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CORPORATE SOCIAL RESPONSIBILITY IN GLOBAL SUPPLY CHAINS: DEEDS NOT WORDS

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Corporate social responsibility in global supply chains: Deeds not words

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Abstract

The disconnect between the lofty aspirations of corporate social responsibility (CSR) and its shortcomings in practice has caused some observers to question its usefulness (UNCTAD, 2012; Lund-Thomsen and Lindgreen, 2014). We use firm-level data for 19 African countries to empirically examine the working conditions and knowledge transfers in multinational firms that claim they are socially responsible. Firms with a CSR policy report higher wages for their workers, ceteris paribus. We find evidence of a new economic thinking on "cooperation paradigm", with local African suppliers benefitting from CSR through knowledge transfer. Interestingly, suppliers only benefit when multinationals make tangible investments in supplier development.

Key words: corporate social responsibility, local suppliers, knowledge transfer, working conditions

JEL Classification: F23, M14, O14

1 Introduction

In recent years, increasingly complex global supply chains have evolved, with multinationals organizing their production by using global suppliers. A well-studied example is the Apple iPhone, where inputs from a number of countries, including Germany, the Republic of Korea, Japan and the U.S. are assembled in China, and the nearly finished product is then shipped to the U.S. for final marketing and sales (Xing and Detert, 2010). This proliferation of global supply chains raises new questions about how gains from trade can be shared fairly among the agents, and how labour and environmental standards can be maintained within the chain.

Critics claim that the organization of production activities, especially if these involve production in low-income countries, is not being implemented under the guise of social responsibility. Global supply chains, the argument goes, have led to the exploitation of foreign workers and the environment. A 2014 Oxfam report (Wilshaw, 2014), for example, raises the issue of decent working conditions and the role of "responsible companies" in global supply chains. In a similar vein, the British Prime Minister, Theresa May, insisted during her 2017 speech in Davos that businesses would have to recognize their obligations and duties towards employees and supply chains, and act in socially responsible ways with respect to the communities and nations in which they operate.[1] Many businesses use corporate social responsibility (CSR) activities to signal to stakeholders that they are concerned about these issues, and willing to take action.

Against this backdrop, this study aims to investigate whether the behaviour of multinational firms that claim to be engaged in CSR activities differs from that of other multinationals, both in terms of working conditions in their own firm and their interaction with suppliers. The empirical analysis uses firm-level data from 19 sub-Saharan African countries. Our analysis is divided into two parts. In the first part, we investigate how labour conditions in affiliates of multinationals claiming to be engaged in CSR activities differ from those in comparable affiliates that do not have a policy on CSR. The labour conditions captured in our data include wages paid out to employees of foreign affiliates and the share of temporary (as opposed to permanent) and female employees. In the second part, we shift our focus on the relationship between the

[1] "Companies must share benefits of globalization, Theresa May tells Davos", The Guardian, 19 January 2017.

multinational firm and its local suppliers, looking for evidence of knowledge transfers between the former and the latter.

Our paper contributes to the literature (which we refer to in more detail in Section 2) in a number of ways. Firstly, while most of the burgeoning literature on CSR activities of firms explores the drivers of CSR (e.g. Baron, 2007, 2008; Siegel and Vitaliano, 2007) and the implications for the value of the firm (e.g. Price and Sun, 2017; McWilliams and Siegel, 2000), we look at the link between CSR and the effect on firms from a different angle, namely the relationship between labour conditions and CSR implementation. While existing research shows that CSR can impact employee engagement and retention (Aguinis and Glavas, 2012), we specifically focus on wages, workplace stability and female participation. These issues have, to the best of our knowledge, been largely neglected in the literature.[2]

Secondly, we place CSR practices firmly within the global supply chain, investigating whether multinational firms claiming to conduct CSR activities enjoy enhanced relationships with their local suppliers compared to affiliates that do not engage in CSR. The relationship between 'responsible' multinationals and their local suppliers has, to our knowledge, only received scant attention in the global supply chain literature (see Lund-Thomsen and Lindgreen, 2014 for a succinct overview). Thirdly, while the research spotlight of CSR in global supply chains has been firmly fixed on Asia (e.g. garments procurement), other parts of the developing world, most notably the African continent, have remained underresearched. We fill this gap, using firm-level data for 19 sub-Saharan African countries for our study.

