



CSR as A governance Mechanism: Evidence from emerging economies

Ankita Garg

Assistant Professor, Department of Management, MERI College of Engineering and Technology, Haryana, India

Abstract

Corporate social responsibility (CSR) has evolved from a philanthropic add-on into a core component of corporate governance, especially in emerging economies where institutional gaps and stakeholder pressures differ markedly from developed markets. This paper presents a systematic literature review of how CSR functions as a governance mechanism in emerging economies. Synthesizing theoretical perspectives (stakeholder theory, agency theory, resource dependence) and empirical studies, the review finds that CSR enhances accountability, mitigates agency problems, strengthens stakeholder relations, and can improve firm reputation and access to resources. However, effectiveness varies by institutional quality, regulatory enforcement, and firm motives—whether symbolic or strategic. The review identifies measurement challenges and research gaps, and offers practical implications for policymakers and managers seeking to embed CSR within governance frameworks.

Keywords: Corporate social responsibility, corporate governance, emerging economies, stakeholder engagement, institutional context

Introduction

Corporate social responsibility (CSR) has evolved from being regarded as an optional philanthropic activity to a critical component of corporate governance frameworks worldwide. Traditional corporate governance primarily focused on aligning managerial actions with shareholder interests through mechanisms such as board oversight, executive compensation, and legal compliance, which aimed to minimize agency conflicts (Shleifer & Vishny, 1997). However, contemporary governance approaches have expanded to consider the expectations of multiple stakeholders—employees, consumers, local communities, regulators, and investors—thereby shifting from a shareholder-centric to a stakeholder-oriented model (Freeman, 1984) [7]. This paradigm shift reflects a growing recognition that long-term firm performance is not solely a function of financial metrics but also of social legitimacy, environmental stewardship, and ethical conduct.

This shift is particularly significant in emerging economies, where formal governance institutions may be underdeveloped, regulatory enforcement weaker, and stakeholder expectations rapidly changing due to globalization and socio-economic transformation (Visser, 2008) [20]. In such contexts, CSR serves not only as a voluntary corporate practice but as an informal governance mechanism that helps firms bridge institutional voids, improve transparency, and enhance legitimacy (Jamali & Mirshak, 2007) [11]. This is especially relevant where traditional enforcement mechanisms—such as shareholder litigation, independent boards, or robust regulatory oversight—may not function effectively, leaving a gap that CSR initiatives can partially fill.

CSR initiatives—such as sustainability reporting, community development programs, responsible supply chain management, and environmental protection—contribute to governance by encouraging firms to adopt higher levels of disclosure, engage stakeholders systematically, and signal long-term commitment to ethical business practices (Aguinis & Glavas, 2012) [3]. This self-

regulatory function of CSR becomes particularly valuable when legal systems are less effective at enforcing accountability and protecting stakeholders' rights. Moreover, CSR offers a platform for firms to internalize externalities and manage complex stakeholder relationships, thereby contributing to the creation of a more resilient and trustworthy business ecosystem.

Beyond its governance implications, CSR plays a critical role in risk management and strategic positioning. Firms that engage in CSR are better prepared to anticipate regulatory changes, manage reputational crises, and maintain their social license to operate, which is vital for business continuity in volatile emerging markets (Ioannou & Serafeim, 2012) [8]. Proactive CSR can also enhance resource access, including attracting investment, skilled employees, and customer loyalty, thereby aligning with resource dependence theory (Pfeffer & Salancik, 1978) [17]. In this sense, CSR becomes not merely a cost but a strategic investment that can yield competitive advantage and long-term value creation.

Importantly, CSR in emerging markets is not a uniform phenomenon. The motivations driving CSR engagement may range from instrumental—pursuing profit and reputation—to normative—pursuing ethical obligations and sustainability goals (Basu & Palazzo, 2008) [4]. Understanding this spectrum is essential for assessing CSR's role as a governance mechanism, as symbolic or purely philanthropic CSR may not deliver substantive governance outcomes. The challenge, therefore, lies in distinguishing between “window-dressing” CSR and genuine governance-enhancing CSR that leads to improved accountability, stakeholder protection, and sustainable business practices.

