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Corporate Social Responsibility and Development
-A case study of the CSR strategies of international companies in India

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Abstract

The interest in Corporate Social Responsibility (CSR), which recognizes that companies have obligations that extend beyond short-run profit maximization to include notions of social and environmental concern, has increased considerably in recent decades. The globalization of the world economy and the related trade liberalization has brought forward a discussion of the importance of business as an actor in the development of society. The aim of this thesis is to analyse the effectiveness of the CSR strategies of international companies in terms of their impact on development in the host country. This will be performed as a case study of CSR in India. India constitutes a location with significant potential for international companies to contribute to development through CSR since it is an open nation with substantial international presence but still faces challenges regarding poverty alleviation and inequalities.

Very little academic literature examines the development effects of CSR. In order to undertake this analysis, an analytical tool will be established that will present key characteristics of efficient CSR in terms of its impact on development. These key characteristics will be derived from the theory of new institutional economics, and will primarily argue that in order for CSR strategies to achieve the greatest efficiency, they must adhere to the institutional framework of the host context. The case study of the thesis will outline the nature of the international companies' CSR strategies in India and evaluate them according to this analytical framework. The findings of the thesis indicate that the development effects of the contemporary CSR strategies in India are modest. However, CSR is a relatively recent amendment to the corporate agenda and it has potential to increase in efficiency and importance in the future.

Key words: Corporate Social Responsibility (CSR), India, economic development, new institutional economics, international corporations.

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I. Introduction

I.I. Research problem

The increasing liberalization of trade and economic integration in the global arena has extended the opportunities for companies to venture into previously unexplored markets. The tendencies towards increased economic privatization have also eroded the relationship between the private and public sector, since private interests have in some respects adopted previous responsibilities of the state. The corporate sector is continuously gaining increasing power in the globalized economy and exerts influence also over the political arena, not only the commercial. This has contributed to a discussion regarding the role of international business as an actor of development in society and demands for corporate accountability and transparency have increased. The interest in the concept of Corporate Social Responsibility (CSR), which recognize that corporations have obligations to society that extend beyond short run profit maximization to include social and environmental responsibilities, has increased considerably in line with the global economic development of recent decades. In a developing country such as India, with substantial international presence but still facing challenges regarding poverty alleviation and inequalities, CSR could have the potential to contribute to development.

However, the question remains: To what extent can the CSR strategies of international companies actually contribute to development in the host country in which they operate? Differences in the cultural, historical and political contexts, which are important aspects of the institutional framework of the society, are likely to influence the results. Although the importance of, and interest in, CSR is continuously increasing, very little academic literature has researched the effects of CSR in the host society, which is a clear limitation of the current CSR discourse.

I.II. Statement of purpose

The aim of this thesis is to study the effectiveness of the CSR strategies of international companies in terms of their impact on development in the host country in which they operate. The research will primarily be focused on international CSR strategies in the specific host context of India. As a developing country with substantial presence of international corporations, India will constitute an appropriate location in which to study social responsibilities of the corporate sector. The economic reforms in the beginning of the 1990s opened the Indian economy for international competition and privatization (which will be further elaborated on in section II.II.I). However, the Indian economy is still challenged by

increasing gaps between different income groups and widespread poverty, which creates opportunities for CSR to contribute to development. The nature of the CSR strategies of international companies in India will be examined through a case study that has been performed on location in India.

Very little research exists within the contemporary academic literature that analyses or examines the characteristics of efficient CSR strategies in terms of their development impact. Thus, in order to undertake this study, an analysing tool must be established. This thesis will develop a framework that identifies the most important characteristics of CSR strategies in order for them to reach their potential maximum effects on development in the host context. This analytical framework will be derived from the new institutional economics, since the relationship between the often western-oriented international companies and the developing countries of operation is likely to be marked by institutional differences, such as cultural, economic and historical. The set of guidelines that will be developed will act as the framework with which the case study of the characteristics of the CSR strategies in India will be analysed.

The scope and purpose of the study can be concentrated into three research questions:
- According to new institutional economics, which characteristics of CSR can be identified as the most important in order for the CSR strategies of international companies to result in the highest development impact in the host country?
- Which are the most important characteristics of the CSR strategies of international companies operating in India?
- How effective are the CSR strategies in terms of their contribution to development in the host context according to the new institutional economics?

I.III. Limitations of the current literature

The vast majority of the academic articles on CSR are published in management and business related journals, which treat the concept of CSR primarily from the perspective of the individual firm and where the main debate regarding the issue is concentrated around the potential existence of a trade-off between profit motives and social responsibility (see for example Orlitzky et al; 2003, Godfrey and Hatch; 2006, Garriga and Melé; 2004). Very little emphasis is placed on the effects of CSR on the host community, but rather on the company's financial returns to CSR engagement.

Although the interest in the issue from the management perspective is growing, very little academic economic literature on CSR is available. The impact of CSR on the host society and its potential and actual contribution to development receive little attention in the current development economics discourse. The economic perspective has a greater potential to treat

the interests of all actors in the society, while the management perspective mainly treats the profit-making objectives of the corporations. Thus, the economic perspective is very important to the discourse on CSR and its effects on the host country.

Two clear limitations of the current literature on CSR have been identified: Firstly, the lack of sufficient economic research on the topic deprives the discourse of an important dimension regarding the societal effects of CSR. Secondly, although the concept of CSR has been developed due to the increasing social consciousness and responsibility among corporations, little research and academic literature are devoted to analysing the extent of the effects of the CSR policies on the host community, and their potential and actual contribution to development of the host society.

The limitations of the current academic literature on the issue of CSR and its effects on the host society call for further and more in-depth research on the area. The current development economics discussion regarding CSR lacks sufficient analysis of the strengths and weaknesses of contemporary CSR polices by international companies in less-developed countries, especially concerning their effects on the host society. This thesis will contribute to fill part of that gap through the development of key characteristics, which are based on the new institutional economics and which determine the efficiency of CSR strategies in terms of their impact on development in the host society. These key characteristics will be translated into practice in the analysis of the CSR strategies of international companies in India.

I.IV. Disposition of the thesis

The thesis will be organized as follows: First, the background section (section II) will provide a basic understanding of the concept of CSR as well as a presentation of the economic and social conditions of contemporary India. These conditions constitute important aspects of India's institutional environment, which will be central to the thesis. In the theoretical framework (section III), the key assumptions determining the efficiency of CSR strategies in terms of its impact on development will be derived from the theory of the new institutional economics. This will provide the framework for the subsequent analysis. A methods section (section IV) will precede the case study in section V, in which the characteristics of the CSR strategies of international companies in India will be presented and analysed according to the theoretical framework. A summary, with concluding remarks (section VI), will complete the thesis.

II. Background

Before commencing the analysis of the CSR policies in India today, an introduction to the concept of CSR is useful. Furthermore, this section will provide an understanding of the economic and social conditions of India, which are important aspects of its contemporary institutional framework. In short, this section will outline the background to the subsequent case study and analysis.

II.I. Corporate Social Responsibility

CSR constitutes a complex aspect of the relationship between business and society, and a thorough introduction to the concept will be useful for the understanding of the thesis.

II.I.I. Definitions

In line with the globalization of the world economy and the increasingly rapid flow of information that simplifies the detection of unethical performance of companies, the interest in, and importance of, CSR are continuously increasing. During the latest decade, CSR has achieved its breakthrough among the wider international business community and taken its place in the general business discourse (see for example Jutterström; 2006, Perrini; 2006 and Whitehouse; 2006).

The concept of corporate social responsibility acknowledges the corporate sector's obligations towards society beyond short run profit maximization and that the group of stakeholders, whose interests are to be considered in corporate strategies and operations, are extended further than to the shareholders to include societal and environmental values. The World Business Council for Sustainable Development (WBCSD) defines CSR as: "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life." (www.wbcsd.org). This description of CSR reflects the general idea of the concept – to redefine the relationship between business and society and to emphasize the social and environmental responsibilities by corporations acting in the world economy.

Recent literature recognizes that the concept of CSR lacks a precise definition, which makes it, to a certain extent, open for interpretation by the individual practician (Campbell; 2006). It is likely that its content will fluctuate according to cultures as well as to societal norms and trends (Snider, Martin and Hill; 2003, Garrega and Melé; 2004). Whitehouse (2006) argues that the only statement that can be made regarding the identification of CSR is that there

exists no universal definition of the concept. Blowfield and Frynas (2005) and Valor (2005) identify CSR as an umbrella concept, including a variety of theories and practices which recognize the social and environmental responsibilities of corporations, as well as that companies are responsible for the behaviour of others with whom they do business - for example with supply chains. This definition allows for a multitude of interpretations and also addresses the difficulties of establishing one single, universal definition and meaning of CSR. Companies and organizations often develop and adopt their individual understanding of the concept.

Among the business community, the denotation of the "Triple Bottom Line" or "Triple p – people, planet and profit" constitutes a popular reference to the concept of CSR and recognizes the integration of the economic, societal and environmental responsibilities into the business strategy of modern companies (Painter-Morland; 2006, Garrega and Melé; 2004, Husted and de Jesus-Zalazar; 2006). It can also be seen as a reference to CSR as an integral part of the business strategy of contemporary international corporations.

CSR is often identified as the social and environmental care that constitutes an integral part of the business strategy and cooperation that goes *beyond* compliance with the existing legislation in the home location and the host country of operation. Löhman and Steinholtz (2004, p. 13) state that the focus on beyond compliance is emphasized in for example the European Union's definition of CSR. Jutterström (2006) quotes a statement by the International Chamber of Commerce (ICC) and the International Organization of Employers (IOE): "Compliance with the law is the minimum acceptable level of performance; [CSR], in our view, refers to the initiatives that go above and beyond legal compliance". Along with the definition of CSR as the actions beyond legal compliance goes the understanding that CSR must have a voluntary character, which is the current nature of the concept.

Since the stakeholders are supposed to constitute the beneficiaries, or recipients, of CSR strategies, a definition of the concept is appropriate. Blowfield (2005b) defines the notion stakeholder as "any entity that influences or is affected by a company", a definition of a rather general character. Corporations have their individual definitions of stakeholders, in line with the specific strategies and priorities of the company, and so do academics. Morimoto et al. (2005) include the following agents in their definition of stakeholders: "employees and contract staff, shareholders, clients and customers, local inhabitants, suppliers, and the general public that includes the government as well as environment." From this definition, it can be concluded that the interests of all stakeholders cannot easily be simultaneously adhered to without conflict, which constitutes a delicate problem for the many companies that are engaging in CSR. The above definition has a broad and all-embracing character. However, individual companies' interpretations of the concept tend to have a more confined nature.

How a company chooses to define its stakeholders is crucial for the direction of the CSR strategy and determines the beneficiaries of CSR.

II.I.II. Operational phase

The above focus is largely on the theoretical level of the concept of CSR. The remainder of the section will provide a brief introduction to the action to render CSR operational, which will be further discussed in the case study of the thesis.

The operational phase of the CSR strategies of international companies in a developing context can be divided into two main categories. The first category consists of the social and environmental concerns of a company that are related to its internal structure, such as occupational health and safety, minimum wages, anti-corruption, ensuring compliance with human rights at the workplace and maintaining good relations with employees and supplier (Whitehouse; 2006, Kumar and Balsari; 2004). One of the primary tools with which companies develop and implement the above conditions is the code of conduct that is established by the individual companies and which outlines the company's priorities and standpoints regarding the above issues (Venkateswaran; 2004). The social audit is used as a means to monitor the compliance with the code of conduct among the company's suppliers. Certain environmental commitments that are related to the production process can also be argued to be included in this category, such as a continuous aim to find more energy-efficient manners of production and developing products with a lesser effect on the climate.

The second category is most often related to the external society outside the company. It includes voluntary projects of a philanthropic character that relates to community development. The beneficiaries often consist of a specific and confined group. These projects can be directed towards both social and environmental concern, such as to support a local school or engage in tree planting.

This introduction of CSR and how it is made operable will provide the starting point of the case study and its analysis. However, before the case study of the CSR strategies of international companies in the Indian context is presented, it is useful to give a short presentation of the economic and social conditions in India.

II.II. India as a host location for CSR policies

India is an ideal location in which to study CSR policies of international companies. It is a country with substantial international presence and investment, which implies that there will be many companies who can, and are willing to, engage in CSR activities. Furthermore, India still face challenges of for example poverty alleviation and development, which implies that

there are possibilities for CSR initiatives to contribute to positive effects for, and development of, the host community. A brief overview of the economic and social background of India will provide a more detailed introduction to the country context.

