CORPORATE RESPONSIBILITY & THE NEED FOR LEGISLATIVE PUSH: UNPACKING SOCIETAL RESPONSIBILITY CONCERNS IN EUROPE AND EMERGING ECONOMIES

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INTRODUCTION

The debate concerning corporations and their societal responsibility is not new and over the years has been part of a dynamic journey. Beginning from what was considered to be an infeasible confluence, we now have moved on to an era of passive and selective acceptance where corporations claim to be actively aligning their business priorities with the objective of sustainable development and terms such as corporate social responsibility (CSR), corporate responsibility, corporate citizenship and corporate sustainability resonate within the corridors of corporations. Despite the burgeoning popularity, the inherent complexity and ambiguity of this domain has led to various gaps in the implementation of corporate citizenship strategies at a global level. This necessitates a deeper exploration and a more nuanced understanding of corporate responsibility and its application, especially the areas concerning the social aspect. As Campbell aptly stated, "*socially responsible corporate behavior may mean different things in different places to different people and at different times*".[i] For instance, corporate responsibility and its role towards sustainable development in the European Union seems to be indubitably focused on the environment part[ii] as opposed to the emerging regions such as India and South Africa where the focus is more on the social part of sustainable development and accordingly the primary focus of corporate responsibility seems to be the amelioration of communities and society altogether[iii]. Further, these emerging economies have also enacted hard legislation obliging corporations to contribute towards the societal development through specific legislation on CSR which is not the case in Europe[iv]. Beginning with nomenclature and definitions[v], the differences concerning socially responsible corporate behavior today also extends into contemporary debates about what constitutes core elements and accordingly, the drive behind their implementation. the need for a legislative push regarding the social impact initiatives by corporations. Through the present article we aim to unfold these complex differences. This article also highlights whether there are any lessons to be learned from emerging economies when it comes to fully comprehending the true meaning of corporate responsibility towards society and whether written legislation is indeed the push required for corporations to start contributing towards communities across the world.

CORPORATE RESPONSIBILITY: IS THERE ANY?

We begin with one of the most debated, yet integral to this discussion, question: are corporations responsible for the planet and people in any way? This debate is not new and has been ongoing since the early 70's. However, since then the role, and consequently the responsibility, of corporations in society has undergone a paradigm shift. In a highly interconnected global economy, we are witnessing a new world order where corporations, once relegated to a passive economic role, have now assumed a more dynamic and influential position in various domains of global policies. Over time an increasing number of scholars and practitioners have realized and reiterated that multinational corporations are amongst the most powerful institutions in the world and considering their size and resources, their impact on people extends far beyond the conventional parameters of corporate profits, potentially affecting every aspect of an individual's life[vi]. "*Responsibility walks hand in hand with capacity and power*"[vii] and hence, corporations today are meant to be more than just profit earning legal entities, they are global corporate citizens and owe contribution towards societal needs and expectations. Moreover, common sense dictates that thriving businesses rely on healthy societies for their success. Taking responsibility for the well-being of the communities they impact (which is essentially the whole world when we talk about multinational corporations) is not just the right thing to do morally, it's also good business!

CORPORATE RESPONSIBILITY: PRESENT STATUS

With innumerable measuring standards and the expanding volume of sustainability reports it seems like Europe might have embraced this message.[viii] However, this is not entirely accurate, and the reality is more nuanced. Whilst the corporations in Europe do claim that they have converged towards the path of sustainable development and are contributing to it as part of their respective corporate strategies, the path seems to be disproportionally clinging only towards the environmental part of it[ix]. Whilst it is imperative for the world, including the private sector, to focus on the planet the question emerges: why does this emphasis seem so disproportionate? Beyond the various crises affecting communities worldwide, the direct link between climate change and escalating humanitarian issues also underscores the urgency for a more balanced focus. Saving our planet is important but so are the people living on it, yet there is a prevailing trend of disparities in attention and action when it comes to the social aspect of the triple line. The reasons being provided by the policymakers and corporations for the same are innumerable ranging from difficulty in defining universal social indicators to concerns associated with evaluating and measuring social impact. According to the author however, all the complex reasons that underline the reluctance of corporations to prioritize social impact initiatives can be simply traced back to the quantitative nature of carbon emissions. Data that can be quantitatively presented is easier not only for the corporations who are eager to show through big numbers that they truly care but also for the policymakers who seem to be reluctant to dip their toes into the cold waters of defining social parameters or social KPIs for corporations[x]. However, as this article would present, whilst these concerns are valid, they are in no way barriers for companies and countries to put some focus on social responsibility as can be observed in some of the countries on the other side of the world.

