CSR IN AN AGE OF ISOLATIONISM

Edited by David Crowther
and Farzana Quoquab

DEVELOPMENTS IN CORPORATE
GOVERNANCE AND RESPONSIBILITY

VOLUME 16

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EDITED BY

DAVID CROWTHER

Faculty of Business & Law, De Montfort University, Leicester, UK

FARZANA QUOQUAB

Universiti Teknologi Malaysia, Malaysia

SRRNet

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CONTENTS

LIST OF CONTRIBUTORS

Sham Abdulrazak	AIMST University, Malaysia
Rohaida Basiruddin	University Technology Malaysia, Malaysia
David Crowther	Social Responsibility Research Network, UK
Nupur Chopra	National Institute of Fashion Technology, India
Nicole Cvenkel	My Work & Well-Being Consulting Inc., Canada
Ana Maria Davila Gomez	University of Quebec, Canada
Shailja Dixit	Amity University, India
Anviti Gupta	Amity Business School, India
Wang Hong	Shanghai University, China
Noor Muafiza Masdar	Universiti Malaysia Sabah, Malaysia
Jihad Mohammad	Qatar University, Qatar
Farzana Quoquab	Azman Hashim International Business School, Malaysia
Harleen Sahni	National Institute of Fashion Technology, India
Sam Sarpong	Xiamen University, Malaysia
Amit Kumar Srivastava	Amity Business School, India
Elif Uzgoren	Dokuz Eylül University, Turkey

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THE CHANGING GLOBAL ENVIRONMENT AND CSR

David Crowther and Farzana Quoquab

INTRODUCTION

The global environment is of course always subject to change and development, and this is an essential part of progress. Depending upon our own perspective of course, we view this progress as either positive or negative, but it is perhaps significant that Fukuyama's (1992) argument of the triumph of liberal democracy marking the end of history is no longer cited. In fact, according to Menand (2018), Fukuyama has himself postponed the end of history meaning that the international environment if changing in uncertain ways. Indeed, we have witnessed the United States – the champion of democracy and international collaboration – draw back and hide under the mantra of *America first*. Equally we have witnessed the United Kingdom adopt an isolationist approach as it withdraws from membership of the European Union. Perhaps this means that the globalisation project is itself ending, although this yet remains to be seen. What is certain however is that the international environment is changing. This in turn will have significant effects upon all of us and upon the economic and political environments in which the world operates. It therefore becomes necessary to consider the effects that this will have upon corporate social responsibility (CSR) and the role of this book is to consider some aspects and potential effects. We start by outlining some changes which are taking place.

ACHIEVING SUSTAINABILITY

There are changes happening in the world and arguably it is entering an era in which dealing with the consequences of climate change, environmental problems and resource depletion is becoming significant (Hook & Tang, 2013; Swart, Robinson, & Cohen, 2013). Manufacturing industries and individuals both are

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coping with such changes. While firms are responsible for the air and water pollution and over utilisation of the natural resources, individuals are responsible for irresponsible and excess consumption behaviour (Chua, Quoquab, & Mohammad, 2019; Jaini, Quoquab, Mohammad, & Hussin, 2019). As a consequence, there are a number of issues which have become more important for manufacturing companies. One issue is that there is a general recognition that resource depletion is taking place (Northey, Mudd, & Werner, 2018). In effect, this means that resources are not just fully utilised but also used to such an extent that they become in short supply in the future (Vincent, Panayotou, & Hartwick, 1997). A lack of resources inevitably leads to increasing scarcity and therefore increases the transaction cost of their acquisition. It does so both because they become more scarce and difficult to acquire from more remote sources but also because competition for these limited quantities increases between the various firms which need to acquire them. It also makes international trading assume greater prominence.

