players can abuse their power by only taking into account their own interests and not paying attention to the interests and rights of others (Birnhack, 2004).

### 4.2. Business pressures

There are numerous forces that drive businesses towards more responsible and ethical behaviour. Grant Thornton, an independent and nationally operating accounting and consultancy, published an international business report in 2011 which outlines the key driving forces and compares them to the results of 2008. Their latest results show that the key driving forces have remained the same as in 2008. The figure below shows that businesses show great attentiveness to the issues 'managing costs', 'building their brand' and 'attract and retain key staff' (Grant Thornton IBR, 2011).

**Figure 1: The drivers towards more ethical business practices**
Percentage of businesses citing driver as important




Source: Grant Thornton IBR 2011

Interesting conclusions are that in general, government pressure and tax relief have increased in popularity, whereas saving the planet and investor relations seem less important for businesses. When only looking at the BRIC countries (see figure 2), one can see that China and India both mention cost management as their most important key driver for CSR, Russia is most interested in recruitment of staff and Brazil focuses on brand building and public attitudes.

**Figure 2: Key drivers towards more ethical business practices**
Most important driver, by country

| Cost management | Public attitudes/building brand | Recruitment/retention of staff | Tax relief |
|---|---|---|---|
| Canada* | Argentina | Australia | Germany |
| China (mainland) | Armenia | Belgium | Italy |
| France | Botswana | Canada* | |
| Georgia | Brazil | Denmark | |
| Greece | Chile | Japan* | |
| Hong Kong | Finland | New Zealand | |
| India | Mexico | Russia | |
| Ireland | Spain | Switzerland | |
| Japan* | Sweden | Taiwan | |
| Malaysia | United States of America | Turkey | |
| Netherlands | Vietnam | | |
| Philippines | | | |
| Poland | | | |
| Singapore | | | |
| South Africa | | | |
| Thailand | | | |
| United Arab Emirates | | | |
| United Kingdom | | | |

*denotes drivers level
Source: Grant Thornton IBR 2011

Due to the explosion of interest in CSR all around the world, several initiatives and organizations focusing on CSR are formed within the business community already. Most of them are aimed at helping other businesses. An example is Business for Social Responsibility (BSR), founded in 1992 with the aim to "provide corporations with expertise on the subject and an opportunity for business executives to advance the field and learn from another (BSR, n.d.)." Another example is the Ethical Corporation, an independent organization in London founded in 2001. The organization tries to encourage discussions and debates about CSR practices and sustainable concerns.

Thus, where CSR was once considered an initiative coming from the business community on voluntary basis in the leading market economies, nowadays it is taking place all over the world (Carrol & Shabana, 2010). For many companies, pressure to behave in a responsible and ethical way is coming especially from managers, who have gained increasingly important positions as most of them see CSR as a tool for cost effectiveness, competitive advantage and risk and reputation management (Cappellin & Giuliani, 2004).

To elaborate on this statement, the ethical business culture of all four BRIC countries is described. Six professors from the different countries have come together and published an article about 'Building Ethical Business Cultures' in the BRIC, in which they research the general business culture and ethics of managers in the BRICs. After analysing the countries separately, they conclude that despite the differences in the business culture between the four BRIC countries, similarities exist as well. "In all four countries, paternalism and power concentration are traits of business organizations, and ethical decision making is likely to be more context-specific than universalistic (Ardichvili et al., 2012)."

The authors of the article also argue that a long history of centralized bureaucracies in all four countries has resulted in the development of various informal ways of getting things done. While in the Western economies managers are bound to strict regulations and laws and managers of Western MNCs settled in the BRIC countries follow this example, companies originating from one of the BRICs tend to follow a different pattern. In Brazil the cultural trait is called *jeitinho,* "a middle path between what is allowed by numerous laws and regulations, and what is practically possible and makes sense." In Russia business ethics follow the so-called *blat*, defined as "reliance for favours upon personal contacts with people in influential positions." Chinese companies follow the *guanxi*, "a deep rooted socio-cultural phenomenon which enhances social harmony, maintains correct relationships and addresses the sensitive issue of face, and is a mutual obligation to respond to requests for assistance." And last but not least, in India emphasis lies on *kinship relationships*, where "money and connections within high levels of management play a pivotal role in overcoming the bureaucratic barriers (Ardichvili et al., 2012)."

