

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY: A CORPORATE GOVERNANCE PERSPECTIVE

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Abstract

The lack of good governance and accountability in some developing economies, has shifted attention to Multinational Enterprises (MNEs) and major corporations to contribute more in terms of corporate social responsibility (CSR) and sustainability for their host countries and communities. This research investigates the nexus between corporate social responsibility and sustainability as many businesses now consider sustainable corporate development to be a critical strategy.

This research while clarifying whether CSR has a beneficial effect on the long-term success of businesses found that the accomplishment of CSR is important for creating a positive company reputation, enhancing brand competitiveness, and encouraging sustainable business growth. From the standpoint of corporate governance, it also examines how internal governance variables affect the connections between the two concepts. Furthermore, it found that the CSR process on sustainable business development is moderated by corporate governance elements such as internal control, managerial skills, and the accuracy of accounting information. The research concludes by finding that that CSR has a positive impact on enterprise sustainability and the fulfilment of CSR activities are conducive to enhancing corporate sustainable development ability.

Keywords: Corporate Social Responsibility, Sustainable Development, Sustainability, Corporate Governance.

1.0 Introduction

The notion that businesses have a social obligation to society is as old as trade itself. However, the concept of corporate social responsibility (CSR) is a relatively new addition to both social development thought and corporate business culture. Nonetheless, the rise of CSR has been cloaked in controversy, which has frequently taken the shape of a polemic discussion (i.e. the stakeholder vs shareholder theory). The difficulty in most previous disputes has been disagreements over the nature and breadth of the duties included under the banner of CSR, as well

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as variations in attitudes and understanding of the corporation's position and purpose in society. However, modern realities like the polarization of global politics, the process of globalization, the rise of information technology, and instances of corporate wrongdoing have all made sure that CSR is both not a passing phase of a business-society relationship and a fundamental societal expectation of business-society relationships.³

Scholars in management, accounting, economics, law, and finance, among other academic disciplines, continue to investigate the benefits and drawbacks of CSR. Some scholars contend that CSR measures can result in extra costs, which would disadvantage a business in the marketplace. These additional costs might be attributable to things like charity contributions and staff wellness programs. Others demonstrate that there is no connection between business value and CSR initiatives. Recent studies challenge conventional CSR beliefs by showing that these initiatives may not be a risk to businesses or a financial burden for companies, but rather an opportunity to gain a competitive advantage and raise corporate value. A CSR strategy may be seen as a source of long-term competitive advantage through enhancing the quality of a company's goods or services, brand recognition, and market position.

The use of CSR in contemporary corporate governance considerably improves the reliability and efficiency of internal controls. As a crucial component of corporate governance, internal control fosters a supportive atmosphere and offers the necessary protections for the implementation of CSR. Enterprises may simultaneously increase their stakeholders' resources, win their confidence and support, and contribute to sustainable development by aggressively pursuing their CSR. They can also strengthen their reputation and social impact. Environmental pollution, ecological destruction, food safety, labour disputes, low production efficiency, and other issues related to the sustainable development of enterprises have become more prevalent as a result of changes in the macroeconomic environment and the ongoing adjustment of the industrial structure, which demonstrates that many businesses lack a strong sense of corporate responsibility.⁴

All facets of society are now paying close attention to social responsibility and sustainable development, and businesses aiming for sustainable growth must make the decision to actively

³ Uwafiokun Idemudia, Francis Xavier Dery Tuokuu and Tahiru Azaaviele Liedong, "Introduction", *Business and Sustainable Development in Africa* (Routledge 2022).

