The Effect of Mandatory Regulation on CSR

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Abstract

For many enterprises, the profitability of a market is the most important criteria for success. However, an unhealthy dedication to profitability will quite obviously alienate the general public, inviting admonishment. This is where corporate social responsibility comes into play, allowing a company to form a positive image and do social good. Large companies are often leaders in terms of implementing various social programs due to their significant market influence, large amounts of capital and widespread societal recognition. The ability of corporations to affect large scale changes in society begs the need to consider this issue in more detail. This paper intends to define the notion of corporate social responsibility, describe the effect of voluntary and mandatory regulation on CSR, and consider its importance on society.

Keywords: mandatory, voluntary, CSR.

Introduction

In the modern world, a considerable number of organizations search for ways to highlight their various approaches of corporate social responsibility (CSR). This particular trait of corporate culture implies the implementation of social obligations as prescribed by law, while showcasing a company's willingness to incur the corresponding mandatory costs. Additionally, CSR implies subtle corporate ambition - voluntarily spend on social needs in excess of the requirements established by tax or labor demands. Taking up social responsibility reveals an organization's concern for the consequences of its actions, and sustainable social development. Social responsibility has to do with issues like social justice, equal pay and so on. In fact, all companies are obliged to be responsible in matters of finance, their societal activities and effects on the environment.

Social responsibility among enterprises depends on businesses assuming additional obligations to the state in which they are registered. In general, enterprises have various other responsibilities as well, such as upholding a certain set of values and policies, answering to its key stakeholders, fulfilling the requirements of legality, and focusing the business on sustainable development.

Social responsibility is an instrument which helps influence society by enacting sustainable development. By inciting voluntary contributions to the development of social, economic and environmental spheres, this concept adds value to the company. Socially responsible companies oblige the communities it operates in, helping resolve immediate social concerns and giving back to the people in an attempt to inspire customer loyalty and good-will.

Methodology

The methodology is in the form of retrieving relevant articles, publications, opinions, and news products related to the topic and concepts. The research setting is regulation sector and more specifically focused on opinions.

The intention of the general approaches to CSR was to encourage a more personal response from each person or writers on the same general areas related to the research.

Different approaches to CSR

Over recent years, CSR has attracted considerable attention in an effort to spotlight whether or how corporations and businesses are implementing ethical, responsible, and sustainable standards and practices. Voluntary CSR disclosure has given way to the demand for mandatory intervention due primarily to the fact of the level of scrutiny that corporations have found themselves following serious governance failures.

The effect of mandatory regulation on CSR will be greater clarity and transparency that will add value to the administration and management of businesses and adherence to legal and regulatory standards while positively influencing consumer confidence and societal progress.

Heightened interest in CSR in recent years has stemmed from the advent of globalization and international trade, which have reflected in increased business complexity and new demands for transparency and corporate citizenship. (Jamali, Mirshak, 2007). It has also been in response to consumer pressure whether it is on improvement of workplace conditions, human rights, the environment, the gender pay gap or other pressing social issue. Previously it was the role of governments to assume responsibility for alleviating these issues; however, society's needs have now far exceeded what governments can handle and resolve. Companies, especially large multinational and trans-national ones, now play a large role in social responsibility and have increasingly found themselves in the firing line due to a range of socially unfriendly crimes and misdemeanors. In return, public opinion has weighed heavily towards demanding that they take full responsibility and make drastic improvements.

As CSR became an important link between business and society, social activism oftentimes brought the public in direct confrontation with companies and organizations in the form of hardline protests (WTO meetings), media exposés (oil companies), pocketbook protests (Nike), and citizen journalism through social media (Occupy Wall Street).

More progressive companies started to implement sound initiatives and strategies and in so doing, sought to differentiate themselves from those who merely ticked the box "driven by external pressures rather than a genuine desire to do business in an ethical way" (Waller, 2003).

Corporations are not without the necessary tools and standards for guidance. Industry-specific and/or international codes of conduct, though mostly voluntary, help to define ethical governance activities and can become benchmarks against which organizational performance can be measured. For instance, the UN Global Compact outlines ten principles that cover a range of social issues — human rights, labor practices, environmental responsibility, and anti-corruption. Similarly, Accountability's AA1000 Series of Standards are principles-based standards and frameworks that demonstrate leadership and performance in accountability, responsibility and sustainability. Corporations have also adapted some measures from the Sarbanes-Oxley Act established in 2002 in response to the Enron and WorldCom scandals.

