

Industrial clusters and promotion of CSR: the case of developing countries

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Abstract

The publication of Porter's book entitled "*Competitive Advantage of Nations*" allowed clustering to become a worry of all countries and territories. It has proven its efficiency as an effective means of industrial and economic development of nations and a way to improve the competitiveness of firms by allowing them to benefit from positive externalities induced by collective action and geographic proximity both in developed and developing countries. But, beyond its economic benefits that are widely discussed in the theoretical and empirical literature, the question that can be asked about clustering is "*To what extent clustering can contribute to the diffusion of CSR in the context of developing countries (DCs)?*". This relatively new question is still underexplored by the researchers. Also, the available studies on the subject brought divergent conclusions on the potential impact of clustering on CSR. In this paper, we show that clustering, through joint action it implies and the support that it enjoys can encourage firms to adopt a positive attitude towards the ecological environment and the society by implementing CSR policies. But this can be achieved only when the State and the private institutions accomplish their role by deterring socially irresponsible behavior and by funding and encouraging CSR actions and initiatives.

keywords: Clusters; clustering; Corporate Social Responsibility

Clusters industriels et promotion de la RSE : Cas des pays en développement

Résumé

La publication de l'ouvrage de Porter, intitulé «*Avantage Concurrentiel des Nations*», a permis aux clusters de devenir une préoccupation de tous les pays et territoires. Il a prouvé son efficacité en tant que moyen efficace de développement industriel et économique des pays et en tant que voie pour améliorer la compétitivité des entreprises en leur permettant de bénéficier d'externalités positives induites par l'action collective et la proximité géographique aussi bien dans les pays développés que dans les pays en développement. Mais, au-delà de ses avantages économiques, la question qui peut être posée au sujet du clustering est la suivante: "*Dans quelle mesure le clustering peut-il contribuer à la diffusion de la RSE dans le contexte des pays en développement (PED)?*". Cette question relativement nouvelle est encore sous-explorée par les chercheurs. En outre, les études disponibles sur le sujet ont abouti à des conclusions divergentes sur l'impact potentiel du clustering sur la RSE. Dans cet article, nous montrons que le clustering, grâce à l'action conjointe qu'il implique et au soutien dont il jouit, peut encourager les entreprises à adopter une attitude positive vis-à-vis de l'environnement écologique et de la société en mettant en œuvre des politiques de la RSE. Mais, cela ne peut être réalisé que lorsque l'État et les institutions privées jouent leur rôle en dissuadant les comportements socialement irresponsables et en finançant et en encourageant les actions et les initiatives relevant de la RSE.

mots-clés : Clusters; clustering; Responsabilité Sociale des Entreprises

Introduction

The trend towards geographical concentration of economic activities is an old phenomenon. The first economic models that tried to model and explain this phenomenon as well as the determinants of location choices of firms date back to the end of the 19th century and the beginning of the 20th century with the works of Von Thünen, Weber, Christaller and Lösch. During the same period, spatial inequalities began to be more apparent than ever. And it was then essential to find the real causes behind those inequalities and the means to face them.

In this context, Marshall (1890) explains the rise of some English cities by the geographical proximity of firms producing the same product or located at different stages of the production process. These firms form an industrial district thanks to their geographical proximity. They enjoy the availability of skilled labor and specific inputs in addition to the free flow of knowledge and technology between firms that stimulates the labor division and the achievement of economies of scale while supporting innovation. The same "industrial atmosphere" that benefits to firms belonging to industrial districts in England, allowed the revival of the "Third Italy" which was late in terms of economic development compared to the rest of the Italian regions including those of the south. But, unlike the Marshall districts, the Italian districts rely mainly on the sharing of common culture and values (Brusco, 1982) rather than economic aspect of scale economies.