II.II.I. Economic conditions

India is a vast and heterogeneous country, with a multitude of different cultures, languages, religions and traditions, spread out over several states. It is an important emerging economy, with a dynamic market and accelerating economic growth, which is expected to increase even further in the future (Farrington and Clarke; 2006). After gaining independence from Great Britain in 1947, decades of economic planning followed, with the first five-year plan coming into effect in 1951 (see for example Bhagwati; 1996). India adopted, unlike parts of East Asia, an import substitution strategy with restrictions on foreign exchange and the private sector (Tendulkar; 1996). A macroeconomic crisis in the beginning of the 1990s, with mounting budget deficits and heavy reliance on external borrowing, triggered the economic reforms. In July 1991, India adopted a structural adjustment program by the World Bank and the International Monetary Fund and initialized its economic reforms (Chossudovsky; p. 149, 2003).

This marked a new economic beginning in India, and the reforms included macroeconomic stabilization, structural adjustment through opening up of the economy to international trade as well as reformation of the tax structure and the financial institutions (Tendulkar; 1996, Roy; 2005). Since the economic reforms in 1991, India has gained increasing importance in the world economy, deepened its integration with external trading partners, opened up its borders to international investment and liberalized trade (Kumar; 2006). The latest years' growth rate of GDP has been reported to reach 8 % per annum (World Development Indicators), and the Indian economy has now reached relative stability in terms of fluctuations in inflation, economic growth and exchange rates (Kumar; 2006). The current relative stability of the Indian economy has proved a lucrative environment for corporate investment and inflow of international capital, and growth is now to a large extent driven by the advanced service sector, such as high-skill IT or financial services (Farrington and Clarke; 2006). However, the swift industrial growth in India has caused increasing problems of for example environmental damage and urbanization, and problems relating to poverty and underdevelopment persist within the Indian society (Humphrey; 2006).

II.II.II. Social conditions

India's rapid economic growth has not automatically translated into development of the country and improved living conditions for the population. A growing middle class has emerged, with living standards and purchasing power comparable to those in some of the most developed countries. However, India still faces challenges regarding poverty alleviation

and development (Deaton; 2004). The gaps between different income groups is continuously increasing and at least 25 % of the population still live below the absolute poverty line, with an additional part subsiding in deprivation that is not included in official statistics (Roy; 2005, World Development Indicators). According to Roy (2005), the incidence of poverty is decreasing in India in the long run. However, the rate of decrease is slower than that of other parts of Asia that have adopted export orientated strategies of economic reforms.

Following the growth of the Indian economy, migration from rural areas into the cities has increased, which has brought about increases in urban poverty, slum-dwelling and urban homelessness (Farrington and Clarke; 2006, Roy; 2005). However, the most vulnerable situation is often found in rural areas. The majority of the rural population consists of small, marginal farmers or landless farm workers, residing in, or on the edge of, poverty (Chossudovsky p. 151). Structural imperfections within the social, political and economic framework limit the range of possibilities regarding employment opportunities, social status and access to material resources as well as to human capital for many groups in the Indian society (Utrikesdepartementet, Venkateswaran; 2004). Groups traditionally belonging to lower castes are overrepresented in the low-wage and informal sectors of the economy (Utrikesdepartementet). The structural imperfections act to a certain extent as an impediment to human and social development, as they cement the existing divides between different income and status groups, and render it more difficult for marginalized groups in the society to overcome poverty traps.

The central labour legislation in India, which must be adhered to by all states, dates back to the time of independence and it is comprehensive and thorough[1] (Roy; 2005, Utrikesdepartementet). However, inefficiencies within the state structure and diseconomies of scale, due to the vastness of the country, render enforcement of the legislation difficult and create a divide between the theoretical and actual implementation of the existing legislation, which affects marginalized groups in the society (Roy; 2005, Venkateswaran; 2004). Moreover, a substantial part of the Indian labour force takes part in the informal sector of the economy (Kumar and Balsari; 2004, Utrikesdepartementet), which deprives these workers from enjoying basic workers' rights and protection. Only a minority of the labour force is organized within a union, which further complicates the enforcement of workers rights (Utrikesdepartementet).

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[1] Interviews on 2007-04-11 and 2007-04-16.

III. Theoretical framework

The effectiveness and potential development impact of the CSR strategies of international companies in the Indian context will be analysed according to the new institutional economics. Since this analysis will concern Western-oriented corporations operating in a developing context, and it is probable that the relationship between them will be marked by differences in the respective institutional environments (as will be further elaborated below), the perspective of the new institutional economics will provide an appropriate analytical framework.

An introduction to the new institutional economics will provide an outline of the essence of the theory, and a discussion regarding its relevance for the CSR context will follow. A conclusion will sum up the findings from the section, where key assumptions concerning the characteristics of efficient CSR strategies will be established. These assumptions will serve as the basis for the subsequent analysis of the CSR strategies of international corporations in India. The basic foundations of institutional economics will to a large extent be drawn from the theories by Douglass North and his work "Institutions, Institutional Change and Economic Performance" (1990).

Very little academic literature analyses issues such as to develop characteristics that CSR should possess in order to maximize its efficiency in the developing context. Within the existing framework of new institutional economics, this thesis will attempt to develop such guidelines that determine the characteristics of efficient CSR seen from a host perspective.

III.I. Institutional economics

This section will provide an understanding of the new institutional economics from which the analytical guidelines will be derived.

III.I.I. Introduction

According to the new institutional economics, the society in which we live is shaped by the institutional environment in which it is set, as described by for example North (1990) and Coase (1992, 1998). Institutions provide the framework, or the "rules of the game" for economic, as well as everyday decisions, and it is institutional change that drives the society and economy towards development. The quality of institutions, and the relationships of the

different institutions in society also act as a determinant of economic performance and development of the country (North; 1990, Coase; 1992, 1998). The findings by North and Coase are also widely emphasized throughout the academic field of institutional economics. Rodrik et al. (2004) find that the contribution of institutions, and their quality, to economic growth and income levels in individual countries are far more important than that of geography or trade. Aron's (2000) research regarding the role of institutions for economic growth of a country arrives at a similar conclusion; it identifies a positive correlation of the quality of institutions, investment and growth. These conclusions are also supported by for example Scully (1988).

The institutional framework of a society consists of coexisting formal norms and informal constraints, as stated by for example North (1990) and Nee (1998). Formal norms consist of rules and legislations, such as the economic, judicial and political administration within a country. The formal norms are enforced through an external force of laws and regulations, by specifically appointed bodies (Coase; 1992). The informal constraints define the boundaries of the interaction of human beings and social groups, and form the structure of social communication. Informal constraints are embedded within the social networks upon which we base actions and interaction, and the specific culture, habits and conventions of every society, or subgroups thereof. Informal constraints are self-enforcing, through social codes and pressure (Nee; 1998). While formal norms can be altered or reversed by the stroke of a pen, informal constraints have been developed through an evolutionary process of culture, history and conventions in the society, and are considered to be of a more rigid and invariable character (see for example North; 1990 and Nee; 1998). The formal norms, informal constraints and the enforcement mechanisms that control them combine to construct the incentive structure of the society, and form a crucial part of the determinants of economic performance.

Neoclassical economics assumes that economic transactions can be executed without cost, whereas institutional economics recognizes that costs constitute an intrinsic part of every economic transaction (North; 1990, Coase; 1992, 1998). These transaction costs arise from costs associated with, for example, obtaining information about current and future economic transactions and contractual arrangements, including monitoring and enforcement of existing contracts. Transaction costs increase with the uncertainty involved in economic and human interaction, which in turn stems from incomplete information regarding the choices and decisions of other actors in society. An efficient legal and regulatory framework, together with well-defined informal constraints regarding the behaviour of individuals in a group or society, promotes reduced uncertainty and transaction costs, which affect the economic performance and development of a country in a positive direction (Coase; 1992, Scully; 1988). The protection of property rights and contractual arrangements constitute important

determinants on the path towards reduction of transaction costs and the establishment of efficient institutions (Shirley; 2005, North; 1990).

III.I.II. Relationship between formal and informal norms

Nee (1998) argues that the relationship between formal and informal norms in the society constitutes a crucial determinant for the performance of the economy. If this relationship is successful and formal and informal norms complement each other, both driving the society in the same direction towards the same goal, the effectiveness of the institutional framework will increase and lead to lower information, monitoring and enforcement costs, higher economic performance and promoted development. Thus, the relationship between the informal constraints and the formal norms constitutes an important aspect of the performance of organizations and economies.

The importance of the relationship between formal and informal norms is also emphasized by North (1990), who argues that the potential success of formal norms depends to a great extent on whether they are coherent with the existing informal constraints of the society in which the norm is to be implemented. Nee (1998) states that the most beneficial outcome occurs when the interests of informal constraints and formal norms (and their representatives) coincide and merge into a common purpose. When this happens, the self-enforcing mechanisms of social control can substitute part of the external enforcement applied by corporations, which can enhance economic effectiveness and development (North; 1990). On the contrary, when formal rules ignore the conventions and culture of the social networks and norms, economic performance is likely to be limited, which also affects institutional change negatively.

III.I.III. Institutional change

Institutional change is brought about by for example changes in relative prices, technology or ideology (North; 1990, Coase; 1992, 1998). According to North (1990, p. 73): "[O]rganizations and their entrepreneurs engage in purposive activity and in that role are the agents of, and shape the direction of, institutional change." Changes in the above factors such as relative prices or ideology lead to an adjustment in the maximizing behaviour of the agents in society, which fosters institutional change.

The informal constraints that establish the principles and routines for human interaction are often firmly embedded within the social norms and networks of the society and sub-groups thereof. The self-enforcing nature of social standards and the evolutionary process through which the informal constraints are formed indicate their rigid and deep-rooted character that does not easily change, which is further emphasized by for example North (1990), Coase (1992) and Shirley (2005). Formal norms can be altered through a more straightforward

process, for example through legal adjustments. The contrast of the structures of formal norms and informal constraints, and the complex relationship between them makes them change at different rates (North; 1990), where informal norms are considered the most tenacious. Tension is developed when formal and informal rules are inconsistent with each other, such as when the change has occurred in the institutional framework (most often within formal norms) (North; 1990). This conflict will persist until a new equilibrium within the institutional environment has been formed and the balance has been restored between formal and informal norms (North; 1990, Nee; 1998).

The maximizing efforts by economic agents through responding to changes in preferences or the ratio of factor prices most often give rise to marginal adjustments in the institutional environment rather than wholesale changes of the entire institutional structure (North; 1990). The result of these marginal adjustments is dependent upon historical changes in the institutional framework, which creates the point of departure for current and future changes.

The importance of path dependence, where it is argued that the historical decisions and institutional environment shape the existing structure of norms and incentives in which changes can take place, is emphasized by most institutional economists (see for example North; 1990 and Shirley; 2005). North (1990, p. 98) introduces the concept: "Path dependence is a way to narrow conceptually the choice set and link decision making through time. It is not a story of inevitability in which the past neatly predicts the future." Path dependence can to a certain extent also explain the persistence of underdevelopment in some regions of the world, which will be further discussed below.

III.I.IV. Underdevelopment

The new institutional economics suggests that underdevelopment in Third World countries can, to a large extent, be explained by the prevalence of an inefficient institutional environment in these countries (Keefer and Knack; 1997, Bardhan; 2000). In a developing country context, the institutional framework is - more often than in developed countries - dominated by redistributive rather than productive activities, with a weak legal and regulatory framework, including inefficient property rights and contractual rights as well as inefficient systems of enforcements of the rights. This may limit investments and entrepreneurial activities, and restrain these countries from economic convergence with developed nations (Keefer and Knack; 1997, North; 1990).

Earlier in this section, it was established that the economic performance of a country is largely dependent upon the efficiency of its institutional framework, which is further confirmed by for example Dollar and Kraay (2003), who emphasize the positive correlation of good and efficient institutions, trade and economic growth. The prevalence of a less efficient

institutional environment in many developing countries, including insecure property rights, increases transaction costs of economic activity and investment, and the risk of limiting economic performance (Shirley; 2005). Furthermore, North (1990) argues that the efficiency of contract enforcement is often higher in developed countries compared to those in the Third World, where states more often lack an effective judicial system including well-defined bodies of law as well as confidence that private interests are less likely to influence the verdicts of law cases. The institutional structure in developing countries tends to lack the formal structure that defines and determines efficient markets (North; 1990). These arguments emphasize the importance of institutions, not only as a determinant of economic performance, but also development.

