

The Role of Governmental Administration in the Corporate Social Responsibility

Mohammad Sardoeinasab^a, Alireza Hasani^b, Atefe Ghasemi^{c*}

^aAssociate Professor of Private Law at University of Tehran, Tehran, 1417614411, Iran

^bAssistant Professor of Private Law at Islamic Azad University of Damghan, Damghan, 3671639998, Iran

^cPhD candidate of Oil & Gas Law at Kish International Campus of University of Tehran, Tehran, 1451674784,
Iran

^aEmail: Sardoeinasab@ut.ac.ir

^bEmail: Alirezahasani332@gmail.com

^cEmail: Atefe.ghasemi@ut.ac.ir

Abstract

After the industrial revolution that caused the emergence and growth of Multinational corporations and their presence in developing host countries. The activities of these corporations were firstly merely based on the economic benefits and financial interests of these corporations that caused tragic issues in the social, economic and environmental system of host developing countries that resulted in their protests and consequently made the MNCs to alter their activities and only not do based on their economic and beneficial goals but also in favor of their developing host countries that is known as the social responsibility of corporations. One of the most challenging questions regarding CSR is that it is a part of philanthropy and how the governments can monitor and determine the duties of MNCs concerning the CSR. This paper tried to find out the answers of the above-mentioned questions.

Key words: corporate social responsibility; philanthropy; environment; charity; developing countries; multination corporations; development.

1. Introduction

Nowadays the meaning of social responsibility in corporations is developing and expanding among the national, multinational and international corporations that require the companies to do not only based on their economic benefits and financial interests but also based on the benefits of stakeholders and host countries.

* Corresponding author.

This beneficial and new born approach toward the activities and benefits of multinational corporations has also reproduced other concepts that the researchers and readers should distinguish between CSR and philanthropy. The distinctions and the studies of these distinctions will help to conclude a much better and clearer concept of CSR and its role in development of host and developing countries. Another point regarding this fact is as the governments also are in charge for providing their people with the welfare equipment, they would like to take advantage of this phenomenon and want to have control over it and by their statutory system are tending to regulate the CSR activities. This paper will analyze the meaning of CSR and philanthropy to clarify is what the companies do a kind of philanthropy or different and how the governments can determine the duties of the companies regarding the issues concerning CSR.

2. What CSR is?

Corporations Social Responsibility during the recent decades has found an outstanding meaning and position in management and organizational literature. Some of experts believe CSR is a tool for the corporations to boost their benefits and others believe that it can be considered as a hidden responsibility for all corporations to consider and do to not waste the benefits and resources of their host countries. CSR has a very close meaning and connection with sustainable development and for this reason, the MNCs annually publish their reports regarding their CRS activities to demonstrate how effective their activities were on the approach of consumers, the reputation of their own brand and the development of the host country of their companies. Concerning the right meaning of CSR, the experts believe that CSR does not mean that the MNCs shall do in accordance with regulations and benefits of the host country of their company but it may be concluded just after then the company has done the activities that is beyond than what has been defined for these corporations toward not only their stockholders but the stakeholders that is more concerning caring about human rights rather than economic benefits [4].

3. The CSR and Philanthropy

The terms philanthropy and CSR or to use its full name, Corporate Social Responsibility are often used interchangeably, but they are not the same thing. Although philanthropy may be a part of the CSR strategies of a business, there is much more to CSR than simply philanthropic gestures. Many companies take part in acts of philanthropy, this is often in the form of a charitable donation, perhaps donating a percentage of profits to a charitable concern. It's a simple act, that while making those at the top of business feel like they are doing some good, it doesn't really have a huge impact on the business. Many employees, and the wider community may not even know that this act of philanthropy has happened. CSR has much wider coverage and a greater impact. CSR looks at the company as a whole, and encourages business to take responsibility for their impact on the environment, their employees, the local community and beyond. While acts of CSR are generally considered to be good, to be caring and thoughtful, there can be a lot of advantages to a business when putting in place a far-reaching and well thought out CSR campaign. Being a socially responsible corporation puts that business in a good light. These days, the ethical and environmental actions of a business is increasingly important to consumers. Customers can feel so strongly about the ethics of a company that they will boycott a business that they have previously been customers of, avoiding a product they desire and need because they don't agree with

the way in which the company runs their business. This may be the exploitation of employees, or being wasteful with natural resources. You will probably have seen in the news, if a large business is found to be using low paid foreign labor, with bad working conditions, it makes for shocking headlines. Likewise, if it is discovered that a business is sourcing wood from a non-renewable source, or pumping toxic waste into our rivers, the public will be up in arms. The impact on the businesses involved can be dramatic. A good reputation built over decades can be lost overnight with a negative news story, and that can often result in a loss of income. On the flip side, being ethically responsible, and ensuring the public know you care for your employees and the environment, puts a business in a positive light. While you can't build a business purely on good ethics, it will help to great an overall positive view of your company in the eyes of the consumer. While a business may have a place in a global market, it will always have to deal with the local community too. This will often be where most of the staff are sourced from, and any large business will impact on a community both environmentally and socially. The bigger the negative impact, the more effort a company needs to go to, to reassure the community that their heart is in the right place, that they are prepared to do what it takes to minimize any negative effects of their business on the local area. For example, if you own a factory that is pumping out gases into the air from large billowing chimneys, it would be very sensible to liaise with the local community to allay any fears that these gases are toxic and perhaps start a tree planting project to enhance the beauty of the area. There is definitely an aspect to CSR that involves keeping people on side! Treating staff, and the local community well, reflects very well on a business and can bring its own rewards. Happy staff who feel looked after are more likely to be loyal to the business, to work hard and recommend the business as good employer [3].

