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Corporate Social Responsibility: Should it be Legislated or Value-Driven?

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Corporate Social Responsibility (CSR) has become a popular global term that many governments worldwide seek to use as motivation amongst business communities for society's well-being. The scope of this conceptual paper is to evaluate the ins and outs of voluntary versus mandated approaches for practising CSR through discussing the relevant literature. The authors aim to utilise the evaluation to propose effective strategies that employ key advantages of both approaches to lead to mutually targeted CSR objectives. The conceptual discussion resulted in three main propositions which are expected to sustain the effectiveness of CSR policies. The first proposition reveals the government's role in providing proper guidance and support needed by companies to conveniently practise CSR even before activating any mandated regulations . The second proposition includes adopting a mix of voluntary policy measures and complementary regulations to enhance companies' abilities to better address social problems and create social impact. Finally, the main proposition consists of maintaining strategic collaborations between governments, companies, and other partners or stakeholders in the CSR arena to jointly develop effective measures for sustainable improvements.

Key words: *Corporate Environmental Responsibility, Corporate Social Responsibility, Organisational Slack, Stakeholders, Value-driven.*

Introduction

Corporate social responsibility (CSR) is a self-regulating broad concept employed as a business model that helps a company or an industry be socially accountable to itself, its stakeholders and the public. Through CSR programs, businesses can benefit society while boosting their own image. CSR aims to ensure that companies conduct their business in an ethical way. This results in taking account of their social, economic and environmental impact, and consideration of human rights. It can also involve a range of activities such as working in partnership with local communities. Thus, CSR is primarily a strategy for large corporations to create responsible business due to their economic power and overarching presence in daily life. Since the idea started from Drucker, and was popularised by Howard Bowen (cited in Archie, 1999) as philanthropy and social, many companies had started investing in them.

Should it be relying on purely voluntary activity or the greater use of laws? There is a push for voluntary legalisation as CSR presented problems such as free-riding (companies taking advantage of benefits without actually spending), greenwashing posing as CSR and false disclosures.

The following literature review will discuss the merits of both approaches.

Review of Voluntary versus Compulsory Adopted CSR

Usually, decisions about regulation or deregulation undertaken by regulatory authorities are driven by the desires of those authorities to change or reorganise audience behaviour in a particular direction. This is also applicable to CSR when classified as a burden assigned to governments. For instance, there are certain situations that necessitate having governmental regulations in place to ensure responsible corporate behaviour especially those of environmental concerns in many parts of the world. As stated by Farag, Meng, and Mallin (2015), environmental regulations rigidly imposed by governmental bodies in some countries can be effective tools for the timing and direction of many companies' responses to environmental requirements in these countries. In a relevant scope, Arjaliès and Mundy (2013) found that when the legalisation system in a particular country is weak or absent, the contribution of external stakeholders to CSR strategies undertaken by an individual company becomes very limited. Within the context of CSR , stakeholders' engagement and contribution are essential to the success and sustainability of CSR strategies. This is due to the fact that the concept consists of the construction of balanced interests of multiple concerned stakeholder groups to create valuable social and/or environmental impact.

Vveinhardta and Zygmantaite (2015) maintain that the success of CSR strategies and initiatives consists of how CSR as a concept is appropriately defined and practised by companies. As a result, the authors consider the mistake of misdefining the concept and treating it as a philanthropic or marketing factor that is commonly made by companies in countries without identified local or international CSR polices, as one of the key factors that prevent these companies from being able to develop effective codes of ethics for practising CSR. The study regards the presence and activation of such codes to be significantly important to appropriately control and direct companies' organisational behaviours and ensure proper implementation of CSR policies within companies' daily operations as well as serving to target CSR purposes. Therefore, ethical aspects of business activities have been a popular subject to examine in countries with weak CSR governances or vague CSR policies where companies are usually positioned weak in both doing conducting responsible action and avoiding irresponsible behaviour (ibid). Thus, it is not enough for companies to have officially stated codes of ethics communicating basic contest but it is also important to explicitly highlight CSR standards and norms therein to ensure full commitment to CSR values (Wiig and Kolstad, p.178, 2010). For instance, codes of ethics that insist on fair treatment to all concerned stakeholders while setting the organisation operational objectives can effectively protect companies from being socially irresponsible (Armstrong and Green, p.1922, 2013). However, these internal mechanisms and governances of CSR management within companies can be easily skipped if companies are not sufficiently committed to respect and implement CSR values and norms in their business ground. Therefore, countries tend to impose various kinds of regulatory guidelines supervised by powerful parties in society such as governments or independent national third parties whenever companies were unable or unwilling to regulate CSR functions by their own. In such cases, mandated CSR regulations can be an important positive influence on the achievement of corporate sustainability as identified in the study conducted by Paraschiv et. al., (2012).