The concept of path dependence is also important when analysing the current institutional environment in developing countries. Sokoloff and Engerman (2000), for example, discuss the importance of colonial heritage, the economic system that was implemented and early institutional development in the respective parts of the world, as possible determinants of the characteristics and efficiency of the present institutional framework and economic growth.

The features and efficiency of the institutional environment of the host society provide a framework in which international companies and their CSR strategies operate. In order for these CSR strategies to reach potential maximum effect in terms of development impact, they must act in accordance with this framework, as will be explored in further detail below. Thus, examining the structure of the institutional framework will provide useful insights into how CSR strategies should be formulated and implemented in order to contribute to an actual difference in the developing host countries.

III.II. Relevance for CSR

The above introduction to new institutional economics will prove useful when analysing the effectiveness of international corporations' CSR strategies in India and their effect on development in the host country. When international companies implement their CSR strategies in a developing context, especially within the field of codes of conduct, suppliers and other concerned parties could perceive the CSR strategies as the imposition of another formal norm, since they include additional rules and regulations which demand compliance. Since cornerstones in the concept of CSR include voluntary compliance beyond legal requirements, CSR cannot be seen as a formal rule per se. However, it is likely to give rise to similar effects. External monitoring and enforcement (by company representatives or by independent auditing firms), as opposed to self-enforcement within the social group, constitute an additional similarity with formal norms, which are enforced by the judicial system.

Equilibrium between formal and informal norms promotes institutional efficiency (North; 1990, Coase; 1992, 1998). Thus, international corporations should aim at developing and implementing CSR strategies that give rise to the smallest possible conflict within the existing institutional framework and promote the creation of a new institutional balance. To adhere to formal norms in terms of compliance with the prevailing legislation is a relatively uncontroversial issue for corporations, and the majority of codes of conduct include a paragraph which requests compliance with the local legislative context, both among suppliers and within the own company. The challenge among corporations is often found in identifying and respecting informal constraints within the host community in which they operate. The state structure in India can be considered relatively weak compared to that of many Western states (Nadkarni; 2004), which indicates greater importance of the informal constraints as determinants of social and economic interaction.

Respecting, and acting in accordance with, the institutional framework of the host society are important within the entire spectre of CSR strategies, from the code of conduct-related activities mentioned above to projects related to community development, in order to promote maximum efficiency of the CSR strategies and investing in projects aimed at areas in the most need of development assistance. Projects related to community development or other philanthropy-related causes that are initiated by international companies in the host context in which they operate are less likely than codes of conduct to be considered as additional formal norms. However, the development impact is far from uncontroversial. According to institutional economics, institutional change promotes development. Thus, it can be concluded that in order for community development-related projects to have an impact on development, they should lead to institutional change. Shirley (2005) discusses the links between institutional change and aid, which can to a certain extent be comparable to corporate philanthropy. She emphasizes that aid must respect the informal constraints of the society in order to arrive at institutional change. An international company cannot simply impose its Western values and experiences on the developing context and expect development to take place.

To engage in partnerships with representatives of the civil society can constitute an important method by which to adhere to the institutional constraints of the host society and thus diminish the conflict within the institutional environment arising from the introduction of CSR strategies. This is a practice that is recognised by scholars who are engaged in the issue of CSR and development, although they are not specifically devoted to its connection to institutional economics. See for example Venkateswaran (2004), Kumar and Balsari (2004) and Kondap and Singh (2004) for further research on this area. In order to limit the institutional conflict, it is also important to develop CSR strategies according to the actual needs of the host community, or beneficiaries of the strategies. This is recognized by for example Eweje (2006), who conducted an empirical field study of international CSR policies

in Nigeria and South Africa. Representatives of the host community stated that the CSR policies, which were conducted by the international companies, that they considered to be the most successful were those where the host society got the chance to participate in the design and formulation of the strategies. From this discussion, it can also be concluded that in order to achieve the maximum development impact, the CSR strategies should be aimed at the groups in society in the greatest need of development assistance, rather than letting commercial interests of the individual corporation determine the beneficiaries of the CSR policies.

The importance of adhering to the existing legal framework and informal constraints when implementing a new formal rule is also emphasized by Berkowitz et al. (2003), who performed an extensive analysis of the "legal transplant effect" and its influence on economic development. The results of the study indicate that the origin of the country's legal system (if it adopts a system of for example common law or civil law) is a less important determinant of legality than the manner in which the new legislation is transplanted and received. Berkowitz et al. (2003) argue that in order to promote legality, it is important to initiate legal reforms whose purpose can be understood and is appreciated by the agents within the institutional framework. "In short, legal reform must ensure that there is a domestic demand for the new law, and that supply can match demand." (Berkowitz et al.; 2003). Furthermore, a positive correlation is found between the transplant effect and the impact that the legislation has on economic development. A similar line of reasoning can be adopted on the international companies' codes of conduct.

Development and institutional change, especially regarding informal norms, are long-term concepts that do not occur overnight. Thus, in order for international companies to actually be able to contribute to development through their CSR strategies in the host society, their engagement should have a long-term character where community involvement is encouraged rather than focus on one-time spot efforts of monetary donations. Also the codes of conduct-related aspect of CSR should possess these characteristics.

The above discussion regarding underdevelopment of the Third World due to inefficient institutions emphasize the importance of institutions, not only as a determinant of economic performance, but also development. When linking this reasoning to the potential effects of the international companies' CSR strategies in the Third World context, it can be concluded that in order to maximize the contribution to development, the CSR strategies should focus on fostering a more efficient institutional framework. Horn af Rantzien (2003) identifies that corporate responsibility is perceived, by the international business community, as notably important in contexts where a "*legal vacuum*" prevails. That is, in developing countries with insufficient property and contractual rights, and where the state lacks the adequate mechanisms for enforcing existing rights and regulations. Hence, the introduction and

implementation of CSR strategies, which respect and act in accordance with the existing institutional environment, have the potential to function as a complement to existing legislation and state enforcement. Inherent in functioning CSR strategies related to codes of conduct lies a system of monitoring and enforcement (either by representatives of the companies themselves or by an external auditing body) that coexists simultaneously with its state counterpart. If CSR strategies are to have the potential to contribute to development through stimulating institutional efficiency, they should take place on a larger, structural level in the society. The effects are likely to be smaller if CSR strategies act on the micro level, unless substantial spillover effects exist in the society. This is important both for the code of conduct related features and the aspect relating to community development.

Furthermore, adhering to the institutional context of the host country also fosters institutional efficiency through the reduction of transaction costs involved in human and economic interaction. An effective monitoring and enforcement strategy of the codes of conduct reduces uncertainty and increases clear communication to the stakeholders regarding the CSR strategy, which increases transparency and reduces information costs. Moreover, if the system of monitoring and enforcement functions in an efficient and reliable manner, this could reduce the pressure of the state to undertake these responsibilities.

III.III. Summary – key assumptions

The introduction to new institutional economics and its significance for the CSR context can be concentrated into a set of key assumptions upon which the analysis of the development impact of international companies' CSR strategies in India will be built.

- The CSR strategies of international companies should adhere to the institutional framework of both formal and informal norms in the host society in which the CSR strategies are implemented. This includes maintaining a good relation with suppliers and taking advantage of the expertise of development-oriented organizations when initializing CSR strategies.
- The CSR strategies should be directed towards those in the greatest need of development assistance, rather than choosing beneficiaries of the CSR strategies according to commercial interests.
- The CSR strategies should contribute to changes on the structural level in the host society.
- The CSR strategies should have a long-term character in its commitment.
- The CSR strategies should include an effective monitoring and enforcement policy in order to ensure its effect on the host society.

IV. Methodology

This section will outline the methodology used in the thesis, with the focus on the process surrounding the field study during which the interviews for the thesis were conducted. A discussion regarding the limitations of the thesis will conclude the section.

IV.I. The Minor Field Study

The analysis of the effectiveness of international companies' CSR strategies in the Indian context and their potential contribution to development in the host country is based upon a qualitative study through interviews with representatives of companies and organizations in India. The interviews were conducted through a Minor Field Study, with financial support from Sida, the Swedish International Development Cooperation Agency, on location in India during April and May 2007. The geographical concentration of the interviews was set to Mumbai and Delhi, with some interviews performed with companies in neighbouring cities. These specific locations were selected due to their high representation of potential interviewees in terms of relevant corporations. The results of the Minor Field Study will be presented in the case study of the CSR strategies of international companies in India (section V).

IV.I.I. Selection of interviewees

The companies that were interviewed for the case study were selected according to the following criteria: First and foremost, the companies had to be of Swedish origin and operating with subsidiaries located in India. The decision to concentrate on companies that originated from Sweden was taken so as to provide a somewhat more limited platform for the selection of companies. However, Swedish companies possess similar characteristics to international companies in general and can thus be argued to constitute a legitimate foundation for the analysis of the CSR strategies of international companies in India. The Swedish Trade Council provides a comprehensive report of the trade relations between Sweden and India in which all Swedish companies that are located in India are listed. This "Sweden-India Business Guide" acted as a useful guide when selecting and contacting relevant corporations. Through consulting the guide, companies whose Indian headquarters are located in, or in the vicinity of, Delhi and Mumbai were identified and contacted.

Furthermore, only companies with an existing and established CSR strategy were approached with an interview-proposal. All participating companies present their commitment to CSR on

their official web pages, which indicates a solid acceptance of social and environmental responsibility. The companies were also selected in order to represent different company sizes and industries.

An additional criterion for identifying companies to participate in the thesis was the demand that they had to deal directly with suppliers in India, in order to conduct a feasible analysis of the companies' codes of conduct and relations with suppliers. Some of the companies also have their own production facilities in India.

A few key organizations were identified and approached regarding a proposal to participate in the case study prior to its initialization. The remainder of the organizations, academics and government representatives were identified either through contacts or on location in India. The selection of organizations was not guided by any specific criteria other than that they should have genuine knowledge and insight into CSR-related issues in India.

After the corporations had been identified, they were contacted either prior to the field study or while on location in India. The potential interviewees who were approached showed a positive attitude towards the interview and the thesis, and all organizations, academics and government representatives accepted the proposal for an interview. Two corporations turned down the interview proposal due to lack of time. One additional company stated that it did not have any CSR representative on location in India, and thus found that an interview would be unfruitful. In the end, five companies and approximately fifteen academics, government representatives and organizations were interviewed. Since the thesis treats CSR strategies from the host perspective, more weight was put on interviews on the latter group of interviewees.

IV.I.II. Interview procedures

The interviews with the corporations were all conducted with the persons responsible for CSR issues at the respective companies. At two corporations, members of the senior management team in the company were also interviewed. During the interviews with academics and representatives of organizations and the government of India, persons with rigid knowledge of, and insight into, CSR issues were interviewed. The interviews were all conducted through personal meetings. They were performed at the workplace of the interviewee and in the majority of interview situations, only one interviewee and the interviewer, who is also the author of the thesis, were present during each interview.

The interviewer perceived the atmosphere during the interviews as open and genuine, where the interviewees shared their expertise in, and understanding of, the CSR strategies of international companies in the Indian context. The interviews were conducted so as to let the

interviewee decide the depth of the discussion and how much they were willing to expose regarding for example internal company procedures. However, none of the interviewees ever stated that they considered any of the questions to be too controversial or revealing, but shared their knowledge in an open manner.

IV.I.III. Questionnaire

The interviews had a semi-structured character, where the prepared interview questionnaires with open-ended questions acted as a guide for the conversation rather than as a strict form to be completed. Advantages of this technique includes the fact that it opens up for a more free conversation where the interviewee can provide additional information that is not requested by the questionnaire. Moreover, the interviewee is allowed to elaborate within his or her area of specialization.

Two separate questionnaires were prepared; one directed to the corporations, and one that was used as the interview guide for interviews with representatives of the interests of the host context. The latter group consisted of organizations, government representatives and academics. The questionnaire included questions on the specific character, strengths and weaknesses of the CSR strategies, both related to community development and codes of conduct, supplier relations and the perception of CSR among stakeholders in India. The two questionnaires comprised similar questions, but from different perspectives.

Some of the interviews were recorded with a portable tape recorder, in order to capture the discussion in its entirety and facilitate a freely flowing conversation without the disturbance of the need to take notes. During the remainder of the interviews, notes were taken by hand, on some occasions due to requests by the interviewee, and on others due to the atmosphere and intuition in connection with the interview situation. Representatives of two different corporations explicitly stated that they preferred notes to be taken by hand during the interview, and not with the aid of a tape recorder.

