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Research Article

Feasibility of Integrating CSR and Corporate Governance: a Regional Perspective

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Abstract: Corporate governance (CG) is regarded as a system of rules and practices to realize the objectives of a company. Corporate social responsibility (CSR) is a view that companies should be responsible for not only shareholders, but also general stakeholders who are engaged by the companies. In this paper, the degree of involvement of CSR in the framework of CG is focused. It tries to evaluate the performance of CG and CSR in different types of businesses and different regions. Firstly, it discusses the relations between CG and CSR and their trends of development. Secondly, pro and con opinions of stakeholder theory are further provided. Thirdly, MNEs, Asian companies and Mexican companies are focused to explore the involvement of CG and CSR, and the reasons for the development difference among types of businesses in different regions. Lastly, it describes the most common standard which the companies adopt to report CSR, and its advantages and disadvantages.

Key words: Corporate governance; Corporate social responsibility

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1 Introduction

Corporate governance (CG) is described by Cadbury (2006) as 'a system by which companies are directed and controlled'. It is crucial to the operation and management of a company. According to Claessens (2003), CG needs to keep balance between social & economic goals and communal & individual goals in the broadest sense. On the contrary to the opinion of Friedman (1970) that the only responsibility of the company is to use its resources to generate profit, later research argues that social responsibilities toward stakeholders are also important. Monks and Minow (2004) define the stakeholders as directors, managers, suppliers, customers, employees, shareholders, creditors, the government and community members. Maier (2005) introduces the responsibilities of CG for shareholders and stakeholders as: 'for shareholders it can provide increased confidence of an equitable return on their investment; for company stakeholders it can provide an assurance that the company manages its impact on society and the environment in a responsible manner'. Charkham and Ploix (2005) support the view that a company needs to be ethical as well as profitable. The local implications should be taken care of even if there is no legal obligation.

2 The emerge of CSR

Companies usually disclose CSR information to show their contributions and responsibility towards the society and the community. Managers have already realized the importance of CSR. It is observed by Deakin and Hobbs (2007) that managers in listed companies often regard CSR as a method to deal with external issues. Issues such as outsourcing production activity and following ethical consequences & environmental problems can be remitted by CSR.

CSR is defined based on 'stakeholder theory'. Freeman and Reed (1983) introduced the theory and Freeman (1984) further defines the stakeholder as any people or group who can affect the achievement of organization's objectives, or is affected by the organization. There is always criticism on stakeholder theory. Charkham and Ploix (2005) argue that in terms of stakeholder theory, irrelevant items can be packed. However, companies and researchers begin to take the interests of stakeholders into account. Kolk and Pinkse (2010) suggest that it is very important for companies to include the expectations of stakeholders into company objectives. If a company focus only on a narrow objective, the concerns of the other stakeholders will be ignored. Thus, the company will not acquire adequate support from the stakeholders, and the profitability and survival of the company will be compromised in the long run.

3 The relationship between CG and CSR

When a company is thinking of CSR and CG, a question is needed to be considered: if a company has the duties to a broader group of constituents, to what extend should these duties cover, and how can they involve in the social and environmental activities? Internal stakeholders, such as manager, directors, specifically employees are generally considered more important than the external stakeholders. Welford (2007) claims that the positive relationship between a company and its employees can increase motivation, overall productivity and reduce absenteeism. Based on this, a company has an incentive to take actions to protect the rights of employees and make it integrated into its CG. Further, works councils are usually mandated by law, and also protected by CG. For external stakeholders, such as creditors and communities, the situation is not as good.

Welford (2007) argues that creditors are recognized as very important external stakeholders that needs to be considered. The creditors can be sources of a company's long-term capital, and they can effectively monitor CG since their interests are highly bonded by the performance of the company. Thus, a good CG with proper protection to creditors is crucial. According to Welford (2007), a poor CG often leads to the poor treatment to the creditors, which causes ramifications for both entities.

Other external stakeholders, such as the environment and communities are often neglected by the companies. Cogan (2006) argues that the implications of the external stakeholders exist but remote. The cost of contribution to the external stakeholders and the benefits are often considered. The remoteness to the benefit of the company indicates extra cost. However, in recent years, the impact of the 'remote external stakeholders' on companies is becoming more important. Cogan (2006) reports that investors have more incentive to evaluate the performance that the companies contributes to climate change. The world's large 100 companies have integrated climate change into their CG and strategic planning. In addition, awareness of climate change has emerged among the investors. In other words, CSR is not merely an extra cost, but an influencing factor of operation and survival.