Along with the rise of Italian districts, North America witnessed from the 1970s a concentration of high-tech industry in California and the emergence of the Silicon Valley. Porter (1990) uses the concept of industrial cluster in his "Competitive Advantage of Nations" to characterize this new kind of geographic agglomerations driven, especially, driven by innovative activities and that are much wider than the traditional industrial districts both at the level of the actors they comprise and the level of interactions allowed between them (Porter & Ketels., 2009). These differences are not very significant so that the two concepts are sometimes used interchangeably.

In parallel with this enthusiasm for geographical proximity and the geographical concentration of activities, a warning against the harmful effects of economic activities on ecological environment and social conditions has been growing since the publication in 1953 of Bowen's book entitled "Social responsibilities of the businessman" where CSR is understood as a concept and an ethical behavior reflecting the firm's commitment towards society. In fact, CSR is used as a micro-economic translation (at the firm level) of the concept of sustainable development.

Since that time, studies on CSR have been multiplied but most of them are them focused generally on large isolated firms in advanced countries while the clustered firms, that are generally SMEs, are rarely studied in the perspective of the CSR especially in the context of developing countries.

Therefore, our aim through this paper is to link CSR and clusters by showing how clusters in developing countries influence the implementation of CSR practices by the clustered firms based on the main studies carried out around the subject. Thus, the question we are trying to answer is the following: "To what extent clustering can contribute to the diffusion of CSR in the context of developing countries (DCs)?"

To achieve that aim, the present paper is structured as follows. The next section emphasizes the roles of clusters and their importance for developing countries. Afterwards, we present the literature about the CSR. Thereafter, we discuss the contribution of clusters to CSR before drawing, at the end, some conclusions.

1. Clusters: an economic development tool

1.1. Cluster: Definition and roles

According to Porter (2000, pp. 15-16) a cluster is a "geographical concentration of interconnected companies and institutions within a particular field and linked by common elements and complementarities". It includes a group of companies belonging to the same geographical area and

the same field of activity and which benefit from agglomeration economies resulting from their co-location, their cooptation and their proximity to other companies located upstream and downstream of the value chain (suppliers and customers), research centers (public and private laboratories, universities, etc.) and many other institutions (banks, professional associations, chambers of commerce and industry, etc.).

The success of this form of spatial agglomeration of economic activities requires a high sophistication of the local environment and a strong interaction between all its components namely customer demand, competition between companies and the availability and quality of inputs and support activities (Porter & Ketels, 2009, Huggins & Izushi, 2015).

Because of their proven positive effects on economic development and firm competitiveness, clusters are becoming nowadays a necessary instrument for the progress and economic competitiveness of nations and regions and a key tool for dealing with international competition (Ketels, 2006, Yehoue, 2009).

In fact, clusters improve business productivity and promote entrepreneurship and innovation (Porter 2000). Thus, they stimulate the emergence and the growth of a knowledge economy (Tremblay 2007). Moreover, they help attracting Foreign Direct Investments (FDI) and skilled workforce because of the positive externalities and efficiency they bring (Schmitz & Nadvi, 1999). By doing so, they help alleviating poverty and unemployment (Porter 2003, Fowler & Kleit 2014). Also, clusters contribute to addressing market failures by eliminating opportunistic behaviors and information asymmetry, on the one hand, and allowing efficient resource allocation, on the other (Otsuka & Sonobe, 2006, Sonobe & al. 2012).

1.2. Impacts of industrial clustering on economic development of DCs

In developing countries, the spatial concentration of economic activities has been highly supported by international institutions that encourage local economic actors to get clustered (McCormick, 1998). In this respect, the United Nations Industrial Development Organization (UNIDO) has played a crucial role in stimulating clustering of actors since it has launched numerous networking programs so as to enable SMEs, research institutions, trade associations and others actors to work together (Ceglie&Dini, 1999; UNIDO, 2013). As a result, numerous territorialized networks of organizations have been created in many countries like Morocco, Tunisia, Nicaragua, Madagascar, etc. thanks to the UNIDO's initiatives.