IV.I.IV. Findings

The results of the interviews will be presented in the case study of the thesis, which will outline the characteristics of international companies' CSR strategies in India and analyse them according to the theoretical framework. The analytical framework will be based upon the new institutional economics and the assumptions regarding the characteristics of efficient CSR that have been derived thereof.

IV.I.V. Confidentiality of interviewees

Throughout the text, it is important to value the confidentiality of the identities of the interviewees and the material that has been shared. The interviewees have been granted anonymity in the thesis, and references to the interviews are denoted as footnotes, indicating the date of interview. A full register of interviewees can be found among the list of references (section VII). A complete list of the interviews, coupling interviewees with the interview dates, can be obtained on request from the author. This can hopefully aid in compensating for some of the transparency and reliability of the thesis that was challenged through the confidentiality of the interviewees.

When referring to the interviews in the case study and the analysis section, the interviewees will be divided into two groups: The group "companies", or "corporations", includes the participating corporations in the study. The group "organizations" is wider and includes the remaining interviewees of Non Governmental Organizations (NGOs), other organizations, state officials and academics. The representatives of two companies, Det Norske Veritas and CitiGroup will be included in this group, as they were interviewed as informants, not in order to examine the CSR strategies of their respective companies. The gathering of this diverse group of interviewees has been conducted as an additional measure to value the anonymity of the interviewees.

IV.II. Limitations

A qualitative study of this character can imply certain limitations to the analysis, which will be discussed below.

IV.II.I. Limitations of the case study

Cultural barriers, and in some cases also language barriers, between the interviewer and the interviewee could have restrained interviewees from speaking their true and honest opinions during the interviews, and the cultural barriers could have, to some extent, influenced the author's/interviewer's perception and interpretation of the interviews and material. Qualitative studies and interviews of this character display to a certain extent the perceptions and opinions of the interviewees rather than objective truths. Value judgements can never completely be omitted from this kind of research. However, quantitative surveys and additional studies have complemented the findings from the interviews wherever possible, in order to increase the legitimacy of the findings.

When conducting a qualitative study of this nature, the interviewees could have chosen to communicate certain information in a manner that benefited the reputation of the company or organization that they represented. In a similar fashion, interviewees may also have left out certain information that could have hurt the company. This could have affected the nature of the material that was obtained during the interviews.

An important aspect that could be seen as a limitation of the case study is the fact that the perspective of the employees, suppliers and other producers could not be adequately covered during the study. No interviews were conducted with this group of stakeholders, but only with the management level of the company. However, this was part of a conscious interview strategy, since it is probable that unsupervised interviews with workers and suppliers, where the interviewees would have felt confident to speak their minds without fear of reprisals, would have been difficult to conduct. In order to cover the perspective of suppliers and workers, focus was instead directed towards interviews with NGOs and other bodies with insights into the conditions of these stakeholders. Where possible, additional academic research and other studies have supported the findings of the viewpoint provided by the interviewed organizations.

V.II.II. Limitations of the analysis

The limitations of the qualitative study can also transplant into effects for the subsequent analysis of the results. Since the study has focused on a rather small group of companies, the findings from the case study are specific to the participating companies. Converting the answers into general truths regarding CSR in India should be done with caution. It is possible that the case study would have produced different results if other companies had been interviewed. However, the interviewed organizations have to a large extent confirmed or rejected the statements by the companies, and thus added credibility to the analysis of international companies' CSR strategies in India. Where possible, additional studies and surveys regarding CSR in India have provided additional merit to the findings.

The findings are specific to the Indian context and cannot be converted into absolute truths for the entire developing world. If the case study were conducted in a different country, it is likely that the results obtained would differ from the Indian experience in this matter. However, the results can in some respects still be seen as guidance for the state of CSR strategies in developing countries with substantial international presence.

A comment regarding the phrasing throughout the thesis can also be useful here: In this thesis, notions such as "the Indian society" and "the Indian context" have been utilized throughout. However, India is a vast and diversified country, with a multitude of cultures, languages and different states. The institutional context is likely to differ from one part of India to another, and a homogenous context that is common throughout the nation is unlikely to prevail in

India. These notions are utilized in order to render the thesis operable, and since it is acknowledged, it should not complicate the conveyed message in the thesis.

V. Case study

The case study-section will present the results of the case study that was conducted as a Minor Field Study of the CSR strategies of international companies in India. The introductory section will provide the historical background and definition of CSR in India. Following the introduction, the case study will present the characteristics of the international companies' CSR strategies. These characteristics will be analysed according to the key assumptions of the theoretical framework in terms of their impact on development in India. The final section will discuss the future for CSR in India and summarize the findings.

V.I. Introduction

This section will put the CSR strategies of international companies in India into their contemporary perspective and provide a solid understanding of the state of CSR in India today.

V.I.I. Historical perspective of CSR in India

The Indian society and industry are considered to have long traditions of engaging in philanthropic activities and participating in community development, which can be traced back from the rich and nuanced cultural and religious background of India (Kumar and Balsari; 2004, CREM-report; 2004). Notions of generosity and trust, as advocated by Gandhi and his followers are described by, among others, Reed (2004) and Roy (2005) as having served as an ideal for many business leaders both during pre and post-independence times. The importance of these values within the corporate culture in India is also emphasized by for example Sagar and Singla (2004). They present surveys regarding corporate respect in India where they find that transparency and ethics belong to the most important components in order to be perceived as a respectful company in India[2]. Chatterjee and Pearson (2000) define the Indian business society in modern times as a complex mix of ancient traditions that appreciated ethical values and the institutional and corporate values of the colonial period. Well-established Indian conglomerates, such as the Tata Group and Birla, are renowned for their profound commitment to CSR (see for example Marg; 2004, Engardio and Lakshman; 2007). The Tata Group, with over a century's worth of experience from involvement in social causes, is considered as one of the pioneers and leaders within corporate responsibility with

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[2] Interview on 2007-05-10.

its profound and far-reaching engagement that has contributed to setting the agenda for CSR in modern-time India (Nadkarni, 2004).

Until recently, philanthropic activities of Indian companies were not linked to any strategic business interests in the fashion that they are presently associated with. Several interviewees emphasized that the concept of CSR was introduced into the Indian business vocabulary in connection with the economic reforms in the early 1990s, when the country experienced an inflow of international capital and companies (see also for example Sarkar and Sarkar, 2004). International corporations are considered to have launched CSR as a policy issue in India, and as an issue where corporate philanthropy also could serve the profit-related interests of a company.[3] The increased industrial competition also called for a more accountable and transparent corporate structure than was needed in the more closed model of the economy prior to the structural adjustment in 1991 (Baxi; 2005). Pressure arose from a diverse range of stakeholders, such as shareholders, customers and institutional investors, to reshape the internal organization and adopt a more liable and open approach towards the market and the concerned stakeholders. The interest in, and importance of, CSR as a driver for the development of the relationship between business and society have accelerated swiftly in India during the last five to ten years, which reflect the general progress of CSR in the world economy (Whitehouse; 2006, Baxi; 2005, Balasubramanian et al.; 2005, also confirmed by almost all interviews). During this time, CSR has increasingly taken the shape of a business case, even though it is still to a large extent influenced by philanthropic values.

V.I.II. Definition

Community development and involvement plays, as discussed above, an important role in the Indian CSR-context. While, in the western context, this involvement would be labelled charity or corporate philanthropy; contribution to the local community is a very important aspect of corporate responsibility in India. CREM-report (2004) finds that: "…Indian NGOs are of opinion that community development constitutes an important element of CSR […]. The former opinion seems to be shared by Indian daughter companies which were all to some extent involved in initiatives concerning the community." This emphasis can be seen for example in that the term CSR is often referred to specifically as the philanthropic commitments of companies in India. Code of conduct issues, and other issues that are related to the internal structure of the company, which are considered to be important aspects in the western CSR framework, are sometimes referred to as Corporate Governance (CG) (Baxi; 2005).

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[3] Interviews on 2007-05-10 and 2007-05-14.

The occasional separation of CG and community development activities can be seen as a sign of an absence of a uniform definition of the concept of CSR in India, which was further confirmed by interviews of organizations throughout the case study (see also for example Reed; 2004, Kondap and Singh; 2004). This lack of a common definition of CSR follows the general tendencies in the world business community, as has been discussed in section II.I. While the majority of the companies emphasize that their main target group of their CSR policies consist of both employees and the local community surrounding the corporation, one company distinguished itself through claiming that the situation that prevails within the company is not part of CSR. According to this particular company, CSR must apply to a larger group than the employees, and that the aim of its CSR program is to *"make life for society in general better"*[4]. Thus, it is directed solely towards the society outside the company. To cater for the internal conditions regarding the rights and welfare of the employees is a part of the company's responsibility to be a good employer, and this needs no label, according to the company in question.

From the above discussion, it can be concluded that the interpretation of the meaning of CSR varies among companies, as do expectations and actual CSR-related actions, which contributes to a somewhat incoherent notion of corporate responsibility. The absence of a precise definition of CSR is not confined to India and could partly stem from the unavailability of sufficient (and obligatory) national and international standards regarding CSR. This could risk limiting the effectiveness of CSR in a developing context, as the liability of companies becomes unclear. This is especially present within community development and corporate philanthropy, where neither compulsory nor optional standards and guidelines exist (see e.g. Cramer, 2005). However, it is important to emphasize the voluntary character that prevails within this area, which renders the implementation of such guidelines more difficult. Furthermore, since the concept of CSR as it is seen today is a relatively recent amendment to the corporate agenda, is likely to be further developed in the future, which may result in a more accountable approach to the issue.

V.I.III. Time frame

CSR in its present form is a relatively new amendment to the corporate agenda, and in some aspects still under development. The companies that participated in the case study all revealed a rather recent engagement in CSR, dating mostly a few years back. As stated by one of the corporate representatives: *"These issues were not so much focused earlier, some years back, but after the past ten years, these issues are talked about by many companies."*[5] The perception of CSR as still being in its start-up phase was shared by organizations throughout

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[4] Interview on 2007-05-09.
[5] Interview on 2007-04-09.

the case study. The company with the longest involvement in CSR has been committed to these issues since 1997[6], while the company with the most recent CSR strategy initialized it in 2006.[7]

The most CSR-compliant companies, or the companies with the most profound engagement in CSR, are often found among large, well-established Indian business houses and large international companies operating in India (Partners in Change; 2000, Sagar and Singla; 2004, several interviews). This observation is confirmed by the CREM-report (2004), which finds that large and international companies are overrepresented among companies with CSR policies in India. Often, it is these companies that see themselves as possessing the human and monetary capital needed in order to commence and sustain a commitment to CSR. Furthermore, they are also the companies that most often see the potential links between CSR and profit (CREM-report; 2004), and venture into a deeper and more long-term commitment to CSR that extends beyond purely passive philanthropy. This will be further discussed in section V.II.

V.I.IV. Characteristics of the CSR strategies

The CSR strategies of international companies operating in the Indian context, as well as those of large Indian companies, often include policies regarding the internal structure and working conditions of the company and its subcontractors, with the code of conduct as the prime instrument for control and compliance. Many companies are also engaged in community development-related projects or other activities that can be associated with philanthropy. Moreover, several companies acknowledge that the CSR commitment also includes environmental responsibility. Environmental engagement can take the form of specific actions, such as tree planting or rain water harvesting, and it can also be an integral part of the production process, where the ambition is to continuously lower the environmental impact of the products that are produced. This is a very important aspect for a sustainable future. However, the focus of this thesis will be the social aspects of CSR, which will be outlined and analysed below.

V.II. Institutional context

One of the main conclusions to be drawn from the theoretical framework relates to the importance for international companies to adhere to the institutional environment in the country of operation when developing and implementing their CSR strategies. The extent to

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[6] Interview on 2007-04-20.
[7] Interview on 2007-05-04.

which this is achieved constitutes a crucial determinant of the CSR strategies' success in contributing to development of the host country, and will be analysed more in detail below.

