



The transmission of socially responsible behaviour through international trade



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ARTICLE INFO

Article history:

Received 25 October 2016

Accepted 20 October 2017

JEL classification:

D22

O12

M14

Keywords:

Corporate social responsibility

Trade

Spill overs

Vietnam

ABSTRACT

We investigate the relationship between corporate social responsibility (CSR) practices of domestic Vietnamese firms and their engagement with foreign markets. We develop a measure of CSR that combines compliance with labour standards, management commitment to CSR, and corporate community related actions; and find a strong relationship between this measure and participation in international markets. Results suggest that both exporting and importing firms engage in more CSR activities. Conditional on exporting, we show that Vietnamese exporters to China are less involved in CSR related activities, and that exporters to the US engage in more community related CSR. This may reflect differences in stakeholder preferences across markets.

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1. Introduction

The interest in corporate social responsibility (CSR) has grown rapidly in recent years in response to globalisation, limitations in government regulations and an increasing focus in civil society and the media on the ethical, social, and environmental aspects of business operations (Bénabou and Tirole, 2010). Firms have recognised that their conduct in purchasing and supply-chain management may have significant reputational and performance effects (Castka and Balzarova, 2008). To be sure, CSR can be used to enhance the image of firms and to attract consumers willing to pay for ethical attributes (Besley and Ghatak, 2007); and more responsible corporate behaviour reduces business risks including the threat of activist and consumer boycotts (Vogel, 2005). Apart from such outside considerations, CSR activities can be driven by internal motives; that is, manager or shareholder preferences for advancing broader social interests (Bénabou and Tirole, 2010).

In this study, we address externally driven motivations for CSR emerging from interactions between domestic firms and foreign stakeholders, such as consumers, foreign buyers of intermediate inputs and intermediate input suppliers. Our aim is to explore empirically the direct impact of trade on CSR practices of domestic firms in Vietnam. Domestic firms may observe and copy corporate social behaviour of export firms in export-intensive sectors in anticipation of entering export markets in the future. In addition, they may respond to increased competition from imports by imitating the standards of production

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of the imported goods, on the one hand, or by pursuing cost-reducing investments in CSR, on the other hand. As firms enter foreign markets (or start importing), they encounter preferences of new stakeholders, including foreign customers, both final consumers and buyers of intermediate inputs (or suppliers) and governments, which can affect their CSR activities. As CSR activities depend on the intensiveness of stakeholder pressures (Perez-Batres et al., 2010), the effect of trade on CSR may operate as well through the intensive margin – arising only after a threshold level of involvement with foreign stakeholders has been achieved.

CSR is defined here as a mix of legally compliant and philanthropic activities and we separate them to be in accordance with the different definitions of CSR commonly used. We measure CSR practices through (i) the extent to which the firm complies with labour standards, (ii) the management commitment to acting beyond the regulatory scope as reflected in the CSR strategy, and (iii) the engagement in community-based activities not directly linked to firm operations. These indicators are used to generate a CSR index that captures the overall level of CSR activities a firm engages in.

To determine the extent to which trade directly affects CSR, we examine whether firms that begin to trade in international markets change the nature and extent of their corporate social behaviour. We also consider the effect of trade at the intensive margin and examine the extent to which the effects are different for exports to and imports from different countries. One expects heterogeneity in the effect of trade on CSR, corresponding to the destination of exports or source country of imports if there is, for example, variability in stakeholder preferences across countries. Indirect effects are captured by analysing the extent to which the intensity of imports and exports into a sector affect the CSR activities of firms.

Our paper adds to the literature (reviewed in Section 2) by examining whether the transmission of CSR practices is an additional potential source of gain from global engagement. Furthermore, we contribute to the literature on the adoption of CSR,¹ which has, to our knowledge, not to date considered explicitly the transfer of CSR practices from foreign markets to domestic firms.

CSR was introduced to Vietnam through codes of conduct requested by customers in foreign markets or multi-national companies (Nguyen, 2007). The Global Compact Network Vietnam was launched in 2007 in a joint effort between the United Nations, the Vietnam Chamber of Commerce and Industry, the Spanish Agency for International Cooperation, and Unilever Vietnam, motivating Vietnamese companies to pursue a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption (UN, 2014). Furthermore, the United Nations Industrial Development Organization (UNIDO) is engaged in enhancing the sustainable integration of Vietnamese small and medium enterprises into global supply chains through increased awareness, understanding, and adoption of CSR (UNIDO, 2011).² These initiatives followed wide-ranging reforms to enterprise, commercial and investment laws during the last decade. They have helped open the Vietnamese economy and give increased access to foreign markets for domestic firms. The reforms culminated in accession to the World Trade Organization (WTO) in 2007, contributing to the changing landscape for industrial development and increased trading opportunities.

Our key result is that exporting output and importing inputs has a positive impact on CSR activities, especially in terms of adherence to labour standards. Export firms are also more likely to increase management efforts and contributions to local communities in areas that are beyond the regulatory and business interests of the firm. Another result is that conditional on exporting, firms that export to China engage in significantly less CSR activities than firms exporting to other destinations. Finally, we do not find indirect CSR spillovers from trade.

The rest of this paper is structured as follows: Section 2 provides literature review and framing, while Section 3 presents the data, defines the measures of CSR practices used, and describes the measures of trade through which we propose the CSR transmission takes place. Section 4 outlines the empirical approach. Section 5 offers results, and Section 6 concludes.

2. Literature review

Exporting output or importing inputs can potentially enhance the productive capacity of domestic firms. Engaging in export markets has been associated with learning and efficiency gains (Van Biesebroeck, 2005; De Loecker, 2007; Blalock and Gertler, 2008; Lileeva and Trefler, 2010; Cruz et al., 2017; Newman et al., 2017), research and development (Aw et al., 2007, 2011), and innovation (Puga and Trefler, 2010). Similarly, importing inputs has been linked with productivity gains (Amiti and Konings, 2007; Fernandes, 2007; Kasahara and Rodrigue, 2008; Newman et al., 2016a). The main mechanism proposed so far in the literature to explain the association between productivity and engagement with global markets is that technology and learning are transmitted through the supply chain. In this paper, we propose that engaging with international customers, be they firms or final goods consumers, and with international suppliers, may encourage the transfer of other types of behaviour to domestic producers in the form of CSR.

¹ See the following studies focused on social, legal, or institutional pressures and expectations that motivate firms to adopt socially responsible practices (Baron, 2001; Delmas and Toffel, 2004; Matten and Moon, 2008; Gond et al., 2011) and several which consider corporate strategic interests in implementing CSR initiatives (Carroll, 1979; McWilliams and Siegel, 2001; Orlitzky et al., 2011).

² In addition, the Fair Labour Association focuses especially on the apparel and footwear sector in a project that aims to improve work conditions and social compliance programmes in 50 garment factories (FLA, 2012).

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