However, it is a great challenge to facilitate the process of regulating CSR in emerging markets where governments have not yet addressed CSR issues as national priorities for community development that companies and concerned stakeholders together have to pursue in their practices. Alternatively, some of these governments may prefer to apply other hard measures to directly or indirectly enforce companies to spend money on social or charitable activities on a random or occasional basis. This is usually practised by imposing some kinds of restrictions on licences and other government facilities issued to companies with low or no CSR profiles without placing clear standards or key indicators for corporate social performance in place. In fact, the clarity of such standards or regulations is considered fundamental to facilitate the process of motivating, guiding, and evaluating companies' CSR performance as revealed by Crişan-Mitra and Borza (2015). In other words, governments cannot direct CSR initiatives taken by companies towards sustainable development - those governments aim to foster - if they do not have clear visions and smart action plans to motivate and mentor CSR performance. Therefore, Levy and Kaplan (2007) suggest finding a common structure for CSR governance in under-developed countries inspired by international standards of developed countries. The authors advise obtaining structural support by a legal context comprising of effective elements to enable companies' secure political and social as well as general legitimacy for concerned stakeholders. Furthermore, the suggested framework is designed to take into consideration roadmaps to motivate and expand attractive market opportunities and protect companies from hard and fast one-sided regulations used to be activated by governments (ibid).

Relative to the above discussion regarding the positive side of mandated CSR regulations, there are also conflicting findings approached by other researchers. For example, Maqbool and Zameer (2018) argue that compulsory CSR enforced by governments does not actually signify that companies will always respond positively and go beyond legislation requirements. The authors expect that in such cases companies' optimal targets will be merely meeting t CSR's minimal standards specified by the law if these companies lack the right awareness or do not believe in their ethical obligations towards the community or even CSR benefits for corporate performance. However, the authors find it important to refer to other studies that have regarded the availability of strong financial basements in companies with CSR orientation as a likely alternative to motivate those companies to undertake CSR as voluntary initiative rather than a legislative identified responsibility. Therefore, these companies are expected to move beyond legislative compliance over the time driven by their financial power (ibid). However, according to these researchers, this suggestion would only hold true if those wealthy companies own ethical motives to contribute to social development and well-being using their financial surplus . That motive would require companies to own a strong sense of citizenship which is independent from the commercial motive or what is known as the instrumental approach of CSR where companies' social and/ or environmental investments are mainly led by potential positive direct or indirect influence of CSR application on organisational performance from an economic or legal perspective.