Regulation of CSR had earlier been left in the hands of corporations and businesses themselves to demonstrate compliance with accepted standards and practices of good business. Ticking the box was the norm until it became clear that it was not accompanied by substantive action for change or improvement. Critics of self-regulation point to the financial crisis as evidence of the absence of properly structured rules and governance mechanisms compounded by the distorted view that banks and other established organizations were too big to fail. Ong (2010) further points out that self-regulation policies "may not be geared towards the greater benefit of the consuming community as a whole but they are rather sector specific or industry specific". More recently, reliance on such organizations to self-regulate or comply voluntarily with codes of conduct has been replaced with a call for them to submit to mandatory regulation though not without some pushback.

In terms of CSR, while implementation of standards and practices remains a critical sticking point, disclosure and reporting have also taken a front seat.

Hawa notes "the past 20 years have seen CSR reports go from box-ticking exercises and PR stunts to an essential tool that enables organizations to consider and communicate their social and environmental impacts".

However, the quality of CSR reporting and disclosure has often been called into question due to its unreliability. With the growing demand for clear and open communication on CSR, corporations are turning to the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, which help to improve the usefulness and quality of their disclosure on environmental, social and economic impacts and performance.

This is reflected in laws and requirements that are put in place to not only protect businesses, but also consumers. It is often argued that mandatory rules are an important tool that force corporations into doing the right thing in line with authoritative regulations. In this regard, the financial crisis as well as explosive environmental scandals prompted a push for mandatory regulation not only for these industries but also for those that command a considerable public presence.

Mandating CSR is hailed by some as a positive step in ensuring that business adheres to ethical and responsible practices and contributes to equitable and sustainable economic development. Also, it arguably provides the opportunity for monitoring and exposure of unethical business practices.

Similarly, mandatory CSR reporting puts companies under obligation to disclose certain information (or the threat of inclusion in a public list of poor performers) as a powerful incentive to improve their social and environmental performance.

Some governments have imposed mandatory regulation on CSR activities, such as India who, under its Companies Act is the first country to legislate CSR — a key provision being that companies of a certain turnover and profitability to spend 2% of their average net profit for the previous three years on CSR. Countries such as Qatar, Denmark, Indonesia, UAE and others are also demanding social, environmental and ethical reporting from companies to keep check on their activities and behavior.

Another argument for mandatory regulation is improved performance. Advocates of mandatory regulation point to positive outcomes such as better performance structured planning. And business viability, while reducing risks, inefficiencies and exposure. La Porta et al (1998) found that stronger legal regimes are associated with higher growth and performance. Despite this, notably, the mandatory approach is a sensitive area for many corporations who regard it as being under unwanted surveillance.

Monitoring by government or regulatory bodies has never sat easily with the business world. While some companies believe having a CSR strategy to be in their best interest image-wise, many feel that CSR is a concept that is voluntary in nature and that it should be their choice whether to opt-in or out.

The mandatory approach is often considered too rigid in its one-size-fits-all that is not always compatible with industry-specific governance mechanisms. The absence of flexibility has the effect of a double-edged sword: (1) companies seeking to get around the stringent guidelines and, (2) using their highly-regulated status as a cover of legitimacy while being cynical in the knowledge of loopholes and other avenues through which they can avoid enforcement. The suggestion being that the mandatory approach can fall victim to corporations' determination to continue working in their own self-interest by any means necessary.

It can also bring unnecessary burdens — a critical negative of mandated CSR is the cost Many factors contribute to what may be viewed as unreasonable compliance costs: substantive standards are too high, the transition time for coming into conformity is too short, or the regulation is inflexible (OECD, 2000).

More recently, new thinking on CSR regulation has begun to lean towards the comply-or-explain method rather than enforced monitoring. This allows companies to voluntarily adopt CSR but are mandated, in their reporting, to explain where its governance system differs from best practice guidelines. The EU sees the situation as needing better regulation which can be achieved through impact assessments (IAs).

Advocates for regulation also put forward the idea of regulatory alternatives such as non-regulatory options in the form of taxes, charges or subsidies that have the potential to be more efficient or cost-effective.

Conclusion

In summation, it can be concluded that the debate on CSR regulation is conflicted. It is agreed that some form of regulation is necessary but self-regulation is seen as too passive and subject to abuse. Many corporations agree that better regulation is needed especially if it does not include a burden of costs, while the comply-or-explain option would ideally be more acceptable as it offers companies' sufficient control in their CSR approaches while adhering them to mandatory disclosure. Still, for today's economic climate, mandatory regulation while regarded as too rigid as well as costly makes for more transparency and clarity, brings benefit to governance mechanisms, and heightens stakeholder and consumer confidence.

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