Chapter 3
Corporate Social Performance and Governance Quality Across the BRICS Countries

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ABSTRACT

This chapter seeks to examine the level of corporate social performance of the BRICS companies and investigate the effect of the country's governance quality on the environmental, social, and governance (ESG) performance of the companies. Analysis of the BRICS companies' ESG scores for 2009 - 2018 indicated that the level of ESG performance in the BRICS countries differs from each other considerably. Overall, results of fixed effects regression analysis revealed that governance quality of countries has a positive effect on ESG scores of companies. Based on these findings, it was suggested to improve governance quality thereby encouraging companies to fulfill their social responsibilities.

INTRODUCTION

Before joining South Africa to the group in 2010, Brazil, Russia, India, and China were called the BRIC countries by economist Jim O'Neill suggesting that they would play an active role in the economic growth of the world (O'Neill, 2001). In a following report published in 2003, highly positive projections were made about the economic development of the BRIC countries. The prediction that the BRIC countries would have a larger economy than the United States within less than 40 years is just one of them. However, as also stated in the report, the main assumption underlying

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these positive projections is growth-supportive policy settings implemented by the BRIC countries. More precisely, the authors indicated macroeconomic stability, institutional capacity, openness, and education as the crucial factors that may affect economic growth (Wilson and Purushothaman, 2003).

Governance quality of countries has been discussed for several decades as one of those institutional factors which have a correlation with the economic growth of countries (e.g. Hall and Jones, 1999; Kurtz and Schrank, 2007; Wilson, 2016). Governance mechanisms at country-level shape also governance attributes at firm-level (Aggarwal et al., 2008). Traditionally, the main concern of corporate governance was shareholders, thereby to protect the interests of shareholders was at the heart of corporate governance rules. However, this traditional model of corporate governance has been criticized for not having a long-term perspective due to its merely focus on short-term profit maximization. Recently, there has been a shift from a short-term financial oriented stance to an objective of long-term sustainable development (Fenwick et al., 2019).

It is hard to give a generally accepted definition of sustainable development. One of the early definitions of sustainable development appeared in the Brundtland Report of the World Commission on Environment and Development (WCED) as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). The responsibility mentioned in the definition is valid for all types of organizations such as governments, companies, individuals, and so forth.

In order to achieve the objective of sustainable development at the corporate level, companies should concentrate on the interests of all other stakeholders such as employees, customers, governments, and even the general public, as well as shareholders. All the mentioned stakeholders have different requirements and expectations from companies. While employees may expect safe working conditions and fair wages, governments may care about the payment of a fair share of tax. Customers are satisfied when the quality and the price of the products and/or services meet their expectations. On the other hand, the general public may be interested in the environmental effect of business activities. It is possible to list many more examples regarding both the types of stakeholders and the different requirements of them. In summary, the underlying principle towards an attempt to be sustainable should be the awareness of the requirements of all stakeholders and developing a business strategy in accordance with these requirements. Whether and to what extent companies fulfill this obligation represents their corporate social performance (CSP, henceforth) and is measured by various indicators in various studies. Membership of a sustainability index (Lourenço et al., 2012) publication of sustainability report (Cardamone et al., 2012), GRI-based sustainability reporting (Miralles-Quirós et al., 2017) are just a few examples of CSP measurement tools used in academic studies.

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