This paper systematically reviews the literature on CSR as a governance mechanism with a focus on evidence from emerging economies. By synthesizing theoretical and empirical findings, it clarifies the conditions under which CSR enhances governance effectiveness and explores its potential as a tool for achieving long-term sustainability and

stakeholder trust. Furthermore, the paper highlights key research gaps, including the need to examine cross-country variations in CSR governance effectiveness, the interplay between formal regulation and voluntary CSR, and the evolving expectations of stakeholders in rapidly globalizing markets.

Literature review

The literature suggests three principal pathways through which CSR may operate as a governance mechanism. First, CSR functions as a stakeholder engagement tool that aligns firm behavior with societal expectations, thereby reducing social and political risks and legitimizing firm operations (Freeman, 1984^[7]; Aguilera, Rupp, Williams, & Ganapathi, 2007)^[2]. This perspective is consistent with stakeholder theory, which posits that firms are embedded within a network of relationships whose stability affects firm performance. Empirical studies in emerging economies show that firms with proactive CSR practices often experience fewer regulatory interventions and better relations with local communities, which in turn create more stable operating environments (Chapple & Moon, 2005^[5]; Jamali, 2008)^[9]. Recent scholarship also emphasizes that stakeholder engagement through CSR is not merely reactive but can be anticipatory, enabling firms to shape policy discourse and preempt reputational crises (Morsing & Schultz, 2006). This has particular relevance in emerging markets, where regulatory frameworks are evolving, and informal stakeholder pressures—such as NGO campaigns, community mobilization, or social media activism—play an increasing role in shaping corporate behavior.

Second, CSR can mitigate agency problems by increasing transparency and accountability. Firms that disclose CSR activities frequently adopt more rigorous reporting and monitoring practices that reduce information asymmetry between managers and external stakeholders (Aguinis & Glavas, 2012)^[3]. This aligns with agency theory, which suggests that greater disclosure disciplines managerial discretion and aligns it with shareholder interests. Evidence from Bangladesh and other developing markets indicates that better CSR disclosure correlates with improved perceptions of board effectiveness and investor confidence (Khan, Muttakin, & Siddiqui, 2013)^[12]. More recent studies link CSR disclosure with improved credit ratings and lower cost of capital, implying that governance-oriented CSR signals credibility not only to shareholders but also to creditors and other external monitors (Dhaliwal *et al.*, 2011)^[6]. In this sense, CSR reporting acts as a quasi-regulatory mechanism that complements weak formal enforcement in many emerging markets.

Third, CSR can be a resource-acquisition strategy in line with resource dependence theory: firms use CSR to build reputation capital, attract talented employees, and access preferential financing or customer segments that value ethical practices (Pfeffer & Salancik, 1978^[17]; Luo & Bhattacharya, 2006)^[13]. CSR initiatives can thus enhance firms' competitive positioning by generating trust-based relationships that translate into tangible resources. In several emerging markets, multinational enterprises and leading domestic firms leverage CSR to differentiate themselves in crowded markets and to meet evolving consumer expectations (Wells, Farley, & Armstrong, 2007). Furthermore, firms with robust CSR profiles often enjoy preferential treatment in government procurement and

supply chain partnerships, indicating that CSR can function as a strategic asset that opens institutional doors (Visser, 2008)^[20].

However, the literature also highlights important caveats. Not all CSR is strategic; much may be symbolic—public relations aimed at masking poor governance practices (Underwood & Klein, 2002)^[19]. This distinction between substantive and symbolic CSR is crucial for understanding its governance impact. The institutional context is pivotal: where enforcement is strong and stakeholder activism is high, CSR tends to be substantive and linked to governance improvement; where institutions are weak, CSR can be ceremonial and have limited governance impact (Matten & Moon, 2008^[16]; Adegbite, 2015)^[1]. In fact, some studies warn of “greenwashing” and “bluewashing” in emerging markets, where firms adopt the language of sustainability while continuing harmful practices (Lyon & Montgomery, 2015)^[14]. Moreover, the effect of CSR on governance outcomes is not always linear: excessively instrumental CSR may crowd out intrinsic ethical commitments, leading to skepticism among stakeholders (Margolis & Walsh, 2003)^[15].