Our empirical analysis reveals that multinationals involved in CSR pay their employees higher wages on average. This is what one would expect if such firms do indeed behave 'responsibly' towards their workers. We cannot, however, establish any link between CSR and the prevalence of temporary contracts or the share of female workers. As regards the relationship between multinationals and their local suppliers, we find evidence that multinationals engaged in CSR are more likely to transfer knowledge to their suppliers than other comparable multinationals. One important caveat is in order,

[2] Excellent literature reviews on the extensive CSR literature are provided in Aguinis and Glavas (2012), Crifo and Forget (2015), Lund-Thomsen and Lindgreen (2014), Kitzmueller and Shimshack (2012).

however. As we discuss in this paper, we use two measures of CSR, one based on whether the firm states that CSR considerations were important in their choice of supplier, and the second based on whether the multinational firm has a dedicated supplier development department. We only find evidence of wage premiums and higher knowledge transfers for multinationals that have a dedicated supplier development department.

The paper is structured as follows. The next section discusses the literature on CSR, which our analysis builds on. Section 3 describes the data set used in our study. The first part of the empirical analysis is presented in Section 4, where we look at CSR and the working conditions in the multinational firms included in our study. Section 5 focuses on the link between CSR and the relationship between multinationals and local suppliers. Section 6 summarizes our main findings and concludes.

2 Background

While CSR has been a long-standing topic in the literature, studies on international CSR are comparatively scarce. As such, relatively few empirical studies are available documenting the role of CSR in global value chains. As Kitzmueller and Shimshack (2012, p. 76) conclude in their excellent review of the literature: "*Both the theory and empirics of CSR in an international context are underdeveloped. Transitional economies typically have limited formal regulation, so CSR may be especially important*". Where such studies do exist, they tend to mostly be based on case studies as in Roberts (2003) or Andersen and Skjoett-Larsen (2009).

Before we present the relevant empirical work, it is worth taking a look at the mechanisms by which large corporations are expected to behave responsibly towards foreign suppliers in a value chain. Baron (2010) maps out these relationships in a model of morally motivated self-regulation. His model considers a prisoner's dilemma where participants experience feelings of guilt if they do not cooperate. Importantly for CSR in an international context, Baron's model describes what factors prompt managers to act responsibly. If agents (e.g. managers in multinational firms and end customers) are motivated by limited morality, they will only behave responsibly towards foreign workers with whom they closely identify. Baron also considers a second moral regimen, reciprocal altruism, where decision makers behave altruistically in the expectation that workers will reciprocate by working more productively. There is no guarantee, however, that foreign workers will indeed reciprocate. Accordingly, raising work standards is not a cost neutral strategy for ethical managers. At the same time, there is an incentive for competing firms to undercut the sales of socially responsible firms. Baron concludes that certification (e.g. the Fair Trade label) can help raise the welfare of workers in foreign firms under a reciprocal altruism regime. However, under limited morality, end consumers may not care enough about foreign worker welfare to pay a premium price for ethically produced products. Baron concludes that ideally, firms will self-regulate, collectively and on their own initiative.

We now shift our focus to how international CSR works in practice. Many international firms claiming to be socially responsible draw up CSR codes of practice (UNCTAD, 2012). These codes are largely based on those published by international bodies (e.g. the UN Universal Declaration of Human Rights). UNCTAD (2012) notes, however, that the CSR codes adopted and advertised by firms frequently only reflect the minimum international legal standard. These CSR codes of practice have another shortcoming according to UNCTAD (2012): due to the complexity of global value chains and their lack of transparency, some multinational corporations seek to shift responsibility for labour standards back to their first tier suppliers.

CSR in global chains is weakened further by another important factor – the distance between the practices of firms and the end customer. One major incentive for adopting CSR is to avoid bad publicity (Roberts, 2003). Yet firms operating in sectors that are less visible to end customers may see no need to safeguard their reputations by implementing CSR. Fortunately, larger multinationals with established reputations are more likely to comply with CSR standards, as concluded by Andersen and Skjoett-Larsen (2009). Furthermore, Boehe and Cruz (2010) and Görg et al. (2017) provide evidence that multinationals that export to developed countries (where consumers are likely to be concerned about social issues) are more likely to be engaged in CSR activities.

The contentious question nonetheless remains: do multinationals that claim to be socially responsible actually deliver on this promise? Jenkins (2001, p. 3) argues that "[…] *the growth of 'global value chains', through which Northern buyers control a web* *of suppliers in the South, has led to calls for them to take responsibility not only for aspects such as quality and delivery dates, but also for working conditions and environmental impacts*". In their extensive discussion of the literature, Lund-Thomsen and Lindgreen (2014) conclude, however, that "[...] *we find limited evidence that international buyers systematically cut ties with factories in response to their low social or environmental compliance levels*".