4. The Charity and CSR

In this part, one of the most important should be asked in detail is can we consider charities as a part of CSR? There is a debate taking place over at The Economist in its Corporations and Communities Debate Series about the role of charity CSR. Sustainability, social responsibility, shared values and environmental impact are all buzzwords that have spread across sectors. Traditionally, the nonprofit sector has been looked to when social change and community services are needed, but as companies' business practices become more transparent, consumers are demanding more than just goods and economic benefits. While this may be generally agreed upon by the public and noted as smart business strategy, how companies meet this demand differs and this is the launching point for the debate.

4.1 The "For" Side

The "for" side believe that charitable acts are no longer part of a CSR model. Peter Lacy, Managing Director for Accenture, is the representative voice. Lacy's main point in his opening comment is that charity cannot and should not replace or cover for the positive or negative effects a company has on the communities it is involved with. Companies should be socially responsible throughout their entire business model to not only be responsible, but also to gain a competitive advantage. Lacy continues his argument with the belief that while philanthropic endeavors offer great value, they cannot get at the supply and demand that comes with societal problems in the way that business strategies can.

4.2 The “Against” Side

Margaret Coady, Executive Director for the Committee Encouraging Corporate Philanthropy, represents the “against” side of the motion. Coady emphasizes the collaboration of companies and nonprofits to make change. Her belief is that while charity cannot make all the changes needed, neither can corporations. Philanthropic efforts can have a more immediate impact and change than a gradual transition of company operations. Coady adds, however, that philanthropies offer companies new entry points into communities and breed innovative ideas [5].

4.3 CSR and Donations in the charities for brand Reputation boosting

One of the most outstanding goals of MNCs for paying attention to CSR is to enrich the reputation of their brands among the consumers and the buyers. In the second decade of the third millennium, consumers over the world are increasingly keen to buy from socially responsible companies. In a 2015 Nielsen global survey, two-thirds of respondents said that they were willing to pay more for products and services from companies whom they perceive as being good for society and the environment. Consumer preference for CSR has risen 11 points since Nielsen’s 2014 survey and 16 points since their 2013 survey. Moreover, a recent global study by Zendesk found that more than 77 percent of consumers prefer to buy from socially responsible companies and are also willing to pay 5-10 percent more for their products and services. Additionally, 74 percent of these consumers also provided good social word-of-mouth (SWOM) for these companies by posting favorable comments on the companies’ websites as and on social media. CSR is in, and in a big way, but there’s more to earning CSR cachet than simply giving money to charity. Some of the most charitable corporations are viewed the least favorably by the public. In the eyes of consumers, charity alone does not make up for socially irresponsible business practices. CSR-savvy consumers prefer companies that have a positive impact on society and the environment because of how they do business, as opposed to giving to charity in an effort to make up for deleterious business practices. By way of example, Pfizer is the third highest charitable donor in the pharmaceuticals industry. And yet, in the most recent Reputation Institute study, Pfizer ranked dead last out of the 14 pharmaceutical companies analyzed. Further, in a 2016 Gallup poll, Americans rated the pharmaceutical industry overall as the second most negative business/industry sector (the only more negatively viewed sector was the Federal Government). The difference between charitable acts redounding to a company’s benefit in the public eye vs. being perceived as cynical opportunism often comes down to public relations strategy and tactics. In the early 2000s, Philip Morris’s charitable donations backfired and the tobacco giant was heavily criticized for having spent more money to publicize its charitable efforts than it had given to actual charities. A more effective public relations approach is for a company to tie its donations to a larger CSR initiative or ongoing charitable work, not just a one-off contribution. Having CSR cachet that boosts a company’s reputation and brand tends to require doing business in a way that is seen as having a positive impact on society and the environment, and the way that story is presented to the public can make all of the difference in how the company’s reputation and brand are impacted. To make a positive impact on society and boost your company’s reputation, a strong public relations plan is key [1].

5. The role of government in CSR

Increasing corporate engagement with social responsibility has stimulated a debate over the appropriate role of government in regulating this traditionally-private sphere. CSR began as a voluntary form of private regulation; however, governments are gradually becoming more involved. Particularly in Europe, with the UK as the frontrunner, the collaboration between national governments and private industries has increased – with the aim of protecting and promoting social objectives. After gaining wider prominence in the UK in the 1980's during a time of high unemployment and social unrest, CSR has recently become a priority issue on the public agenda. The aversion to government involvement in CSR regulation in business is understandable, however the benefits of engagement from the public sphere should also be considered. Many success stories have arisen from such collaboration, in particular the development of legislation and regulation to control employee-firm relationships, maintain health and safety standards in workplaces, prevent discrimination and promote equal pay. The ability of government to provide a framework for regulation and the means by which to monitor compliance is likely to improve CSR standards and encourage large and small companies alike to improve their performance.

