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Why Corporate Social Responsibility Matters & How It Impacts Business

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ABSTRACT--There is a convergence to the meaning of CSR to fall within the corporate governance framework. CSR is where business values society. Since 1997, corporate governance (CG) started to incorporate sustainable development goals (SDGs) along with its traditional role as a monitoring mechanism against corruption and mismanagement. The primary purpose of this paper is to identify the extent to which corporations embed communities and environmental values corresponding to their global presence and power. Through a holistic analysis of the relevant developments relating to the topic, the author finds that OECD had initiated the call to incorporate principles of good CG practice. There is already a series of international discourses and actions to address the human rights abuses committed by companies through instruments such as UNGC and UNGP. The technological advancement through the 4th Industrial Revolution has empowered companies even more. 4IR instead may empower the consumers to set the pattern for businesses to promote SDGs agenda. 4IR revives shareholders' participation and stakeholders' engagement. Similarly, investors would follow suit. Corporations with an excellent record of SDGs, attract and retain talents. A win-win situation for business and society, but much of which depend on the soft law approach to the notion of CSR.

Keywords: ***transparency, accountability, corporate citizenship, shareholders activism, integrated reporting***

I. INTRODUCTION

A. The Evolving Meaning Of CSR

Corporate social responsibility (CSR) refers to business strategies that value society. The essence is that business goals were undividable from the communities and environments within which they operate. Businesses have to plan their strategy to conform with the "triple bottom line", which is of social, environmental, and economical.

The "triple bottom line" reporting was introduced in 1997 by John Elkington to make the business run in line with the sustainable development goals (SDGs). Sustainable development, according to the Brundtland Commission's Report, Our Common Future, is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". (John Elkington of the UK consultancy, Sustain Ability, (Elkington, 2018).

B. CSR and CG

The concept of corporate social responsibility has become part of the corporate governance framework. The traditional view of corporate governance provides a control mechanism to mitigate risks, corruption and mismanagement. The conception, by and large, is still prevalent as manifest from the corporate scandals over present times. The crises range from false reporting, engaging in money laundering or other unethical activities.

Scandals of Enron and WorldCom showed how fraud-based cases following the release of false reporting and accounting discrepancies had brought about substantial change through Sarbanes-Oxley legislation in the early years of the new millennium. Despite the changes, similar debacles continue through a series of cases like Parmalat, Satyam, Goldman Sachs and it is linked with debt-ridden IMDB, Ghosn removal from Nissan, and Olympus and Toshiba scandals of Japan.

Besides, there are also crises centred on the damages caused to the environment and the people which inspired ideas to incorporate corporate governance standards to address them. The public expectation rises on measures to protect public interests and against the vindicating of inferior products or services by the corporations. Cases like BHP, and long ago Chernobyl and Bhopal were examples of the environmental disasters which trigger public outcry.

Giant tech companies like Facebooks and its affiliate WhatsApp, alongside Google, were put into inquiry for the abuse or mishandling of data. Similar cases are Volkswagen in deceiving low-emission through an illegal device, Starbuck for the price hike without justification, United Airlines for mistreatment of the customer, etc.

SDGs nonetheless have a broader aim at sustainability and accountability. Alongside SDGs, corporate governance is supposed, therefore to incorporate SDGs issues through its monitoring mechanisms. Corporate governance includes similar concepts such as corporate citizenship, or corporate responsibilities in general with its variances, including corporate criminal liability and corporate reporting. As corporate Governance framework has already incorporated certain SDGs, CSR ensues to become part of the notion of corporate governance.

In Malaysia, the Malaysian companies' regulator, Companies Commission of Malaysia (SSM) introduced SSM's Corporate Responsibility Agenda as part of the corporate governance practice with the inclusion of sustainability and community elements of "Driving Business Beyond Profitability" since 30 June 2009.