However, the pace of setting up clustering by the DCs was different from a country to another (Schmitz & Nadvi, 1999, Deichmann et al. 2008). In fact, the Asian emerging economies, that have adopted early the clustering policy, enjoy, nowadays, a strong industrial potential (Rabellotti & Schmitz, 1999) and display high growth rates in addition to a strong trade position (Yang & Planque, 2010). This economic progress has contributed to the social progress by the improvement of per capita income within these economies and within the DCs as a whole (Klasen&Waibel, 2015). Indeed, clustering is not only a tool to meet international competition (Sengenberger, 2009; Phambuka-Nsimbi, 2008) but it's also a strategic instrument to eradicate poverty and social exclusion (Chaudhry, 2005).

In fact, clusters in developing countries, specialized, generally, in low value-added activities (Otsuka & Sonobe, 2006, Sonobe & Otsuka, 2014), are characterized by high levels of employment (Chaudhry, 2005) because of the availability of an abundant and low-skilled workforce. This situation allow clustered enterprises to base their competitiveness before all on low production costs, especially low wages (Schmitz & Musyck, 1994) so as to be competitive in international markets (Schmitz, 1999).

Based on this last observation, it is legitimate to investigate the state of CSR in these clusters so as to see if the presence of a large number of competing and geographically close companies can encourage the deployment of joint actions in order to improve working conditions and protect the

environment. But before that, it's necessary to show what we mean by CSR, its foundations and its impacts on firms.

2. Corporate Social Responsibility: meaning and impacts

Undoubtedly, the emergence of the CSR, as a concept as well as a practice, is the consequence of the pressures imposed by the sustainable development discourse after the Second World War even if some authors note that its roots go beyond this period (Carroll & Shabana, 2010). And it became rapidly one of the most important research topics as it's proven by the huge literature surrounding it. In fact, a simple research on Google Scholar about "Corporate Social Responsibility" shows more than 117 000 results.

Within this literature, multiple definitions and approaches are proposed (Carroll, 1999; Dahlsrud, 2008) but no one of them is commonly accepted (Griffin, 2000; Balabanis et al. 1998). As a result, the concept of CSR is characterised by a certain level of complexity and ambiguity which doesn't exclude the consensus on the potential contribution of CSR to the wellbeing of people within and outside the firms (Blowfield, 2005).

Concerning the meaning of CSR, Carroll (1997) has proposed one of the first and the most successful definitions. In fact, he apprehends CSR as a four-dimensions construct by arguing that "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" Carroll (1997, p. 500).

The European Commission (2001) suggested, in its Green Paper, a definition that is, nowadays, one of the most widely used. It defines CSR as referring to the integration by the firms of the "social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2001, p.6).

A more detailed conception of what is CSR is provided by the ISO 26000 guide that defines CSR as reflecting the "responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that (i) contributes to sustainable development, including health and the welfare of society, (ii) takes into account the expectations of stakeholders, (iii) is in compliance with applicable law and consistent with international norms and behaviours and (iv) is integrated throughout the organisation and practiced in its relationships" (International Organization for Standardization, 2010, p.3).

Besides these elaborated definition, we found also some simple definitions that interpret CSR as the meeting of social expectations by the firm's practices (Gössling & Vocht, 2007) or as a "moral obligation" (Kilcullen & Kooistra, 1999) towards firm environment and stakeholders.

Based on the definitions above, we can say that CSR is a way to associate economic and non-economic objectives of firms after centuries of obsession by the first ones. Indeed, it's a philosophy that pays attention to all firm's stakeholders and not only for the shareholders. It supposes that firms should be aware and responsible of the consequences of their activities and deploy actions to avoid negative impacts on environment and society. To sum up, CSR is, at the same time, a commitment towards the society and a requirement for social progress and economic prosperity.

