

## Chapter 2

# Outward Foreign Direct Investment as a Corporate Social Responsibility Challenge

**Krisztina Szegedi**

*University of Miskolc, Hungary*

**Gyula Fülöp**

*University of Miskolc, Hungary*

**Ádám Bereczk**

*University of Miskolc, Hungary*

### ABSTRACT

*Corporate Social Responsibility has developed rapidly in the last decades, and its role has increased due to the new challenges of the global economy, as companies need a positive reputation in order to obtain a “social license to operate”. The aims of this study are: (1) to describe the concepts of corporate social responsibility and Outward Foreign Direct Investment (OFDI), focusing on the relationship between them, (2) to introduce the main CSR risks and opportunities of OFDI, and (3) to summarize the possible solutions for addressing CSR-related risks in OFDI activities. Our study indicates that zero tolerance of corruption is a strategic objective of investing companies. Prevention and mitigation of human rights violations are ethical obligations and in the business interest of corporations. Companies face significant social, environmental, and economic risks, as well as risks to their reputations, because of their supply chains.*

### INTRODUCTION

In the last few decades Corporate Social Responsibility (CSR) has emerged, and one reason for its increased role is new challenges of the global economy, in which a positive reputation is required for a company to obtain a “social license to operate”. As a result of Outward Foreign Direct Investment (OFDI), companies face many CSR-related risks and opportunities. In spite of this, the topic of Corporate Social Responsibility does not appear in the majority of books and articles about foreign direct investment. The role of emerging economies concerning Corporate Social Responsibility is special. On the one hand,

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in emerging economies companies are less aware of the importance of risks related to corporate social responsibility. This issue is either considered to be less significant than in the developed countries or they just lack CSR knowledge. On the other hand, CSR-related risks are much higher in the emerging economies; let us just think of environmental pollution, the violation of human rights or extensive corruption.

These reasons led to corporate social responsibility being treated in a separate chapter in the book about outward foreign investment of emerging countries. Although both corporate social responsibility and outward foreign direct investment have their own literature, there are few works where these two topics are interrelated. This is particularly relevant in case of emerging countries, so this chapter can be considered new. Here the authors examine the CSR-related challenges that companies experience. Regarding these challenges, the authors aim to introduce the main CSR-related risks and opportunities of outward foreign direct investment. A further objective of the chapter is to describe innovative solutions which can be considered as effective best practice in solving social and environmental problems and developing a more responsible business culture and operation.

## **BACKGROUND**

The relations between Outward Foreign Direct Investment and Corporate Social Responsibility cannot be clear without knowing these two concepts; therefore, this section introduces different approaches to corporate social responsibility and their theoretical and practical aspects. Following this, the main points of foreign direct investment are briefly introduced, as well as corporate motivation and determining factors, through a micro-economic perspective (OFDI approach). The determining factors and characteristics of OFDI activities naturally depend greatly on the characteristics of the company and its operating conditions, leading to large variation. Here the focus is primarily on the features and factors influencing OFDI in companies in developing nations, briefly referring to features of companies of emerging economies appearing in foreign markets.

## **Approaches to Corporate Social Responsibility**

The topic of corporate social responsibility has a history stretching back several decades. Although the first mentions in the economic literature referred to the responsibility of corporate leaders, it has become clear that CSR relates to the basic objectives of companies. This leads to the question of who has the responsibility in companies, and why them. Various answers can be given to this question, and thus there are a number of different approaches and definitions of CSR. However, it is clear that this has become an unavoidable/essential topic, and is not related just to theory but has also become – to various degrees and in different forms – part of the day-to-day practices of firms.

In order to understand the concept of corporate social responsibility, it is necessary to review its development. The conventional – neoclassical – corporate conception can be considered the beginning; a company is a legal entity whose fundamental purpose is the maximization of profit for its owner(s). Since the owners and the management tended to become separate over time, the principle-agent approach took precedence, casting light on the information asymmetry and conflict of interests between owners and management. The responsibility of the leadership first appeared in connection with this approach, since the ownership can ensure that the company management keeps the interests of the owner(s) in mind (Chikán, 2003).

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