It can be concluded that the business philosophy in the emerging economies differs significantly from the Western countries. Issues like corruption, bribery and lack of adequate and relevant regulations on CSR still highly dominate the market in the BRIC countries.

### 4.3. Society pressures

Next to the political and economic dimensions, stakeholders in society also have a firm influence on businesses these days. Due to the rise of numerous NGOs, increased media attention and employee rights, it is getting more and more important for companies to take into account socially and environmentally responsible business practices.

#### 4.3.1. NGO pressure

The world holds hundreds of NGOs in relation to CSR. Some focus on a very specific issue, for example labour standards, but most NGOs focus on social and environmental aspects together. They can be divided into three different categories:

- NGOs that provide CSR guidelines
- NGOs that act as CSR self-performance standards
- NGOs that are a combination of the above (Bantekas, n.d.)

NGOs in this field serve as a watchdog against illegal practices from businesses. They provide companies with tools to improve their CSR standards or analyse their practices and report on it. The many scandals that have come out in relation to unethical businesses practices are mostly the result of NGOs fishing for information.

Again, it is important to stretch that the 'old CSR', where the actions where on voluntary basis, is getting replaced by the 'new CSR', where the actions are more considered as mandatory because of all the different pressures coming from the different stakeholders. It still remains to be seen if CSR 2.0 makes significant difference within the business community (Carroll & Shabana, 2010).

#### 4.3.2. Media pressure

Concepts like CSR, sustainable development and the TBL started to gain interest among the media in the mid 1990's. The media focused its attention on companies with responsible behaviour. The danger for companies was that their missteps were immediately picked up and the story widely spread across the world (Pulitzer, 2003), resulting into damage of the brand value. In general, media tend to set the tone on Corporate Social Irresponsibility practices (Tench et al., 2007).

In order to prevent such damage, companies started to pick up on the importance of sustainable reporting. The Global Reporting Initiative (GRI) states that "The Media

Supplement is based on the Sustainability Reporting Guidelines (GRI, n.d.)." While the number is issues related to the TBL grew and the media and community got more involved, businesses wanted to ensure sustainability and remain competitive by taking into account the varying stakeholder needs (Pulitzer, 2003).

Also, in the BRIC countries most of the large companies and MNCs report on their CSR activities. Alon, Latteman, Fetscherin, Li and Schneider, five scholars from different countries, have provided a report in 2009 with insight about sustainable reporting in the BRIC countries. They measured the relevance of CSR by analysing the inclusion of CSR in 105 companies in the BRIC. Only eight of the hundred and five companies did not report any CSR related information (1 from Brazil, 1 from India and 6 from China). Alon and his partners conclude that "while the number of non-reporting firms is small, 75% of non-reporting companies are from China, suggesting that these companies have not realized the advantages of such communications (Alon et al., 2009)."

**Figure 1: Inclusion of CSR**

| | **Brazil (n = 18)** | **Russia (n = 19)** | **India (n = 33)** | **China (n = 35)** |
|---|---|---|---|---|
| 1.Discussing at least one CSR *motives* | 17 (94%) | 14 (74%) | 27 (82%) | 11 (31%) |
| 2.Discussing at least one CSR *process* | 17 (94%) | 19 (100%) | 31 (84%) | 26 (74%) |
| 3.Discussing at least one *stakeholder issue* | 17 (94%) | 19 (100%) | 31 (94%) | 28 (80%) |

Source: Alon et al., 2009, Usage of Public Corporate Communications of Social Responsibility within Brazil, Russia, India and China (BRIC).

As one can conclude from the results, there are some differences between the BRIC countries in CSR reporting. Compared to the information gained from the peer companies in Brazil, Russia and India, it seems that Chinese companies are the least communicative about their sustainable and responsible practices. In Brazil, companies are most communicative about their CSR motives, which aligns with the previously observed fact that Brazilians value public attitudes and brand building as their most important key driver for responsible behaviour.

