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A comparative understanding of corporate social responsibility of textile firms in Brazil and China

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ABSTRACT

Brazilian and Chinese textile firms are exposed to a highly competitive global market. In both countries, corporate social responsibility encompasses practices related to markets, the workplace, the environment, community relationships and company values. We studied the influence of three variables (country location, firm size and position in the value chain) on the adoption of CSR practices. Our study reveals that CSR was not widely used in textile industries in either China or Brazil. However, Brazilian firms have many more CSR practices in place than Chinese firms suggesting that the country where a firm is located strongly influences CSR adoption. Firm size and position in the value chain also exert significant influence but to a lesser extent than the country variable. We argue that the CSR differences between countries result from the unique historical evolution of their national business systems. This together with the institutional framework of a country affect CSR approaches. In the case of textile firms, coercive isomorphism plays a dominant role in legitimizing CSR. The more transparent and rule-based governance system in Brazil explains the more comprehensive CSR practices.

1. Introduction

As two of the BRIC nations, Brazil and China are growing fast economically. Changes in Government policy over recent years have aimed at supporting accelerated growth. Both countries have assumed more importance in international affairs and leadership roles in their respective regions. Nevertheless, Alon et al. (2010) emphasized that it is not clear how the rise of the BRIC nations will be manifest in terms of corporate social responsibility (CSR) approaches.

Corporate social responsibility can be defined as the duty of a corporation to create wealth in ways that avoid harm to or enhance societal assets and the environment (Steiner and Steiner, 2009). The fundamental idea is that corporations have duties that go beyond lawful execution of their economic function. The overall performance of a firm must benefit society.

Pietro-Carrón et al. (2006) pointed out the need to go beyond 'one size fits all' approaches and instead develop understanding of what CSR can and does mean in specifics countries and societies. This was confirmed by Peinado-Vara (2006) who argued that the use of CSR in Latin America is increasing but is still not fully developed. There is a need to improve the institutional capacity of governments and civil society together with the investment climate.

In Brazil, CSR approaches are driven by domestic concerns and a broad spectrum of stakeholders (Schmidheiny, 2006). CSR activities have been largely philanthropic and associated particularly with community investment. Brazilian society has helped focus attention on key issues, particularly labor conditions, land, forest and biodiversity, consumer rights, transparency and accountability (SustainAbility, 2006).

Cappellin and Giuliani (2004) added that Brazilian companies are taking a more strategic proactive approach to gain legitimacy. CSR is viewed as a way of cleaning up the soiled image of entrepreneurs and companies that were regarded by many as concerned only with concentration of wealth.

Both Gavronski et al. (2008) and Jabbour (2010) showed that Brazilian firms may adopt different environmental strategies that are both reactive and proactive. The evolution of their strategies is not always a gradual process moving from focus on environmental legislation to eco-efficiency. Different types of strategies can coexist in one Brazilian firm because they respond to diverse stakeholders pressures.

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In the case of China, Geng and Hengxin (2009) pointed out that the rapid development of industrial parks has caused land degradation, water resource depletion, greenhouse gas emissions and loss of biodiversity. There are environmental requirements related to approval of these industrial parks. However, they are frequently overlooked for large industrial parks where timely and less bureaucratic approval processes are appreciated by investors.

Similarly, Tsoi (2010) observed that CSR is fairly significant to large export-oriented businesses, but it is lagging behind the West due to the fact that most local/regional companies only become involved in CSR when this is a customer requirement. These companies normally meet local legislative requirements but see going beyond these requirements as unnecessary. Liu et al. (2010) pointed out that environmental pressure from investors, business partners and creditors is only superficial. The influence of communities, neighboring industries and environmental NGOs is seen as weak.

Alon et al. (2010) found that Brazil scored higher than China in an investigation of CSR motives, processes and stakeholders pressures. Stakeholders were more frequently mentioned by Brazilian firms. CSR activities in China emphasized either performance or stakeholders. In terms of processes, in Brazil, volunteerism, health and the environment were emphasized in corporate communications. In contrast, Chinese firms emphasis was on sponsorships of arts and culture.

In this paper the central question is “How do differences in the institutional environment of Brazil and China impact on CSR practices adopted by textile companies?” A secondary question is “To what extent do position in the value chain and firm size exert an influence on the adoption of CSR in Brazilian and Chinese textile firms?”.