Sustainable development is among the central pillar of the Malaysian Code on Corporate Governance 2017. At

the same time, numerous legislations and international instruments provide for SDGs agenda to apply to corporations. Good corporate governance is aimed for long-term sustainability wherein economic, environmental and social responsibilities become integral to the company's performance.

II. FINDINGS AND DISCUSSION

1. SDGs and Companies Omnipresent Of Companies

CSR, as part of the notion of CG, should take companies as international players. Corporations, especially the MNCs, have expanded their global presence in a variety of ways. The rapid expansion of multinational corporations' activities has prompted renewed international discourse and action over the past decades to address the human rights abuses committed by companies (Weissbrodt, 2014). International law and human rights law have to deal with issues such as shielding people from infringement by companies, alongside the government.

Beside their global presence, there is a need to assign companies with a degree of responsibility commensurate with their presence and power, especially in the light of the rapid development and deployment of emerging technologies. 4IR will leverage corporate governance significantly, namely through cloud computing, big data, artificial intelligence (AI) and IoT (Internet-of-Things). Businesses has to deal with these emerging technologies by exploring new ways to restructure and redesign internal strategies and systems.

PC and Internet during the bygone era were meant for streamlining procedures and operations. Technologies within 4IR are making systems and platforms increasingly smarter. The business of the companies have to take advantage of the advancements offered by the 4IR. They need to align their business objectives with the input by experts in AI, robotics, mathematics and engineering to capitalism on the rising opportunity.

Within a company, 4IR has and will continue to bring about smart systems for management which yield greater transparency and accessibility to essential data. Their presence would certainly have some bearing on policies generation, and their inputs are crucial during deliberation and enactment of policies and laws. There is a rising need for a new governance model which goes well with the greater transparency and accountability harnessed with a moral compass to steer the company in the right direction and guided by ethical choices and responsibilities.

The United Nations Guiding Principles on Business and Human Rights (UNGPs) was introduced in June 2011 and endorsed as the first global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity.

The UN Global Compact is an initiative to achieve SDGs aimed mainly at businesses. The UN Global Compact pleas companies to conduct business responsibly and emphasises the importance of innovation and collaboration in their pursuit to solve current societal challenges.

Companies are inspired to meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. According to the initiative, the companies are encouraged to incorporate the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity. The principles reflect the responsibilities of the companies to people and the planet by promoting compliances to those international instruments. This approach also manifests the business case of the SDGs as it is setting the stage for long-term success of the companies.

2. CSR's Remedies and Enforcement

Most of the principles incorporated under the CSR constitute soft laws. The hard part of the structure is enshrined under the concept of directors' duties and their appointments, and also specific minimum requirements relating to audit and internal control under Malaysian Companies Act 2016 (CA 2016)

Directors owe duties of loyalty and duties of care and skill to the company, which usually interests equate to those of the shareholders. Section 213 of the Malaysian CA 2016 provides that a director shall at all times exercise his power for a proper purpose and in good faith in the best interest of the company. This duty is also referred to as a duty of loyalty of a director.

According to s 214, a director also shall exercise reasonable care, skill and diligence with the knowledge, expertise and experience which may reasonably be expected of a director having the same responsibilities (objective test); and any additional knowledge, skill and experience which the director has (subjective test). The interpretation of hard law on directors' duties may hardly include the notion of other stakeholders as part of the meaning of the company to whom directors owe their duties.

There is rising recognition of shareholder primacy, namely where shareholders may participate and influence the decisions of companies to reflect the shareholders' interests. For shareholders, the rising of shareholder primacy promoted shareholder activism, whereby directors' stewardship may be subject to scrutiny for not properly taking account shareholders' interests. Malaysia Company law recognises the concept through section 195, where shareholders may make a resolution opposing the board's decision with certain conditions.