#### 4.3.3. Local community pressure

Pressures on businesses coming from the local communities are rising. In the developing economies, there are many settings where regulation on saving and improving the environment are weak or absent. Local communities are the victims of polluting industries, but more often find informal ways to put pressure on the companies. Recently, many researchers have investigated the scope of informal regulations by communities. Pargal and Wheeler argue that "when formal regulation is weak or absent, communities can often use other channels to force pollution abatement by local factories in a process of informal regulation (Heyes & Kapur, 2012)."

An example of informal regulations or so-called "private politics" are the Civil Society Organisations (CSOs), which consist of "the multitude of associations around which society voluntarily organizes itself and which represent a wide range of interests and ties. These can include community-based organisations, indigenous peoples' organisations and non-government organisations (OECD, 2006)."

Social movements that started to pop up from the 60s on and demanded more civil rights and protection for the environment (Carroll & Shabana, 2010) also put pressure on businesses. Scholars that have researched the pressure of social movement argue that such organisations in combination with controversial politics are the key drivers of change; social movements are considered to "shape the boundaries and forms of organizations, generate organizational diversity, challenge dominant frames and players in organizational fields and create new industries and markets (Bartley & Child, 2010). In other words, social movements somehow have to power to generate change and influence the behaviour of a company.

Companies continuously have to meet demands coming from different groups of stakeholders. Employee pressure relates to the increased knowledge and recognition of certain rights, like working conditions, non-discriminations and promotions. Comparably are consumer pressures, who demand safe products and information accessibility. Community and environment pressure result in the investment of safety of the local community (Stoik, M., 2008). Thus, CSR practices are often the result of a reaction on community pressure and power and social movement activists, reflecting on their desires and concerns.

### 4.4. Critics on the BRIC countries

Pressures on companies are coming from every direction and businesses must start responding to the critical voices. There are three groups of problems determined in all the BRIC countries:

- "*Socio-economic rights violations* – including income inequality, poverty, unemployment, diseases, poor education and health care, expensive basic needs like housing and services, limitations to labour organizations, violence (against women, and countless others;
- *Political and civil rights violations* – including violence from police, increased securitisation of our societies, militarisation and arms trading, constraint on protests, rising media control, torturing activists, and others;
- *Regional domination by BRIC economies* – including extracting natural resources from the wastelands and promotion of "Washington Consensus" ideology, a set of broadly free market economic ideas (Pettinger, 2013), which reduces the policy space of poor countries (for example, in 2012 the BRICs donated a large sum to the IMF with the mandate to revitalise the WTO to maximise their trading power against weaker neighbours) (Links, 2013)."

This statement might generalize the facts a little, because some of these issues are more represented more than others and the degree of representation also differs from country to country. Nevertheless, they must not be dismissed by companies as unimportant when carrying out activities in (one of) the BRIC countries, because pressures on minimizing or eliminating such problems will come from the different stakeholders.

## 5. Challenges to CSR

The developing economies of the BRIC countries harbor many barriers to sustainable development. On one hand, the rapid economic growth of the BRICs lifted millions of people out of poverty, but on the other hand needs to keep in pace with the stricter regulations and the greater social and environmental control. CSR is still in its infancy in the four countries and the internationally provided framework and guidelines are little used (CSR WeltWeit, 2012[b]), especially under domestic companies.

After analysing the BRIC countries, several challenges in relation to CSR have been detected. Obviously some of these challenges are the task of institutional bodies and governments to tackle, but businesses with a high CSR policy can "legally misuse" the system by putting more emphasis on issues like tax fraud, antitrust and corruption.

### 5.1. CSR ranking of BRIC countries

In order to make a comparison of the situation in the BRIC countries for businesses, a self-developed ranking system based on 8 criteria is made. This ranking system will determine which challenges are present in the countries and to what extent. It can result in an overview about the do's and don'ts in relation to CSR for companies that are either already present in that country or want to start doing business in that country.

