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FACTORS INFLUENCING CORPORATE SOCIAL AND ENVIRONMENTAL DISCLOSURE (CSED) PRACTICES IN THE DEVELOPING COUNTRIES: AN INSTITUTIONAL THEORETICAL PERSPECTIVE

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ABSTRACT

This study contributes to the literature on Corporate Social and Environmental Disclosure (CSED hereafter) in the developing countries by exploring various influential factors for CSED and grouping them into three categories: normative, interest, and company groups (Solomon and Lewis 2002). These categories can create normative, coercive, and mimetic pressure respectively for a company to adapt CSED practices. Numerous theories such as: legitimacy theory, stakeholder theory, and institutional theory have been used to explain the underlying reasons for CSED in both the developed and the developing countries. However, this study uses only institutional theoretical perspective to provide explanation for underlying reasons for CSED in the developing countries.

Keywords: Corporate social and environmental disclosure (CSED), Developing countries, Institutional theory, Corporate social responsibility (CSR), Corporate social disclosure (CSD), Corporate environment disclosure (CED)

INTRODUCTION

Corporate social disclosure (CSD hereafter) and corporate environmental disclosure (CED hereafter) refer to companies' disclosure about societal performance and environmental performance respectively (Thompson and Zarina 2004; Othman and Rashid 2009) Social performance includes improving human resource related practices (e.g. employees' training and development, employees' health and safety, diversity, equal opportunity, and wage discrimination issues), addressing consumers' issues (e.g. customers' health & safety, product labeling, communication practices, customers' complaints, and compliance with product laws), protecting human rights (e.g. freedom of association, removing child labor issues, non-discrimination, and other safety measures etc.), and addressing other issues of broader stakeholders & community concerns such as: involving local community, reducing corruption, showing public policy concerns, discouraging anti-competitive behavior, and complying with law (GRI 3.1. 2011). Environmental performance covers areas of materials used and recycled; direct and indirect energy consumption; water consumption; preservation of biodiversity life; reduction and treatment of emissions, effluents, and waste; and finally lessening products and services environmental effects (GRI 3.1. 2011). Now these terms: corporate environmental performance and corporate social performance are interchangeably used to sustainability reporting (Thompson and Zarina 2004; Deegan and Jeffry 2006; Deegan 2009; Othman and Rashid 2009). CSED encompasses both social and environmental aspects of company performance (Thompson and Zarina 2004; Mohd. and Nazli 2007). Thus CSED includes dissemination of information about their human resource related practices, community involvement activities and projects, quality and safety of products & services, and environmental contribution.

CSED or sustainability reporting practices have increased in both the developed and the developing countries in the last two decades (KPMG. 2008; GRI. 2010). Large numbers of sustainability reports are from Europe (45%), Latin and Northern America (28%), Asia (20%), while relatively small numbers from Oceania (4%), and Africa (3%) (GRI. 2010). There are numerous reasons such as: to build, maintain or enhance corporate reputation (Adams 2002; Solomon and Linda 2002; Bichta 2003; Dwyer 2003; Navickaite and Juozas 2007), to market companies' products & services (UK: Solomon and Lewis 2002), to reduce a company's cost of equity capital (Dhaliwal, Zhen et al. 2011), and to gain competitive advantage (US & UK: Cheah et al., 2007 cited in Ziaul-Hoq., Mohammad et al. 2010) for the developed market companies to disclose social and environment performance information through various media such as: annual reports (Haniffa and Cooke 2005), websites (Branco and Lu Rodrigues. 2008), and stand-alone CSR reports. Similar to the developed countries' companies, the major motivations for the developing countries' companies to adopt CSED practice are: to gain corporate reputation (Nik, Nik et al. 2004; Haniffa and Cooke 2005; Amran and Susela 2008; Rettab, Anis et al. 2009; Rahul 2010), to enjoy tax benefits (Ahmad 2006; Zulkifi and Azlan 2006), to gain employees' commitment (Rettab, Anis et al. 2009), and to reduce cost and company risk (Sangle 2010).

Apart from the above motivations; sensitivity of information and absence of legal requirement are some hurdles for the developed countries' companies' CSR disclosure (Solomon and Linda 2002). Similar to the developed countries' companies, there are numerous hurdles such as: lack of legislation (Nik, Nik et al. 2004; Thompson and Zarina 2004; Ziaul-Hoq., Mohammad et al. 2010)), lack of CSR education of managers (Navickaite and Juozas 2007; Lu and Pavel 2009), lack of awareness about environmental issues (Perry and Tse 1999), lack of Government support (Perry and Tse 1999; Lu and Pavel 2009), lack of reporting framework (Thompson and Zarina 2004; Zulkifi and Azlan 2006), cost of reporting (Thompson and Zarina 2004; Ziaul-Hoq., Mohammad et al. 2010), lack of public pressure (Thompson and Zarina 2004), fear of powerful investors (Zulkifi and Azlan 2006; Ziaul-Hoq., Mohammad et al. 2010), lack of public concern (Zulkifi and Azlan 2006), and companies misconceptions about their environmental effects, and misperception of CSED benefits (Thompson and Zarina 2004) for low level CSED in the developing countries.