Another issue affecting these companies is that of managing in a post-Hubbert's Peak world (Kerr, 1998) which requires ever more efficient use of energy. Naturally efficient operations reduce the cost of manufacture and this is an important factor in the development of sustainability (Waeyenbergh & Pintelon, 2002). It also implies the need for the most efficient use of the limited resources of raw materials to maximise their productive use. In order to address this problem, a holistic approach is required which maximises benefit to the world as a whole. Of particular concern is the best way to manage production and distribution of minerals to achieve a sustainable economy for the world.

It is argued that to attain 'sustainability', sustainable consumption behaviour needs to be embraced by the individuals (Quoquab, Mohammad, & Shukari, 2019). It directly and indirectly affects the preservation of the natural resources since the consumption habits directly impact the demand and supply chain which in turn affect the increase or decrease of environmental pollution as well as the consumption of natural resources (Gilg, Barr, & Ford, 2005). The present-day consumers became aware of such sustainability agenda and started to adhere to embrace the sustainability aspects in their consumption. It is reflected in their preference for green products, care for environmental well-being and embracing 3R principle (recycle-reuse-reduce) (Quoquab & Mohammad, 2019; Quoquab, Mohammad, & Shahrin, 2020). The sustainability will not be possible to attain in isolation. Not only organisations, other stakeholders of the society also require to take part in this movement.

The social contract between business and society has been revived in recent decades (Donaldson & Dunfee, 1994). The main concern of this social contract is for the future and the use of the term 'sustainability' is a manifestation of it (Seifi & Crowther, 2012). Such a term appears everywhere either in the discourse of a company's performance or in that of globalisation. Indeed, sustainability is a controversial issue for which there are so many definitions about what might mean by it (eg Toman, 1992; Vos, 2007). The widest definitions of the term is concerned about the impact of present actions upon the available options in future, and this is central to the Brundtland definition of sustainable development (WCED, 1987). By using the resources, now nothing will remain to be used tomorrow, which is especially important if the amount of such resources is finite. This makes the timescale of decision-making more significant and arguably changes the nature of decisions, and resultant actions, which need to be made.

THE ORGANISATION OF INTERNATIONAL TRADING

The economic model which the world currently uses for trading is based upon the market as a mediating mechanism. The philosophic principle of the operation of the market is based upon that of free trade with the implicit assumption that complete freedom will ensure the best possible outcome.[1] This is based upon the Utilitarian philosophy of Bentham (1834) which assumes that maximising the total of individual utilities will automatically maximise total utility for society and this is the ultimate aim. Although the concept of the tragedy of the commons was described by William Forster Lloyd in 1833 (Lloyd, 1833), it was not given this name and identified separately until Hardin did so in 1968 (Hardin, 1968) and so this challenge to Utilitarianism was not recognised at the time when Bentham was writing this philosophy.[2]

Since this time and the acceptance of the concept of the tragedy of the commons, the approach taken throughout the world has been to minimise the effects through development of the private ownership rights (eg Smith, 1981). Furthermore it have been argued by some that the regulation of the commons is in breach of the Universal Declaration of Human Rights.[3] The free market system continues to dominate although it is no longer being promoted so vociferously by its supporters as it was in the era of Milton Friedman. The global economic downturn of 2008 and the following years led to many disclosures of malpractice which have amply demonstrated problems with corruption and misuse of the power which are allowed by the free market. Additionally, protest movements have expressed discontent with the existing system. One example can be seen from the Occupy movement who claimed to represent the 99% of the population who had no influence and were no longer content to be 'the silent majority'.[4] Other examples more recently have been shown by Extinction Rebellion and by Greta Thunberg and her followers.

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[1]This assumption is actually made explicit by Milton Friedman and the Chicago School of Economics. It has also been made explicit by the US government during the era of G W Bush although this has become noticeably more silent during the era of Obama as president. We await what will happen during the Trump era of 'putting America first'.

[2]Lloyd used the example of unregulated grazing on common land in his example.

[3]Article 17 states that 'no one shall be arbitrarily deprived of his property' and regulation would have this effect.