The following factors are chosen based on the outcome of Chapter 3, where a brief country analysis of the BRIC countries has been carried out to determine the current situation individually for each country, and Chapter 4, where the pressures on socially and environmentally responsible behaviour are outlined. Please keep in mind that not all influencing factors and challenges are researched or explained, also because some driving forces or issues are difficult to measure or there is little transparency regarding the issue, such as antitrust, tax evasion or environmental performance. This ranking system might therefore not be completely objective. The chosen criteria range from governmental influences to outcomes from company activities:

1. Corruption
2. Poverty
3. Income inequality
4. Child labour
5. Quality of democracy
6. Quality of life
7. Environmental performance
8. Environmentally active

Appendix I explains the reasons why these criteria were chosen and the steps taken to achieve the results for the ranking. In the ranking table beneath applies: the higher the number, the better a country performs (1 is very poor and 5 is very good). The average score will be used for comparison. In this ranking table the BRIC countries are evaluated and compared to each other and not to the Western countries, which generally perform better on all criteria.

### Ranking the BRIC countries

| | Brazil | Russia | India | China |
|---|---|---|---|---|
| **Criterion 1:** corruption | 3 | 2 | 2 | 2 |
| **Criterion 2:** poverty | 4 | 5 | 2 | 3 |
| **Criterion 3** income inequality | 3 | 3 | 4 | 3 |
| **Criterion 4** child labour | 5 | **n.d.** | 3 | **n.d.** |
| **Criterion 5** quality of democracy | 4 | 2 | 3 | 1 |
| **Criterion 6** quality of life | 3 | 1 | 4 | 2 |
| **Criterion 7** Environmental Performance Index | 4 | 2 | 1 | 2 |
| **Criterion 8** environmentally active | 4 | 1 | 3 | 3 |
| **Avarage score** | 3,75 | 2,25 | 2,75 | 2,25 |

### 5.2. Key challenges analysed

After careful assessment of the 8 criteria and ranking the countries, the following conclusions can be drawn:

Businesses are facing severe challenges in all four countries. Brazil seems to score higher than Russia, India and China on most of the criteria. At least the countries average score is severe higher than that of the others. Brazil especially performs better on the criteria child labour, democracy and environment. The reasons for this can be that the CSR concept is already known since the sixties in both public and private spheres and that politics in Brazil have social and sustainable development high on the agenda (CSR WeltWeit, 2012[a]). Furthermore, the Brazilian society has gained more knowledge on subject through the rise of transparency, social networking and independent media and started to interfere in the public and private discussion (Vianna, 2012). Brazil does not know the form of censorship as it exists in Russia and China (Stam, 1979).

However, this does not mean elimination of all issues and challenges for businesses in Brazil. There is growing concerns among companies that there is child labour somewhere in their supply chain, as child labourers can be found in all stages of supply chains, including agriculture, manufacturing and retail (ILO, n.d.). The data retrieved from the Child Info website on child labour in the BRIC show that 3% of the children aged between 4 and 15 are victims of child labour. However, it is unsure if all the findings and figures are accurate or correct. Results from the Brazil National Child Labour Survey (SIMPOC, 2001) indicate namely that 6.8% of all children in that age group are working (IPEC, n.d).

Of all four countries, India has the highest risk of child labour since it has the highest number of children working in the world. “Latest official government figures estimate 16.4 million child labourers between the ages of 5 and 14. Of those, approximately two million are thought to work in "hazardous industries," including mining, ship breaking and manufacturing or are trafficked and exploited in the sex industry (Maplecroft, 2010).” No data or estimations on child labour could be found for China and Russia, but Maplecroft has rated both countries at “extreme risk” for practices like child labour, trafficking and discrimination.

Another interesting finding is the result on poverty in the countries. Most recent World Bank figures show that Russia has only 0.1% living under the poverty ratio of $2.00 a day and on the other extreme end India has a poverty ratio of almost 70% (World Bank, n.d.). Poverty is a challenge for businesses because it is a barrier to sustainable development.