It is true that the developing countries' companies are lagging behind the developed counties' companies' in CSED practices (KPMG. 2008), however numerous CSR and CSED studies have been conducted in the developing countries such as: Bangladesh (Imam 2000; Belal 2001; Belal., Ataur et al. 2007; Islam and Craig 2008; Azim, Shaila et al. 2009; Naeem., Malik et al. 2009; Shil and Alok 2009; Sobhani, Azlan et al. 2009), Pakistan (Hussain-Khaliq 2004; Lund-Thomsen 2004; Ahmad 2006; Boje and Farzad 2009; Lund-Thomsen and Khalid 2009; Naeem., Malik et al. 2009), India (Singh and Jag 1983; Gautam and Anju 2010; Kang 2010; Rahul 2010; Sangle 2010), China (Dellios, Xiaohua et al. 2009; Gao 2009; Cooke., Fang et al. 2010), Indonesia (Achda 2006), Malaysia (Zulkifi and Azlan 2006; Amran and Susela 2008; Singh, Sofri et al. 2009), South Africa (Mitchell., Clyde et al. 2009), central Africa (Kolk and Francois 2010), Dubai (Rettab, Anis et al. 2009), and Mexico (Muller and Ans 2009).

CSED tends to be descriptive and narrative in nature in most of the developing countries such as: Malaysia (Nik, Nik et al. 2004; Thompson and Zarina 2004), Pakistan (Ahmad 2006), and Bangladesh (Imam 2000; Belal 2001; Azim, Shaila et al. 2009; Naeem., Malik et al. 2009; Shil and Alok 2009; Sobhani, Azlan et al. 2009). Moreover, most of the companies are disclosing good news (Ahmad 2006; Sobhani, Azlan et al. 2009), which can enhance their reputation. It was observed that most of the issues reported in sustainability reports are related to governance, climate change, and supply chain (KPMG. 2008). However, sustainability reports vary from one country to another. Sustainability reports have substantially increased in 2010 in china and India (GRI. 2010). Moreover, reporting practices also vary from one company to another because the company has different characteristics and face different circumstances that influence the firms to decide its responsibilities (Robertson and Nigel 1996; Othman and Rashid 2009) (KPMG. 2008). It is not the case that company characteristics are the only factors which influence the companies to involve in CSED. There are numerous factors which influence the CSED practices of the companies both in the developed and the developing countries.

There are numerous theories, which have been used by numerous authors to explain the social and environmental reporting practices of the companies in the developing countries. For example political economy theory was used to explain the social and environmental reporting practice in the developing countries context (Haider 2010). A legitimacy theory was used to explain the CSR reporting practices in Malaysia (Haniffa and Cooke 2002; Thompson and Zarina 2004). Di Villiers and Van Staden (2006 cited in Haider, 2010) used legitimacy theory to explain the decreasing trend of environmental disclosure in South Africa. Tsang (1998) use legitimacy theory to explain social and environmental disclosure in Singapore. Both legitimacy and political cost theory was used to explain CSR disclosure in Malaysia (Mohd. and Nazli 2007). A combination of different theories like legitimacy theory, stakeholder theory, and institutional theory was used to explore motivations behind corporate social and environmental reporting practices of Bangladeshi textile industry (Islam and Craig 2008). Similarly institutional theory was used to explain the government role on social and environmental disclosure in Malaysia (Amran and Susela 2008). Postcolonial perspective was used to check the culture and history influence on the social and environmental disclosure in Arab Middle Eastern countries (Kamla 2007). William (1999 cited in Haider 2010) used bourgeois theory to check influence of social, political, and economic system pressure on social and environmental reporting in seven Asian pacific countries. However the adoption of particular theoretical perspective to explain the social and environmental reporting depends upon the researcher's understanding of theory. Keeping in view the about studies, researchers are not agreed upon one particular theory to explain CSED in the developing countries. Moreover, the above researchers used particular theory or combination of theories to explain CSED practices of the companies in the specific company, industry or country perspective. However, one researcher Haider (2010) used political economy theory to explain CSED practices in the developing countries. This research study would differ from the Haider (2010) because this research study uses institutional theory to explain CSED practices of the companies in the developing countries context. This research severs to two objectives. The first research objective of this research project is to explore the various motivational factors for CSED in the developing countries. The second objective of this research project is to choose one particular theory to explain the CSED practices, which are influenced by numerous factors in the developing countries. This paper is organized as: the next section discusses widely used theories of CSED. Third section discusses the influential factors for CSED in the developing countries context. Fourth section discusses selection of one theoretical perspective and framework to explain CSED in the developing markets followed by two case studies. The last section presents the conclusion.