Overall, the literature converges on the view that CSR can serve as a meaningful governance mechanism, but its effectiveness is highly contingent on institutional quality, stakeholder salience, and managerial intent. Future work increasingly calls for integrating macro-level institutional theory with firm-level governance research to better capture how CSR interacts with formal and informal institutions across different socio-economic contexts (Jamali & Karam, 2018)^[10].

Novelty of the study

This review contributes to the governance literature by explicitly focusing on CSR's role in emerging economies and synthesizing evidence across governance, strategic management, and institutional studies. Unlike reviews that treat CSR and governance as separate domains, this paper integrates theoretical lenses and empirical findings to clarify the conditions under which CSR serves as an effective governance mechanism in contexts characterized by institutional heterogeneity.

Research methodology

A systematic search of Scopus, Web of Science, and Google Scholar was conducted for peer-reviewed articles published between 2000 and 2023 using keywords such as “CSR,” “corporate governance,” “emerging economies,” “stakeholder,” and “disclosure.” After screening titles and abstracts for relevance and removing duplicates, 60 articles were examined in full; the most relevant empirical and review articles (n = 15) were selected for focused synthesis to provide depth while maintaining manageability for this concise review. Thematic analysis identified recurring governance mechanisms, contextual moderators (e.g., regulatory strength, ownership structure), and outcomes such as transparency, risk mitigation, and firm performance.

Measurement

Studies reviewed operationalize CSR and governance using diverse measures. CSR is typically measured via CSR disclosure indices, sustainability reports, third-party CSR ratings, or binary indicators of CSR program adoption. Governance outcomes include measures of board independence, disclosure quality, incidence of regulatory

sanctions, reputation indices, and financial metrics such as Tobin’s Q or return on assets (Ioannou & Serafeim, 2012^[8]; Khan *et al.*, 2013)^[12]. Qualitative studies supplement these

with interviews and case narratives that illuminate motives and stakeholder perceptions. Table 1 summarizes representative studies and their measures.

Table 1: Representative studies and measures (selected)

Study	Context	CSR Measure	Governance/Outcome Measured
Khan <i>et al.</i> (2013) ^[12]	Bangladesh	CSR disclosure index	Investor confidence, disclosure quality
Jamali (2008) ^[9]	Middle East	CSR programs; interviews	Community relations, legitimacy
Ioannou & Serafeim (2012) ^[8]	International (incl. emerging)	CSR ratings	Long-term performance, disclosure
Prakash & Pathak (2017) ^[18]	India	Eco-certifications	Consumer trust, willingness to pay
Adegbite (2015) ^[11]	Nigeria	Regulatory compliance, CSR initiatives	Enforcement, stakeholder relations

Results

Across studies, CSR demonstrates multiple governance-related benefits in emerging economies, though the magnitude and consistency of these effects vary depending on context, industry, and institutional environment. One of the most frequently observed outcomes is the improvement of transparency and accountability through CSR disclosure. Firms that adopt structured CSR reporting frameworks—such as GRI (Global Reporting Initiative) standards—tend to experience reduced information asymmetry and improved investor confidence (Khan *et al.*, 2013^[12]; Ioannou & Serafeim, 2012)^[8]. These disclosures serve as informal monitoring mechanisms that complement weak legal enforcement, functioning as quasi-regulatory instruments in markets where shareholder protection is limited.