⁴ Lijuan Wu and Shanyue Jin, "Corporate Social Responsibility and Sustainability: From a Corporate Governance Perspective" (2022) 14(22) *Sustainability* 15457.

integrate social responsibility. Additionally, corporate social responsibility (CSR) is now more about "how" than "if," thus every firm needs to have an answer to the issue of how to fulfil CSR in order to support sustainable development. CSR is essential for attaining sustainable development since it suggests that businesses must safeguard and improve society's and organizations' current and future welfare through different business and social actions, as well as ensure fair and long-lasting advantages to many stakeholders.⁵

Any business that wants to last forever must highlight the influence of social responsibility on the capacity of companies for sustainable development as well as the moderating impact of corporate governance on the link between social responsibility and sustainable development. Studying the link between corporate social responsibility and sustainable development, as well as the moderating effects of internal control, management skills, and accounting information quality on social responsibility and sustainable development from corporate governance, is crucial in today's complex economic environment. The study will enhance the literature on the economic effects of social responsibility and advance the sustainable and steady growth of businesses by elucidating the mechanism through which they interact.⁶

The following are the study's contributions. First, it expands the field of CSR research and experimentally confirms the influence of CSR on business sustainable development. In order to provide a theoretical foundation for encouraging corporate governance, it also looks at the moderating impact that internal control, managerial skills, and accounting information quality have on the link between CSR and corporate sustainable development. As a theoretical foundation for encouraging the sustainable growth of businesses in underdeveloped countries, it also examines the effect mechanism and realization path of corporate sustainable development.⁷

2.0 Corporate Social Responsibility and Sustainability

Although there are overlaps between the concepts CSR and sustainability; they are not the same thing, yet they are frequently used interchangeably. The basis of CSR is thought to be a company's

⁵ Stephen Oduro et al., "Corporate social responsibility and SME performance: a meta-analysis" (2021) 40(2) Marketing Intelligence & Planning 184.

⁶ David López Jiménez, Eduardo Carlos Dittmar and Jenny Patricia Vargas Portillo, "New Directions in Corporate Social Responsibility and Ethics: Codes of Conduct in the Digital Environment" [2021] 1(1) Journal of Business Ethics 200.

⁷ Alessia Patuelli, Jonida Carungu and Nicola Lattanzi, "Drivers and nuances of sustainable development goals: Transcending corporate social responsibility in family firms" (2022) 1(1) Journal of Cleaner Production 133723,

sustainability, often known as corporate sustainability. Stakeholder theory forms the foundation of the multifaceted measuring concept of CSR.⁸ According to a new institutional economics paradigm, corporate social responsibility (CSR) is the observation and control of stakeholders' profit-seeking behaviour in a market economy. A company must fulfil its duties and commitments to its stakeholders (shareholders, workers, customers, partners, the government, and the general public) as well as take into account its influence on society and the environment. This definition necessitates that businesses view CSR as a dynamic notion rather than a static one, and that they adapt their CSR efforts to ensure that they address the needs and demands of society at the time. By The World Business Council for Sustainable Development WBCSD, corporate sustainability refers to a company's community's ongoing commitment to act morally, promote economic growth, and enhance the standard of living for its employees, their families, the local community, and society at large. It is important to point that despite the nexus, whereas CSR concentrates more on the stakeholders and the philanthropic and positive social activities that the company engages in, corporate sustainability emphasizes more on the corporation and its environment and how they interact with one another.⁹

The increased international and domestic interest in corporate social responsibility and sustainability originates largely from widespread concerns in all societies about the real and perceived consequences of rapid globalization and development challenges. Hence, the expectation that globalization must progress in a way that fosters sustainable development in all regions of the world reflects these interests. The lack of good governance and accountability in some developing economies, and citizens' belief that no improvement in their economic situation is on the horizon, attention has shifted to Multinational Enterprises (MNEs) and major corporations to contribute more in terms of CSR and sustainability for their host countries and communities.¹⁰ It is true that the globalization process gives progress and possibilities to growing economies; nevertheless, there are countries where the benefits of globalization have not been realized due to a variety of problems such as corruption, instability, and unethical corporate activity. MNEs are

⁸ Ekundayo Vera and Louisa James "Stakeholder Theory And The Concept Of Corporate Social Responsibility" 2016 8(2) Journal of Corporate Governance 1778.