This disconnect between the lofty aspirations of CSR and its shortcomings in practice have caused some observers to question its usefulness altogether. Summing up the case against traditional CSR, Lund-Thomsen and Lindgreen (2014) argue that imposing labour demands on foreign suppliers can be a flawed strategy. To reinforce their argument, they cite the case of suppliers hiring employees under permanent employment contracts to boost their CSR credentials (permanent contracts afford higher job security than temporary contracts). But temporary workers are necessary for smoothing out sales fluctuations (e.g. seasonal sales around Christmas). Accordingly, the unilateral imposition of CSR by multinationals on their foreign suppliers only serves to hamstring suppliers. CSR then becomes a kind of "economic and cultural imperialism" (Lund-Thomsen and Lindgreen, 2014).

But is the alternative a 'race to the bottom' in terms of labour conditions? There is a call for a new framework on this point, within which multinationals can behave responsibly, involving the upgrading of foreign supplier capacity and the skill set of workers in foreign supply firms. Lund-Thomsen and Lindgreen (2014) refer to this as the "cooperation paradigm"[3]. Andersen and Skjoett-Larsen (2009) similarly argue in favour of provision of technical support to foreign suppliers. There thus seems to be growing consensus that international firms should invest in the production and skill upgrading of their foreign suppliers.

CSR is costly (Baron, 2010), however, and the jury is still out on whether CSR activities help boost the value of firms (Aguinis and Flavas, 2012). Servaes and Tamayo (2013) find that only when CSR is coupled with effective advertising are firms able to raise customer awareness and help defray the costs of CSR.

[3] This new framework is at odds with the notion that multinational firms ought to act as a 'lead firm', dictating to their foreign suppliers how to treat their workers (e.g. Gereffi et al., 2005).

Since production and skills upgrading lie at the core of the CSR debate, our paper explores these aspects further. In a first step, we empirically examine the working conditions of affiliates of foreign multinationals operating in Africa. Our analysis captures several aspects of working conditions including wages, temporary contracts and participation of female workers. We assume that affiliates engaged in CSR activities also behave more "responsibly" towards their workers and within their own company structures than other firms. This builds on the work of Glavas and Piderit (2009) who show that employees in firms with a CSR policy have higher levels of workplace engagement. Higher levels of workplace engagement may arise if workers have better working conditions in companies involved in CSR.

In a second step we scrutinize the cooperation between multinational firms and their local suppliers, mindful of Andersen and Skjoett-Larsen's (2009) call for future research on the organizational context of CSR cooperation. We gauge the relationship between multinationals and their local suppliers and quantify the extent of knowledge transfer that takes place between them. Based on the "cooperation paradigm" described by Lund-Thomsen and Lindgreen (2014), we assume that multinationals engaged in CSR activities practice more knowledge transfer than other multinational firms.

3 Data

To arrive at results, we use unique firm-level data collected through the UNIDO Africa Investor Survey 2010 across 19 sub-Saharan Africa countries (UNIDO, 2011). The Foreign Investor Survey data contains a wealth of information on a large sample of foreign-owned firms. The collection of data followed a rigorous survey methodology to construct a stratified sample of firm (on three dimensions: sector, size and ownership), which is representative of public and private for profit firms with 10 or more employees. An oversampling of relatively large firms (> 100 employees) was adopted. Face-to-face interviews were carried out with top-level managers of foreign-owned firms. In total, 2,113 foreign-owned firms participated in the survey.[4]

There is no established approach to measuring CSR in the literature. We use to variables in our survey data to measure multinationals' CSR activities. The first is based on the

[4] More details on the Africa Investor Survey 2010, the sampling procedure and quality assurance measures are provided in UNIDO (2011). The data has been used for analyses of FDI in Africa (e.g Boly et al., 2014; Amendolagine et al., 2013) and of the determinants of CSR in multinationals (Görg et al., 2017).

multinationals' self-reported reasons for choosing local suppliers. We use a dummy variable *CSR-Word* equal to 1 if a firm cites "corporate commitment to local supplier development in the region" as its primary reason for choosing a local supplier.[5] This entails, in particular, social concern for their suppliers, including the working conditions and wages of the suppliers' employees and the sustainable development of the suppliers. A similar measure is also used by Görg et al. (2017) to capture firms' approach to CSR. In sum, the dummy variable *CSR-Word* denotes a stated commitment by the MNE to responsible sourcing from their local African supplier.

The second measure is based on firms' responses to the question whether they have a dedicated local supplier development department. If they do, we define a dummy variable *CSR-Deed* equal to 1 (0 otherwise). Our assumption is that the establishment of such a dedicated department is more than simply a verbal profession of commitment to responsible sourcing from local African suppliers. *CSR-Deed* indicates that the MNE has demonstrably invested in the development of its local suppliers.