CSR initiatives also play a vital role in strengthening stakeholder relations. Evidence shows that companies engaged in community development projects—such as education programs, healthcare initiatives, or local infrastructure development—face fewer protests, litigation cases, and regulatory disruptions (Jamali & Mirshak, 2007)^[11]. This reduction in conflict enhances operational continuity, providing firms with a stable social license to operate. In some sectors, proactive CSR engagement has been found to reduce compliance-related penalties and

expedite approvals for expansion projects, further strengthening governance outcomes.

Financial performance outcomes also feature prominently in the literature. CSR is positively associated with improved firm valuation, partly mediated through enhanced reputation and brand loyalty (Luo & Bhattacharya, 2006)^[13]. Firms recognized for sustainability leadership often report higher employee morale and retention, suggesting that CSR may also function as an internal governance mechanism by aligning employee behavior with organizational values. Nevertheless, these benefits are not universal. Studies caution that symbolic or superficial CSR—often referred to as “window-dressing”—has little to no governance impact and can backfire by eroding stakeholder trust when stakeholders perceive inconsistencies between CSR claims and actual practices (Aguinis & Glavas, 2012)^[3].

Importantly, institutional context moderates CSR’s governance effects. In countries with stronger enforcement mechanisms and active civil society participation, CSR tends to be more substantive and integrated into corporate strategy. Conversely, in weaker institutional settings, CSR can be ceremonial or philanthropic in nature, producing limited governance outcomes. This indicates that the governance potential of CSR is maximized when it is strategically aligned, transparent, and responsive to stakeholder needs.

Governance Dimension	CSR Impact Observed	Supporting Studies
Transparency & Accountability	Reduced information asymmetry; stronger board credibility	Khan <i>et al.</i> (2013) ^[12] ; Ioannou & Serafeim (2012) ^[8]
Stakeholder Relations	Fewer disputes, better community trust, smoother operations	Jamali & Mirshak (2007) ^[11]
Investor Confidence	Improved market perception, lower cost of capital	Ioannou & Serafeim (2012) ^[8]
Operational Stability	Reduced regulatory risk, improved license to operate	Jamali (2008) ^[9]
Reputation & Brand Loyalty	Stronger differentiation, enhanced market share	Luo & Bhattacharya (2006) ^[13]

Key Moderators	Effect on Governance Outcomes
CSR–Strategy Alignment	Strengthens link to financial performance
Authenticity & Depth	Determines stakeholder trust and legitimacy
Institutional Strength	Influences whether CSR is substantive or symbolic

Overall, the results suggest that CSR has the potential to act as an effective governance mechanism, particularly in emerging markets where formal structures are underdeveloped. Its effectiveness depends on depth, authenticity, and integration into corporate strategy. Firms that view CSR as a long-term investment rather than a short-term reputational tool are more likely to realize governance and performance benefits, reinforcing CSR’s role as both a compliance substitute and a strategic enabler.

Discussion

The reviewed literature strongly supports the proposition that CSR can act as an informal governance mechanism in emerging economies by enhancing accountability, strengthening stakeholder dialogue, and building social

legitimacy. However, its governance efficacy remains highly contingent on contextual and firm-specific factors.

First, institutional strength is a critical moderator of CSR outcomes. In settings where legal systems, regulatory oversight, and investor protections are robust, CSR often complements formal governance structures by enhancing transparency and fostering voluntary compliance. Conversely, in countries with weak enforcement and institutional voids, CSR may serve as a substitute mechanism—providing soft regulation that helps firms manage risks and maintain stakeholder trust (Jamali & Mirshak, 2007)^[11]. However, this substitutive role is a double-edged sword: weak institutions also create opportunities for symbolic CSR or “greenwashing,” where

firms adopt CSR rhetoric without substantive change (Matten & Moon, 2008^[16]; Lyon & Montgomery, 2015)^[15]. Second, ownership structure plays a decisive role in shaping CSR motivations and outcomes. Family-controlled or state-owned enterprises may adopt CSR primarily for legitimacy-seeking purposes, targeting activities that strengthen political or community ties. While this may enhance firm resilience, it risks turning CSR into a vehicle for private benefit or elite patronage rather than a tool for protecting diverse stakeholder interests (Adegbite, 2015)^[11].