This study may be useful in understanding CSR in emerging countries under substantial social and economic change. The survey data are used for statistical testing of hypotheses related to the influence on CSR practices of country, position in the value chain, and firm size. By building on a comparative analysis of CSR practices by textile companies we are able to characterized differences between CSR in China and the typical manifestation in Brazil.

2. Factors that shape corporate social responsibility

2.1. Country influence on CSR practices

The national institutional environment is important in shaping CSR practices. Baughn et al. (2007) pointed out that economic, political and social factors influence the regulatory context, normative expectations, attitudes and shared know-how underpinning CSR. Aguilera et al. (2006) stated that a firm’s level of commitment to CSR is likely to be influenced by national and transnational actors and agencies.

According to Scott (1995), regulatory, normative and cognitive pillars provide the institutional environment within firms operate. These elements have an important impact on the diffusion of organizational practice as they can limit the set of potential alternatives (Delmas, 2002). Matten and Moon (2008) have argued that CSR practices are influenced by the historical evolution of the institutional framework in which business, government, legal and social actors operate. Given that Brazil and China have differing political, economic, social and cultural histories we might expect some differences in the CSR.

In Brazil, CSR cannot be divorced from the socio, economic and political changes beginning in 1985 when the military dictatorship was replaced by democratic government. During the dictatorship (1964–1984) most Brazilian policy makers accepted the position that environmental degradation and social gaps were a price worth paying for economic development (Baer and Mueller, 1995, 1996).

State intervention and control of the economy together with foreign exchange constraints caused hyperinflation and greater income disparity, eventually leading to the end of the military dictatorship (Auty, 1995). In order to stabilize the economy, in the 1990s, Brazil accelerated the privatization of state-owned industries and intensified its inclusion in the world economy through neo-liberal policies (Green, 2003).

Brazil’s stabilization plan of 1994 (“Plano Real”) can be seen as composed of three main blocks: market focus (trough trade liberalization), industrial change and a regime of incentives and regulations (Ferraz et al., 1999). The competitive integration strategy can also be described as a market friendly approach to industrialization.

The “Plano Real” increased per capita income, however social inequalities have persisted. In fact debt payments to the IMF forced cuts to social program spending. The privatization process was seen as the solution to both the fiscal crisis and the need for resources to finance investments (Baer and Bang, 2002).

Griesse (2007) pointed out that there is a widespread perception in Brazil that the State is not able to provide an adequate quality of life for all of its citizens. Therefore, Brazilian firms have developed strategies to deal with social issues as well as environmental ones. These strategies involve workers’ rights, local community development and environment practices, ensuring transparency through annual reports.

In general, Brazilian corporations are experiencing new pressures from regulators, clients, NGOs, international investors and media to become more transparent and accountable for their social and environmental impacts (Oliveira, 2006). Jenkins (2001) pointed out that there is no doubt that environmental issues have moved up the policy agenda in Brazil.

Damiano-Teixeira and Pompermayer (2007) observed that the private sector in Brazil is increasingly becoming more conscious of its social role related to the community and the environment, establishing a new concept of business ethics. Oliveira et al. (2010) confirmed that ISO 14001 certification in Brazil is truly more attractive to investors because it requires prevention of environmental impacts. Thus, investors distance themselves from environmental liabilities that could upset financial results.

However, there are several difficulties in implementing ISO 14001 in Brazil. These include bureaucratic and lengthy approval processes by environmental entities. The lack of pollution control infrastructure and human resources increases the cost and reduces the competiveness of responsible companies.

In the case of China, the country is still listed as a developing one but is rapidly changing. According to Braendle et al. (2005), the GDP has grown by nearly 10% per year on average since 1979. It is now the second largest economy and the largest trading nation in the world. China highlights the transition from a state planned to a market-oriented economy (Bo et al., 2009). Like Brazil, major reforms in the last 20 years have included the privatization and restructuring of many state-owned enterprises.

China is fully integrated with the world economy through global supply chains and exports of finish products. The Chinese Government has a strategy to attract foreign investments, keep its exchange rate artificially low and take advantage of multilateralism to encourage rapid market penetration (Athukorala, 2009). According to Buhmann (2005), there have been impressive legal reforms as part of China’s obligations as a member of the World Trade Organization (WTO). China’s relationships with other countries have become more intense due to both trade policy and security issues.

Social welfare still remains a distinguishing element of Chinese political ideology (Moon and Shen, 2010). However, structural reforms and accelerated development have not resulted in increased funding to promote social welfare (Fang et al., 2007). Privatization of state-owned enterprises did not significantly