

# The Contagion of Corporate Social Responsibility in Networks: From a Technical Competition to a Social Competition

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Corporate Social Responsibility (CSR) combines microeconomic aspects (firm level) and macroeconomic aspects (environment level) and has become a main issue worldwide for well-being. At the micro-level, the social capital can be defined as a set of social norms, and organization behaviours through “trust” that shapes and reshapes the collective and individual production in order to maximize the well-being. At the macro-level, this social capital could be envisioned as a dynamic networks that might accelerate or impede the economic growth.

Within a few years, CSR, which relies on voluntary adoption, has paradoxically become a predominant governance model. Moreover, due to stakeholders’ pressure, CSR has also emerged as a societal mode and recently in Europe as a “protectionist” tool to face the Developing Countries Transnational Corporations (DCTNC). The strong emergence of national champions from developing countries, in particular Chinese and Indian with a huge potential economic development has accentuated the technical and economic competition among Western and Developing Countries Transnational Corporations (WCTNC vs. DCTNC). For years the emerging countries have been passives (or not) recipients of technology and knowledge accumulation, and foreign direct investments (FDI). CSR was one of the strong components of these transfers for the last years. Two opposing CSR strategies are in fact at work, and the current CSR contagion observed among the Western-based TNCs may be facing a much stronger resistance than the current literature anticipates. Labor forces or consumers in the developing countries are gradually exposed to CSR and Western-type management via Western-based TNCs. However, at the same time, the Developing Countries TNCs (DCTNCs) are now settling in Western countries, notably by means of corporate acquisitions.

The purpose of this paper is to examine the phenomenon of CSR contagion and to understand the possible implications of strategies of the Western-based TNCs and Developing countries TNCs through competition in the area of CSR through networks. We propose an agent based model (ABM) for CSR contagion through global supply networks based on classic BASS model (Bass 1969) and on the recently emerging Complex Network theory (Newman 2003).

## BACKGROUND

Since the early 90s, most Transnational Firms controlled by Western-based parent companies (WTNCs) have modified their development strategies. As markets in developed countries became saturated and less profitable, WTNCs started to target the developing countries, not only as a source of cheap labor and raw materials, but also as an important growing market. For years the emerging countries have been passives (or not) recipients of technology and knowledge accumulation, and Foreign Direct Investments (FDI). CSR was one of the strong components of these transfers for the last years. However, as these WTNCs and their brands became increasingly transnational, so the risk to their reputation increased. It is notably to tackle the growing risk of “reputation” and in accordance to the “Nexus of Stakeholders’ pressure,” that a number of major Western transnational

corporations (WTNCs) have decided to integrate Corporate Social Responsibility (CSR) principle in their operating procedures worldwide. The voluntary adhesion to CSR principles has raised skepticism and criticisms, but the non-adhesion to it is judged even more severely by stakeholders. In spite of controversies about the motives of the firms’ adoption, loose self-regulation boundaries and no evidence of its social performance, CSR evolved no longer as marketing tool but it became a growing issue for companies. But CSR became also a social issue in the Western civil society for it has a perspective to relieve the conflict between self interest and altruism. So it has rapidly become a standard model of management by a sort of contagion phenomenon in networks. This evolution seems now beyond the control of the Western transnational corporations (WTNCs) which adopted it through worldwide competition and under the stakeholders’ pressure. Most observers considered that this phenomenon is global. At the meso-level the corporations are more and more involved in CSR, and the macro-level (States and international organizations) and micro-level (Stakeholders) claim for the CSR as a social capital and need. It seems that CSR has some drivers in networks worldwide to spread the contagion beyond the WTNCs.

The literature has heavily focused on the Western TNCs strategies and how they approach, and might impose, worldwide, the contested concept of CSR (Moon 2002, Crane et al. 2003, and Davies 2002). But the strong growth of developing countries’ TNCs might counterbalance this trend, after a century of domination by Western countries standards. Recently, researchers have turned to the Asian arena to conceptualize and benchmark CSR in corporations in emerging countries. For Blowfield (2004), the success of CSR in Asian corporations will depend on the Asian capacity to manage a global supply-chain. Does it mean that Western global management of CSR is still efficient or shall it fail facing Asian corporations? In addition, if CSR is a model that was designed for industrialized corporations and States (Khanna and Palepu 1997), what should be its global development? So far, what could be the approach of Asian corporations to CSR and where could CSR find growth drivers?