However, on the quality of life criteria, India has the highest score of all four countries, even considerably higher than Brazil. Russia has the lowest score. The quality of life indicates the daily life of individuals enhanced by "wholesome food and clean air and water, enjoyment of unfettered open spaces and bodies of water, conservation of wildlife and natural resources, security from crime and protection from radiation and toxic substances (Business dictionary, n.d.[a])."

Justifying these differences is not an easy task. A study argues that the term 'poverty' in Russia has a different meaning from much of the rest of the world due to its former socialist status. Where people seem to live in poverty as their housing situation might suggest, this is not always the case (Kommunalka, n.d.). For India the explained is more complex. Quality of life is improving in general due to economic growth, but this accounts for all the BRIC countries. A factor contributing to the explanation of the large percentage living in poverty can be the strong population growth and the increased population density in India over the past ten years (Trading Economics, 2012). In India the gap between rich and poor is very big. One can see shopping malls popping up all over the country, but on the contrary the number of poor and homeless people is increasing as well (Kaur, 2013).

Where Brazil scores better than the other three countries is on the Corruption Perception Index. Corruption is an important challenge for businesses because it influences competition, sets a negative precedent, benefits only those who cannot compete in an open, fair and sustainable market and scares away foreign investors (Dumludag, 2012). Russia, India and China score relatively high on corruption. Especially Russia scores very high, ranked number 133 out of 178 countries on the Corruption Perception Index. A study conducted in 2010 concluded that "one out of four Russians had paid at least one bribe during 2009". Corruption seems really integrated in the Russian culture, a result from the former Soviet period. Unfortunately, the transition into democracy did not eliminate the country's high corruption rate (Pomerantz et al., 2012). In Brazil, corruption is relatively low because of changes in regulation made due to unsatisfied voices of the society (Vianna, 2012).

It goes without saying that the rapidly emerging economies of the BRIC countries are large contributors to the environmental issues of today. In addition, from the ranking system it can be concluded that, besides Brazil, the countries do not even care that much to take the environment into consideration. In Russia there is even a decrease in environmental activity. Victor Anderson, the One Planet Economy leader at WWF, argues that "the environmental impact of the new economic giants makes the need for new global

values more urgent (Anderson, 2011).” Although Brazil scores higher than the other countries on environmental protection and enhancement, the country does not have a clear conscience either. Diplomat Tong Wu wrote an article about the BRIC and the environment and found out that “unsustainable use practices related to environment in Brazil produced 75% of total emissions of the country (Wu, 2011).”

## 6. Conclusion

This report outlines the challenges for companies that are either already active or want to start doing business in the developing economies. Through placing the general idea behind Corporate Social Responsibility in the current context of the BRIC countries and analysing the pressures coming from the different stakeholders, some of these challenges clearly popped up. It can be concluded that the concept CSR is already integrated in the upcoming economies, but differs greatly from the developed Western countries and still has a long way to go.

It is therefore not too easy for a company to just start or continue their business activities within one of these countries without taking into account the challenges and pressures coming from all the different stakeholders in the cultural, social, environmental and legal dimension. Awareness on issues is growing among society through globalization, independent media, social networking and increased transparency. In addition to new regulations and laws on the subject, the globalizing world makes CSR involvement a necessity for businesses in the BRIC countries.

Several scholars have argued that CSR has changed from voluntary to mandatory. In other words, CSR has changed from 'doing good' into 'doing business'. This becomes especially important for businesses in the BRICs, because of the size of their economies. On one hand, the rapid economic growth of the BRIC lifted millions of people out of poverty, but on the other hand needs to keep in pace with the stricter regulations and the greater social and environmental control. This might be the greatest challenge of all.

Y. V. Reddy, former Governor, Reserve Bank of India

*"… BRIC is more representative of the diversity in the global economy than any other group. The BRIC voice is certain to carry greater weight than any other group in echoing global concerns because it is a miniature version of global diversity and global concerns, be they poverty or climate change."*

(Quoted in "Oxfam India Working Papers Serie", by Lysa John, 2012)

However, one must not forget that the truly sustainable company goes beyond what law requires and takes all the ethical responsibilities towards the society into account.