Third, measurement and reporting quality critically influence CSR's governance impact. Transparent, verifiable CSR reporting reduces information asymmetry and allows external stakeholders—investors, analysts, regulators—to hold firms accountable (Khan *et al.*, 2013)^[12]. Low-quality, boilerplate disclosures, by contrast, undermine credibility and may even heighten stakeholder skepticism.

Overall, the discussion highlights that CSR's role as a governance mechanism is neither automatic nor uniformly positive. Its effectiveness depends on alignment with corporate strategy, authenticity of implementation, and the presence of enabling institutional and market pressures. Future research should examine how multi-stakeholder collaborations, global reporting standards, and digital transparency tools can strengthen the substantive impact of CSR in emerging markets.

Limitations

This review is limited by its selective focus on 15 in-depth studies within a much broader and rapidly growing body of CSR and corporate governance literature. While the selected studies offer rich insights, they may not fully capture the diversity of contexts, sectors, and methodological approaches represented in the global evidence base. A further concern is publication bias, as studies reporting positive or significant effects of CSR on governance outcomes are more likely to appear in peer-reviewed journals, potentially overestimating the strength of the relationship.

Additionally, there is substantial heterogeneity in CSR conceptualization and measurement across studies. CSR is operationalized in multiple ways—from philanthropic spending to ESG disclosure scores—while governance outcomes range from investor perceptions to firm valuation and stakeholder conflict frequency. This variation complicates direct comparison, limits generalizability, and constrains the possibility of conducting robust meta-analyses.

Methodologically, much of the reviewed evidence is cross-sectional or relies on self-reported survey data, which restricts causal inference. Few longitudinal or experimental studies exist that could establish temporal precedence between CSR initiatives and governance improvements. Moreover, contextual variables such as institutional quality, cultural norms, and ownership patterns are not consistently accounted for, even though they significantly moderate CSR's effectiveness.

Finally, the review is geographically skewed toward middle-income emerging economies with relatively developed capital markets, potentially underrepresenting low-income contexts where CSR practices and governance challenges may differ significantly. Future research should address these gaps through multi-country, longitudinal, and mixed-method designs to provide a more comprehensive picture.

Future implications

Future research should adopt longitudinal and panel-data designs to better capture the causal pathways between CSR initiatives and governance outcomes over time. This would allow scholars to move beyond cross-sectional correlations and explore whether CSR leads to sustained improvements in accountability, stakeholder protection, and firm performance. Incorporating quasi-experimental methods (e.g., difference-in-differences approaches around regulatory changes) could further strengthen causal inference and identify the conditions under which CSR is most effective.

Another key priority is the standardization of CSR measurement. Current studies employ diverse proxies—ranging from philanthropic expenditure to ESG ratings—which limits comparability and hinders meta-analytic synthesis. Developing harmonized indicators that account for both the quality and authenticity of CSR efforts would enable more robust cross-study conclusions. In addition, comparative cross-country research within emerging regions (e.g., South Asia, Sub-Saharan Africa, Latin America) could shed light on institutional moderators such as enforcement capacity, cultural norms, and stakeholder activism, thereby enriching theory-building and improving the external validity of findings.

For practitioners, embedding CSR more deeply within formal governance structures remains essential. Establishing board-level CSR or sustainability committees, adopting integrated reporting frameworks, and creating multi-stakeholder advisory panels can help align CSR activities with organizational strategy, reduce risks of symbolic adoption, and enhance stakeholder trust.

For policymakers and regulators, the focus should be on incentivizing substantive CSR disclosure—for instance, by linking tax incentives or procurement preferences to verified sustainability performance—and by supporting independent stakeholder monitoring mechanisms that hold firms accountable for social and environmental commitments. This could create a virtuous cycle where CSR strengthens governance, which in turn reinforces market and societal confidence in corporate behavior.

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