Two opposing CSR strategies are in fact at work, and the current CSR contagion observed among the Western-based TNCs may be facing a much stronger resistance than the current literature anticipates. Labor forces or consumers in the developing countries are gradually exposed to CSR and Western-type management via Western-based TNCs. However, at the same time, the Developing Countries TNCs (DCTNCs) are now settling in Western countries, notably by means of corporate acquisitions.

As globalization creates homogenization, will CSR find out strong new drivers in the Asian corporations or it will experience a severe breakdown? Is CSR today under control or beyond control worldwide? And if CSR is a model designed for industrialized corporations and States (Khanna and Palepu 1997), what its global development could be?

## RECENT CHANGES IN THE MARKET DYNAMICS

Until recently, global competition involved mainly WTNCs or TNCs with a western background (from Japan, Korea, Singapour, Hong Kong and Taiwan). However, the rapid and strong growth of TNCs in developing countries (DCTNC<sup>2</sup>), supported

by steady growth rates and by their governments, has generated an unexpected economic and cultural shock. Nowadays, WTNCs are competing with other WTNCs and also with their challengers from developing countries (DCTNCs) to attract consumers, best competitive labour-force and investments drivers.

In the last years and particularly since 2003, market dynamics highlights<sup>3</sup> a heavily underestimated economic strength of the DCTNCs. Several takeovers were carried out in industrialized countries by DCTNCs (in particular Chinese and Indian), as for example IBM's PC division by Lenovo, Thomson by TCL, Teleglobe by Tata, RPG, a branch of Aventis and Ohm Laboratories by Ranbaxy, Bayer's generic medicines branch by UB Group, MG Rover by Nanjing Auto, one Arcelor's plant by Mittal Steel, Marionnaud by Hutchinson Whampoa. These takeovers have been possible and welcome by the governments as these firms were unprofitable or non strategic for the future of the Western corporations and States. However, Mittal Steel's takeover bid on Arcelor and its latest development, or CNOOC's bid on Unocal and the subsequent Western governments intervention are even more representative of the rising economic power of DCTNCs. In order to prevent such takeovers, Western governments focused on the alleged lack of social responsibility of DCTNC in both environmental and social terms. Becoming aware of this phenomenon, the industrialized States and their firms started almost immediately to implement national defense strategies based mainly on "economic patriotism" and underlined corporate social responsibility enhancing, for both WTNCs and DCTNC to redefine their strategies.

The emergence of national champions, in particular Chinese and Indian, has accentuated the competition and the degree of "patriotism" of industrialized countries towards their corporations, claiming the lack of social responsibility of the DCTNCs. They have thus implicitly underlined and reinforced their own CSR. Indeed, since 2000 most WTNCs have introduced Sustainable Development or Corporate Social Responsibility at least as communication, management or strategic tool. Yet, a closer look at the last five years shows that CSR has become a competitive advantage between WTNCs but lately even more strongly between WTNCs and DCTNCs.

## THE ASIAN DRIVER

The three main theories explaining the emergence and the development of DCTNCs are the learning cycle theory (Wells 1983<sup>4</sup>), the technological accumulation theory (Lall 1983<sup>5</sup>) and the investment cycle development theory (Dunning 1988 & al 1997<sup>6</sup>). These theories are rooted in the TNCs theories and combine microeconomic aspects related to the firm and macroeconomic aspects related to the environment (Beausang 2003<sup>7</sup>).

## FINDINGS

### CSR in Perspective Today: A Global Trend Beyond Control?

As we explained, over the last five years, many WTNCs present in industrialized and emerging countries, were particularly exposed to a risk to their reputation. They incorporated elements of corporate social responsibility into their international development strategies, in response to internal or external pressures or stimuli (Ansoff 1979, Agle et al. 1997). Even though their motives continue to fuel criticism and reflection, it seems that they have had a number of consequences.