V.II.I Local initiatives

The companies in the case study state that the headquarter, often situated in a Western context, provides a framework for CSR strategies that must be followed by the subsidiaries in India. However, within this general framework that provides the guidelines for CSR policies, companies at the India-level are found to have a certain freedom to develop strategies that are specific to the local context, especially within the field related to community development. The participating companies in India all present some degree of independent CSR initiatives within this area (see section V.III for examples of such initiatives). This finding is shared by other surveys relating to the CSR policies by international companies in India. CREM-report (2004) states that: "None of the companies [in the survey] has developed a country specific CSR policy. The corporate values and principles that are defined at the headquarters are guiding. However, everyone acknowledges the need to take into account local culture and needs. Therefore, the management of the daughter company is free to develop further initiatives at the local level." This conclusion is supported by, for example, Chapple and Moon (2005), who find in their study of CSR strategies in Asia that the profile of international companies' CSR strategies (primarily the aspects related to community development) tends to reflect that of the country of operation rather than the country of origin. Chapple and Moon (2005) further conclude that CSR policies tend to vary among the studied Asian countries[8], and that this variation is likely to result from variations in national business systems. As CSR in India is directed towards philanthropy and community development, this could in part explain the freedom to take local initiatives within this area.

The local character of the community development aspect of CSR allows for the acquisition of greater and more accurate information regarding the local conditions and institutional environment, which further extends the possibilities to actually respect and adhere to the formal and informal norms that prevail in the host society. This increases the legitimacy of the projects and minimizes the potential conflict between the CSR strategies and the informal constraints. To adhere to the informal constraints improves the prospects that the CSR projects can lead to enhanced institutional efficiency, institutional change, and ultimately development of the host society. Local knowledge and capacity to initiate independent projects also increases the potential to actually match supply of CSR with its demand.

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[8] The Asian countries that were studied were: India, Indonesia, Malaysia, The Philipppines, South Korea, Singapore and Thailand.

The freedom to take local initiatives is more limited when it comes to the code of conduct-related aspect of CSR. International companies operating in India often have an official CSR strategy that is primarily related to code of conduct issues, and that is applicable to the entire, global corporation. This code of conduct can in most cases be seen on the company's official webpage and is generally developed by the CSR-related department in the headquarters. The entire corporation, including international sub-units, must apply this code of conduct in its completeness, and it is typically not specific to the country of operation. The code of conduct constitutes an important aspect of the company's official, international CSR strategy, and it communicates the responsibility and transparency of the company. It is also an important tool with which the company can be held accountable to its stakeholders and the international society. The international corporations in the case study apply their company-specific code of conduct throughout the entire company, including the relevant suppliers, in all countries in which they operate. This leaves little room for local initiatives or deviations from the fixed standard. This was confirmed by all companies in the case study. However, the majority of codes of conduct include a paragraph where the local entities are requested to adhere to the legislation of the country in which they operate, which could be seen as an attempt to acknowledge the fact that the local context in many cases deviates from the international norm.

This situation can be argued to prevail on a general level in the international business community. Ingenbleek et al. (2007) confirm that this practice of developing codes of conduct at the headquarters of the companies, which are imposed on the host context through a top-down approach, is practiced repeatedly by international companies on the global corporate arena. They further argue that codes of conduct in general pay little attention to the local context in the countries of operation. This is also discussed by Blowfield (2005b) and Newell (2005), who argue that the institutional context of the headquarters in the west is often imposed on the developing host country. Newell (2005) further argue that multinational corporations assume a set of conditions to be in place in the host society that are achievable only in advanced industrialized and democratic contexts. This will most likely act as a restraint to the CSR strategies' potential impact on development, since in this case, the institutional context of the host society will not be adequately adhered to. It is probable that the conflict between the imposed CSR strategies and the existing framework of informal constraints will hinder institutional efficiency and the efficiency of the CSR strategies. One important aspect of adhering to the informal norms of the host society include engaging in partnerships with representatives of the civil society.

V.II.II. Partnerships
The theoretical framework of the new institutional economics suggests that partnerships between business and representatives of the civil society can contribute to a better

understanding of the local institutional context and thus lead to greater efficiency of the CSR strategies in terms of their impact on development in the host country. This is also emphasized by for example Venkateswaran (2004), Kumar and Balsari (2004) and Morimoto et al. (2005). The room for local initiatives in international companies' CSR strategies opens up the possibilities for fruitful cooperations of private companies and the civil society, for example, with NGOs. As development-related NGOs often have greater experience in the field and a better understanding of the specific development situation, such partnerships have the potential to increase the adherence to the local institutional environment within CSR projects (Kondap and Singh; 2004). Venkateswaran (2004) belongs to the advocates of cooperations regarding CSR related projects and considers that partnerships between companies and NGOs can play a crucial role in rendering the involvement of business in society more effective.

Partnerships with NGOs are most prevalent regarding projects related to community development and philanthropy in India, while collaborations within code of conduct issues are rare (CREM-report; 2004, interviews[9]). Although one of the companies stated that it collaborated with a local consulting firm when developing their India-specific CSR strategy in terms of for example monitoring and enforcement, none of the participating companies presented any co operations with representatives of the civil society when determining the scope and direction of their community development-related projects. Partnerships were largely concentrated around the implementation phase of the projects. Few companies indicated that they took advantage of organization or state expertise when initializing and developing the projects. None of the companies in the case study showed any cooperation with the government of India, neither on the state level, nor on the central level.

Following the reasoning derived from the new institutional economics in the theoretical framework, it can be concluded that partnerships with the representatives of the host society can enhance the adherence to the institutional framework, and thus increase the potential development effects, through providing deeper information and knowledge regarding the local informal constraints than the international companies (albeit on a local level) may possess. Partnerships between the international companies and local organizations show the intentions of the corporations to adhere to the institutional framework of the host society, and such cooperation has indeed the possibility to enhance institutional efficiency and limit the conflicts between the CSR strategies and the prevalent institutional framework.

However, since the partnerships of the companies in the case study are concentrated to the implementation phase of the community development projects, their potential to contribute to development may be limited. Considering the facts that no exact definition of the concept of CSR exists in India, and that the corporations acting on the Indian level do not have a very

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[9] Interviews on 2007-04-11, 2007-05-14 and 2007-05-16.

rigid or long experience of treating CSR as an integral part of the business strategy, it can be suggested that the structure of the current partnerships prevails due to insufficient insight into and experience of this issue.

Some interviewed companies frequently referred to their successful partnerships with local NGOs in establishing and pursuing their CSR projects. However, not all companies find partnerships with NGOs to be fruitful. One company found that NGOs were often unaccustomed to being held accountable for the funds and investments provided by companies and to being asked to present valid results for their efforts. Venkateswaran (2004) argues that the reluctance that some companies experience in establishing partnerships with NGOs could result from, for example, an insufficient existence of forums where companies and NGOs can meet, or lack of knowledge and resources regarding how to evaluate the work of NGOs.

V.II.III. Supplier relationships

The nature of the relationship between the company and its stakeholders (of which the suppliers constitute an important part) is crucial when determining the extent to which the company's CSR strategies adhere to the institutional context of the host country. Successful relationships can limit the institutional conflict arising from the introduction of CSR strategies, as discussed in the theoretical framework, and thus increase institutional efficiency.

The introduction of CSR policies, including codes of conduct, mark a new phase in the relationship between the suppliers and the international companies – the buyers – where the buyers' demands on the suppliers extend beyond quality control, on-time deliveries and price competitiveness. The power structure that exists between the buyer and the supplier becomes increasingly articulated with the intensification of the buyers' intervention in the previously internal conditions of the supplier. Affairs that were earlier considered domestic and confined to the individual supplier are now under scrutiny and control of the international buyers, which often originate from the Western business community.

In the discussion on the theoretical framework, it was suggested that codes of conduct could be perceived by suppliers as additional formal rules that demand compliance. When the formal rules - that is, the codes of conduct - are not developed and implemented in accordance with the existing framework of informal constraints embedded in the social norms and networks of the society, a conflict will occur where the efficiency of the CSR strategies risk being limited (Nee; 1998). The conflict will also limit the legality of the CSR strategies. The importance of implementing formal rules that are accepted by the social and cultural networks and conventions in the host context is also emphasized by the research of the transplant effect (Berkowitz et al.; 2003), which was introduced in the theoretical framework. This research

also stresses the importance of implementing formal rules for which there is an actual demand in the society, so as to create an equilibrium where demand and supply of formal rules meet. It can be argued that this demand originates from the preferences of stakeholders such as workers and consumers, while suppliers ought to be more reluctant towards more stringent rules and regulations. However, the suppliers constitute an important group of stakeholders, which influence the way in which CSR is accepted by the host society. Some indications of an existing initial conflict between suppliers and buyers will follow below.

The companies referred to in this thesis acknowledged that the codes of conduct demands were initially met with reluctance and scepticism among the suppliers. This reaction is confirmed by studies where the issue has been examined from the suppliers' perspective; see for example Kozak (2005). Suppliers found it difficult to focus on the potential advantages of compliance with the codes of conduct, such as a more content workforce, fewer sick days among the employees and lower turnaround of personnel, but they rather considered the code of conduct demands to result in increased interference with the internal affairs of the suppliers. Some organizations suggested that the introduction of the CSR policies were seen, by certain suppliers, as a non-tariff barrier imposed from the Western business community, preventing the local suppliers from focusing on price competitiveness (see also Kozak; 2005, Reed; 2004). This indicates the existence of a conflict between the CSR strategies and the existing informal norms in the host society.

The companies in this case study confirm that the introduction of codes of conduct has, in most cases, involved increased costs and investments for suppliers. Compliance with codes of conduct has demanded another regulatory infrastructure in the factories of the suppliers. In the course towards compliance with the codes of conduct, companies claimed, to a varying degree, to have assisted the suppliers with their skills and knowledge in order to facilitate the procedure. However, none of the companies provided financial assistance to the suppliers during the process.

Other sources of conflicts that can be argued to stem from incompatible interests of the supplier and the buyer include companies that often have an individual code of conduct, which they expect suppliers to comply with. Some organizations and companies in this case study acknowledge that compliance with too many company-specific codes constitutes a problem for suppliers, since they may be conflicting each other.[10] This finding is supported by Kozak (2004). Moreover, conflicts may arise between adopting a code of conduct-compliant approach to one's business and maintaining the previous low price of the products that are produced. Interviewees confirm that suppliers risk forfeiting certain customers when the previous price cannot be maintained due to additional costs associated with the codes of conduct. Kozak (2004) reports on suppliers' understanding of the situation: "The problem is

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[10] Interviews on 2007-04-23, 2007-04-20 and 2007-04-05.

thus that not all buyers are concerned about CSR in combination with the dependency on buyers with high demands on price, short delivery times and quality." These conflicts risk limiting the effectiveness of the CSR strategies and institutional efficiency.

The companies all emphasized the importance of dialogue and mutual respect in their communication with the suppliers regarding the implementation of, and the continuous improved compliance with, the codes of conduct, which suggests that corporations are aware of this conflict and act to limit it. Efforts were concentrated on the building of loyalty and trust among the suppliers and emphasizing the positive benefits and financial advantages that could be gained by the suppliers. One company stated that, during the initial phase, it was *"tough to give them [the suppliers] a futuristic vision"[11]*, a view that was shared among the interviewees.

The suppliers' initial reluctance has increasingly changed in favour of a more understanding and positive approach towards the codes of conduct. Companies and organizations agree that suppliers are increasingly gaining a more long-term and sustainable vision regarding their business. Furthermore, the interviewees report an increasing awareness among suppliers that CSR policies constitute an important part of the global economy, and suppliers who wish to sustain in the business in the long run should adopt the codes of conduct. This finding is further supported by Kozak (2004), who finds that this view is indeed prevalent among the suppliers. Kozak (2004) also finds that suppliers perceive that CSR brings a win-win situation for buyers and suppliers.

Moreover, according to the interviewees, suppliers showed pride in cooperating with buyers who were reputed to have stringent and thorough codes of conduct, as this constituted a quality mark for the supplier. This conclusion was further confirmed by Kozak (2004), who based her study on interviews with suppliers. The change in attitude of suppliers could indicate that the institutional framework is moving towards a new equilibrium in terms of a coupling of the formal and informal norms. This equilibrium stage implies greater institutional efficiency, which indicates that the development effects of CSR have the potential to increase even further in the future, as the equilibrium is approaching.

V.II.IV. Summary

To sum up the findings of this section, it can be argued that the CSR strategies of the international companies in India that participated in the case study have the potential to at least partially adhere to the institutional framework of the host society through the community development projects, while the codes of conduct have a more fixed character. The limited

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[11] Interview on 2007-04-20.

involvement of partnerships during the development phase of the community development-related projects risks the actual adherence falling below its potential maximum level. Furthermore, the introduction of CSR strategies will most likely cause a conflict within the institutional environment. However, indications suggest that this conflict is reaching towards a new equilibrium, which promotes institutional efficiency and lower transaction costs. Since formal and informal norms change at different rates, this equilibrium will most likely not be achieved overnight.

