

What explains CSR in emerging markets an examination of the reciprocal relationship between firms and the government

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This study aims to contribute to the literature on the determinants of CSR in international contexts by examining the research question of whether firms' CSR performance in emerging markets can be explained through the reciprocal relationship between business and government – a mutual or cooperative interchange of favors among organizations or individuals. Drawing on the theory of reciprocity proposed in the literature (Bolton and Ockenfels, 2000; Cox, 2004; Fehr and Schmidt, 2000), the study proposes and tests the hypothesis that, in a reciprocal relationship, emerging market firms that receive business-friendly regulations from the government – the regulatory environment that is more conducive to business operations – are more likely to engage in active CSR initiatives in return so as to assist the government in addressing social and environmental issues; maintain a good relationship with the government; and then receive future regulatory favors. To empirically test this hypothesis, the study gathers data on firms' CSR performance from the CSRHub database, consisting of 1,465 firms from 20 emerging market countries, and uses data from the World Bank's Ease of Doing Business as a proxy measure for the willingness of emerging market governments to provide business-friendly regulations. Then, the study performs various types of regression analysis, including ordinary-least squares (OLS) regression, generalized least squares (GLS) regression, and censored regression (the Tobit model). The findings provide supporting evidence for the proposed hypothesis. Specifically, the vast majority of firms in emerging markets appear to reciprocate a more business-friendly regulatory environment received from the government by engaging more in CSR activities, especially in the domain of community development. The current study adds directly to the existing body of knowledge around the study of CSR in emerging markets, and it is the first study that adopts the perspective of reciprocal business-government relationships to understand the nature and practice of CSR among emerging market firms. This should help shed light on the importance of the business-government relationship in the development of CSR, and offer meaningful policy implications, as well as potentially fruitful avenues for further research.