Firstly, they brought to light the corporations seeking to avoid taking a stance on CSR (need some change). Secondly, they generated the quest for intra- and extra-sector social performance (De Bry 2001) by corporations in industrialized countries. Lastly, they imparted on CSR an internal momentum and maturity via the adoption of CSR in the front office and back-office networks of these corporations in their national territories and in emerging countries (Paone and Mangalagiu 2006). For Abernathy and Clark (1985), anything innovative, at any point in a commercial chain, has repercussions on the entire sector (on the existing technologies and on the players in the sector) and even has voluntary and involuntary repercussions outside the sector. We have seen how over recent years, and particularly since 2000, under the pressure of public opinion, of the financial markets and of insurance companies, furthermore due to the convergence of standards and legislation around the world, some WTNCs adopted CSR as an element of strategic management and as a competitive advantage to be developed and improved.<sup>8</sup>

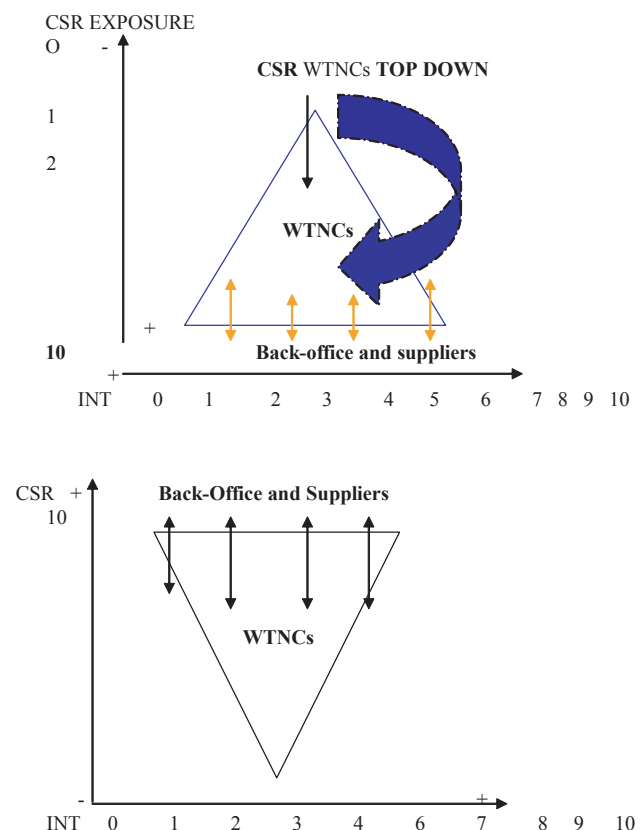
CSR afford the firms to define their own boundaries of responsibility to maximize the benefits to their stakeholders. Voluntary CSR has led corporations to modify, to a greater or lesser degree, their management, communication, methods, and

organization in developing countries. Either they now compete to secure the sources of supply best able to satisfy CSR criteria, or they work together in competition. By working together and pooling their needs in the eyes of their worldwide front office and back-office networks, they harmonize their demands over methods and criteria, reducing the cost of this competition. Whilst the costs generated by the implementation of CSR are easily quantifiable, the costs and losses linked to the risk to reputation are more difficult to estimate.

In order to understand CSR' global contagion from west to east, we have to rank the company's exposure rate by the adoption timing, as we have listed some of them in table\*\*. Here we can see the most exposed sector is the Retailing Sector. It should endure most of the reputation pressure from the stakeholder side in order to compete with other retailers. On the supply side, the retailers have to shape the suppliers' product standard to meet their CSR criteria and this effort spread through the supply chain in a top-down way, as we defined from the most exposed sector to less exposed sector. But is this top-down western mode fit for the eastern emerging market? What is a general mode for the contagion of CSR from regions to regions? We examine this theme in both empirical and computational approaches.