That said, the debate over CSR concentrates nowadays on the impacts of the CSR practices. And as we have mentioned before, many studies have focused on the impacts of CSR on firms and especially the link between SCR and firm performance (Margolis et al. 2007). The impacts of CSR have been studied intensively in the management literature but the results are less convergent and less generalizable (Orlitzky et al.2003; McWilliams & Siegel, 2001; Van Beurden & Gössling, 2008; Lin et al. 2009). In fact, the positive relationship found between CSR and firm performance in many studies (e.g., McGuire et al. 1988; Russo & Fouts, 1997; Orlitzky et al. 2003; Luo & Bhattacharya, 2006; Hull & Rothenberg, 2008; Okamoto, 2009; Peinado-Vera, 2006; Mishra & Suar, 2010; Ye & Zhang, 2011; Oeyono et al. 2011; McWilliams & Siegel 2011; Galbreath & Shum, 2012; Lee et al.2013; Waworuntu et al. 2014, Zhu et al. 2014; Saeidi et al. 2015; Ağan et al. 2016) that provide a strong empirical

support to the equation "Good Ethics is Good Business" (Van Beurden & Gössling, 2008), are challenged by reverse results found by other studies (e.g., Wright & Ferris, 1997; Teoh et al.1999; McWilliams & Siegel, 2000; Lima Crisóstomo et al. 2011). These latter ones stress a neutral or negative relationship due to the importance of investment costs and management efforts CSR implies (Balabanis et al.1998; Hull & Rothenberg, 2008) and which result in lower benefits.

3. Clusters and CSR: The links in the context of developing countries

3.1. CSR within clusters: How and why?

Despite the multiplicity of studies on clusters, it is only recently that some studies have attempted to approach clusters from a CSR perspective. Indeed, previous studies on clusters focused on the contribution of clusters to economic development and firm performance (Fayyaz et al. 2017). During the last ten years, a wave of research has begun to explore the links between clusters and the objectives of CSR by focusing on the impact of clusters on the social and environmental conditions of the territories where they are localized (Puppim de Oliveira, 2008; De Neve, 2009; 2014; Lund-Thomsen & Nadvi 2010a; Battaglia et al. 2010; Mezzadri, 2010; Lund-Thomsen & Pillay, 2012; Nadvi & Yoon, 2012; Lund- Thomsen, 2013; Giuliani, 2016; Jamali et al. 2017; Puppim de Oliveira & Jabbour, 2017). And, given the importance of this line of research, a special issue of the "Journal of Business Ethics" was dedicated to it in 2016.

The theoretical enthusiasm for CSR clusters is complemented by a practical, albeit limited, interest by clusters for CSR practices that can be a lever for the success of the firms they host and a tool to build a reputation of a responsible cluster (Jamali et al. 2017). In this sense, many initiatives aiming to promote CSR in clusters have been identified especially in clusters of Latin America and Asia (Almeida, 2008) under multiple forms (programs to eradicate child labor, treatment of wastewater, waste recycling and energy saving and use of non-polluting technologies).

The CSR initiatives in clusters in DCs are generally held by public authorities and private actors (firms, professional associations, NGOs). In fact they are the product of public-private partnerships (Blackman, 2006, Lund-Thomsen, 2009, Thomsen & Nadvi, 2010a). International organizations, such as UNIDO, support CSR initiatives by funding the projects launched inside clusters in order to achieve social and environmental goals (Fayyaz et al. 2017).

This recent interest in CSR in the DC's clusters is due to several reasons. First of all, we find the requirements of international principals. Actually, they impose to their suppliers in developing countries to observe some social and environmental rules. This attitude from the international brands is dictated by the fear of boycotts of their products by the advanced countries consumers (Jamali et al. 2017) who become aware of the scandals of these brands (dismal conditions of work and pollution incidents in factories of subcontractors in developing countries) thanks to the disclosures of civil society and the media (Mezzadri, 2010).

Failure to comply with the imposed requirements and dictated codes of conduct (Blowfield, 2005, Gulinaï, 2016) may result in the exclusion of subcontractors located in these clusters from international brand orders. To avoid such a risk, joint CSR actions within a cluster could serve as solution to address social and environmental requirements (Lund-Thomsen and Nadvi, 2010b) and to keep receiving international orders.