In our empirical analysis, we also consider the relationship between the two variables. We investigate whether companies that have both 1) a dedicated local supplier development department (*CSR-Deed* = 1) *and* 2) show a strong preference for CSR considerations in their choice of local suppliers (*CSR-Word* = 1) differ from multinationals that stated that only 1) or 2) applies to them or neither.

Table 1 shows that CSR, either in terms of choice of supplier or of setting up a dedicated local supplier development department is not widespread in multinationals located in sub-Saharan Africa. In our sample, around 2 per cent of firms cite CSR considerations as the most important reason for their choice of supplier. While not all firms answered the question on the dedicated local supplier development department, only 10 per cent of those that answered the question actually have such a department.

[5] Other possible answers were "raw materials", "logistics", "closer supplier relationship", "reduced tariff", "local content", "fiscal or tax efficiency", "improved acceptability", "environmental responsibility" or "others". The survey design only allowed the respondents to tick one box representing the most important reason for their sourcing decision. We acknowledge that this is a very narrow definition of relevance of CSR considerations by foreign multinationals for local sourcing. It captures firms that arguably place very high emphasis on CSR in their corporate culture. It is, of course, possible that some firms that did not refer to social concerns as the most important reason for choosing a local supplier may still be concerned about CSR. Hence, our analysis is more confined and only picks up those firms that have fully embraced CSR.

Table 1 Use of CSR activities in our sample

Measure of CSR	# of firms	% of total
MNE claims commitment to responsible local sourcing (*CSR-Word*)	50	2.1
MNE invests in local supplier (*CSR-Deed*)	131	9.6

The table indicates that CSR considerations appear to only play a minor role among multinationals located in sub-Saharan African countries. Görg et al. (2017) look at the determinants of such activities using only the *CSR-Word* dummy as defined above. They find that multinationals are more likely to be concerned about CSR in their choice of suppliers if they export to developed countries, i.e. to countries where consumers are more likely to pay attention to CSR considerations (Boehe and Cruz, 2010). Rather than looking at the determinants for engaging in CSR activities, we are more interested in whether the behaviour of CSR firms differs from that of other multinationals, both in terms of working conditions in the foreign affiliate and how the foreign affiliate interacts with its suppliers.

4 Working conditions in the affiliate

We first look at the working conditions in the affiliates of multinational firms. If CSR activity does indeed reflect a firm's heightened attention to responsibility, be it through limited morality or reciprocal altruism (Baron, 2010), we can expect that firms engaged in CSR activities behave responsibly towards their own workers. This may then be reflected in better working conditions for employees compared to multinationals that do not have a CSR policy. To investigate this aspect, we use the firm level data from the Africa Investor Survey to estimate simple empirical models using the following formula:

$$\text{work\_conditions}_i = \alpha_1 \, \text{CSR}_i + \alpha_2 \, \text{controls}_i + d_c + d_s + \varepsilon \qquad (1)$$

to approximate working conditions by looking at wages first. We are able to distinguish the average wage paid in a firm to (i) administration workers, (ii) production workers and (iii) technical workers. The second working condition we can examine is the structure of employment within the firm, in particular the share of temporary workers and number of female employees.

CSR is a vector including the dummy variables *CSR-Word* and *CSR-Deed* for firm i; we also include a dummy variable equal to 1 if the firm fulfils both criteria, *CSR-Word* and *CSR-Deed*. If CSR plays an important role in the company, we expect it to pay higher wages (regardless of type of worker), provide more stable employment relationships (fewer temporary contracts) and provide more opportunities for women (higher number of female workers).

The vector **controls** includes firm-level controls, namely, log firm age, log firm employment size, a dummy for whether the owner of the affiliate is from another sub-Saharan African country or not, and a dummy if the firm is a joint venture (JV) with a local partner. Furthermore, d_c and d_s are sets of dummy variables for host country *c* and sector *s*, and ε_i is a white noise error term.