V.III. Characteristics of CSR beneficiaries

Although the international companies have a certain possibility to adhere to the institutional context of the host society, this does not necessarily imply that their CSR strategies are directed towards the groups in the greatest need of development assistance – which constitutes another key assumption of the theoretical framework. To actually focus the CSR strategies around the areas where they can lead to the greatest potential improvement in living conditions and opportunities fosters institutional efficiency and development. The extent to which this takes place in the Indian context will be analysed below.

V.III.I. Selection of projects

The effectiveness and the legitimacy of the CSR strategies regarding their contribution to development in the host country are largely dependent upon the extent to which the CSR policies are directed towards those groups in society that are in the greatest need of development assistance. This was stated in the key assumptions that were derived from the theoretical framework. The group in question was defined in the theory section as those with the lowest income and the lowest social status. Although this is a suggestion that can to a large extent be derived from common sense, its implementation is not uncontroversial among the CSR strategies in India. International companies in India tend to act according to an incentive structure where business interests are dominating (which will be further explored in section V.V.). However, the interests of the international corporations, and thus the areas of focus for their strategies and actions, including those that could be related to CSR, most likely do not coincide with developmental interests. Companies can be expected to act within their internal boundaries of interest also when initializing and implementing CSR projects. Thus, the beneficiaries of CSR in developing countries, in this case India, may not be the group in society that has the greatest need of development assistance.

The companies that participated in the case study for this thesis are typically involved in one or several projects that can be related to community development. Engagement in philanthropic causes among international companies operating in India, and also well-

established Indian companies, are considered the norm according to the interviewed companies and organizations as well as CSR-related surveys (CREM-report; 2004, Partners in Change; 2000)

The decision to engage in, or initialize, a specific project is often based upon the individual company's perception of the need of the employees or community in the vicinity of the company, depending on how the company defines its CSR strategy, as well as how it is defined by the individual company. One company referred to in this thesis considered the health and education of young people to be an important societal issue to which it could contribute, and has thus initialized a successful health academy for underprivileged children in the vicinity of the factory[12].

Another participating company assessed that its area of priority regarding community development consisted of the education of the employees and their families regarding different household related issues. They considered that the employees lacked attention at the workplace, as they were believed to experience anxiety regarding hazards and annoyances in their homes. The employees, and also their families, were thus educated on matters such as how to cook with less oil, proper nutrition for the specific climate in which they operate and proper utilization of household gas in order to avoid accidents and precarious situations[13]. Company representatives claim that employees are now more focused and content at work. The same company also engages in various other social causes, such as to support the construction of a school for the children of the employees at a local police academy.

One company simply engaged in projects where its staff responsible for CSR already had personal contacts[14]. However, this company emphasized that it was also in the process of initializing a large-scale CSR program related to community development, in addition to the small-scale projects that were currently in place.

The above examples of community development project are representative of the sample of international companies in this thesis, where the projects are often selected on the basis of the companies' individual perception of the society, rather than consulting an objective body in order to invest in projects that can generate the maximum results for the beneficiaries. This sample of companies presents an absence of coherence in terms of selecting, developing and implementing socially-related projects. Rather, it gives the impression that the projects are shaped according to the judgement and values of the individual employees who are responsible for CSR at the specific companies. The importance of individual members of staff and the management of the international companies when determining philanthropic

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[12] Interview on 2007-05-09.
[13] Interview on 2007-05-04.
[14] Interview on 2007-04-09.

engagement is also emphasized by organizations throughout the study. A representative of one of the organizations stated: *"It also depends, I guess, on the personality of the management team, as to where they want to steer the company towards [CSR]"*[15]. This could have clear implications for the characteristics of the beneficiaries of the CSR projects, and it can be assumed that those benefiting from the CSR strategies are not always the groups in society with the greatest need of development assistance. In such a case, the development effects of CSR risk falling below their potential maximum level.

V.III.II. Vicinity of the factory

Not only the nature of the projects can have implications for development, but also where they are located. A common denominator among international companies' commitment to social causes is the concentration of their engagement to, or the vicinity of, the company location. Thus, the main target group of the CSR projects is the local community surrounding the company, which is also the main objective of some companies' CSR policies. A representative of one of the companies stated: *"Wherever you have a factory, CSR should be organized around that area."*[16] The reasons for this could include aspects such as to strengthen the company's licence to operate through visible social actions in the vicinity of the plant, to be seen as a "good" employer among the employees and also to convey a feeling that the company "gives back to the society in which they operate".

Furthermore, when organisations were approached on the nature of the CSR policies by international companies in India, they suggested that companies are generally interested in projects where its focus is approachable and understandable.[17] Popular areas for investing in social causes include health, education and homelessness, issues that are easy to relate to, that generate sympathy, and that are present in the minds and everyday life of employees. It is also argued that, for strategic reasons, companies rather invest in projects which receive the greatest goodwill-related attention and where it "makes the most business sense."[18] Moreover, the tradition to focus community development-related projects in the vicinity of the factory is deeply rooted in the Indian society. For example the Tata Group adopted this model of engagement as early as the 19th century (Kumar and Balsari; 2004, Balasubramanian et al.; 2005).

However, some organizations direct criticism towards the confinement of companies' social commitment to the local community surrounding the factories and argue that the target groups

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[15] Interview on 2007-04-11.
[16] Interview on 2007-05-09.
[17] Interviews on 2007-05-14 and 2007-05-16.
[18] Interview on 2007-05-14.

of the CSR projects do not include those in the greatest need of assistance.[19] The most exposed situations are often found in remote rural areas, but as these are beyond the scope of media and business attention, the corporate sector's interest in investment in these areas is limited. Certain organizations also consider that companies direct their resources towards the symptoms of the problem, rather than addressing the root cause[20], which could limit the effectiveness and the impact of the CSR projects.

The prevalence of well-established CSR strategies has been found to be concentrated among the most influential and well-established corporations operating in the Indian context. However, the majority of the workforce in India are not employed by these large companies, but belong to small or medium sized companies or are associated with the informal sector of the Indian economy (Kumar and Balsari; 2004). Thus, only a fraction of the Indian workforce are likely to be touched by the CSR policies of the international companies, which will most likely put certain restraints on its development effects on a larger scale in the society.

The aspect of CSR pertaining to codes of conduct is, as anticipated, also concentrated to the factory, and the factories of the suppliers that apply the companies' codes of conduct policies. Several companies stated that the majority of the suppliers, which participate in the code of conduct program, are centred around the factory, which is further confirmed on a general level in India by, for example, Caprihan and Shivakumar (2004). Moreover, the areas in which international companies locate for example outsourcing and foreign direct investment usually belong to the wealthier regions in the host country (see for example Eweje; 2006). Investments in natural resources constitute an exception to this statement, where investment decisions are based on geological factors (Jenkins; 2005). Infrastructure, cluster effects and access to trained personnel belong to the determining factors of locating business or undertaking investment in a particular area. Hence, the structure of the international investment process can be argued to exclude the most underdeveloped and poor regions from benefiting from the CSR strategies of international companies, which thus most likely means that the development effects of CSR fall below their potential maximum level.

While the above discussion was concentrated to the prevailing situation in India, additional academic literature and research suggest that similar tendencies can be seen in general among the international business community. Many rural areas that present a pressing situation concerning poverty and underdevelopment remain outside the limelight of media attention and business interest. Newell (2005) states: "Poorer communities often work in or are affected by activities in regions and sectors that are way down the supply chain and out of the spotlight, far removed from the CSR whirl." The above quotation refers both to the corporate sector's lack of interest in engaging in CSR projects in remote areas and the fact that remote

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[19] Interviews on 2007-04-23, 2007-05-14 and 2007-05-16.
[20] Interviews on 2007-05-14 and 2007-05-16.

rural areas tend to have an overrepresentation of low-wage income earners and employees in the informal sector (Blowfield, 2005b). It could be argued that the suggestion that these areas are not included in the corporate strategy means that some of the most exposed groups in society do not benefit from the CSR policies of international companies.

V.III.III. Summary

To sum up this discussion, it can be argued that although the CSR strategies of international companies possess a certain potential to adhere to the institutional framework of the host society, factors pertaining to the corporate structure of investment and the tendencies to let business interests affect CSR-related decisions contribute to the fact that the beneficiaries of the CSR strategies may not include those groups in society with the greatest need of development assistance. This risk limiting the developmental impact of the CSR strategies of international corporations in the Indian context since the entire institutional environment of the host country has not been adequately adhered to and considered in the CSR decisions. Moreover, the business ambitions of the individual firm most probably do not coincide with the development objectives of the host country. This can give rise to a conflict between these goals, which hinders institutional efficiency. Thus, the institutional change and development that can be attributed to CSR may fall below the potential maximum level.

V.IV. Structural level

One of the important findings from the theoretical framework stated that since development of the country will most probably be brought forward through institutional efficiency on the structural level in the society, it is on this level (as opposed to the micro level) that CSR strategies have the greatest potential to contribute to development.

Through examining the previous sections of the case study, it can be seen that many large and well-established domestic and international companies that are operating in the Indian context are engaged in one or several projects pertaining to community development. However, the scope of these projects is usually rather confined, both geographically to a predetermined location, which most often coincides with the area surrounding the factory, and in the sense that they offer limited expansion possibilities in terms of increasing the magnitude and the number of the projects. Thus, the greatest potential to influence the development of the host country can be argued to prevail on the micro level. Examples can be drawn from the previous section of the case study: The health academy that has been initialized by one company is likely to indeed enhance the quality of life for the group of youths that participates in the project. However, only a fixed number of young people are involved in the project and it is unlikely to allow for vast expansion possibilities. Thus, it is improbable that

this project, albeit successful, will contribute to development on a larger scale in the Indian society.

Throughout the interviews for the case study, several examples of flourishing community development projects are presented, which indicates that CSR actually has the potential to be effective on the micro level in the host society. Companies and organizations alike confirm the success rate of the projects and claim that they can indeed contribute to enhancing the quality of life at an individual level in India. The interviewees also confirmed the limited range of the projects, which renders the projects unlikely to contribute to institutional change on a structural level. This will most probably lead to a rather constrained impact of the CSR strategies on the institutional framework of the society, and thus a quite limited development impact on the host country.

Moreover, none of the participating companies report any cooperation with the government, neither on the state nor on the central level, when developing and implementing their CSR strategies. This could be seen as an indication that the aim of CSR strategies of international companies does not include structural or macro level changes. Neither are more ambitious partnerships with, for example, non-governmental organizations found among the participating companies (as has been discussed in the above sections of the case study), which could further be seen as supporting the above theory.

The potential development impact of the code of conduct-related aspect of CSR is not equally clear-cut. Since the large international companies with codes of conduct employ a minority of the Indian workforce, their range could at present be seen as rather limited and their prime effects visible on the micro level. However, as the relationship between business and society is continuously changing and the importance of the ethical dimension of labour standards is increasing, the scope of codes of conduct, and also their structural aspects, may well increase in the future. CSR has contributed to raising these issues on the corporate agendas, and the world has probably only seen the starting point of CSR so far.

The observation of the micro level effects of CSR is supported by academics such as Blowfield and Frynas (2005), who have studied the phenomenon on a general level within the international business community. They emphasize that the potential effects of CSR policies can be found primarily on the micro level in the host context, and that the influence on the structural level is modest. These observations are also supported by, among others, Jenkins (2005), who argue that, in developing economies in general, CSR is unlikely to contribute to the development on a structural level in the host country. The ambition of the CSR strategies of international corporations seldom includes contributing to structural changes in the host country. Hence, it is improbable that CSR will play a significant role in poverty reduction in these economies (Jenkins; 2005, Newell; 2005).

It has been suggested in this section that the effects of the contemporary CSR strategies of the companies that participated in the case study are primarily visible at the micro level in the host society and that their structural effects are modest. Since substantial spillover effects are unlikely, these micro level effects are not likely to result in structural changes. This leads to a limited impact on the institutional framework in the host country, which further leads to a rather weak development effect. However, it is important to emphasize that the CSR strategies have been implemented quite recently in India, and that their scope and effect may increase in the future.