Shareholders, therefore, may override board because according to Sulaiman and Rachagan, (2017), this approachrevokes the traditional power is fully vested in the board to make business decisions and to manage companies. Shareholder primacy per se, however, is subject to many criticisms example Correia's critic for its tendency to favour short-termism. (Correia, 2014)

On another side, the concept of directors' duty includes duties to take into account stakeholders besides shareholders. Stakeholders include creditors, especially the unsecured creditors; employees; customers and typically member of the public, including consideration to environments.

Other stakeholders also assume the same stature as shareholders to monitor corporations. There are attempts by the legislature to impose specific duties to compel the company and its directors to protect public interests and environments. The UK s 172 of UK Companies Act 2006 has imposed upon the directors a duty to promote the success of the company. Still, at the same time, they have to give regard explicitly to the interests of its stakeholders.

The directors, through their decision-making process, may need to take into account the interests of shareholders, employees, suppliers and creditors etc. They are stakeholders whom the management should treat fairly. The legislation is, however, not without anomalies. The problem remains in that recourse for the remedies are not provided for those stakeholders if the corporations fail to take into account their interests. The problem is the main weakness for other stakeholders to enforce directors' duty supposedly owed to them.

Whistleblower protection law is among the immediate response by the legislature in support of the increased transparency and accountability.

The Whistleblower Protection Act, 2010 purports to protect persons making those disclosures from detrimental action by those in authority. The matter disclosed is to be investigated and dealt with and to provide for the remedies wherever applicable. The whistleblower protection law covers any member of the public and private sectors who discloses wrongdoings.

Among the disclosures that intended to be published are an abuse of authority, violation of rules and ethical standards, danger to public health or safety, gross waste, illegality and mismanagement. The disclosure should be made in “good faith” based on “honest and reasonable grounds at the material time” without necessitating hard evidence from the whistleblower. The duty of gathering evidence will be tasked to the investigation unit of the enforcement agencies to ensure that the whistleblower is not compromised.

Corporate governance has, in many places, the enforcement strategy through reporting mechanisms. The 'comply or explain', or similar expressions such as 'comply or else' and 'apply or explain the alternative' are among the self-regulation strategies. The regulators may only enforce the non-compliance if they are neglected without explanation. This strategy are part of the soft law regime governing the implementation of CSR.

Without clear evidence of a breach of prescribed duties, there is little scope for the stakeholders to take actions against the companies or the directors. Hence, many businesses take corporate social responsibility at lukewarm as the initiative may only add cost and focus. Alternatively, they may pretend to observe CSR such as through greenwashing’ activities.

However, as consumers have become more conscious and educated on issues like global warming and unethical labour practices, they have begun entailing businesses to initiate policies that take into account society rather than just the business’ bottom line. There is a shift in the current trend within the business for companies to focus beyond their bottom lines. Sixty-six per cent of online consumers said they would pay more for products or services from companies that are socially and environmentally responsible, according to a 2015 Nielsen survey.

That same survey also found that consumer-goods’ brands with a commitment to sustainability outperform those that do not. (Mondo, 2016) Consumers are now more educated and conscious of sustainable values. They will take their money and business to a company that does practice CSR.

Besides the potential loss of socially conscious consumers, corporations with an excellent record of SDGs, attract and retain talents. CSR impacts a business’ ability to attract top talent and affects employees’ job satisfaction levels and retention rates. CSR conscious businesses tend to invest more in their employees and to ensure a conducive workplace for their employees.

They would feel that working for a socially conscious employer gives them a sense of purpose. The next generation of workers currently entering the workforce seek out employers with a clear and effective CSR strategy. Quality talent in 2016 wants to be employed by a transparent company to do good while also making a profit. Businesses may run a risk of losing their top talent to companies that prioritise a CSR strategy.

Similarly, investors would follow suit. Investments pattern may also influence corporate governance practices. There is a rise of ESG investing in which there is a paradigm shift within the markets and societies in the wake of 4IR. The big challenge for most corporations is to adapt to a new environment that favours smarter, cleaner and healthier products and services. The industrial era of the past gave less regard to pollution and labour issues.