[4]http://wearethe99percent.tumblr.com. Accessed on March 14, 2017.

Even those governments which have promoted the free market system recognise that it is not perfect and have some monitoring and regulatory oversight attached to its operation in their own areas of influence and in domestic markets.[5] The problem is that an imbalance of power between suppliers and buyers prevents the working of the free market and this is what led to some of the problems in the global failure of 2008. They also show the basic flaw with Utilitarian philosophy and the economics based thereon as overall benefit cannot be determined by summation which does not necessarily represent the best possible outcome (Crowther, 2011). Under this philosophy, a large benefit to one party would outweigh the small disadvantages of many, enabling the argument that the dominance of large business is for the benefit of society as a whole and not just the owners. Some regulation is deemed necessary to comply with any form of social contract and Roberts (2011) clearly makes the case. Thus even when the British government under the leadership of Thatcher began the privatisation process because they believed that the free market would inevitably lead to economic efficiency, they were convinced by the arguments of Veljanovski (1988; 1991) that regulatory oversight was essential until a full free market system could be established. The case for regulatory oversight of markets seems therefore to be overwhelmingly accepted although some still argue for its minimisation.

For any single country, regulation is a straightforward affair which just necessitates that the government insists that this is necessary and forms a body which will undertake the needed regulatory monitoring. The laissez-faire approach to regulation is common in the United Kingdom, and this allows industries to regulate themselves (Bartle & Vass, 2005). This has frequently proved unsatisfactory, and increasingly the government has needed to become involved in the establishment of regulatory bodies and the imposing of external regulation. When this happens, the burden of regulatory costs falls upon companies and means that resources must be devoted to dealing with this issue.

In an increasingly global environment, it is inevitable that markets cannot operate independently purely based upon supply and demand with price as a mediating mechanism. Some form of regulation is needed to provide the necessary governance of these markets. This of course poses a problem. It is relatively straightforward for national governments to impose regulatory oversight over the activity within their borders, but manufacturing production is increasingly a global business with resources being acquired from one country, used in manufacturing in other countries and then sold in multiple countries. This requires regulation on a global basis and some form of global governance of markets.

[5]The system is based upon the concept of perfect competition which is taught in introductory economics (e.g. Lipsey & Chrystal, 2015) but rejected thereafter. It is based upon the assumptions that there are sufficient buyers and sellers so that none of them is large enough to influence the market. In reality, the number of sellers is small and continues to become smaller through mergers and acquisitions until a very few sellers have a great power imbalance in their favour when compared to the individuals who are buyers.

GLOBAL REGULATORY BODIES

The introduction of any global regulatory system would require the agreement of global rules and the setting up of global regulatory organisations which have the power to sanction organisations or countries for non-compliance. This of course would require that national governments surrender some of their individual sovereignty to these regulatory bodies. This can be seen as problematic; evidence shows that even the surrender by the United Kingdom of some of its powers to the European Union has been so difficult that currently the British people have voted to leave the European Union and one of the main arguments has been about sovereignty. At a global level, such global regulation would require the agreement of all countries. At present, there are 195 independent countries attached to the United Nations, an increase of almost twice that of 60 years ago. Some countries are significantly more powerful – and therefore more influential – than others who would follow their lead, but reaching any kind of global agreement would be difficult and almost impossible. Even the major countries of the United States, Russia, China and the EU cannot agree about very much. In addition, it is apparent that the 27 countries of the European Union – even without the United Kingdom – have difficulty in agreeing about many things.