CSED Theories

There are numerous theories (mentioned in the introduction section), which were used by numerous authors to explain the underlying reasons/motivations for CSED. Moreover, discussion of every theory is not a scope of this paper. However, the most widely used theories to explain companies social reporting practices are legitimacy theory, stakeholder theory, and institutional theory (Deegan and Jeffry 2006) and are discussed below.

Legitimacy Theory

Legitimacy theory is central to the social contract, which can be implicit and explicit (Shocker and Sethi 1974) in which the firms have contract with the society as a whole (Dowling and Pfeffer 1975; Mathews 1993). Social contract is expressed by the expectations of the society (Shocker and Sethi 1974), which are not fixed and changing over time (Islam and Craig 2008). It is moral obligation of the company to meet the expectations of the societal members. If the company fulfils the expectations of the whole society then it would be treated as legitimate otherwise its legitimacy would be at risk (Woodward, Pam et al. 1996; Deegan and Jeffry 2006). Only legitimate company has the right to utilize society's natural and human resources (Mathews 1993; Deegan and Jeffry 2006). So organizations are required to respond to the changing expectations of the society (Islam and Craig 2008) to maintain their legitimacy.

Dowling and Pfeffer (1975) have mentioned three ways to legitimize the company's activities. Firstly, the company can adopt those goals, values, and operations which are consistent to existing legitimacy definition. Secondly, it can use the communication strategy to legitimize its present practices by influencing existing legitimacy definition. Lastly, the company can use communication strategy to be known with those symbols (e.g. ISO 14000, ISO 9000 standards) or values, which have strong base for legitimacy. Under this theory, CSED (communication medium) can be used as tool by the companies to communicate information about their operations and activities (practices) to meet the society expectations to maintain its license to operate in the society (legitimacy).

Stakeholder Theory

Stakeholder theory is bit different for legitimacy theory because legitimacy theory treats the whole society as one group and asks the firm to meet the expectations of the whole society while the stakeholder theory divides the whole society into groups called stakeholders. Stakeholder of the firm can be defined as "any identifiable group or individual who can affect the achievement of an organization's objectives, or is affected by the achievement of an organization's objectives" (Freeman and David 1983). These stakeholders vary in power to influence the corporation (Ullmann 1985). Comparing to legitimacy theory, under stakeholder theory, the organization has more than one social contracts (between the organization and its stakeholders), which can influence/hurt the company's operations (Mathews 1993). Stakeholder theory has been divided into two branches: normative (ethical) branch of stakeholder theory and managerial branch of stakeholder theory.

The normative perspective of stakeholder theory equally treats all the stakeholders of the company and does not take into account the power of each stakeholder (Deegan and Jeffry 2006). The normative perspective of stakeholder theory asks the managers to work for the benefits of all the stakeholders (Hasan 1998 cited in Deegan & Unerman, 2011). He further said that a firm is not a mechanism to increase the financial returns of the stockholders while it is a vehicle for coordinating the interests of various stakeholders. According to normative perspective of stakeholder theory, all the stakeholder of the company has equal right to the company information. Under normative branch of stakeholder theory, social and environmental performance information is disclosed to be accountable to all the stakeholders without considering the element of power of each stakeholder.

As for as, the managerial perspective of stakeholder theory is concerned, it takes into account the interests of limited number of stakeholders, who have significant power to influence the organization. The power of the company depends upon the nature of (critical) resources that are held by the stakeholders (Ullmann 1985). Further these stakeholders were divided, according to their importance, into primary (comprise group of people without their continuing cooperation a company can't survive) and secondary group of stakeholders (group of people who does not make any transaction with the company and survival of the company does not depend upon them) (Polonsky 1995). In this case primary stakeholders have more power as compared to secondary stakeholders. Companies can disclose social and environmental responsibility information to meet the expectations of powerful stakeholders and to show their accountability to them (Gray, Owen, & Adams, 1996). Different stakeholders have different expectations from the company. In this conflicting situation the manager following managerial branch of stakeholder theory would take into account powerful stakeholders' interest (Deegan and Jeffry 2006) while disclosing their social and environmental information. Thus under managerial branch of stakeholder theory, social and environmental performance information is disclosed to comply with the expectations of powerful stakeholders (e.g. government, international buyers, and shareholders etc.) rather than all the stakeholders of the firm.