The firm, sector and host country control variables are included to control for heterogeneity along these dimensions and to allow us to better identify the effect of CSR instead of correlated firm, sector or country characteristics. As regards firm age and size, studies including Waddock and Graves (1997), Mishra and Suar (2010) and Görg et al. (2017) show that larger firms tend to be more likely to be engaged in CSR activities. At the same time, larger and older firms tend to also pay higher wages and generate more technology transfers (e.g. Perez-Villar and Seric, 2015; Strobl and Thornton, 2004). Gold et al. (2017), also using data from the Africa Investor Survey, find productivity and growth premiums for foreign-owned affiliates operating in Africa. Hence, we also include a dummy to distinguish between affiliates owned by foreign multinationals located outside the African continent and those owed by African multinationals.[6] Furthermore, joint ventures may differ from fully foreign-owned affiliates in terms of technology use and technology transfer, and ultimately also in terms of their choice of local suppliers (Perez-Villar and Seric, 2015; Javorcik and Spatareanu, 2008). Javorcik and Spatareanu (2008), for example, argue that joint ventures may have lower costs associated with finding local suppliers and therefore tend to source more locally than majority- or fully foreign-owned affiliates. They are also more likely to use less sophisticated technology due to the risk of knowledge dissipating to the local partner.

[6] "Africa" here refers to sub-Saharan African countries.

Table 2 analyses the wage differences across affiliates that engage in CSR activities and those that do not. We find some evidence that CSR firms pay higher wages, as expected if CSR does indeed reflect heightened "responsibility" by the company, especially towards the multinational's own workers. These wage premiums are, however, only statistically significant for firms that actively invest in supplier development (*CSR-Deed*). Columns (2) and (3) demonstrate that CSR firms pay higher wages to their production and technical staff, while the coefficient for administration staff is only marginally statistically significant at the 10 per cent level. The point estimates indicate that the wage premium for production and technical workers is about 35 per cent and 40 per cent, respectively.[7] Fulfilling both criteria, *CSR-Word* and *CSR-Deed*, is not associated with any further wage premiums.

Table 2 CSR and wages

	y variable: Wages by job category		
	(1) Administration	(2) Production	(3) Technical
MNE claims commitment to responsible local sourcing (*CSR-Word*)	0.255	-0.064	0.270
	(0.145)	(0.095)	(0.153)
MNE invests in supplier (*CSR-Deed*)	0.163	0.301**	0.339***
	(0.097)	(0.118)	(0.114)
Both	-0.270	0.065	-0.111
	(0.382)	(0.253)	(0.238)
Observations	1,017	1,046	1,036
Adj. R-squared	0.259	0.242	0.226

Notes: Regression includes all firm-level controls as well as host country and sector dummies as outlined in Equation (1). Robust standard errors are in parentheses. *** and ** denote statistical significance at the 1 per cent and 5 per cent level, respectively.

Another aspect related to working conditions that we can look at is the share of temporary and female employees employed by the affiliate. CSR considerations may imply that affiliates engaged in CSR activities should employ a higher number of permanent and / or female workers than comparable non-CSR firms. Whether or not

[7] As the coefficient is on a dummy variable in a log-linear model, the marginal effect is calculated as exp(β)-1.

this is true is an issue we address in Table 3. The results show that the share of temporary or female employees does not differ across MNEs from either the *CSR-Word* or *CSR-Deed* group. They are observationally not different from firms that do not engage in CSR activities. Hence, while CSR considerations seem to be reflected to some extent with multinationals paying their workers higher wages, they do not appear to be associated with the provision of more stable employment relationships or the hiring of more women than comparable multinationals not engaged in CSR activities.

Table 3 CSR and employment composition

	y variable: Worker share	
	(1) Temporary workers	(2) Women
MNE claims commitment to responsible local sourcing (*CSR-Word*)	-0.368	0.017
	(0.196)	(0.030)
MNE invests in supplier (*CSR-Deed*)	0.123	-0.016
	(0.179)	(0.020)
Both	0.498	0.018
	(0.362)	(0.052)
Observations	1,078	1,068
Adj. R-squared	0.0776	0.369

Notes: Regression includes all firm-level controls as well as host country and sector dummies as outlined in Equation (1). Robust standard errors are in parentheses. *** and ** denote statistical significance at the 1 per cent and 5 per cent level, respectively.

5 Supplier relationships

We now turn to the relationship between foreign affiliates and their local suppliers, and investigate whether CSR firms differ in these respects from their non-CSR counterparts.

We use the firm-level data to estimate equations using the formula:

$$\text{supplier\_relationship}_i = \beta_1 \text{ CSR}_i + \beta_2 \text{ controls}_i + d_c + d_s + v_i \qquad (2)$$

where the variables on the right hand side are defined as in Equation (1). On the left hand side, we first look at the overall number of suppliers of the foreign affiliates. We also consider two further factors, namely how many new suppliers were added during the last year and how many suppliers have had a long-term relationship with the multinational. We assume that firms with a CSR policy are more likely to add new local suppliers and to provide them with more stable long-term contracts.