For investors, ESG data is essential, which leads to identifying those companies which comply with standards and are performing and well-positioned for the future. For responsible investors, ESG investing helps responsible investment with the right to vote with their money. Moreover, for policymakers, this recognised market-led development ensures that SDGs are integrated into profit-making.

Nowadays, ESG investing has matured to the point where it can significantly transform the market for the better. As corporations and investors experience growing influence and power, their actions and decisions increasingly shape the future.

3. *Integrated Reporting*

A corresponding development that reflect the need of effective reporting occurs through the integrated reporting. Integrated reporting is inspired by the initiative put forth by the movement of the International Integrated Reporting Council (IIRC) which describes itself as a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs.

Their goal is to “promote communication about value creation as the next step in the evolution of corporate reporting.”

Integrated Reporting measures corporate assets across a broader spectrum. Integrated Reporting attempts to quantify six corporate assets, or as the IIRC puts it, six capitals: financial, manufactured, human, social and relationship, intellectual and natural:

> "[These six capitals] represent all the resources and relationships organisations utilise to create value. An integrated report looks at how the activities and capabilities of an organisation transform these six capitals into outcomes."

There are concerns by the corporate community about the perceived complexity, cost, and litigation risk from integrated reporting. IIRC maintains that an integrated report is "a concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term."

Corporate reporting has become an essential tool to demonstrate accountability on the part of the management and the companies. Reporting focuses mostly on financial and regulatory reporting. There is a growing tendency for the companies to conduct an integrated report consisting environmental, social, and governance (ESG) reporting (or sustainability reporting).

An integrated report comprises communication of how an organisation's strategy, management, perfor mance, and prospects lead to the creation of value over time by taking into consideration the external context of the company's environment and various shareholders. The framework of an integrated reporting is put forth by the International Integrated Reporting Council (IIRC) (IIRC, 2018)

Integrated reporting is the way forward for SDGs in 4IR. There are much endorsement and continued working to advance the practice of integrated reporting. Many of these have been prompted by calls for change in corporate governance, such as is the case in Japan and South Africa, where Integrated Reporting is now mainstream. There are also some significant advances led by corporates them selves, such as GE (which in 2018 issued its first integrated report), that are sending strong signals across international markets.

In the U.S. in particular, there has been considerable progress in the past year or so, with many technology companies now declaring their support of the IIRC where the technological ability and innovation coupled with integrated reporting.

4. *Transparency and Its Downside Risks*

Stiffening the requirement for more disclosure has been historically the response by the policymakers such as by the US in the face of corporate scandals and systemic failures. The disclosure-based regulatory framework is adopted by many countries with the belief that it can reduce in government intervention and investors can protect their interests.

The United States Securities and Exchange Commission, for instance, expanded disclosure onboard risk oversight, executive remuneration, and compensation consultant conflicts of interest.

Technologies help every director to leverage data and automation together, blending data skills, creative insights and analytical thinking to boost decision making. At the same time, they are now subject to more scrutiny by their constituencies of different stakeholders. Technologies generate transparency which accelerates information gathering. The information helps people coordinate their efforts, such as via social media and makes those in positions of authority accountable to others, especially by the shareholders.

Transparency, as a result of disclosure-based principles, may yield an appealing effect. Disclosure-based regulation which is premised on more excellent and higher quality of information disclosed by corporations, will bring about greater transparency in the market, thus empowering investors to make informed investment decisions.

A better-informed manager, investors and stakeholders will benefit from the long term attainment of value within a corporation through enhanced wisdom of crowds effect or crowd sourcing decision making. The opportunists, like in insider trading that exists due to imbalanced access to information maybe significantly minimised.

