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There has been a rise in the volume and dispersal of Foreign Direct Investment (FDI) since the nineties. Although the largest source as well as recipient for foreign inflows continues to be the US, and FDI is concentrated in the advanced economies, the share of developing countries has gone up. This period of high FDI flows has also seen the emergence of a strong focus on Corporate Social Responsibility (CSR), and given rise to a literature on the interaction between CSR and FDI. When firms are venturing into multiple destinations, sometimes with very different cultures, CSR may be a strategy that helps business to fit into a new environment. A large amount of work on the altruistic motive in economics has also increased interest on CSR as a topic (Schmitz & Schrader, 2015). An interesting question is whether intrinsic responsibility to stakeholders drives CSR or do firms derive some pecuniary benefit from it? This timely volume is well-posed to address many important questions in this area.

This volume aims to provide better knowledge and understanding of the relationship between CSR and FDI from a multidisciplinary perspective which includes the perspectives of both developing and developed countries, although the former especially needs to be re-evaluated.

It seeks to explore models of extended corporate governance whereby those in control of the firm have fiduciary duties to all the firm’s stakeholders in addition to such duties towards the owners (principals) of the firm, and how these can be fulfilled.

Responsibilities to much wider stakeholders, including all those whose lives are likely to be impacted by the firm’s activities, can come from institutional, legal, social, political and environmental structures in addition to intrinsic preferences. The volume aims to explore innovation, entrepreneurship, and other means whereby CSR can become a more effective tool for promoting worthy causes, meeting obligations to the ecosystem and to wider stakeholders. The engagement of these stakeholders, could itself serve as a possible corporate governance tool mitigating asymmetric information between the principal and the agent. Contracts have to be incomplete because of the lack of predictability and uncertainties concerning who is likely to be affected as a result of a firm’s actions. This gives a role for CSR to protect wider stakeholders.

This does not, however, mitigate the need for a competitive market environment with optimal regulations. By facilitating transparency and disclosure, it would help create the trust, confidence necessary to attract investors who could foster growth and development.

Goyal (2006) illustrates some major issues. CSR can work as a form of signaling for unknown firms entering new countries. Multinational firms have often contributed to local communities. This improves labor relations, and expands their customer base. Over time, it improves the quality of the resources they can draw upon, and therefore contributes directly to their competitive edge. Alliances with NGOs and with community institutions expand the resources they can command to meet their own targets. Sharing management practices improves local efficiency and spreads better standards. Active collaboration
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with community associations helps a firm leverage its assets and identify business opportunities. As corporates adopt villages, sponsor education and training, improve the environment and infrastructure, social capital rises and raises productivity. Domestic consumers, employees, and shareholders would reward an entering firm if it demonstrated social responsibility, which allayed fears that foreign firms intend to exploit resources and poor environmental standards, to harm the ecosystem.

Even if the majority of firms are inclined towards cooperation, there are always others who want to free ride. Similarly, countries are competing keenly to attract foreign firms, giving them attractive conditions. Even so, excessive tax or excess transfers by firms can still cause a Prisoner’s Dilemma structure to the payoffs, resulting in an inefficient Nash equilibrium. The Prisoner’s Dilemma is an example of a collective action failure, where purely self-interested action that attempts to maximize own returns, leads to an outcome, where all are worse off.

Although the country prefers a cooperative strategy, it opts for a non-cooperative one if that is the dominating strategy for the firm. But signalling expenditure can change the payoffs to the firm, so that cooperation becomes its dominant strategy. A cooperative firm has a longer-term commitment to a business plan, which gives it the capacity to design credible signals of its type, since it is then willing to amortize its signalling expenditure over a longer period. A lower discount rate or more weight on future payoffs contributes to this capacity. CSR allows the accommodating firm to reveal its type, making cooperation the equilibrium outcome. The game differs from standard models since signalling changes payoffs. Signalling expenditures, therefore, are productive, unlike in labor signalling models where their only contribution is to signal quality. Signalling is not a purely wasteful consequence of asymmetric information. It is not a tax imposed on foreign firms, but a voluntary contribution that improves profits.

A unique separating equilibrium can be shown to exist where only cooperative firms signal. But a pooling equilibrium, with all firms making positive signalling expenditure, becomes more likely when the proportion of cooperative firms is high, when growth is higher, and as rewards from social responsibility rise. Social capital increases with the number of contributing firms. Therefore, as more firms undertake such activities, the rewards to these activities rise.

Cooperative firms will always signal, as long as taxation is below a critical level. Others will make positive signalling expenditure only in the pooling equilibrium. A pooling equilibrium can establish CSR as a social norm. It can also be understood as changing preferences towards altruism.

The chapters in the book ably expand on these issues as they take up topics such as auditing, NGOs, regulation, innovation, stakeholders, growth, sustainable development, and inflation, all in the context of CSR and FDI.

Ashima Goyal
Indira Ghandi Institute of Development Research, India

Ashima Goyal is the first Professor P.B. Brahmananda Memorial Research Grant Award for the year 2010-11 for a study on “History of Monetary Policy in India since Independence”. She was presented with the ‘Award for Excellence’ in recognition of outstanding contribution in Economics, given by the FICCI Ladies Organization as part of their Silver Jubilee celebrations, 28 April 2009. She was also selected as one of four most powerful women in economics, a thought leader, by the editorial team across Business Today, in its Women’s Special issue -The Most Powerful Women in Business, Oct. 19, 2008; profiled in India Today (Woman), October 20, 2008. The following also constitute some of her notable achievements: Awarded the Fulbright Senior Research Fellowship over September 2004-April 2005 at the Claremont Graduate University, USA; Second prize for
the best research on Governance and Development, in the Global Development Network, second Annual Awards Competition, GDN2001, Rio de Janeiro; First prize for the best research on Gender and Development, in the Global Development Network, first Annual Awards Competition, GDN2000, Tokyo, Her fields of interest include Open economy macroeconomics, international finance, financial markets and regulation, institutions and development; General research agenda: Analysis of emerging markets in an institutional context; Current research: Monetary policy and markets, fiscal and monetary policies, financial stability, wages and labour markets, inflation, growth and governance, pro-growth incentive structures.

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