Institutional Theory

Institutional theory provides explanation for the adaptation of particular organizational practices/forms within a specific organizational field (Deegan 2009). Institutional theory has two dimensions isomorphism and decoupling, which explains the adoption of voluntary type of social and environmental disclosure (Deegan and Jeffry 2006; Deegan 2009). These dimensions are explained below. DiMaggio and Walter (1983) defined isomorphism as: "a constraining process that forces one unit of population to resemble other units that face the same set of environmental conditions". Dillard, John et al. (2004) defined it as: "Isomorphism refers to the adaptation of an institutional practice by an organization". Thus isomorphism refers to the process (DiMaggio and Powell 1983) by which the firms adapt institutional practices (e.g. CSED) of other organizations (Dillard, John et al. 2004). Deegan (2009) further explained that the reporting of social and environmental information by a particular organization is an institutional practice, and the way by which social and environmental reporting practice is adapted and brings the change in the organization is called Isomorphism process.

This isomorphism process is influenced by various stakeholders' pressures, institutional pressures, and professionals' own willingness (Deegan 2009). Isomorphism has three types: coercive, mimetic, and normative isomorphism (DiMaggio and Walter 1983). "Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Such pressures may be felt as force, as persuasive, or as invitation to join in collusion" (DiMaggio and Walter 1983). In coercive isomorphism, power of stakeholders play a significant role that forces/persuades the firm to adopt certain institutional practices (e.g. CSED) to look similar to others firms operating in the same institutional environment. Coercive pressure comes from different sources such as: political rules and regulations (law) and the public at large, which force the particular firm to join certain collusion (Amran and Susela 2008). Mimetic isomorphism refers to the companies' willingness to copy or imitate the organizational practices (e.g. CSED) of other organizations (DiMaggio and Walter 1983). Mimetic isomorphism arises due to uncertain situation within the environment where an organization could not find any reference or guidelines to operate then a firm tries to become model for others organizations (DiMaggio and Powell 1983). It is a convenient source for the followers (companies) to follow the model organization but the problem with this approach is that the model organization is not fully aware of its consequences (Amran and Susela 2008). Other companies try to copy the best reporting practices of the model organization in order to look similar to other organization operating in the same environment. Sometimes companies have to meet the industry standards and norms. Deegan (2009) argues that the firm's adoption of good (e.g. CSED) practices in an industry will shape the societal expectation. Thus society will demand the same responsible behavior (adoption of CSED) from rest of the companies operating in the same industry. If the remaining companies do not follow the desired standards and institutional practices, may be considered slightly riskier. It is not the case that companies always copy the practices of other companies, some times companies voluntary adopt best practices and set the standards for other firms operating in the same industry (Deegan 2009).

Normative isomorphism comes from professionalism, which refers to the professionals' expectation to comply with some standards and to adopt institutional practices (e.g. CSED) (DiMaggio and Walter 1983). There are two important sources: education and professional networks that create normative pressure for the professionals (Amran and Susela 2008). In this type of isomorphism cultural and ethical values play their role to influence the expectations of the professionals (Deegan 2009), who will ultimately adopt the institutional practices (e.g. CSED). It is really difficult to distinguish between three types of isomorphism pressures exerted on the firm to adopt certain institutional practice to become similar to other firms operating in the same environment. As it has already discussed that isomorphism has three types: coercive, mimetic, and normative isomorphism (DiMaggio and Walter 1983) and these types are not mutually exclusive (Deegan and Jeffry 2006; Deegan 2009). These pressures come from different stakeholders (Deegan 2009) and it is really difficult to categorize particular stakeholders into one group. This problem was resolved by Solomon and Linda (2002); they conducted study in UK to know the motivations and hurdles for companies' environmental disclosure, in which authors divided the respondent into three groups: normative, interest, and company. Normative group included those parties who do use the environmental disclosure but they express the views of the users (Solomon and Linda 2002). Normative group includes academics, environmental consultants, industry associations, trade associations, government organizations, and professional organizations while interest group included those parties who used the companies' environmental disclosure (Solomon and Linda 2002). Interest group included the pressure (environmental) groups, financial advisors, banks, researchers, political and profession institutions, institutional investors, and the media (Solomon and Linda 2002). Company group included companies which publish environmental information (Solomon and Linda 2002). Thus this criterion can be used to categorize various factors into groups, which can create normative, coercive and mimetic pressure.

Factors Influencing the CSED

This section discusses various influential factors influencing/ motivating the developing market companies to involve in CSR activities and their reporting. Solomon and Linda (2002) explored reasons/hurdles for companies' social disclosure and divided the respondents into three groups: normative, interest, and company groups.

Normative Group

Normative group includes those parties who do not use the environmental disclosure but only express the views of the users Solomon and Linda (2002). The normative group includes company itself, NGO, and CSR Networks and Frameworks.