On the hand, there are other studies and continental initiatives that have made the voluntary nature of CSR an indicative of the sustainability of CSR strategies that take place beyond legal requirements and driven by organisational visions (Lin-Hi and Müller, 2013; European Commission Green Paper, pp. 6-7, 2001). In other words, the adoption of CSR orientation makes very good sense if it stems from the companies themselves where the voluntary principle of CSR is fitted as a standard part of organisational values, overall corporate culture, and the commitment of management and employees (Frolova and Lapina, 2015). For example, considering the findings of many previous studies about CSR's ability to raise companies' opportunities for more profits, Armstrong and Green (2013) demonstrate that the foreseen financial enhancement in an individual company's performance and its social impact s can be realised only if companies have the freedom to engage in CSR practises without taxpayer subsidies. In the same context, the study reveals that mandated CSR circumvents companies' original plans and preferences, distorts the allocation of resources, and increases the likelihood of irresponsible decisions as companies lose the right to specify their social or environmental priorities (ibid). For instance, Chauhan and Amit (2014) argue against the timing and rigid nature of the mandatory CSR law introduced by the Indian government in 2013 under the Companies Act for one main reason, which was basically based on the authors' anticipation of serious negative impacts for the law appearing in the long run over companies' abilities to sustain their CSR practices as the economy was experiencing stressful conditions. According to the authors' observations, the Indian economy was negatively influenced by sluggish growth and a decrease in industrial output coupled with a fall in the national GDP, and increasing rates of inflation at the time the above law was introduced. Thus, they were against placing companies under pressure to achieve incremental financial performance to address the needs of certain stakeholder groups in the community and cater to a mandatory initiative which may lie outside companies' core competencies. They found such an action representing direct threats that have a high probability to drive companies out of business especially in markets challenged by severe competitive pressures and unstable economic conditions. Alternatively, the authors recommend tackling CSR initiatives as integral components of corporate culture to enhance the chance of achieving sustainable inclusive growth via the strategic implementation of CSR practices (ibid). On a similar scope, Szekely and Knirsch (2005) (cited in Paraschiv, et. al.), point out a positive role for voluntary CSR initiatives that are based on strategic visions to foster a sustainable development culture in society which in turn grants companies' sustainable competitive advantage over their rivals by motivating capabilities for innovation and enhancing social impact. This is an additional acknowledgement of the necessity to step beyond legal frames to consolidate business competitiveness and achieve social excellence.

In line with the common trend to prioritise voluntary CSR practices as primary organisational values, socially responsible companies are expected to be motivated enough to systematically apply reliable measures to the outcome of social and environmental activities and share the findings with the public through official reporting. This reporting technique is known in the CSR context as "sustainability reporting" and considered to be a very important process in supplying valuable information to company stakeholders in general and government in particular. For example, CSR or sustainability reports issued regularly by companies allow policy makers to easily assess the social and environmental performance of reporting companies and identify the likelihood of their commitment to CSR or sustainability standards assuming the presence of such standards are in place. As a result, this understanding enables policy makers to better adjust relevant regulations or upgrade public CSR policies to encourage companies with low motivation levels to improve their performance and engage in more sustainable social and environmental practices (Hirunyawipada, and Xiong, 2018).

1. **The Method:** how to conveniently use both voluntary and mandatory CSR mechanisms to secure effective implementation of CSR activities?

According to these authors, , the argument against keeping CSR under the tight control of external law forces would vanish if policy makers can set rules and polices that are effective enough to motivate companies to go beyond the compliance requirement only and pursue the attainment of competitive advantage by being able to anticipate potential opportunities in the market before competitors as highlighted by Darnall, Henriques, and Sadorsky (2008). This means the optimal aim of governments or policy makers is to keep companies actively engaging in CSR activities that can lead to the sustainable social impact of mutual benefits to the business community as well as to the larger community that these governments work to protect and entertain. However, the ability to articulate smart and competitive regulations is not a straightforward process as it requires an appropriate understanding of multiple economic, social, environmental, political, legal, and philanthropic aspects which can be characteristic of each country. For instance, Maso, et. al., (2018) report that societal characteristics and the legal background of a particular country influence the effectiveness of environmental regulations applied by its government. Therefore, the study recommends that in such countries policymakers consider these factors while designing environmental regulations to better suit the said characteristics.

Governments' role in the CSR context is not purely to set regulating policies. Rather, it is usually a combination of policy making and facilitating companies' engagement in various social activities regardless of any surrounding legislative influence. The facilitator's role becomes more apparent when viewing governments as a beneficiary from CSR investments made by companies in local communities which contribute to the social development and welfare of those communities as asserted by Shehadi, at el., (2013). In this study, the authors regard the governmental directing role to be essential when companies are required to align their CSR strategies and objective with national development goals targeted by those governments. In such cases, the primary responsibility of governments is to make sure that sustainable development goals for the country are clearly defined and measurable. The government guide and supporting role is also critical when companies' CSR activities lack organisation or are misaligned. This encourages creating a motivating environment for CSR in the business community inspired by the government as well as companies' managements to encourage and promote a sustainability culture on a wide basis within the business community. Furthermore, governments can utilise many aspects of CSR to develop guidelines towards responsible corporate behaviour linked to competitive success and foster the adoption of CSR policies to upgrade that competitive success (Reverte et. al., 2016). Thus, the regulating authorities may need to promote and support a social corporate culture in the companies even before placing any regulations to enforce sufficient levels of compliance with relevant standards. This discussion leads to proposition 1 stated below:

Proposition #1: Governments are required to provide the proper guidance and support needed by companies to conveniently practice CSR even before activating any mandated regulations for CSR.

In their study about CSR status in the in The Middle East and North Africa, Shehadi, et. al., (2013) found that many governments in these countries were stepping towards raising public and corporate awareness about CSR benefits. However, the study also suggested paying more attention from those governments to set CSR priorities, define and mandate minimum standards for business performance through legislation, offer attractive incentives to companies to apply CSR, promote and support R&D on CSR (ibid). In fact, the multi-faceted approach of setting voluntary policies to systematically implement CSR activities that are accompanied with mandated basic requirements to ensure a reasonable level of companies' social commitment can be an effective technique to capitalise on advantages and eliminate disadvantages of both mandated and voluntarily applied CSR initiatives. However, to succeed in their mission, governments are required to truly believe in companies' abilities to determine their own philosophies in employing CSR to raise overall community welfare. In that respect, governments or policy makers may have to own strategic views to manage their relationship with companies as reliable partners in the path towards achieving sustainable development of shared usefulness. In light of the mutual trust between governments and the business community, those governments may need to introduce attractive incentive schemes to encourage companies to engage in more ethical, social and environmental activities as suggested by Reverte, et. al. (2016). Additionally, Reimann, et. al., (2012) have pointed out the importance of rewarding companies with positive CSR profiles by granting various support to these companies . This approach was also recommended on page 7 of the European Commission report entitled "Renewed European Union strategy 2011-14 for Corporate Social Responsibility" issued in October (2011). This report proposed devoting increased governmental focus on providing essential support to corporate responsible behaviour through the application of a smart mix of voluntary policy measures and supporting them with complementary regulations that can enhance values such as transparency and corporate accountability. Furthermore, it recommended creating market incentives for responsible business conduct to maximise the value gained by committed companies. The report suggested that these procedures can be quite practical to encourage a greater sense of CSR amongst companies and push them to take the lead in undertaking CSR strategies stemming from their core values and supported by solid organisational commitment. In such cases, governments are more likely to succeed in enacting CSR regulations that are effective in establishing social expectations about responsible corporate behaviour and in promoting the idea that companies can play an important role in addressing social problems (Park and Ghauri, 2015).

In a study that investigated the moderating role of government regulation and organisational slack on the relationship between corporate environmental responsibility (CER) and corporate financial performance of energy-incentive listed companies in China, Li, et. al. (2017) advised the Chinese government to further improve environmental laws and regulations in place, and to strengthen government supervision regarding companies' environmental performance. Simultaneously, they suggested increasing governmental support and motivation to companies with existing positive environmental performance. Moreover, they recommended devoting long-term attention to enacting more stable environmental regulations and setting up policies that support proactive corporate initiatives to devote the slack resources to activities of corporate environmental responsibility . The authors proposed that adopting a combination of high government regulation and low organisational slack instead of depending on a single approach of the two, would signify the co-moderating role they found for these two variables in the relationship between corporate environmental responsibility and corporate financial performance (ibid). The summary of the aforementioned discussion is restated in proposition 2 as follows:

Proposition #2: Adopting a combination of voluntary policy measures for CSR and complementary regulations can enhance companies' commitment to developing CSR strategies stemming from their core values to better address social problems and create social impact.