As opposed to Europe, corporate responsibility has been an intrinsic part of the corporate identity in emerging economies. These countries exhibit a notable emphasis on their local communities as manifested in their respective corporate responsibility legislation. Hence, corporations in these regions also align their business practices more closely with the ethos of societal responsibility. For example, in South Africa, corporate responsibility is integral to business operations and focuses on the community as a whole, including both planet and people, ensuring that sustainability efforts by corporations are not limited to being merely a display of the highest figures of environmental KPIs. The corporate citizenship in South Africa has been notably shaped by the Broad-Based Black Economic Empowerment (BEE) policy: a defining institutional driver shifting corporate responsibility from a philanthropic activity to a prescriptive one. Apart from this, the King Codes of Governance (in particular the third one) are another set of informal yet influential guidelines. Although these reports are merely directory, the Johannesburg Stock exchange (JSE) in 2010 mandated all listed companies to comply with its principles included integrated reporting[xi]. As a result, sustainability efforts in South Africa seem to have percolated in the very fabric of corporate priorities there with corporations also focusing on issues such as education and community development[xii] apart from environmental concerns.

The other emerging economy in focus is India which was one of the first countries to have a written legislation requiring a mandatory CSR contribution from corporations in 2014. The current CSR law mandates corporations to spend a minimum of 2% of their net profit on CSR activities contributing to social development. Whilst there is no official definition of CSR in India, the official description of the same provides valuable insights into what role has been assigned to corporations when it comes to the realm of corporate responsibility. The description states that

> "*CSR extends beyond Corporate Philanthropy: It is a collective responsibility to build a society which supplements Government's efforts to achieve inclusive growth which includes broad-based benefits and ensures equality of opportunity for all* "[xiii].

It is evident from the description that corporate responsibility in India encompasses the corporations taking responsibility to build an inclusive society and whilst that includes conserving the environment, it does not leave people behind in those efforts. According to the available data, many of the CSR initiatives in India have been focused on the sectors of education as well as health & sanitation.

Both the abovementioned countries have different definitions, regulations, and focus areas concerning corporate responsibility. However, what they have in common is the essence of positive obligations towards communities that these countries have endowed to corporates, i.e., ensuring support to people along with planet which seems to be missing in Europe. Some scholars[xiv] state that social impact initiatives are not particularly attractive to developed regions (in this case, the European Union) since they do not have difficulties in meeting community needs and many times have a sophisticated NGO sector for the purpose. Even if one assumes that one of the primary reasons for the focus on social impact by the emerging economies is simply the need of these countries and their governments to rely on corporations to step in because of financial and resources requirements, a critical examination of present-day world prompts the question: does the same imperative not hold true for Europe?[xv]

Following Covid-19 and Russia's aggression against Ukraine, the European economy has been pushed to a corner with struggles that seem to be never ending.[xvi] According to the opinion adopted at the European Economic and Social Committee, the European Union has recorded its highest level of inflation since the introduction of the Euro with more than 96 million people at risk of poverty[xvii]. Additionally, data reported that general population in 24 out of 28 European countries experienced an all-time low in terms of economic optimism with growing fears of unemployment and inflation[xviii]. Further, data stated that 17.3 million people in Germany were affected by poverty or social exclusion in 2022[xix]. As Europe grapples with both economic challenges and the erosion of social cohesion, one wonders how long the European policymakers are willing to wait until they realize that the role of corporations is integral for ensuring enduring economic resilience, and the overall well-being and security of the continent. At this stage, the need for corporates to proactively embrace their societal responsibilities is not just a moral duty but a strategic imperative.