It seems that domestic companies in each of the four countries still show little interest in the concept of CSR and view it more as an additional, sometimes unnecessary task. The main part of CSR practices come from foreign businesses established in the BRIC countries that follow the Western business philosophy. However, the Western approach to CSR might not always fit in, in an economy where issues like high poverty, child labour, environmental pollution and degradation, corruption, discrimination and lack of adequate regulations are present.

A limitation to the research is that many of the sources used are written from a Western perspective. It is difficult to find up-to-date and relevant information sources that truly describe the situation and challenges in the BRIC countries. For example, some of the data and statistic found contradict with the situation described in written publications. Also, to narrow down the topic and only research the relevant information was not an easy task, because the research topic is very broad and there is no internationally agreed definition on CSR. CSR is not a ‘one-size-fits-all’ concept that can be applied equally to each country, but n needs to be adapted to each industry or company individually.

## 7. Recommendations

For the company that truly values sustainable development, it is important to overcome the challenges it faces when doing business or wanting to do business activities in (one of) the BRIC countries. The challenges have been extensively described throughout this report and businesses can use this information to gain a better understanding of the market situation, stakeholder pressures and legal dimension in the BRIC countries.

In order for businesses to determine what actions they can take in order to overcome the challenges in the BRIC countries, the following is recommended based on the findings of this report:

**Do's:**

- Do analyse where the business activities have most significant impacts and start finding solutions for these first;
- Do create close relationships with the local community, because they can give you valuable tips and can be useful connections;
- Do create job possibilities for the local communities in order to reduce poverty and increase education;
- Do try to minimize the environmental footprint of the company;
- Do follow the democratic principles and embrace, support and enact with the ten principles of the UN Global Compact;
- Do make use of the available NGOs that provide guidelines or act as self-performance standards;
- Do report annually on sustainability practices to prevent damage that could be done by external stakeholders like the media.

**Don'ts:**

- Don't just use CSR practices as a wealth creator and an image improver and execute social actions only to gain economic successes;
- Don't copy the strategy or behaviour of another company: CSR is not a one-size-fits all concept and needs to be adapted to each industry or company individually;
- Don't get tempted by the easiness of using for example cheap labour workers or child labour or exploit environmental resources due to a lack of regulations on the matters;

- Don't get involved in corruption practices or bribery activities, as this sets a negative tone for the company and influences the competitive position of the country.

**Country by country:**

- In Brazil, responsible behaviour in the social dimension seems bigger than environmental CSR. To improve the status and image of a company, which is seen as the most important reason for CSR in Brazil, one could focus on addressing and tackling environmental issues. Furthermore, the inhabitants of Brazil are highly involved and keeping up with the issues the country faces due to increased transparency, use of social networking and independent media. It is therefore important for a company in Brazil to annually report on their CSR practices and reduce the risk of getting publicly named and shamed by NGOs or the media.

- In Russia, the post-communist status causes a gap between the locals and the understanding of CSR. It is therefore important for companies to create and maintain close relationships with the local community and increase transparency and dialogue to overcome the "gap" in cultural differences. This gives the company a trustworthy status and could lead to more foreign investment and less corruption.

- In India, the situation is comparable to Russia. There is little regulation on CSR coming from the government and people have a narrow view towards CSR initiatives. Businesses are advised to keep an open and transparent approach and build strong relationships with the local communities in order to increase their understanding of the concept CSR and gain valuable community participations.

- In China, the exclusion of foreign MNCs when making regulations for the business community makes it difficult for companies to gain a trustworthy position. Companies are recommended, like in India and Russia, to keep an open and transparent character and contribute to the wellbeing of the local community by offering jobs and providing education.

### 7.1. Recommendation for future research

In the near future, it is highly likely that we will hear a lot more of the BRIC countries. Fact remains that, although the countries form one economic front, there are still many differences between them on political, financial, economic, social, cultural and environmental grounds. Therefore the question remains, if Brazil, Russia, India and China have enough in common to make it worth investigating in the future of the BRICs. Because of their size, influence and changing characters, the BRIC countries make a worthy research topic. It would be interesting to research how the countries develop as a united front, but as well how they develop individually and what the role and meaning of CSR will be in the future.