Company Characteristics

There are numerous studies which showed that company characteristics such as: company size (Singh and Jag 1983; Imam 2000; Haniffa and Cooke 2002; Thompson and Zarina 2004; Achda 2006; Zulkifi and Azlan 2006; Mohd. and Nazli 2007), sensitivity of industry (Haniffa and Cooke 2002; Thompson and Zarina 2004; Mohd. and Nazli 2007), profitability (Haniffa and Cooke 2002; Thompson and Zarina 2004; Rettab, Anis et al. 2009; Rahul 2010; Sangle 2010), and corporate governance structure (Haniffa and Cooke 2002; Haniffa and Cooke 2005; Mohd. and Nazli 2007) influenced CSED practices in the developing countries. Apart from the above company characteristics company rules and practices also influence CSED (Imam 2000).

CSR Frameworks and Networks

There are numerous CSR forums and networks such as: Asian Forum on Corporate Social Responsibility , ICR Malaysia , CRO (Chief Responsibility Officer) Forum China , Bursa a Malaysian CSR framework (Lu and Pavel 2009), CSR Pakistan and Pakistan Centre for Philanthropy (PCP) operating in the emerging markets. The purpose of these networks is to coordinate activities of the government, the society, and the companies to address CSR challenges (social and environmental issues) in order to benefit the whole society.

CSR awards are also being taking place in the emerging markets, as Malaysian Government firstly launched Prime Minister's CSR Award in 2007 than in March 2010 to promote the responsible business practices (CSR MalaysiaTM, 2010) and the 'StarBiz-ICR Malaysia Corporate Responsibility Awards' was launched in January 2008 and 2010 to encourage the Malaysian companies to increase the standards of business practices and to benefit the various stakeholders (StarBizICR 2010; StarBizICR 2010). Thus introduction of CSR awards and prizes can be considered CSED motivational factors for the developing countries companies.

NGOs

NGOs are another group of powerful stakeholders of the firm which may influence the developing markets companies to disclose CSR information. Various authors (say Dogar 2000; Hussain-Khaliq 2004; Islam and Deegan 2008) have discussed the role played by NGOs in influencing companies' activities.

INTEREST GROUP

Interest group includes those parties who used the companies' environmental disclosure (Solomon and Linda 2002). Interest group includes Government, media, institutional investors, employees, and customers.

Government

Government, a powerful stakeholder of the firm forced companies to disclose CSR information in the developing countries (Tsang 1998; Amran and Susela 2008; Islam and Craig 2008). Studies conducted in Malaysian perspective found that government has significant influence on the CSR disclosure (Zulkifi and Azlan 2006; Amran and Susela 2008; Lu and Pavel 2009). Similarly, due to governmental pressure, employees' disclosures in the firms' annual reports have increased (Tsang 1998). The above evidence shows that government may influence CSED in the developing markets.

Investors

Institutional investors have greatly influenced the CSR disclosure of companies operating in the developing markets. Malaysian companies CSR disclosure positively influenced by the institutional investors' response (Ziaul-Hoq., Mohammad et al. 2010). Firm's ownership structure influenced companies' CSR disclosure as a study was conducted in Malaysia, in which owner managed firms disclosed less CSR information than Government owned firms (Mohd. and Nazli 2007). Lenders and investors also influenced CSR disclosure in India (Sangle 2010). Moreover, there was found significant relationship between CSR disclosure and foreign shareholders in Malaysia (Haniffa and Cooke 2005). (Haniffa and Cooke 2002) also found positive relationship between foreign investors and Malaysian companies CSR disclosure.

Employees' Characteristics

An ethical standpoint of the employees, their personal characteristics, and their traditional believes have played vital role in the adoption of CSR practices. Personal attributes and characteristics of employees (Ahmad 2006; Keinert 2008; Md & Ibrahim, 2002), family upbringing, traditional beliefs, customs (Ahmad, 2006; Md & Ibrahim, 2002), and managerial attitude to protect the environment (Sangle 2010) are some drivers of CSR. Personal attributes and characteristics include sex, race, minority, religious background, marital status, career stage, ethical education, or decisions maker's willing to engage in CSR (Keinert 2008). In addition, religious factor is one of biggest factors which motivate the companies to engage in CSR (Haniffa and Cooke 2002; Ahmad

2006; Zulkifi and Azlan 2006). The gap exist between what CSR is promoted and what CSR is understood (Dobers and Delyse 2010). In Malaysian, accounting professionals perceive CSR a good but impractical idea which created hurdle for CSR reporting (Zulkifi and Azlan 2006). Education is the only alternative to enhance social and environmental awareness and bridge this gap (Zulkifi and Azlan 2006). There is a need to educate the accountants because accountants are limited to reporting social and environmental information and they are not directly involved in CSR activities (Adams 2002).