Empirical approach: We have seen that the rationale behind the internationalization of WTNCs and DCTNCs is similar but that the difference resides in their competitive advantages and in the nature of their national markets. Because of the difference in the characteristics of competitive advantages and markets, the emerging market cannot spontaneously appear a top-down CSR adoption, partly for the unawareness of the social issue on the stakeholder side, and partly for the pressure from the economical globalization. More and more companies across western and eastern traded, collaborated and even merged. These intense interactions of western and eastern world truly facilitate the adoption of organization practice, including CSR, through the global supply networks. But in contrast to the Western adoption, most of the companies that adopted CSR early in emerging market are

Figure 1



less exposed DCTNCs. Although they do not have to face the pressure from the retailers or stakeholder in country, they must be aligned with the criteria that casted by WTNCs. So this spread mode is not the top-down pull mode, but a bottom-up push mode. Many data have been collected and some pre-results have shown the trend of this pull mode in contagion of CSR from Western to Eastern.

Computational approach: For confirming this “bottom-up” contagion phenomena, we will model CSR contagion phenomena from WTNC to DCTNC and contrarily the influence of DCTNC to WTNC in an Agent-Based Model for the future work. We combine the classic BASS diffusion model (Bass 1969) with the emerging Complex Networks theory (Newman 2003) into an ABM simulation. We propose the CSR contagion from WTNC to DCTNC through global supply networks, which follows a Scale-Free fashion. Firms in this global supply network have their own decisions on the adoption of CSR, but this decision would be influenced by two factors, the external factors from characteristics of the national environment or pressure of stakeholder side (i.e. mass media, the law) and the internal factors from the transnational supply network ties. The internal factor is given by the local network connectivity. More local firms that have direct transaction relation with the central firm adopt the CSR criterion, more possibility the central firm would adopt it for the higher risk and cost to trade with these CSR firms. And the contagion phenomena exhibits an S shape in the basic model setting, that

means if the number of CSR firms gets to a critical mass, the contagion speed would be much more quick than the beginning. More results will be explored in the future work.

#### ENDNOTE

- <sup>1</sup> Khanna, T and Palepu, K. (1997), «Why Focused Strategies May be Wrong for Emerging Markets », Harvard Business Review, 75(4), 45-51.
- <sup>2</sup> Developing Country Transnational Firm
- <sup>3</sup> Unocal, Arcelor were the last controversy on takeover bid by DCTNCs
- <sup>4</sup> Wells, L.T. (1983), “The Third World Multinationals”, Cambridge, Massachussets, MIT Press.
- <sup>5</sup> Lall, S. (1983), “The New Multinationals”, Paris.
- <sup>6</sup> Dunning, J.H. (1988), “Explaining International Production”, London, Hyman Dunning, J.H. Van Hoesel, R and Narula, R. (1997) “Third World Multinationals Reinvented: New Developments and Theoretical Implications” Discussion Papers in International Investment & Management, n° 227, University of Reading.
- <sup>7</sup> Beausang, F. (2003), “Third World Multinationals: Engine of Competitiveness or New Form of Dependency ?”, Palgrave, Mc Millan.
- <sup>8</sup> United Nations Global Compact 2000 and Corporate Social Responsibility from European Commission 2001

Table 1. Adapted from F. Beausang 2003

CHARACTERISTICS and MOTIVES	WTNC	DCTNC
Multi-nationalization rationale	Growth achieved at lower cost through fragmentation of labor Search for resources, markets, efficiency and strategic assets. Saturated market Increased cost of competition Eroded margins	Growth Transfer of technologies and accumulation of knowledge Immature domestic markets
Competitive advantages	Internal network External network Monopolistic markets not available to competitors Exclusive intangibles	Small-scale, labor intensive, technologies, Few exclusive intangibles
Host country location	Raw materials, natural resources Size and characteristics of the market Stability of countries	Natural resources Low-cost workforce State owned-firms
Last evolutions	Take-over bids Irregular investments CSR Low production capacity No employment growth Mass layoffs by TNCs Growth of Investments Socially responsible	Capabilities in regular investments Savings Middle-class needs Workforce Huge production capabilities Working on high-technologies local standards

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