NEED FOR LEGISLATION

This leads us to our next important question: contending corporations do owe a responsibility to the planet and society, do we really need governments across the world imposing these liabilities on corporations through legislation?[xx]

The ambitious goal of holding corporations responsible through statutory instrument has been met with strong criticism by not only corporations (for obvious reasons) but also by various scholars and other stakeholders in those countries which have implemented one of such regulations already where many have expressed the opinion that a compulsory corporate contribution takes away the intrinsic motivation of the corporates to do so. It has been reiterated that the domain of CSR, especially in terms of societal impact, presents a challenge with respect to drafting uniform corporate strategies since a standardized approach does not work. This problem would only be amplified with politicians coming up with vague CSR laws leaving a huge leeway in terms of interpretation and implementation. Additionally, criticism also included that forcing corporations to contribute towards societal causes might lead to initiatives that are simply superficial and only contribute to impact washing. Even though the criticism mentioned above does provide a glimpse of obstacles the governments and corporations face once they set onto the path of statutory enforcement, author argues that this criticism should serve only as a precautionary aid to assist us while we prepare ourselves to move onto this path to guide us better when framing and implementing those policies. It should in no way serve as the ground cause for letting corporate responsibility towards people remain a "good will gesture" by the companies. History has demonstrated that the resolution to any of the great social problems in history such as slavery, environmental destruction, labor protection rights did not come from voluntary mechanisms. Whilst intrinsic motivation is good, it is not reliable. Looking at the world that seems to be slowly moving towards the horizon of indigence and devastation would it be justified to simply hope that corporations all across the world are able to see beyond their profits and act as responsible citizens on their own contributing towards the rescue of the society that has given them so much? The answer to the above unfortunately is not affirmative and hence, requires the written word of law. If we want the corporate world to adapt their behavior and redefine their core norms according to the societal needs, the same would be possible only through the legally explicit recognition of societal responsibility. For instance, the 2% limit set by India created a new strong social norm that was legitimized by the government and the same can explain an increase in the overall CSR spending in India over the years. Further according to a study conducted to examine the impact of sustainability disclosure regulations on firms' disclosure practices[xxi], the presence of such regulations led to a significantly increased disclosure supplemented with efforts to increase the comparability and credibility of the disclosed information. The results of the study suggested that the respective disclosure regulations resulted in more quantitative as well qualitative disclosures emphasizing not only their symbolic value but also their tangible, real-time contribution as well as real time value of such mandatory regulations. Without mandatory legislation many of the social impact initiatives end up being one-time philanthropic acts without any continuity or follow up leading to no true impact. For instance, during Covid-19 the world witnessed a glimpse of the potential the corporate world holds when it comes to societal responsibility, however most of them were unfortunately just one-time donations or events without any strategic push behind the same which meant that the corporate responsibility measures towards different communities against the effects of Covid-19 ended way before the pandemic or its long-term effects did.

CONCLUSION

In light of the foregoing discussion, it is evident that the present state of corporate responsibility in Europe, and indeed in various parts of the world, calls for a substantial realignment to match the impactful contributions observed in the abovementioned emerging economies. The urgency of this matter becomes increasingly apparent as policymakers worldwide are compelled to recognize the paramount political responsibility that companies bear towards communities, especially considering the tangible benefits such corporate responsibility has demonstrated in fostering societal well-being and resilience in times as mentioned throughout this article. At a time when the world including Europe grapples with economic uncertainties, social disparities, and climate injustice the need for proactive corporate engagement towards sustainable development in bolstering the well-being and resilience of societies has never been more crucial. The pressing need for legislative reforms to bridge this gap and mandate social impact initiatives an intrinsic part of responsible corporate practices becomes undeniable, marking a pivotal moment in reshaping the landscape of corporate responsibility contributing towards true sustainable development.

At the heart of the African philosophy of Ubuntu lies the renowned Zulu proverb, *'uMuntu ngumuntu ngabantu*,' eloquently capturing the profound notion that *'I am because you are; you are because we are*.' This expression underscores the interconnectedness of humanity, emphasizing a collective sense of belonging. In the context of corporate responsibility, it serves as a poignant reminder of the intrinsic duty corporations hold towards people. Corporations are an integral part of society. They derive their legitimacy from the symbiotic relationship with society, relying on communities for essential resources. This interdependence necessitates an inherent responsibility towards the well-being of these communities and society at large. During the global crises of the Covid pandemic and Russia's incursion into Ukraine, the world witnessed a fleeting yet illuminating moment of conscientious corporate stewardship, as businesses expressed their commitment to ethical principles by taking a collective stance. However, this commitment needs to transcend selective one-time events forging a sustained impact that resonates far beyond isolated incidents. As the world drowns into the perils of its own making, it is looking up to the corporate world with the hope to redeem the future that humankind once envisioned for itself. Therefore, social impact initiatives need to be part of the core strategic corporate priorities across the world and the same needs to be realized through a legislative push by countries right about now because honestly, the time is running out.