4 Differences among types of businesses

Although it is widely accepted that integrating CSR issues into CG, there are still massive differences among a variety of businesses. Kolk and Pinkse (2009) claim that the link between CSR and CG is particularly relevant for multinational enterprises (MNEs). It is reported that more than half of the MNEs researched have a section of CG in their CSR reports, or link CSR issues and CG together. MNEs tend to disclose information in a wider manner relating to a variety of social and environmental issues. Since MNEs are doing business in different countries, they are generally facing more pressure on higher demands of transparency and strategic decisions disclosure. In other words, they are facing a relatively broader audience, and a stricter requirement. MNEs must take actions to contribute to stakeholders to minimize externalities. However, MNEs is observed to be selective to stakeholders. Kolk and Pinkse (2009) argue that MNEs focus on the internal issues in making the framework of CSR. Issues such as employment conditions and ethical behavior are given specific attention. They regard inside stake-holders as priority in engaging CSR. External stakeholder is often regarded as remote to the business.

The situation is different among the Asian companies. According to Welford (2007), good CG provides a foundation of good CSR, because it creates a value-creating relationship between the company and all stakeholders. Rights of shareholders and the promotion of CSR is not conflicting to each other in the terms of good CG. However, it is difficult to protect the rights of general stakeholders in Asia. The reason is that large companies in this region are controlled and owned by major controlling shareholders (Welford,2007). These major shareholders are always individuals or families, sometimes are the country or state. Major shareholders are willing to monitor the company and have a strong impact on the management. The dominance of the ownership implies many results. On the one hand, the structure decreases the impact of agency problems sharply, and positively enhance CG. On the other hand, the major shareholders have the power to force the company to do business for their own interests, which is harmful to the minorities.

Since the owners are always families and individuals, they have enough votes to defend the firm from unwanted takeovers, to influence the appointment of directors and to even determine the results of annual general meetings. The situation is harmful to the effectiveness and efficiency of the market and is an ignorance of the right of the minorities. Welford (2007) claims that the 'tunneling' effect exists. Tunneling is the situation that the insiders of the company take the assets for themselves at the expense of the other stakeholders. Controlling shareholders can do tunneling easily because they 'can often transfer money and other assets out of a company' for the interests of themselves. Other forms of tunneling are still potential problems, for example, controlling shareholders and their family member can purchase addition shares prior to an announcement and an increase of the share price. These insider dealings are prohibited by law in many countries. However, as it is argued by Welford (2007), many of those dealings are not effectively challenged. In this structure, the rights and interests are often unprotected by CG because their voices are often unheard. In accordance to the relevant laws and CG, the shareholders can give their opinions in the general meeting. This is regarded as the greatest opportunity for minority shareholders. However, Welford (2007) points out that in many cases the minorities are kept away from the meetings by changing the location at the last minute, or by the extremely tight security check to make them absent from the meetings. In these cases, CG is not functioning to protect the rights of stakeholders. Despite this, employees are also facing unfair treatment such as unpaid overtime work and poor health & safety conditions.

Good CG in terms of CSR is still under research. One reasonable explanation is the historical factor. For example, Mexico's development is following an import substitution model 20 years ago, domestic industry is highly protected from foreign competition, the shares held by foreign investors are usually less than 49% (Husted and Serrano, 2002). Since all companies were state or family owned, Austin (2002) describes that political skills were seemed more crucial than business skills. As a result, CG was not emphasized by either business people or government leaders. With the increase of concerns of CG around the world, Mexican companies began to reconsider the need of CG. Meanwhile, 'international investors and the pressure faced by newly privatized companies, as well as processes of mimetic isomorphism within Mexico' are internal drivers of the adoption of CG (Husted and Serrano, 2002).

5 The common framework of CSR reporting

The disclosure of CSR is not mandatory in many countries. The most common used reporting approach is Global Reporting Initiative (GRI) Sustainability Reporting Standard. GRI provides a voluntary, but structured and formal approach for reporting on sustainability. Kinderyte (2008) claims that the advantage of the adoption of GRI is that GRI provides a common framework for companies so that the information they disclose has the foundation to be compared, both horizontal and vertical. The disadvantage of the GRI is that if all companies adopt one same methodology, the measurement cannot reflect the difference between the companies and businesses. For example, a mining company is expected to disclose more information about the environmental issues while an accounting company is not.

6 Conclusion

The impact of CSR on the company is still neglected by many companies. MNEs are the companies who hold most positive attitudes toward CSR reporting, many of them have integrated CSR issues into CG and emphasized CSR in their strategies. In addition, MNEs lack attention on external stakeholders, which also have impact on their business and profitability. Among the external stakeholders, some environmental issues such as climate change has already become a concern of the investors and shareholders. In Some regions such as Asia and Mexico, controlling shareholders have the dominant power to force the companies operate for their sake. Minorities like employees and creditors do not have adequate safeguard measures to protect their interests and rights.

Companies have the responsibility to take stakeholders into account by adopting standards like GRI Standard, thus they can benefit from the support of stakeholders in a long run. The formal and standardized methodology makes it possible to compare CSR performances of different companies, but the uniqueness of different businesses is neglected, making it less accurate and effective.

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