Moreover, there is a tendency in some developing countries towards stricter national social and environmental regulations (Knorrunga & Nadvi, 2016, Giuliani, 2016) which are combined with a strong civil and media mobilization to denounce the undermining of the dignity of local employees and the destruction of the environment. In this context, numerous studies highlight the case of tannery clusters in India, where production units have to set up wastewater treatment centers to escape the threat of closure. For the same clusters, Kennedy (1999) showed the role of collective action and shared religious and personal ties among cluster members in reducing tannery-related

pollution problems. This means that there is a link between collaboration and collective action by companies, associations and local agencies and the spread of CSR practices (Jamali et al. 2017).

Brazilian clusters are often mentioned as examples to show the impact of the change in local regulations on the social and environmental discipline of clusters (Knorrinda & Nadvi, 2016). In this respect, Almeida (2008) discusses how the Toritama cluster, located in the north-east of Brazil and specialized in the production of jeans, has faced the degradation of the environment and the social conditions of the region. He pointed out that with excessive water consumption and a high level of effluent discharge, the threat of water scarcity in the area where the cluster is located was becoming increasingly serious. This alarming situation has pushed companies and public authorities to unify their efforts to develop technologies that save the cost and the volume of water required for blue jeans. With this action, wastewater is recycled and working conditions have improved, thanks in part to subsidies from public authorities.

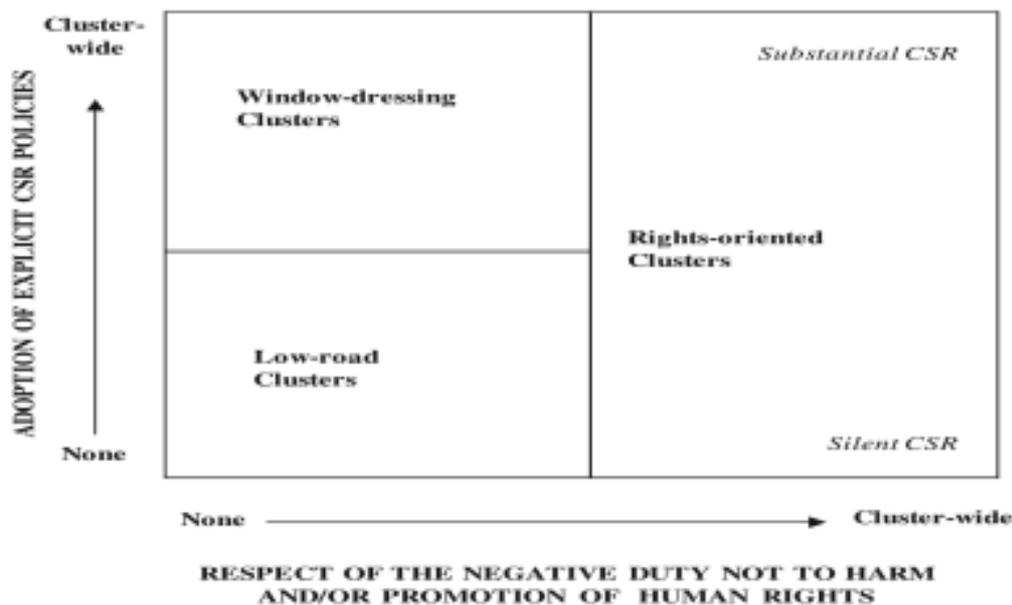
However, the Brazilian example discussed above is not the norm because many other clusters in developing countries seem to be unaware of the importance of CSR and its practices. In this perspective, Waldman-Brown et al. (2013), for example, point to the absence of any security measure in the Suame Magazine cluster in Ghana and report, moreover, the multiplicity of burns and respiratory poisoning incidents among employees. These heterogeneous attitudes towards CSR lead us to suppose that there are still big difficulties that make firms within clusters in DCs still reluctant to CSR practices.