Having noted this, however, there are a number of global bodies which have managed to exist and operate in a more or less satisfactory kind of way. The most important one is the United Nations which has a number of subsidiary organisations within it. The main ones are the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council and the International Court of Justice. The regulation of international trade does not fall within its scope, and, for trade, the World Trade Organization (WTO) exists. This started in 1995 to replace the former General Agreement on Tariffs and Trade (GATT) which had existed since the World War II.[6] This unfortunately only provides a basis for extensive discussion concerning the reduction of taxes for international trading. Even in this limited aspect, slow progress has been because it still needs the agreement of all countries before it is agreed. For example, the Doha Development Round commenced in 2001 and collapsed in 2011. Similarly, the Paris Accord it is still pending with an uncertain future. Regional trade agreements, such as between the EU countries themselves and with other countries, exist, but this future is somewhat uncertain with the United Kingdom on the point of leaving. In a similar manner, it appears that regional agreements involving the United States are collapsing as Trump withdraws the United States from them. The prognosis for securing agreement amongst all countries to collaborate on controlling international trade does not seem to be promising.

If we consider the problem of the environment – as highlighted by such bodies as Extinction Rebellion then the situation is even more dubious. The United Nations Framework Convention on Climate Change was established in 1992,

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[6]General Agreement on Trade and Tariffs.

and this led to the Kyoto Protocol in 1997. This was eventually signed by almost all countries but the United States was a major country which did not sign. In addition, its neighbour, Canada, cancelled its agreement and withdrew from the protocol in 2012. An attempt to revise it through the Doha agreement has met with limited success so far and the future of climate change control is at best uncertain.

On this basis, therefore, it would be reasonable to argue that any global regulatory body formed to establish and monitor a collaborative approach to the functioning of international markets does not exist and is unlikely to be formed in the near future. If the need for any such body were to be accepted and a change in the market mechanism implemented, then there would be a need for the formation of a body to undertake this. This would be essential but would certainly not be easy to achive because global benefit is in conflict with national self-interest as well as corporate self-interest.

In this context, it is important to remember the argument of Popper (1957) regarding the poverty of historicism. In this, he argues that any analysis of the past, no matter how thorough, will not provide any guidance about the future and that therefore basing any expectations upon what has happened in the past is flawed and unreasonable. Thus, problems in the past do not suggest that problems will continue to exist and the world has found solutions to most problems eventually. Conversely, the fact that solutions have always been found in the past can give us no cause for optimism about the future. We must recognise the problems and work towards solutions.

THE NEED FOR REGULATION

All organisations need to have procedures for governance (Bevir, 2013), even an organisation consisting of just two people. Governance, in this context, is no more than a set of rules which define the way the individual members of an organisation interact with each other. It only has any other implication when it is in either a political sense or a corporate sense; in this case, it commonly refers to relations between the corporation and its investors. However, any organisation of two people or more needs some sort of rules to engage in common activity. It can be seen therefore that the markets for international trading need to have some rules of governance (Williamson, 1979) which will enable the necessary interactions to take place. The whole purpose of governance rules is to share procedures to enable the organisation to function and is based on the principles of transparency, fairness, accountability and the rule of law.

We have already discussed that the United Nations and similar bodies do not fulfil the role of world governance. It should be noted however that some authors (eg Rosenblau, 1999; Thakur & Weiss 2006) consider this as both possible and perhaps desirable. Moreover, Forum for a New World Governance exists as a pressure group in order to promote this concept.[7] Thakur and Vangenhove (2006)

[7]http://www.world-governance.org/spip.php?rubrique6&lang=en accessed 14/3/2107

have carried this concept further by proposing the establishment of bodies for regional governance which eventually turn into a global governance.[8] The problem is that writers such as these do not seem to differentiate between governance as a governmental function and governance as simple rules of operation. When this happens, then governance becomes inseparable from the political domain. It is in this arena such a proposal will fail to materialise as nations are reluctant to surrender their autonomy and sovereignty. Without any agreed sets of rules, however, international relations are subject to the vagaries of political alliances and to the use of power; inevitable then the most powerful nations will be able to exert the greatest influence. This of course is one of the problems of the free market mechanism which has been developed from Utilitarian Economic Philosophy.