International Customers

International customers are the firm's powerful stakeholders, who have significant influence on the firm's CSR and CSED practice in the developing countries such as: Pakistan (Hussain-Khaliq 2004; Ahmad 2006; Lund-Thomsen 2009; Lund-Thomsen and Khalid 2009), Bangladesh (Islam and Craig 2008), and India (Sangle 2010). A study was conducted to explore motivations for CSED in Bangladeshi textile industry involved in exports found that international buyers (NIKE, H&M, Reebok, etc.) are of great concern for the BGMEA's annual reports and social responsibility programs (Islam and Craig 2008).

Media

Media another powerful stakeholder of the firm greatly influenced the developing markets companies to disclose CSR information (Ahmad 2006; Islam and Craig 2008; Sangle 2010).

Company Group

The company group includes those parties which actually disclose CSR information (Solomon and Linda 2002). This group includes multinationals and competitors adopting CSED practices.

Multinational Companies

Multinationals are observed by the broad stakeholders and these companies try to comply with the international norms and standards (Amran and Susela 2008) and these practices are then transferred to the companies operating in the local (developing) territory (Amran and Susela 2008). These subsidiaries companies disclosing CSR information in the developing companies can be considered motivational factor for the other companies operating in the same environment.

Industry and Competitors Practices

Deegan and Jeffry (2006) and Deegan (2009) said that if some companies in the industry are disclosing CSR information, then other companies operating in the same industry would disclose information about their CSR activities in order to look similar to other companies. Moreover, competitors' pressure forced the Indian firms to disclose CSR information (Sangle 2010).

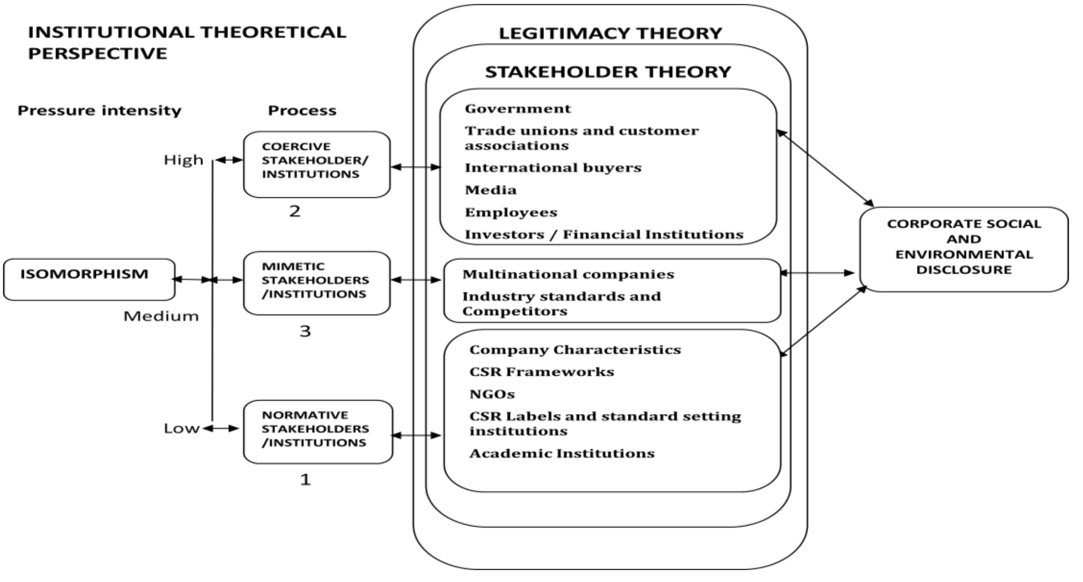
Theoretical Explanation for CSED

It is really difficult task to explain CSED practices by using single theoretical framework (Gray, Reza et al. 1995a). It was discussed in the introduction section that various researchers used different theories such as: political economy theory (Haider 2010), legitimacy theory (Haniffa and Cooke 2002; Thompson and Zarina 2004), and combination of legitimacy, stakeholder, and institutional theory (Islam and Craig 2008) to explain the CSED practices in the developing countries. However, the researcher is focusing on widely used theories: legitimacy, stakeholder, and institutional theory here.

To us institution theory is more sophisticated theory as compared to legitimacy theory and stakeholder theory to explain companies' social and environmental reporting practices. According to legitimacy theory the company has social contract with the whole society (Shocker and Sethi 1974). The purpose of this theory is to align companies' practices with the expectations of the society as a whole. Previous disclosure studies showed numerous groups such as: government, trade unions, customers' associations, international buyers, media, employees, investors, multinationals, competitors, NGOs, CSR frameworks, and academics are influencing CSED practices in the developing countries companies. But the problem with this theory is that it fails to incorporate the expectations of the groups within society. This problem was addressed by stakeholder theory.