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# Appendix I – The ranking system explained

## A.1 The criteria explained

### Criterion 1: corruption

- **What?**
  "The Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean (Transparency International, 2012)."
- **Why?**
  Corruption influences competition, sets a negative precedent and benefits only those who cannot compete in an open, fair and sustainable market (Mehra & Agbool, 2011).

### Criterion 2: poverty

- **What?**
  Poverty headcount ratio at $2 a day (PPP) (% of population in 2009) indicates the "the percentage of the population living on less than $2.00 a day at 2005 international prices (World Bank, n.d.)."
- **Why?**
  Companies in the upcoming economies do not only contribute to the economic status of a country, but can also alleviate poverty through employee wellbeing, job creation and education (Pimpa, n.d.).

### Criterion 3: income inequality

- **What?**
  Distribution of family income – Gini Index. "This index measures the degree of inequality in the distribution of family income in a country. If income were distributed with perfect equality the index would be 0; if income were distributed with perfect inequality, the index would be 100 (Central Intelligence Agency, 2012)."

- **Why?**

  Companies with high CSR policy acknowledge the value and the importance of the welfare of their employees and the local community through inspiring their workers by minimizing the gap between individuals making most of the income and individuals making very little (Kotler, 2004).

**Criterion 4: child labour**

- **What?**

  Child labour indicates the total percentage of children aged 4 – 15 engaged in child labour, both male and female, both rural and urban areas, in 2013 (Child Info, 2013).
- **Why?**

  "The term child labour reflects the engagement of children in prohibited work and, more generally, in types of work to be eliminated as socially and morally undesirable as guided by national legislation (ILO, 2009)." The abolition of child labour is one of the ten principles of the UN's Global Compact. "Companies are increasingly concerned with child labour in their supply chains. They view it as inconsistent with company values, a threat to their image and ability to recruit and retain top employees, as well as to the sustainability of their supply chain. Child labourers can be found in all stages of supply chains, including in agriculture, manufacturing and retail (ILO, n.d.)."

**Criterion 5: quality of democracy**

- **What?**

  The quality of democracy consist of the following formula: "freedom and other characteristics of the political system & performance of the non-political dimensions, consisting of gender, economy, knowledge, health, and the environment (Campbell et al., 2012)." The democratic countries get an average score based on the previously described formula ranging from 0 – 100, with 0 being very low and 100 being very high.
- **Why?**

  Democratic economics are very important for CSR practices. Stakeholders value fair, respectful, healthy and democratic workplaces. Furthermore, a healthy,

democratic political system ensures basic personal and political rights, fair and free elections and independent judicial courts (Democracy-building info, 2004).

**Criterion 6: quality of life**

- **What?**

  The Quality of Life Index consists of five dimensions: "physical wellbeing, material wellbeing, social wellbeing, emotional wellbeing and development and activity (Felce & Perry, n.d.)." The index numbers range from -50 till 250, where the low measures indicate the countries with poor quality of life and the higher measures indicate the countries with high quality of life (Numbeo, 2013).

- **Why?**

  The quality of life indicates the daily life of individuals enhanced by "wholesome food and clean air and water, enjoyment of unfettered open spaces and bodies of water, conservation of wildlife and natural resources, security from crime and protection from radiation and toxic substances (Business dictionary, n.d.[a])." Businesses play a key role in enhancing the quality of life of their local communities. The concept quality of life management is an "approach to management rooted in the belief that all those who benefit from a community of society have a responsibility to help preserve it and make it better (Business dictionary, n.d.[b]) "and goes hand in hand with CSR practices.

**Criterion 7: environmental performance**

- **What?**

  "Environmental Performance Index (EPI) ranks countries on performance indicators tracked across policy categories that cover both environmental public health and ecosystem vitality. These indicators provide a gauge at a national government scale of how close countries are to established environmental policy goals (EPI.Yale, n.d.)." Performance scores range from 0 to 100, where 0 is the lowest possible score and 100 is the highest possible score.