The final aspect we consider is whether affiliates transfer knowledge to their local suppliers. This is arguably the outcome variable that is most closely related to the "cooperation paradigm" discussed by Lund-Thomsen and Lindgreen (2014). As mentioned in Section 2 above, the argument, in a nutshell, is that firms engaged in CSR activities should support their suppliers so that they can provide better working conditions in their firms. Knowledge transfer from the multinational may be one aspect through which such support could be provided to the supplier.

Our data allow us to distinguish three broad aspects of such knowledge transfers. The first is whether affiliates support local suppliers in terms of "upgrading the quality of their workforce". The second aspect encompasses knowledge related to "access to finance", and the third broadly entails the "transfer of technology" related to production and innovation (support in upgrading production efficiency, product quality, providing designs or engaging in joint product design / development).

We first look at the number of suppliers the foreign affiliates in our sample have. The regression results in Table 4, Column (1) reveal that MNEs with a dedicated local supplier development department use a higher number of local suppliers as indicated by the absolute number of suppliers. This was to be expected, as firms engaged with a higher number of suppliers are probably also more likely to feel responsible towards them. This is not true for *CSR-Word,* however.

There are two other factors we can examine, namely how many new suppliers were added during the last year and how many suppliers have a long-term relationship with the multinational. If CSR does play a role, one may expect that multinationals are more likely to add new local suppliers, and to also provide them with more stable long-term contracts. The evidence in Columns (2) and (3) indicates that this is not the case. Conditional on other variables in the model (including the total number of current suppliers), *CSR-Word* or *CSR-Deed* are not positively associated with the number of newly added suppliers or the number of long-term relationships between suppliers and the multinational. If anything, Column (3) reveals that multinationals claiming to be committed to responsible local sourcing have fewer suppliers on long-term contracts. What is clear, however, is that the more local suppliers a firm has, the more likely it is to add new ones, or to offer long-term contracts.

Table 4 CSR and supplier relationships

	y variable: # local African suppliers		
	(1)	(2)	(3)
	Total	New suppliers	With long-term contract
MNE claims commitment to responsible local sourcing (*CSR-Word*)	0.140	0.068	-0.329**
	(0.229)	(0.156)	(0.162)
MNE invests in supplier (*CSR-Deed*)	0.576***	0.069	0.014
	(0.202)	(0.112)	(0.112)
Both	0.223	-0.217	0.303
	(0.718)	(0.299)	(0.516)
# of domestic suppliers		0.634***	0.713***
		(0.051)	(0.042)
Observations	0.187	515	659
Adj. R-squared	0.122	0.568	0.670

Notes: Regression includes all firm-level controls as well as host country and sector dummies as outlined in Equation (1). Robust standard errors are in parentheses. *** and ** denote statistical significance at the 1 per cent and 5 per cent level, respectively.

Does this imply that CSR does not matter, and that *CSR-Word* or *CSR-Word* are merely window-dressing exercises? To answer this question, we turn to look at the relationship between the multinational and its local suppliers on the basis of knowledge transfer. If multinationals engaged in CSR activities do indeed behave responsibility towards their local suppliers, they may be more likely to try to support them in upgrading their production processes and to provide their employees with better working conditions. Indeed, as argued by Lund-Thomsen and Lindgreen (2014), if the aim of CSR activities is to help local suppliers develop, then knowledge transfer of some form may be necessary between the affiliate and the supplier.

As pointed out above, we can measure three aspects of knowledge transfer. We consider any such type of knowledge transfer in Column 1 of Table 5, with the dependent variable being equal to 1 if the affiliate is involved in any such knowledge transfer. The results show that *CSR-Deed* is positively associated with knowledge transfer. By contrast, the coefficient of *CSR-Word* is statistically insignificant.

Distinguishing the three types of knowledge transfer in Columns 2 to 4 shows that MNEs that establish a dedicated local supplier development department (*CSR-Deed*) are positively associated with all three types of knowledge transfer, while MNEs claiming to be committed to responsible sourcing of local African suppliers (*CSR-Word*) are not statistically significantly different from MNEs that do not purport to do so. Thus, firms that demonstrate physical investments in local supplier development are more prone to support their suppliers through various forms of knowledge transfer compared to firms from the *CSR-Word* group or indeed firms that are not engaged in CSR activities at all.