Ensuring the governance of global trading markets, however, has no implication of any political context: it is merely a set of rules for process and dispute resolution, which is nowhere near as controversial as any political involvement. Basically, this already exists in the form of international trading – via the WTO rules which act as a default if no alternative agreement between countries exists (Mavroidis, 2015). This is also especially so for international finance (Quinn, 1987). In every case when the regulation of trading is not separated from the political domain (e.g. for oil trading), this can cause problems in both monitoring and enforcing sanctions and even in agreeing any change. In such a case, the regulation is of a competitive economic market, and therefore, it becomes difficult to separate the regulation of it from the use of power and therefore from the political domain. Indeed, this is probably one of the major causes of the difficulties which arise in the negotiation of trading regulations. It is helpful therefore to consider both the purpose of regulation and the environment in which it happens.

THE PURPOSE OF REGULATION

It has already been stated governance is no more than a set of rules and procedures which enable people to engage in some form of joint tasks or activities. As a matter of principle, these need to be agreed and written so that they are available to everyone involved. It is essential that it can be seen that everyone is following the same procedures or would take the same actions in the same circumstances. If the rules of governance are not comprehensive or are not fully written down, then this can lead to misunderstandings and even to corrupt activity or the misuse of power. This is true of any form of organisation and is not limited to commercial organisations or to governments. The instance of FIFA and the Sepp Blatter era where poor governance was held responsible for the

[8]The European Union was a good example of this. By 2006, the inevitability of ever-closer union seeming likely. Subsequent events – such as the UK laving – have placed doubt upon this closer union, and there is even some questioning of the continuing role of the European Union, although its continuation seems likely.

corruption problems is an example of such a possibility.[9] From this, it follows that transparency must exists so that all concerned parties can see how all other concerned parties are behaving and are behaving in the agreed upon manner – and this is one of the prime principles of good governance. This therefore also requires accountability so that people can be held responsible for actions taken or not taken and appropriate sanctions can be taken. With accountability comes the need for regulation (Braithwaite, Coglianese, & Levi-Faur, 2007), and this therefore requires some form of regulatory oversight.

In order for regulatory oversight to take place, then a nominated person (or body) must undertake this function and this can be done either internally – within the organisation itself – or externally by either an existing body or one set up expressly for this purpose. At a governmental level, it seems normal that an external body is created for this purpose. In the United Kingdom, an example of a body expressly established for the purpose is given in the United Kingdom by the Financial Services Authority which has since become two bodies, The Financial Conduct Authority and the Prudential Regulation Authority, controlled by the Bank of England. A good example of an internally regulated organisation is the accounting profession, although it must be noted that the Enron scandal (Toffler, 2003) provides a famous example of the problems and failures which can follow from this form of self-regulation. An example of external regulation by an already existing organisation is given by the WTO for the regulation of international trade. Regulation within a country is not a great problem as it can be imposed by the government if no other regulation is happening. International trading of products and materials is however a different matter as this is done in an international manner in global markets. Indeed, the market as such is often virtual as the price mechanism works in any competitive environment. Effectively, therefore, this is a global market which would require regulating on a global basis – and the establishment of a regulatory body to provide this oversight and with the power to impose the sanctions agreed upon in the event of non-compliance. For international finance, however, such a market, suitably regulated, is considered to already exist and seems to function satisfactorily in enabling the free movement of funds. There are however still problems with the effects of these rapid movement of funds and the contagion thereby caused.

It is difficult to see how any form of global regulation could be established without the agreement of all nations and certainly the agreement of the most powerful nations. It is equally difficult to see how – for some materials (eg oil and related products), this could be established without any geopolitical considerations intervening. It must also be recognised that, at the present time, the power probably lies mainly with the consuming countries – the Western-developed nations – as they have the economic resources which enable them extract greater value added from the employment of resources in production. In the future, however, with the passage of time, the global scarcity of resources, as they become more depleted, will

[9]https://www.theguardian.com/football/blog/2015/jun/09/fifa-reform-manifesto-football-sepp-blatter