Stakeholder theory considers expectations of different groups, called stakeholders of the firm, within the society. Thus the expectations of the society are represented by the expectations of these stakeholders. Stakeholder theory has two branches: normative and managerial branch. The normative branch of stakeholder theory ask the companies to meet the expectations of all the stakeholders (represent the whole society) without taking into account the power element of each stakeholder. In this case, different stakeholders such as: government, trade unions, customer associations, international buyers, media, employees, investors, multinationals, competitors, NGOs, CSR frameworks, and academics should be equally treated by the firm while disclosing their social contribution information. Practically, it is impossible to meet the expectations of all the stakeholders because stakeholders differ in their demand and power to influence the companies.

This problem is resolved by the managerial branch of stakeholder theory, which takes into account the stakeholder's power to influence the company and their demand for information, while disclosing their social contribution information. In this case, companies would try to meet the expectations of the critical stakeholders because the survival of the company depends upon its critical stakeholders. Thus the company would disclose that information which is demanded by its critical stakeholders. However, managerial branch of stakeholder theory fails to incorporate various institutions such as: culture, CSR promoting bodies, and educational bodies etc. influence on CSED practices. These institutions' influence is covered by the institutional theory, which states that institutional practices (e.g. CSED) are adopted by the firm due to different institutions' coercive, mimetic and normative pressures. The following model better helps us to understand that institutional theory is a broader theory.



Institutional theory best explains these types of pressures created by numerous stakeholders. Institutional theory has two branches: isomorphism and decoupling (Deegan and Jeffry 2006; Deegan 2009). CSED is an institutional practice, and the process by which the firm adapt institutional practices to look similar to other firms operating in the same field (all the developing countries) is called isomorphism process (DiMaggio and Walter 1983). The adoption of CSED practice by the developing countries' companies is influenced by numerous stakeholders such as: Government, trade unions, customers associations, international buyers, media, employees, investors, multinational companies, competitors, CSR frameworks & networks, NGOs, CSR standard setting institutions, and academic institutions. These stakeholders vary in their power (Ullmann 1985) and influence the companies accordingly. Institutional theory categorized these stakeholders according to their power into three groups: coercive (Government, trade unions, customers associations, international buyers, media, employees, and investors), mimetic (multinational companies, competitors), and normative groups (CSR frameworks & networks, NGOs, CSR standard setting institutions, and academic institutions). In this research project normative group of stakeholders placed normative pressure on the developing countries companies to disclose CSR information. These stakeholders only guide the developing market firms about social and environmental issues and their reporting. But these stakeholders can't economically hurt the firms. However, it depends upon the firm's own willingness to meet the expectations of these normative stakeholders. On the other side stakeholders such as: government, institutional investors, employees, international customers, and media may exert coercive pressure on the developing market firms to adopt CSED practice. If the developing countries companies will not meet their expectations, these stakeholders could economically hurt the firms. However, some stakeholders such as: multinationals and competitors created mimetic pressure for the developing market firms to disclose CSR information. The firm operating in the developing countries can experience different types of pressures. Severe the pressure from the stakeholders, more likely the firm would disclose CSR information. As export oriented firms in the developing countries disclosed more information (Hussain-Khaliq 2004; Ahmad 2006; Islam and Craig 2008) because these firms experienced coercive pressure from international buyers and trade associations. In general, at the start, the developing market firms experience normative pressures. With the passage of time, this pressure becomes coercive pressure. Then the companies operating in the developing market would experience both normative and coercive pressure. When some companies started reporting about their social and environmental contribution, then remaining companies would experience three types of pressures: normative pressures from CSR frameworks, NGOs, academics, and other standard setting institutions; coercive pressure from international buyers, trade associations, media, and government; and finally mimetic pressure from multinationals and competitors operating in the same territory. The next section discusses that how this proposed research framework has explained the adoption of CSR practices in the developing countries companies evidence from Pakistan and Bangladesh.

A Case of Soccer Ball Industry of Pakistan

A soccer ball industry in Sialkot is an export oriented industry of Pakistan. It had great importance to Pakistan because it was contributing about 75% to world's soccer ball production and was contributing 3.3% to national exports and was providing 30,000 jobs in 2002 (Hussain-Khaliq 2004). There are organizations such as UNICEF and ILO, which are fighting for the children rights and labors' rights respectively. It was the ethical responsibility of the company to compliance with the expectations of its stakeholders (ILO and UNICEF). According to ILO-IPEC and labor force survey of Pakistan, there was existence of child labor in the soccer ball industry of Pakistan (Dogar 2000).