5.1 Government Actions and their Impact on CSR

Governments employ various methods through which to foster better CSR practices within the private sphere, many of which reflect non-intrusive, soft-law approaches. Most crucially, the government is in a position to raise awareness and build capacities for CSR among companies and stakeholders – an important role due to the largely voluntary nature of CSR. The more people are aware of the social challenges facing businesses, the more likely that attention will be focused on developing solutions to tackle these issues. Government provides vital information to the private sectors through initiatives that include websites that inform companies of CSR and its role in business and society. Reports on CSR, as well as government-sponsored guidelines, aid businesses in addressing individual concerns that may be prevalent within their industry and practices. Companies can refer to online resources in order to gain insight into prevalent issues and how to solve them. Established codes of conduct are readily available, such as the 'Standard Voluntary Code of Conduct for Executive Search Firms', created in response to the 2011 Davies Review. The review advocated a Code of Conduct, primarily in order to address gender diversity on corporate boards. Since its launch, the Code has been improved with the help of participating firms themselves, and was recently subject to an independent review which analyzed its effectiveness. The provision of state-issued information and guidelines thus helps firms to become aware of CSR issues prevalent across industries, and provides them with strategies to tackle these problems. The government is also involved in standard-setting through the provision of policy frameworks, which encourage companies to improve their performance beyond minimum legal standards. The policy-making role of government is crucial for promoting CSR between different industries at the national level, encouraging a tightening of standards across the board. Economic incentives are often used to facilitate socially-responsible practices – an example of which is the relaunch of the 'Payroll Giving' scheme. Accompanied by a PR campaign, this scheme raised awareness of ways in which businesses could encourage their employees to donate to charities and good causes of their choice. Most recently, the government implemented a 'Corporate Governance Reform,' the aim of which is to respond to recognized problems inherent in some businesses and provide a set of legislative and business-led measures to improve standards of corporate governance. A key goal

of this Reform was to “drive change in how large companies engage at board level with employees, suppliers and wider stakeholders to improve boardroom decision-making and deliver more sustainable business performance.” This report also encourages companies to disclose the corporate governance arrangements that are in place in order to provide higher levels of transparency – an example of another important role that government performs. The ability of government to improve disclosure and transparency of often-hidden social responsibility practices within the private sphere is key to building wider confidence in the way business is run. Through the regulation of monitoring and reporting, companies that undertake CSR initiatives are often subject to accountability measures. These quality-assuring procedures encourage businesses to uphold their commitments through the publication of company practices. This, in turn, improves industry CSR standards as companies will likely aspire to rival their competitors and gain recognition for their performance in this sphere. The UK Corporate Governance Code, for instance, sets standards of good practice regarding board composition and development, remuneration, shareholder relations, and most importantly accountability and audit. A provision of the Code requires the generation of annual public reports that hold participating companies accountable and demonstrate their compliance with the conditions of the voluntary Code. The benefit of such schemes is their entirely voluntary nature; however, once companies join, they are often held to stringent standards to encourage high standards of corporate governance [2].

5.2 Why Collaboration Can Be Positive?

A collaboration between government and the private sector is arguably one of the most effective ways to improve national CSR standards within businesses. By laying down the groundwork for minimum CSR standards and encouraging companies to reach above and beyond this threshold, government involvement can ensure that social objectives are followed through and that voluntary CSR initiatives are carried out to an appropriate standard. Studies have shown that CSR creates social value and improves social welfare, which constitutes the main goals of government policy. It seems natural, therefore, to encourage greater collaboration between the public and private spheres as their objectives are often complementary. The main rationale behind CSR, often referred to as the ‘Triple Bottom Line’ principle, implies that businesses should not only serve as economic, but also social and environmental ends. This idea is reflective of the main policy goals of government, and therefore cooperation between the two spheres can better promote these objectives and bring about improvements in CSR practices within business.

6. Conclusion

Corporation social responsibility is known as a concept that is accepted and ratified by the society and industry that would be beneficial for both stakeholders and stockholders of corporation because from a point of view it is seen that it will enrich the economic system of host country, boost the scientific and education level of society and in consequence it will protect the environment of the host countries. From another side it is seen that the MNCs don’t only in favor of the host countries but also have considered their own benefits and interests such as brand reputation boosting and so on. The governments although are trying to find a way to be dominant on the MNCs to control their activities regarding their CSR, but it should be mentioned that if the governments can control these corporations and their activities, it will result in limiting the corporations in doing their social

responsibilities that it will affect badly on the environment, economic system and society of host countries and based on this opinion it will be much better that the governments let these corporation do freely.

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