At the same time, it poses a risk of its own. Recently, in Malaysia, the Malaysian Code of Corporate Governance 2017 introduced the requirement of public listed companies (PLCs) to disclose the remuneration of each director, including fees, salaries, bonuses and other rewards. These changes, aimed at improving integrity in decision-making and effective management oversight, create additional demand and more accountability on the CEO.

CEO demands higher salaries to compensate them for the increased career risk they face since greater transparency increases managerial incentives to engage in costly and counterproductive efforts to twist information (Hermalin & Weisbach, 2015). Increase in monetary benefits means an increase in responsibilities, liabilities and accountability of the CEO.

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There are cautions for the business should transparency is not dealt with wisely properly. There is always a need to strike a balance by expecting responsibility on the part of those bestowed with information. Too much information in the irresponsible hands causes multiple problems like spreading of fake news, especially if the information is rigged or partly revealed. It may also invite vague decision-making authority and the rising need for too many meetings. The challenge is how to get the balance between transparency and responsibility.

From a management perspective, the ease of access to data may give rise to shareholder activism and proxy contests. Both movements are closely related. In the last few years, we have seen an increasing tendency of shareholders to propose proxies to be voted on at a company's annual meeting. Usually, a public corporation's board of directors asks its shareholders to vote on new directors, along with various proposals related to corporate governance issues. (Brannon, 2019)

Although the activists' agenda may sound appealing to shareholders, they might put forth proxies on matters which is irrelevant to the core mission of the company. Even worse, the issue is relating to various environmental or social policies that could arguably and potentially hurt the company's long-term profits and long-term shareholder value. For instance, most oil companies have had to deal with proxy votes that would require them to study their impact on climate change or to pursue a corporate strategy that would lessen its reliance on energy production.

Some commentators argue that achieving political changes via the proxy ballot should not be the way of instilling changes in corporate behaviour. The proxy process eventually may obstruct the fundamental of businesses thrust if not properly instituted. The lefties might be winning a lot more unproductive policy fights regardless of their success at the ballot box the effect of shareholder activism on long-term company value. The eventual rise and fall of the shares' price may attract unwanted speculative activities. (Hopkins, 2018)

This anomaly triggers question should minority shareholders be on the alert when an institutional investor who tend to become activist enters the company.

Shareholder activism can generate value-destructive strategies for short-term financial gains at the expense of long-term development and profit. Shareholders must carefully examine the value enhancement potential of the company. As with any mechanism of corporate governance, shareholder activism is not without its flaws, but when used appropriately, it can have a significant positive impact.

III. CONCLUSION

The evolution of CSR has undergone a few phases of development. CSR is very much a corporate governance concerns as issues like environment and community are subject to intense scrutiny by the business' stakeholders. Integrated reporting has become a useful tool to monitor the compliances of many CSR principles. Besides, much of the environment and labour concerns have become part of the hard laws the corporations must adhere. The success of businesses is no longer dependant on the bottom line of profit earnings.

Businesses have enjoyed a tremendous gain through technological advancement in the 4th Industrial Revolution erato increase their competitiveness. At the same time, 4IR also empower the consumers to set the pattern for businesses to promote SDGs agenda. 4IR revives shareholders' participation and stakeholders' engagement.Similarly, investors would follow suit. There are ESG and 'responsible financing' that drive investors to become more critical with their investment portfolios.

Further, corporations with an excellent record of SDGs may attract and retain talents. The more attention corporations give to the CSR agendas, and the more likely their businesses become more competitive and relevant. A win-win situation for business and society, but much of which depend on the soft law approach to the notion of CSR. Self-regulation in implementing the principles is more appropriate example through "comply or explain" or the similar mechanisms of the corporate governance codes. Further, strategic collaborations with the NGOs and communal constituencies will promote the SDGs agenda more productively. However, as a little reminder, CSR agendas can be susceptible to detrimental politicisation among the actors involved. If not carefully handled, CSR may instead bring the businesses down following the negative repercussions examples through activisms and proxy contests.

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