Later child labor issue was highlighted by the media (powerful stakeholder) in 1995, it created immense pressure for the soccer ball manufacturers, SCCI , FIFA , and WFSGI to eliminate the child labor from the soccer ball industry of Pakistan (Dogar 2000). It also activated the ILO and UNICEF to play their role to save the rights of the children (Dogar 2000). The stakeholders forced the soccer ball industry of Pakistan to ensure child labor free industry of Pakistan. In response, the soccer ball industry of Pakistan started a workplace monitoring program with the help to SCCI and ILO to remove the child labor from the industry and sent those children into schools. Initially big soccer ball manufacturers joined the workplace monitoring program (Dogar 2000). SAGA Sports, a big company dealing with sports goods had taken vital steps to remove child labor and improve the quality of life of workers and the local community (Hussain-Khaliq 2004). SAGA sports developed its own stitching units near company site and are controlled by the firm (Hussain-Khaliq 2004). Moreover SAGA sports launched several health safety and AIDS awareness programs (Hussain-Khaliq 2004). They also developed proper system to ensure child labor free company (Hussain-Khaliq 2004). Due to its numerous initiatives, NIKE declared SAGA Sports a model company and SAGA Sports received numerous other rewards (Hussain-Khaliq 2004). With the passage of time small soccer ball manufactures joined the workplace monitoring program to ensure child labor free company (Dogar 2000). The soccer ball industry of Pakistan also started providing information about control of child labor to meet powerful stakeholders' demands (Dogar 2000). In the beginning, all the Pakistani sports companies were experiencing normative pressures from ILO, UNICEF, academia, and other standard setting institutions. Soon after media publication all the companies operating in the sports industry experienced coercive pressure of cancelation of imports orders from powerful stakeholders (e.g. international buyers) and threat to reputation from stakeholders (e.g. SCCI, FIFA, WFSGI, Media etc.). In this uncertain situation, SAGA Sports took vital steps to remove child labor and set the model for other companies operating in the same industry. Then other companies operating in the same industry faced three types of pressures: normative pressure from UNICEF, ILO, academicians, and standard setting institutions; coercive pressure from other powerful stakeholders (e.g. SCCI, FIFA, WFSGI, and international buyers); and mimetic pressure from the SAGA sports and other competitors. Thus there was clear pattern among the various pressures. Firstly pressure was created by normative group of stakeholders (e.g. ILO, UNICEF), then coercive group (e.g. media, ILO, UNICEF, FIFA, SCCI, international buyers), and finally mimetic group (e.g. big companies, competitors) to adopt certain institutional practices (e.g. workplace monitoring program).

A Case of Textile Industry of Bangladesh

A second case has been presented from textile industry of Bangladesh, a developing country. Bangladesh textile industry has great importance because it contributes about 76% to national exports and provides 2.2 million jobs (Islam and Deegan 2008). UNICEF, ILO, and academicians were already raising issues of child labor and labors rights. These organizations and academics were encouraging/educating the companies to protect the children and labors rights. Numerous issues such as: use of child labor, violation of human rights, miserable working conditions, and lack of health and safety measures were highlighted in the Bangladesh textile industry by international media and NGO. Then media and NGOs activated other stakeholders (particularly international buyers, trade associations, WTO , UNCTD , and BGMEA) (Islam and Deegan 2008), which created immense pressure for the Bangladesh textile industry to address labor related issues. In repose, textile exporters removed child labor and started disclosing social performance to meet the powerful stakeholders' expectations (Islam and Deegan 2008). In this example academic researchers, UNICEF, ILO, NGOs, academics, and standard setting institutions exerted normative pressure, while organizations such as: International buyers (e.g. NIKE, Reebok, Wal-Mart, H&M, Nike, etc.), WTO, media, and BGMEA created coercive pressure for Bangladeshi textile exporters to remove child labor. Initially big export oriented companies addressed labor related issues. Then remaining export oriented companies started addressing labor related issues and started disclosing information about their CSR activities experienced normative pressure (from academic researchers, UNICEF, ILO, NGOs, and standard setting institutions), coercive pressure (from international buyers (NIKE, Reebok, Wal-Mart, H&M, Nike, etc.), WTO, media, and BGMEA), and mimetic pressures (from big export oriented companies). Thus there is a clear pattern among the pressures, which starts with normative pressure then coercive pressure and finally becomes mimetic pressure. The disclosure of social information is used as a strategy to handle multiple pressures by meeting the expectations of particular stakeholders (Islam and Deegan 2008).

CONCLUSION

This study contributes to both the theory of CSED and literature on CSED in the developing countries. The researcher argued here that institutional theory is more sophisticated theory than other theories: legitimacy and stakeholder theory to explain CSED practices in the developing countries. The researcher argued here that companies are exposed to different institutions at the same time and these institutions can exert normative, coercive pressure, and mimetic pressure on the firm to adopt particular practice (i.e. CSED) in the institutional context. More the intensity of institutional pressure, the more quickly the particular practice (i.e. CSED) will be adopted by the firm to look similar to other firms operating in the institutional environment. It should be clear here that to choose particular theoretical framework to explain the CSED practices depends upon the understanding of the researcher (Deegan and Jeffry 2006). Moreover, future research can use this theoretical framework to test it empirically.

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