On the other hand, Reimann, et. al. (2012) argued that it is a challenge for governments to succeed in both setting demanding standards and rigidly enforcing these standards to achieve effective influence on companies' CSR strategies. In our opinion such a challenge can be partially resolved by applying Vong, and Wong's (2013) suggestion about the government's need to conduct periodic reviews and assessment processes regarding community attitude towards the development of leading national business sectors and monitor how effectively the operators of these sectors are fulfilling their social obligations. This approach may be useful to enhance the government's vision through developing a more reliable understanding of community attitude and evolving market trends. Alternatively, the recommendations mentioned in the European Commission Report, (2011, p.7) provide another useful approach to enrich the quality of the government's complementary regulations through collaboration between those governments and other stakeholder groups, specifically NGOs, trade unions and civil society organisations. The report anticipated such a collaboration to allow for better diagnosis of social, environmental, and economic problems in order to jointly develop effective solutions or improvements.

Furthermore, governments are now paying increasing attention to the role that can be played by consumers and investors to enhance market rewards for socially responsible companies through their consumption behaviours and investment decisions. In that respect, Farag, et al. suggested developing promotion strategies by the government to encourage companies to attain more sustainable and socially responsible investments through highlighting the role of investors and other stakeholders such as customers in assessing the quality of corporate social and environmental information disclosed by companies. Moreover, the media can play a critical role in raising the level of public awareness about both the positive and negative impacts of company operations on the community (European Commission Report, p.7, 2011).

On the other hand, socially responsible companies are also urged to be proactive in developing and maintaining long-term relationships with multiple stakeholders and consider

their interests while making social decisions if not becoming directly involved in these decisions. For example, the more stakeholder interests an individual company can manage and entertain, the more value it can add to the functionality of its CSR strategies, and therefore enhance corporate financial performance (Yusoff, Mohamad and Darus, 2013, p.219) and as a result achieve better corporate success (Madueño, et. al., 2016). This is due to the fact that recorded benefits for practising CSR on company performance can be a direct function of stakeholders' perceptions about these companies' commitment to behave responsibly as outlined by Costa and Menichini (2013). Furthermore, gaining stakeholder trust can help companies to obtain the support of these stakeholders in ways that tend to enrich companies' social legitimacy in the fast changing business environments (Chang, 2015), as well as enabling companies to identify and co-opt critical external constituencies, thereby ensuring stakeholders' support in stable environments (Goll, and Rasheed, 2004). This stakeholder engagement in companies regarding CSR affairs or the partnership between both parties normally evolves beyond legislative influence.
Overall, the establishment of a strategic partnership and networking between all concerned players in the CSR arena is noted to be crucial to achieving a balanced score card comprising of mutual business, environmental, and social sustainability, to articulate the most convenient CSR laws and regulations (Radhakrishnan, et. al., 2014, p.73). Proposition 3 is as follows:

Proposition #3: it is important for governments or policy makers as well as socially responsible companies to collaborate with all concerned stakeholders in the CSR arena and become actively engaged in developing comprehensive awareness of relevant problems, attitudes and patterns in order to jointly develop effective measures for sustainable improvements.

Conclusion

There are many advantages and disadvantages for both regulating CSR practises by governments and leaving companies free to set their own codes to govern their CSR initiatives. However, the debate about which approach should be followed by companies can be clarified by finding an alignment between the advantages of both decisions as well as eliminating the negative impact of associated disadvantages. Therefore, governments are expected to a play dual role in embarking guidance and facilitating as well as policy making and supervision. Furthermore, the mutual concerns of both policy makers (who normally represent the larger community on one hand) and companies (representing the interests of shareholders and sometimes the interests of other internal stakeholders within companies) need to be integrated. The integration of common interests implies the adoption of a combined approach in which CSR is left as a company based decision that is complemented by regulatory standards that can enhance values such as transparency and corporate accountability. These measures are supervised by national or regional policy makers in conjunction with concerned stakeholders to develop the comprehensive awareness needed to secure an overall successful social performance towards meaningful sustainable development. As a closing note, the authors suggest that governments or policy makers in countries where CSR still faces challenges should occupy the right position as the concept of sustainable development , to think about establishing independent boards of consultants or directors made of elected members representing society, the business community, the government or concerned authorities and any other influential stakeholders to oversee CSR visions, standards, and strategies of implementations on both national and international scales using mutually convenient approaches to capture the stakes of as many concerned parties in these countries as possible.

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