Table 5 CSR and knowledge transfer

	y variable: Knowledge transfer to supplier			
	(1) Any transfer	(2) Workforce upgrading	(3) Access to finance	(4) Technology, design & efficiency
MNE claims commitment to responsible local sourcing (*CSR-Word*)	0.106	0.120	0.025	0.061
	(0.088)	(0.086)	(0.073)	(0.093)
MNE invests in supplier (*CSR-Deed*)	0.259***	0.179***	0.118**	0.265***
	(0.045)	(0.056)	(0.052)	(0.047)
Both	0.058	-0.007	0.080	0.136
	(0.158)	(0.196)	(0.181)	(0.163)
Observations	1,087	1,087	1,087	1,087
Adj. R-squared	0.0859	0.0724	0.0288	0.0769

Notes: Regression includes all firm-level controls as well as host country and sector dummies as outlined in Equation (1). Robust standard errors are in parentheses. *** and ** denote statistical significance at the 1 per cent and 5 per cent level, respectively.

We further consider two aspects of firm heterogeneity which may shed some more light on knowledge transfers associated with CSR activities. Firstly, we distinguish firms based on whether the owner of the affiliate is from another African country or not. MNEs from other African countries may use lower technology than foreign affiliates from industrialized countries, which, ceteris paribus, would imply lower potential for technology transfer. However, they may have a stronger commitment to local development, similar to Diaspora investments (e.g. Wei and Balasubramanyam, 2006). In that case, their CSR activities may also be associated with more intense knowledge transfer. The second distinction we make is whether the operation is a joint venture with a local partner. On the one hand, affiliates with local partners may be less technology intensive (e.g. Javorcik and Spatareanu, 2008), which may imply that they have less potential for knowledge transfers to local suppliers. On the other hand, given their link with local partners, they may have stronger commitments to local suppliers, which should imply more intense knowledge transfer.

Table 6a demonstrates that the evidence is in line with the notion that nationality of ownership matters. Non-African MNEs with dedicated local supplier development departments are in all cases associated with higher levels of knowledge transfer, while this is not the case for African MNEs. This may indicate that these firms use more sophisticated technology, which entails more potential for knowledge transfer. Whether or not the multinational involves a local partner does not play a significant role, however (see Table 6b). While *CSR-Deed* is associated with higher levels of technology transfer, irrespective of whether it is a local JV or not (Columns 4 and 8), supplier upgrading is only higher in JVs.

Table 6a Knowledge transfer (by investment origin)

	African				Non-African			
	(1)	(2)	(3)	(4)	(5)			(6) (7)
	Any	Supplier workforce upgrading	Supplier access to finance	Supplier technology, design & efficiency	Any	Supplier workforce Upgrading	Supplier access to finance	Supplier technology, design
MNE invests in supplier (CSR-Deed)	0.158	0.158	0.011	0.173	0.277***	0.204***	0.145**	0.272***
	(0.134)	(0.118)	(0.105)	(0.137)	(0.047)	(0.066)	(0.062)	(0.050)
MNE claims commitment to responsible local sourcing (CSR-Word)	0.178	0.138	0.205	0.114	0.092	0.108	-0.004	0.050
	(0.146)	(0.181)	(0.154)	(0.152)	(0.080)	(0.079)	(0.063)	(0.083)
Both	0.301	0.486	0.977***	0.420	0.016	-0.192	-0.148	0.088
	(0.342)	(0.333)	(0.231)	(0.329)	(0.167)	(0.186)	(0.138)	(0.170)
Observations	227	227	227	227	860	860	860	860
Adj. R-squared	0.106	0.00911	-0.0227	0.0934	0.0965	0.0862	0.0493	0.0879

Notes: Regression includes all firm-level controls as well as host country and sector dummies as outlined in Equation (2). Robust standard errors are in parentheses. *** and ** denote statistical significance at level, respectively.

Table 6b Knowledge transfer (by type of linkage)

	Joint venture (yes)				Joint venture (no)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Any	Supplier workforce Upgrading	Supplier access to finance	Supplier technology, design & efficiency	Any	Supplier workforce Upgrading	Supplier access to finance	Supplier technology, design & efficiency
MNE invests in supplier (CSR-Deed)	0.298***	0.157	0.133	0.331***	0.247***	0.197***	0.118	0.248***
	(0.092)	(0.122)	(0.114)	(0.090)	(0.059)	(0.065)	(0.061)	(0.060)
MNE claims commitment to responsible local sourcing (CSR-Word)	0.228	0.231	-0.225***	0.025	0.065	0.058	0.086	0.070
	(0.142)	(0.171)	(0.082)	(0.163)	(0.085)	(0.076)	(0.071)	(0.085)
Both	0.016	-0.383	0.149	0.280	0.008	0.035	-0.024	0.017
	(0.251)	(0.258)	(0.191)	(0.261)	(0.191)	(0.223)	(0.205)	(0.190)
Observations	279	279	279	279	808	808	808	808
Adj. R-squared	0.0868	0.177	0.173	0.0764	0.0871	0.0557	0.0288	0.0808

Notes: Regression includes all firm-level controls as well as host country and sector dummies as outlined in Equation (2). Robust standard errors are in parentheses.
*** and ** denote statistical significance at the 1 and 5 per cent level, respectively.