ABOUT SURPREET KAUR

Source: Private

Surpreet Kaur is a Chevening Scholar with a background in law and a focus on international development. Her work explores the intersection of law, social justice, and global issues. After completing a Master's degree in International Law from London School of Economics and Political Science, she embarked on a career in the Indian judiciary. Following a valuable experience of more than two years as a judge in Delhi, Surpreet pursued a second Masters at Ruhr Universität Bochum focusing on sustainability and corporate ethics. Currently, Surpreet utilizes this diverse background as a Social Impact Strategy & Partnerships Manager at Beiersdorf. This experience, combined with her academic expertise, informs her insightful writing on a range of social issues.

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[i] Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review* 32(3): 946–967.

[ii] https://ssir.org/articles/entry/fixing_the_s_in_esg#

[iii] The three pillars of sustainable development and accordingly the triple bottom line framework are economic, environment and social; also referred to as profit, planet and people.

[iv] Whilst there are a few legislations that require corporations to take action and report in the domain of environment as well as regarding several aspects of working conditions, there is no legislation requiring corporations to take action or even report on what they are doing for communities (local or otherwise).

[v] The term corporate responsibility is also synonymous with terms such as corporate social performance (CSP), corporate sustainability, corporate citizenship and corporate social responsibility whilst incorporating similar principles and responsibilities for corporations.

[vi] Wettstein, F. & Waddock, S., 2005. Voluntary or mandatory: that is (not) the question: linking corporate citizenship to human rights obligations for business. Zeitschrift für Wirtschafts-und Unternehmensethik, 6(3), pp. 304-320.

[vii] Josiah Gilbert Holland

[viii] Based on the quantity of regulations passed focused on the responsibility of corporations in the domain of sustainability, the European Union is clearly leading the way. Some of the instances are: European Green Deal, EU Taxonomy Regulation, Circular Economy Action Plan, and more.

[ix] https://www.cnbc.com/2020/12/21/sustainable-investing-accounts-for-33percent-of-total-us-assets-under-management.html

[x] https://www.euractiv.com/section/economy-jobs/news/social-taxonomy-risks-death-by-commission-neglect/

[xi] JSE FTSE/JSE Responsible Investment Index Series| Johannesburg Stock Exchange https://www.jse.co.za/services/indices/ftsejse-responsible-investment-index-series

[xii] https://trialogue.co.za/20440-2/

[xiii] https://www.csr.gov.in/content/csr/global/master/home/home.html

[xiv] Lin, Liwen, Mandatory Corporate Social Responsibility Legislation around the World: Emergent Varieties and National Experiences (February 1, 2020). University of Pennsylvania Journal of Business Law, Forthcoming.

[xv] Whilst the narrow regional focus is not the ideal way to go when we talk about communities and society, assuming that to be the case considering the limited scope of the present article.

[xvi] Keeping in mind that while the present article was still being drafted, the world is witnessing another humanitarian catastrophe unfolding in Gaza. It is pertinent to mention here that the author is aware that these are not the only crises happening and in fact there are several others taking place across different parts of the world.

[xvii] https://www.eesc.europa.eu/en/news-media/news/eu-records-highest-level-inflation-euro-introduction-965-million-people-risk-poverty

[xviii] https://www.edelman.be/sites/g/files/aatuss331/files/2023-03/2023%20Edelman%20Trust%20Barometer%20Global%20Report%20Region_EUROPE_FINAL_WEBSITE.pdf

[xix] https://www.destatis.de/EN/Press/2023/05/PE23_190_63.html

[xx] The scope of discussion in this regard shall be limited to corporate responsibility towards people and communities since the presence of already existing multiple legislation asking corporations to contribute towards environment already validate the requirement of written laws.

[xxi] Ioannou, Ioannis, and George Serafeim. "The Consequences of Mandatory Corporate Sustainability Reporting." In The Oxford Handbook of Corporate Social Responsibility: Psychological and Organizational Perspectives, edited by Abagail McWilliams, Deborah E. Rupp, Donald S. Siegel, Günter K. Stahl, and David A. Waldman, 452–489. Oxford University Press, 2019. The study was carried around four countries, China, Denmark, Malaysia, and South Africa that mandated sustainability disclosures prior to 2011.