V.V. Long run approach

The new institutional economics and key assumptions derived from it in the theoretical framework emphasize the importance of maintaining a long-term commitment to CSR in the host context in order to achieve a development impact. Institutional change and the process of arriving at a new equilibrium between formal and informal norms will most likely not happen overnight since especially informal constraints tend to have a rather rigid character. Thus, to engage in more long-term related CSR strategies as an international company operating in a developing country will most likely give rise to a higher potential development impact than one-time contributions. Indications that the companies are actually adopting a more active, long-term approach to their CSR commitment are found below.

V.V.I. Commitment to CSR beyond passive philanthropy

In line with the growing recognition and development of CSR in India, the commitment to CSR is increasingly moving away from passive philanthropy towards a more active and strategic engagement. The importance of adopting an approach where CSR becomes an integral part of the strategic business planning, and the finding that corporations in India are advancing in that direction are found by Balasubramanian et al. (2005) and Caprihan and Shivakumar (2004) (see also Kumar and Balsari; 2004). This development follows the trends in the world economy, and indicates a futuristic vision and long-term commitment in the companies' attitudes towards CSR. If CSR is seen as a natural part of the business strategy, its interest is less likely to fade.

Organizations and companies throughout the case study have also emphasized the continually evolving relationship between business and society, and it is argued that the act of simply donating money for a good cause is not sufficient for the contemporary CSR commitment. A representative of one of the companies stated that: *"One cannot only pour money into some NGO and expect one's social obligations to be fulfilled. If one strives to make a difference in*

society, this goes beyond funding. One is also responsible for the outcome of the project in which one is participating and responsible to ensure that the funding results in change"[21]. A representative from a different company argued that: *"Donations are not part of CSR"[22]*. Several organizations pointed out that they regarded international companies to be actually serious about their CSR strategies and that the conditions for certain stakeholders actually have improved. The finding that CSR is moving away from passive philanthropy to take a more active and conscious approach indicates a more long-term commitment to community development, which should increase the potential to contribute to development.

V.V.II. Where can we apply our expertise?

Three interviewed companies stated that when they commence a partnership with a socially oriented organization, or initialize a project related to community development, the question of "where can we apply our expertise?" is central to the process, which indicates an interest in taking an active stance in CSR. Engagement is preferred in areas where the company can relate the investment to its core business. This can be expressed through for example technical assistance or donation of surplus equipment. The three companies and several organizations emphasized the importance of concentrating the engagement to where one possesses the skills and capacity to make a fruitful contribution. Active engagement where the company can contribute with for example technology and knowledge indicates a commitment where corporations extend beyond the passive philanthropy stage to a more conscious and long-term approach towards CSR. Moreover, the initiation of individual projects, moving away from simply allocating funds towards existing projects, can be seen as another manner in which to adopt a more contemporary approach in line with the modern economy's demands on CSR as a long-term commitment.

V.V.III. Employee volunteerism

Additional strategies exist in order for the corporate sector to adopt a more active and long-term approach to social responsibility. A recent amendment to the companies' CSR agendas is "employee volunteerism", where employees are given the opportunity to donate some of their time and effort to a project or an organization with which the company partners. Three out of the five interviewed companies stated explicitly that their employees have the opportunity to engage in volunteerism under the auspices of the company. The initiative to actively engage the employees in the CSR projects of the company can be seen as another step away from passive philanthropy towards a more profound engagement, aiming at integrating business and society in a most practical manner. As stated by a representative of one of the corporations: *"Involvement of people is a much greater investment than involvement in funds*

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[21] Interview on 2007-04-09.
[22] Interview on 2007-05-09.

only."[23] The advantages of employee volunteerism are also emphasized by, for example, Venkateswaran (2004), who states that: "Increasingly, studies indicate that active involvement by people is the only effective way to ensure long-term results." International companies are not the exclusive practitioners of engaging their employees actively in this type of project. Indian based multinational corporations like the Tata Group are also deeply involved in employee volunteerism, with volunteering days and a rigid corps of active volunteers (Nadkarni; 2004).

However, the international companies in the study that are engaged in employee volunteerism report that the project has not yet reached the desired success rate among the employees, even though the interest is continuously increasing. A possible explanation could relate to the fact that no company has yet reported that it offers monetary or working-hour compensation to the volunteers, and it is normally not possible to practice volunteerism during regular working hours. However, some companies state that they are planning to commence a system of compensation soon, although it is reported to involve administration difficulties. Household chores and family life deter employees from devoting precious spare time for the good cause, even though they appreciate the company initiative of engaging in social causes. For the purpose of employee volunteerism, companies have emphasized the importance of the projects being located in the vicinity of the company location, in order to facilitate and encourage employee engagement.

V.V.IV. Reasons for CSR commitment

Furthermore, the reasons for engagement in CSR suggest that it can be seen as an integral part of the business strategy, which could support the long-term nature of the strategies. None of the companies in the case study explicitly stated that their engagement in community development activities was related to any profit-seeking motives. When approached with the question of the reasons for their engagement, companies usually responded that their rationale behind their commitment to CSR included increasing employee wellbeing, and the importance of being seen as a caring and responsible employer by its employees. Companies expressed a wish that their employees should feel proud to work for the particular company. Other common responses included a social commitment as a natural aspect of their corporate culture and that the company board found CSR to be an important issue to which they felt a personal commitment. These answers are in line with the reasoning by the international business community, as found by for example Horn af Rantzien (2003). In her study, it is suggested that the rationale behind international companies' commitment to CSR is to strengthen the relationship with the employees, suppliers and customers, a more efficient utilization of resources, increased good-will and a stronger "license to operate". According to

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[23] Interview on 2007-04-09.

Partners in Change (2000), a sizeable segment firmly believed that social development activities should be an integral part of long-term corporate strategy.

However, although not explicitly stated in the interviews, business driven motives are likely to partly determine the scope of social engagement. As phrased by one representative of one of the interviewed organizations: *"At the end of the day, the CSR projects must make business sense"[24]*. A representative of another organization argued that: *"CSR must be in line with the profit-making core of the company."[25]* This viewpoint was shared by several organizations and also by for example Marg (2004). Moreover, to improve the relationship between the company and the employees as well as between the company and the society in which it operates can be seen as part of a long-term business strategy, and linked to long-term profit motives. The same conclusion can be drawn from the goodwill-related attention to the company generated by CSR.

The importance of CSR as part of the business discourse is emphasized by several academics on the global level in the international business community. Valor (2005) points to the prevailing neoclassical orthodoxy and market mechanisms within the global economy, which emphasize the importance of profit motives as an incentive for CSR commitment. Valor (2005) further suggests that social performance and responsibility are not treated as an end in themselves, but rather as a means to achieve competitive advantages. This viewpoint is supported by Blowfield (2005a), who argues that CSR has become a business case in its own right. See also for example Orlitzky et al. (2003) and Husted and de Jesus Salazar (2006) for further evidence in this area.

Blowfield (2005b) and Blowfield and Frynas (2005) argue that international companies invest and operate in developing economies for commercial reasons, not developmental ones, and that companies adjust the development and implementation of their CSR programs to their business strategies. Thus, the CSR strategies must make business sense for the individual company, and be in line with long-term strategic interests. Although the concept of CSR is aimed at emphasizing the societal obligations of companies *beyond* profit maximization, it is not probable that the international corporate sector would engage in CSR if it did not bring benefits to the individual company that could be translated into long-term profit objectives.

V.V.V. Summary

Development and institutional change, especially regarding informal norms, are long-term concepts that do not occur overnight. Since the informal constraints of the institutional framework are of a more rigid character that requires a longer adjustment period to shocks in

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[24] Interview on 2007-05-14.
[25] Interview on 2007-04-23.

the institutional environment, a long-term commitment is important in order to achieve a new equilibrium that reaches higher on the "development scale". Thus, in order for international companies to actually be able to contribute to development through their CSR strategies in the host society, their engagement should have a long-term character where community involvement is encouraged rather than focus on one-time spot efforts of monetary donations. The codes of conduct can possess these characteristics, for example, through a well-functioning and efficient monitoring and enforcement system. The above discussion suggests several ways in which the companies in the case study are adopting a long-term approach towards these issues. This should indicate that the companies find these issues important and that they are planning to maintain their CSR engagement in the future. The long-term approach should also increase its potential to contribute to development in the host society in the long run. If the international companies' CSR commitment continues to increase like it is doing today, its potential development impact should be able to increase further in the future.

V.VI. Enforcement and monitoring

While the above discussion has been centred around the development and implementation of the CSR strategies, the remainder of this section will treat the following-up procedures associated with CSR. The final key assumption of the theoretical framework argues that an efficient monitoring and enforcement strategy reduces uncertainty and increases institutional efficiency, thus promoting development. This is argued to be especially important in developing countries where the state structure of legal enforcement tends to be weaker than in Western nations. Since it has been argued above that the code of conduct may be perceived by suppliers and other stakeholders as the introduction of another formal norm, its legitimacy depends to a large extent upon the effectiveness of the system of monitoring and enforcement. An outline of the characteristics of the monitoring and enforcement procedures of the international companies in India that participated in the case study follows below.

V.VI.I. Audit procedures

All companies that have been interviewed perform audits at their suppliers and subcontractors, which can be seen as the most important tool with which the international companies are able to detect possible malcompliance with the codes of conduct. However, the audit procedures, its content and the profoundness with which the audit is performed vary from company to company. The most prevalent procedure (among the interviewed companies) is to perform an initial audit that is announced in advance, where issues such as housekeeping (which includes for example lighting and ventilation), health and safety, working conditions and bookkeeping are examined. The weaknesses that are found often result in an action plan, where appropriate measures to take in order to correct the shortcomings are suggested. Generally, a fixed number of follow-up audits are performed

unannounced within a given time frame (which is often set to 24 months from the initial audit), in order to verify the improvements and the compliance with the codes of conduct. Repeated malcompliance or failure to take adequate measures against the CSR-related shortcomings could lead to penalties and a temporary or permanent rejection of the supplier. Although some companies reported permanent rejection of one or several suppliers, it is still considered rare. The companies emphasize dialogue with, and respect of, the supplier in this process, and claim that they offer assistance and guidance towards compliance rather than focus on rejection. One company informed that, due to the newly established nature of its CSR program, it did not have a penalty system in place at the time of the interview.[26] However, the company reports that such a system is due to be initialized in the near future.

Within the CSR framework, the companies in the thesis present a diverse degree of commitment, interest and knowledge in code of conduct issues that can be observed in their approach to the social audits. One company reports that the initial audit is performed in 4-5 days, with the first day reserved for a physical fact check up and the remaining days are spent going through the books of the supplier as well as interviewing management and workers (in separate interviews)[27]. Another company considers that an initial audit of 4-5 hours is sufficient in order to capture the essence of the working conditions at the supplier.[28] Furthermore, this company performs interviews only with the management team of the supplier, and not workers. Other companies especially emphasize the importance of interviewing workers to gain knowledge regarding the true conditions at the workplace of the supplier.[29] Additional areas in which the audits vary in depth among the companies in this thesis include the aspect of examining the bookkeeping of the supplier. Double bookkeeping, or other ways of tampering with the accounting figures constitute a real problem in the relationship between many companies and their suppliers. To detect errors in the bookkeeping requires profound insight into and knowledge of the issue, which suggests that the companies with the most rigid CSR strategies and with the most profound experience in the area are also those who put the greatest emphasis on examining the bookkeeping of suppliers.

Even though the code of conduct strategies of a corporation may be established and well defined, it is usually not applicable to all suppliers throughout the company's supply chain. The proportion of suppliers that the company chooses to include in its CSR strategies could also manifest its commitment and dedication to code of conduct issues. While one company in the thesis has selected only some of its main suppliers to incorporate in the code of conduct program[30], another has set a target where suppliers that supply 90 % of the total production

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[26] Interview on 2007-05-04.
[27] Interview on 2007-04-20.
[28] Interview on 2007-05-04.
[29] Interviews on 2007-04-20 and 2007-04-23.
[30] Interview on 2007-05-04.

should have functioning codes of conduct in place, and audits performed on a regular basis.[31] However, the companies emphasize that since a number of suppliers are either very marginal or one time suppliers, it is not feasible to include *all* suppliers in the code of conduct program. Some companies that have been interviewed for the thesis state that any new supplier must be certified for code of conduct before any cooperation can be initialized.[32]

V.VI.II. External and internal audits

The individual approaches to code of conduct-related issues of the companies in the thesis can also be found when discussing the practice of performing audits internally, by the company's educated staff, or through an external auditing body. One of the companies, which applies thorough audits, practices a system where the audits are performed internally, only by the company's specially trained personnel.[33] The company claims that the internal staff possesses a superior knowledge of the local suppliers, the NGOs with whom they work and the local environment that cannot be communicated through an external auditing firm. Furthermore, only regional auditors with the greatest knowledge of the local context perform the social audits. This international corporation states that although social audits are performed throughout the world, auditors only perform audits within their own region. The superiority of internal audits is also advocated by Newell (2005), who argues that an external auditing firm is seldom as dedicated and thorough as the internal staff of the company. However, it is also valid to point out the risk of losing objectivity when the company's internal staff are the only persons performing the audits.