2.2. Difficulties hampering the proliferation of CSR within clusters

In order to highlight the heterogeneity of clusters' behavior towards CSR, Giuliani (2016) proposes a typology of clusters based on CSR practices and the degree of respect of human rights within the cluster. It starts from the premise that CSR can be fragmented and partially applied, while human rights constitute a homogeneous and non-divisible whole. She also distinguishes between the CSR policies imposed by international brands and the human rights practices deriving from the local firms own conscience. As a result, three types of clusters are distinguished:

- "Low-road Clusters": these clusters are characterized by the absence of CSR policies and by the lack of respect for human rights. This category includes the majority of clusters in developing countries. We can mention, for example, the Sialkot cluster in Pakistan specialized in manufacturing footballs. The cluster provides 70% of global production. Much of this production comes from the hands of children who are heavily exploited (Lund-Thomsen, 2013).
- "Window-dressing clusters": these clusters promote CSR practices, even if only symbolically, to be able to earn contracts with international brands. But at the same time, they violate the most basic human rights. The Jalandhar cluster in India, which is also specialized in the production of footballs, falls into this category because, as Jamali et al. (2017) note, companies develop CSR policies with a view to gaining credibility vis-à-vis foreign clients.
- "Rights-oriented Clusters": the clusters falling into this category combine strong respect for human rights with an effective implementation of CSR practices aimed at respecting local communities, the environment and improving the work conditions. Clusters of this type are rare. The blue jeans cluster of Toritama in Brazil falls into this category (Almeida, 2008).

While the first two categories benefit from a context marked by the weakness of the state, laws, civil society and NGOs, the third category of clusters is subject to a context where the strict application of the law reigns and where the voice of civil society and NGOs is strongly heard.

Figure I: Classification of clusters according to their attitude towards CSR

Source: Giuliani (2016, p. 42)

CSR initiatives within clusters are not immune to criticism as some view them as a form of economic and cultural imperialism (Khan & Lund-Thomsen, 2011) in that they address the concerns of Western NGOs and foreign consumers and international buyers without worrying about the poverty and archaic conditions confronted by local manufacturers, entrepreneurs and workers in developing countries. In fact, principals who demand CSR are not, in return, willing to share the cost it entails (De Neve, 2009). At this level they adopt a paradoxical attitude. They impose constant price reductions to their subcontractors and suppliers in developing countries and demand to them, at the same time, to invest in CSR through the payment, for example, of the minimum wage in force in each country (Khan and Lund-Thomsen, 2011).

And as we have just pointed out, CSR practices sometimes remain a simple means of coverage to hide human rights violations instead of actually contributing to improving the quality of life of people and working conditions of employees. And this is why the impacts of CSR within clusters in DCs remain limited (Lund-Thomsen, 2008).

Conclusion

Clustering impacts on economic growth, innovation, productivity, employment, entrepreneurship, competitiveness and exports of advanced countries encouraged the DCs to implement this tool of industrialization and development. And if the replication of this model by these countries was primarily aimed at speeding up the process of industrialization and improving the competitiveness of domestic companies to face international competition, another role, a non-economic role, can be assigned, today, to clusters and which consists of spreading the CSR philosophy.

However, the expected impacts of clustering on CSR in DCs are not spontaneous since that many clusters don't pay attention to ecological and social conditions of their hosting territories while others deploy huge efforts to implement actions and programs aiming at promoting CSR of their firms.

In this respect, we showed that clusters that serve foreign principals and receive public and international financial support and whose activity is subject to a rigorous and binding legal framework display high level of action in order to protect the environment and to improve working conditions and social conditions of local communities.

That led us to conclude that clusters alone are not able to change business behavior. The strict application of the law and the provision of financial support to offset the costs of CSR are indispensable and complementary ingredients. And it's maybe the lack of these elements that justifies why African clusters are generally marked by lower level of CSR compared to those of Asia and Latin America.

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