Table 7 presents the logged total annual expenditure reported by affiliates for knowledge transfers. Unfortunately, our data only captures the total amount and we therefore cannot divide this into the three parts of knowledge transfer used in Tables 5 and 6. Note that supplier investment (*CSR-Deed*) is associated with higher expenditure for non-African MNEs, but not for African MNEs. Both JVs and non-JVs are also associated with higher expenditure in the case of *CSR-Deed*. *CSR-Word* is associated with higher expenditure in the case of African MNEs only. This is an interesting finding that is not reflected in Tables 5 and 6, which present the incidence of technology transfer. This suggests that African MNEs claiming to be committed to responsible local sourcing (*CSR-Word*) do not more frequently engage in knowledge transfer than other comparable African MNEs. Yet if they do engage in knowledge transfer, they spend more on it.

Table 7 CSR and expenditure

	y variable: Expenditure			
	Africa	Non-Africa	JV (yes)	JV (no)
	(1)	(2)	(3)	(4)
MNE claims commitment to responsible local sourcing (*CSR-Word*)	3.574**	-0.901	-2.521	0.800
	(1.559)	(1.155)	(1.800)	(1.196)
MNE invests in supplier (*CSR-Deed*)	3.222	3.998***	4.579***	3.410***
	(1.706)	(0.725)	(1.194)	(0.807)
Both	-2.375	0.956	4.368	-0.540
	(3.818)	(2.279)	(2.877)	(2.830)
Observations	213	786	257	742
Adj. R-squared	0.173	0.137	0.0734	0.131

Notes: Regression includes all firm-level controls as well as host country and sector dummies as outlined in Equation (1). Robust standard errors are in parentheses. *** and ** denote statistical significance at the 1 per cent and 5 per cent level, respectively.

Overall, this implies that MNEs that have demonstrably invested in local supplier development by establishing a dedicated supplier development department as part of their CSR activities (*CSR-Deed*) are generally associated with higher levels of knowledge transfer from the affiliate to the local supplier. This is in line with the assumption that these firms are committed to CSR to support local suppliers and assist them in their development by injecting know-how related to technology, financing or workforce upgrading. By contrast, firms that claim they choose local suppliers based on CSR considerations (*CSR-Word*), but lack physical investments to actually establish such supplier development are generally not associated with higher knowledge transfer. In this case, CSR words need to be accompanied by CSR deeds.

6 Conclusion

This paper examines whether multinational firms that claim to be engaged in CSR activities provide better working conditions in their firm and have a stronger relationship with their suppliers than other multinationals. Based on firm-level data for 19 African countries, we measured two aspects of CSR. The first CSR aspect was whether the claims of commitment of multinationals to responsible local sourcing strongly influence their choice of supplier (*CSR-Word*). The second CSR aspect examined was whether multinationals demonstrably invest in local supplier development by establishing a dedicated local supplier development department (*CSR-Deed*).

Our empirical analysis shows that multinationals with a dedicated local supplier development department pay higher wages to their employees on average. This is in line with the notion that such multinationals behave more ‘responsibly’ towards their workers than other firms. This result does not hold for firms that claim commitment to responsible local sourcing, however. Moreover, we do not find any link between CSR and the prevalence of temporary contracts or the share of female workers for either firm group.

As regards the relationship with local suppliers, a stark difference is evident between the two firm groups. We find that multinationals that established a dedicated local supplier development department are more likely to transfer knowledge to their suppliers than multinationals that do not have such a department. This is in line with recent thinking about CSR in global supply chains – the “cooperation paradigm” as discussed by Lund-Thomsen and Lindgreen (2014). However, applying the *CSR-Word* definition—firms claiming responsible sourcing by prioritizing environmental and social concerns when choosing their local suppliers—we find no such evidence of knowledge transfers.

Overall, our results suggest that for CSR to realize its full potential in improving supplier conditions, MNEs need to be prepared to make physical investments in local supplier development. Words must be accompanied by deeds.

This also has implications for consumers and policymakers. Simply checking whether a product has a CSR label may not adequately indicate how responsible a firm really is towards its local suppliers. Before a consumer is able to make an informed decision, more information may be necessary on what precisely the firm's CSR activities actually entail. This calls for more transparency for firms to provide all the necessary information.

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