Other companies perform their audits entirely through an external partner, such as a professional auditing firm. One company mentions that it uses the services of an external consulting firm. The company experiences this outsourcing of the audit function to be successful and satisfying, since the company itself feels it lacks the adequate experience and knowledge to undertake audits.[34] This particular company belongs to the smaller ones in the sample, which can explain the safety and comfort that it feels when using the services of a more experienced and knowing body. Furthermore, the company states that since several other buyers who share the same suppliers are members of this auditing body, one single audit can usually be performed at the individual supplier. This saves the supplier the inconvenience of hosting multiple audits. Thus, the company considers this auditing process to be a win-win situation for all parties concerned.

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[31] Interview on 2007-04-17.
[32] Interviews on 2007-04-20 and 2007-04-23.
[33] Interview on 2007-04-20.
[34] Interview on 2007-04-23.

Although the sample of companies is small, several approaches to auditing procedures are represented. One of the companies practices a joint method, and performs the audits in cooperation with a local consulting firm, which has also taken part in the development of the CSR program.[35] This approach could, if practiced properly, allow for the audits to be impregnated by both the knowledge and dedication of the company and the objectivity of the external auditing body.

From the sample of international corporations that have been interviewed for the thesis, it can be concluded that the companies have developed individual strategies regarding the auditing process, all according to their experience and knowledge in this area. Other determining factors include firm size, company values, the priority that code of conduct issues are given at the senior management level at the headquarters and the nature of the company and its suppliers. The companies all state that they find the selected method of performing audits to cater well to the needs of the company.

V.VI.III. Improvements

The implementation of codes of conducts has, according to companies and organizations that were interviewed, contributed to actual improvements in the working conditions among the suppliers. Companies report that suppliers have taken measures to make visible improvements, such as within the areas of lighting, sanitary facilities[36] and proper display of safety instructions. Adjustments that result in swift and visible improvements are performed without hesitation. Suppliers are also keen to conduct changes that result in a financial saving, such as to adopt energy saving measures. Modifications that result in a tangible saving attract attention. One representative of an international company expressed it accordingly: *"Anything that can be converted into a saving, into a minimal compliance or less issues with the government or anything, these issues are taken seriously."[37]* However, changes of a less visible character, such as to eliminate discrimination at the workplace, to ensure that adequate wages are paid, and measures that can be associated with values and local customs have proven to be more time consuming and complex. Suppliers are also more resistant towards undertaking improvements that involve substantial financial investments. *"They will do it, but later on,"[38]* as expressed by a company representative. The company representatives generally emphasized that the task of changing the mindset of the suppliers is still an ongoing process.

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[35] Interview on 2007-05-04.

[36] Often, separate washrooms for men and women are requested by the codes of conduct, which was seldom offered to the employees prior to the introduction of the codes.

[37] Interview on 2007-04-17.

[38] Interview on 2007-04-23.

V.VI.IV. Summary

The monitoring and enforcement strategies of the international companies in the case study display a range of different approaches and degree of commitment. All companies have audit functions in place, which can be considered as the most important tool with which to monitor and enforce the codes of conduct. The companies with the most advanced knowledge and experience of these issues also display the most rigid and thorough audit practices. This could suggest that as the companies gather more experience of and insight into CSR, the audit procedures will become even more efficient. Thus, there are reasons to believe that the efficiency of the monitoring and enforcement strategies will become even greater in the future. The findings of the theoretical framework suggest that efficient monitoring and enforcement strategies promote institutional efficiency.

The findings from the case study indicate that the introduction of the codes of conduct and the accompanying monitoring and enforcement systems have already contributed to certain improvements in working conditions at the suppliers, which must mean that institutional efficiency can actually be achieved through CSR. The findings from the case study also suggest that the codes of conduct were perceived as a win-win situation for all parties, which gives further merit to the belief that the institutional framework is becoming more efficient. Furthermore, additional evidence of the assumption that the informal constraints are the most unchangeable is displayed above. Issues that can be regarded as firmly embedded in the social norms, such as discrimination, are shown to be more difficult to change than those that are of a more "formal" character, such as proper display of safety instructions or improved ventilation. From the discussion regarding monitoring and enforcement strategies as a determinant of institutional efficiency, it can be concluded that the codes of conduct and the audit system that monitor them have the potential to actually contribute to institutional efficiency. However, these contributions are at present limited to the micro level in society.

V.VII. Future for CSR in India

A divide exists among the companies in the case study regarding their apprehension of their individual present and future contributions to society through their CSR strategies, a perception that could be seen as an extension of their basic understanding of the concept of CSR. Some companies acknowledge that their commitment to CSR is an evolving process, which can be continuously improved but never completed. A representative of one of the companies stated: *"We can never reach a level when we can say that now, we don't need to do anything more".*[39] Other interviewees from different companies argued in a similar

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[39] Interview on 2007-04-17.

fashion: *"One can always do more – there are always improvements to make"*[40] and *"We want to continue to develop".*[41] Certain companies presented very specific and tangible targets for their CSR work in the near future, such as to limit the hours of overtime among their own employees and the employees of the suppliers, or to achieve ISO14001[42] certification. One company stated that its area of priority in the near future included continuing to change the mindset of the suppliers towards a more positive attitude to CSR. This approach signifies a long-term commitment to CSR as an integral part of the business, and not merely CSR as the trend of the day. Other companies reveal a different approach to their CSR engagement, where they regard their CSR strategies to be fully developed at present.[43] Their plans for CSR in the future entail maintaining their present commitment, but not venturing into new areas of engagement. This concerns both CSR related to community development, where little initiation of new projects are planned, and code of conduct related issues, where, for example, there is very little further expansion of the number of suppliers subject to the code of conduct requirements.

The general understanding among the interviewees is that the future for CSR in India is bright and that its importance will continue to increase even further, which follows the general trends of the world economy (Whitehouse; 2006, Reed; 2004, Baxi; 2005). It is generally acknowledged among companies and organizations that CSR constitutes an important tool for India in order to achieve long-run sustainability in the world economy. Some interviewed companies and organisations stated that relevant and well functioning CSR practices have become a necessary condition for survival as an international company in India in the long run.[44] The recognition of the increased importance for CSR in the Indian economy and society is shared by academic research on the area; see for example Balasubramanian et al. (2005) and Baxi (2005).

The interviewees' perception regarding the future challenges of CSR in India revolves to a large extent around missions to bring continuity into, and increase the awareness of, CSR, both among the Indian business community and the general public. Other areas of importance include harmonization of the understanding of CSR across India and a desire to take the whole corporate sector forward when it comes to CSR, and not only the companies, suppliers and subcontractors who consider themselves as possessing the financial and intellectual means to approach the issue.[45] Considering the increasing interest in CSR, and the importance

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[40] Interview on 2007-05-04.

[41] Interview on 2007-04-23.

[42] ISO 14001 is a voluntary international standard by which organizations and companies can be certified regarding their environmental management system (for more information, see for example http://www.iso.org or http://www.sis.se).

[43] Interview on 2007-05-09.

[44] Interviews on 2007-04-05 and 2007-05-10.

[45] Interview on 2007-04-11, interviews with several companies.

that it is gaining in the world economy, these challenges are likely to receive more attention, and hopefully success, in the future.

V.VIII. Conclusion

As a conclusion of this case study, it can be argued that the development impact of the international companies' CSR strategies has a very complex character. The theoretical framework of the new institutional economics and the derived key assumptions, which have acted as the basis for the analysis, have been a valuable tool in evaluating and analysing the nature of the CSR strategies. Although all the companies are engaged in CSR, the profoundness of the commitment varies according to their experience and knowledge of the issue, and a lack of coherence among companies and stakeholders regarding the understanding of, and engagement in, the issue is evident.

In its contemporary stage, the development impact of the CSR strategies can be seen as rather modest. Since the CSR strategies have been found to have the greatest impact on the micro level in the host society, they are unlikely to contribute to changes of a more structural character. Moreover, the international companies show only partial adherence to the institutional framework of the host context, which could also limit the development impact since a coupling of the formal and informal norms in society is then unlikely to take place. It was also doubted whether the CSR strategies actually reached those in the greatest need of development assistance. Hence, the contribution to institutional efficiency and thus development can be seen as limited, and it cannot be completely confirmed that the supply of CSR strategies actually match the demand for them among the stakeholders in the host society. However, the CSR strategies were argued to actually have contributed to certain improvements in working conditions, albeit on a micro level, which could be attributable to the system of monitoring and enforcement.

From the case study, it can be concluded that the concept of CSR should not be seen as the main driver for development in the host context at present. The most important contribution can be argued to be that CSR has made an important contribution to the redefinition of the relationship between business and society and to the highlighting of the obligations of corporations that extend beyond short-run profit maximization. However, it is important to remain aware of the limits to CSR and not overestimate its significance in the international business community.

CSR is still a relatively recent amendment to the international corporate agenda, and considering the importance that it has gained during recent years; its importance is likely to increase even further in the future. From the previous focus on corporate philanthropy, more and more companies are adopting a more strategic approach to CSR, where it constitutes an integral part of the long-term business strategy and where the commitment has moved beyond

passive philanthropy towards a more active engagement. This indicates that the importance of CSR will increase even further in the future and that its development effects will probably become more pronounced as the experience and knowledge of CSR increase.

VI. Final remarks and summary

The aim of this thesis has been to analyse the effectiveness of the CSR strategies of international companies operating in India in terms of their effect on development in the host country. The analysis has been undertaken from the perspective of the new institutional economics, and a set of key assumptions have been derived from the theory to act as guidelines for the ideal characteristics of efficient CSR strategies. Through these key assumptions, the first research question of the thesis has been answered: *"According to the new institutional economics, which characteristics of CSR can be identified as the most important in order for the CSR strategies of international companies to result in the highest development impact in the host country?"* Important characteristics in order to maximize the development impact include adhering to the institutional framework of the host society, directing the CSR strategies towards those in the greatest need of development assistance, achieving effects on the structural level, a long-term commitment to CSR and well-established mechanisms for monitoring and enforcement of the strategies.

The research has been conducted as a case study, where the nature of the CSR strategies of international companies has been outlined and analysed. Here, it is possible to find the answer to the second and third research questions: *"What are the most important characteristics of the CSR strategies of international companies operating in India?"* and *"How effective are the CSR strategies in terms of their contribution to development in the host context according to the new institutional economics?"* The CSR strategies of all companies that participated in the study all have certain basic characteristics in common. They all have functioning codes of conduct in place, and they are engaged in projects relating to community development. The codes of conduct are monitored through a system of social audits. From here, the profoundness of the commitment to CSR varies according to the individual company's knowledge and understanding of the issue, with the most experienced corporations displaying the most extensive CSR strategies.

The development impact of the CSR strategies has been found to have a rather complex character. While some potential impact on development has been found within certain areas, such as partial adherence to the institutional framework, functioning monitoring and enforcement strategies and a long-term approach to CSR, the development impact is considered weaker within other areas. These include the fact that the CSR strategies may not reach the groups in society who are in the greatest need of development assistance, and lack of structural effects of the CSR strategies.

In this thesis, it is suggested that the development effects of the contemporary CSR strategies of international companies in India are limited. It is important not to overestimate the effects of CSR, and to remain with an objective standpoint towards the issue. Just because a company has a CSR strategy does not automatically translate into development of the host country. However, the increasing interest in CSR has contributed to a redefinition of the relationship between business and society. Demands for transparency, accountability and responsibility have increased, both from stakeholders and the international business community. The raising of ethical and human rights issues on the corporate agenda can be seen as one of the most important achievements of CSR. Moreover, since CSR is a relatively new issue within the international business community, it is too early to determine its long-term effects on the host society. The increasing interest in CSR and the indications that international companies are adopting a long-term approach to the issue suggest that its importance will continue to increase in the future.

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