- **Why?**

  The TBL also consists of the environmental dimension. The EPI covers many different environmental issues at once and give a general but fair indication of a country's performance. Companies need to take into account their impacts on the environment when doing businesses.

**Criterion 8: environmentally active**

- **What?**

  This criterion shows the change in environmental performance of a country in percentages. The growth percentage is measured with EPI data from 2000 and the most recent available EPI data from 2010.

- **Why?**

  It shows whether there has been a fast increase of environmental responsible actions or rather a decrease in interest. Results can come due to lack of environmental regulations in the country, exploitation of natural resources, environmental pollution and lack of interest among businesses who only focus on economic growth and self-interest (EPI.Yale, n.d.).

## A.2. Data and statistics per country per criterion

| | Brazil | Russia | India | China |
|---|---|---|---|---|
| **Criterion 1:** corruption (178 countries) | 43 (rank 69) | 28 (rank 133) | 36 (rank 94) | 39 (rank 80) |
| **Criterion 2:** poverty (% of population) | 10.8 | 0.1 | 68.8 | 27.2 |
| **Criterion 3** income inequality Gini-index | 51.9 | 41.7 | 36.8 (2004) | 47.4 |
| **Criterion 4** child labour (% of children aged 4 – 15) | 3 | **n.d.** | 12 | **n.d.** |
| **Criterion 5** quality of democracy | 62.3 | 44.5 | 50.1 | 36.9 |
| **Criterion 6** quality of life | 48.21 | 18.5 | 73.7 | 31.5 |
| **Criterion 7** EPI (132 countries) | 60.9 (rank 30) | 45.4 (rank 106) | 36.2 (rank 125) | 42.2 (rank 116) |
| **Criterion 8** (% of change) | 7.94 | -5.14 | 1.49 | 1.5 |

## A.3. Ranking the countries per criterion

| **Ranking criterion 1** | Corruption perception index | **Ranking criterion 2** | Poverty headcount ratio at $2 a day |
|---|---|---|---|
| **5 (very clean)** | 80 – 100 | **5 (low poverty level)** | 0 – 10 |
| **4** | 60 – 80 | **4** | 10 – 25 |
| **3** | 40 – 60 | **3** | 25 – 50 |
| **2** | 20 – 40 | **2** | 50 – 70 |
| **1 (highly corrupt)** | 0 – 20 | **1 (high poverty level)** | 70 – 100 |

| **Ranking criterion 3** | Income distribution Gini index | Ranking criterion 4 | Child Labour |
|---|---|---|---|
| **5 (low inequality)** | 0 – 20 | **5 (low use of child labour)** | 0 – 5 |
| **4** | 20 – 40 | **4** | 5 – 10 |
| **3** | 40 – 60 | **3** | 10 – 15 |
| **2** | 60 – 80 | **2** | 15 – 20 |
| **1 (high inequality)** | 80 – 100 | **1 (high use of child labour)** | 20 – 100 |

| **Ranking criterion 5** | Quality of democracy | **Ranking criterion 6** | **Quality of life** |
|---|---|---|---|
| **5 (very high)** | 75 – 100 | **5 (high quality of life)** | 80 > |
| **4** | 60 – 75 | **4** | 60 – 80 |
| **3** | 50 – 60 | **3** | 40 – 60 |
| **2** | 40 – 50 | **2** | 20 – 40 |
| **1 (very low)** | 0 – 40 | **1 (low quality of life)** | < 20 |

| **Ranking criterion 7** | Environmental Performance Index | **Ranking criterion 8** | Environmentally active |
|---|---|---|---|
| **5 (high EPI)** | 70 – 100 | **5 (increasingly active)** | 10 > |
| **4** | 60 – 70 | **4** | 5 – 10 |
| **3** | 50 – 60 | **3** | 0 – 5 |
| **2** | 40 – 50 | **2** | -5 – 0 |
| **1 (low EPI)** | 0 – 40 | **1 (decreasingly active)** | < -5 |