⁹ Archie Carroll and Kareem Shabana, 'The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice' (2010) 12(1) International Journal of Management Reviews 85.

¹⁰ Gabriel Eweje, 'Introduction: Trends in Corporate Social Responsibility and Sustainability in Emerging Economies', Corporate Social Responsibility and Sustainability: Emerging Trends in Developing Economies (Emerald Group Publishing Limited 2014).

required to deliver some social services and welfare initiatives in addition to their typical commercial activity in developing economies. As a result, there is a widespread notion that MNEs and large firms operating in emerging countries have the economic resources and opportunities to be good corporate citizens, implement CSR initiatives, and lessen the environmental and social impacts of their activities.

The ongoing need for firms to be socially responsible stems from persistent pressure from their stakeholders. As a result, as many countries and populations attempt to reap the benefits of globalization and the enormous opportunities generated by corporations in the twenty-first century, there has been a deliberate focus on CSR and sustainability in developing and emerging economies. The last few years have seen a growth in the idea of corporate social responsibility and sustainability. Theorists and practitioners have embraced CSR and turned it into a management discipline. Future oriented organizations now need to deal with this discipline due to the broad interest for all and the necessity for sustainable business development. Corporate social responsibility used to be primarily focused on philanthropy, but today it is a means of doing business. Accountability has become a crucial component of corporate strategy for businesses that have decided to work with and integrate CSR. Hence, companies that pursue sustainable business must inevitably evolve and change their business practices and decision-making processes. This implies that the corporation gives all its stakeholders top priority. By satisfying and involving internal and external stakeholders, as well as the community, in the sustainable business of the company, the company's primary goal is suddenly no longer to make money in the short term but to achieve sustainable success also in the long term and on an economic, social, and philanthropic level.

2.1 Impact of Corporate Social Responsibility on Sustainable Development

In response to widespread public pressure in the 1980s, the idea of sustainable development eventually made its way onto the agendas of governments and international organizations. Today, both developed and developing nations use it as the benchmark for gauging progress toward their development goals. The fact that the Sustainable Development Goals (SDGs) replaced the Millennium Development Goals (MDGs) in 2015 shows that the idea has advanced significantly by moving from global level rhetoric and debates to local level practice and action. Economic, social, and environmental concerns are the focus of the SDGs. It is anticipated that United Nations

members would utilize the SDGs to guide their development goals while emphasizing the crucial role the private sector must play in this area. Two factors primarily illustrate how CSR affects sustainable development. First, actively engaging in CSR is a great method to boost an organization's soft power and create a positive social reputation. Second, by demonstrating their commitment to social responsibility, businesses may get a head start in the field of sustainable development. This is due to the fact that CSR integration should be completely taken into account while creating and growing company culture in order to make it distinctive and efficient. When the two interactions are successfully integrated, innovation in culture, products, and processes can result. Businesses can also gain distinctive competitive advantages, which boosts economic returns. In light of this, social responsibility serves as both a necessary tool for adapting to the times and a vital engine for competition. It may assist businesses in sustaining long-term partnerships, which is helpful for preserving sustainable competitive advantage over the long term. This demonstrates that CSR is a "win-win strategy" that may aid in the introduction of novel ideas and give an early edge in terms of sustainable development.

As a result, it is critical that businesses continue to improve and update their governance and management systems, standards, and CSR strategies to reflect evolving global perspectives on sustainable development as well as local and national delivery realities. Companies can establish CSR policies that place a high priority on stakeholder participation, sustainability reporting, and risk assessment and management.¹¹ The following are some ways that CSR benefits corporate sustainable development.

2.1.1 The Internal Control Moderating Effect

The principle-agent hypothesis contends that the goals of the principal and agent are at odds. As a result of the information asymmetry, it is difficult to expect the agent to operate entirely in line with the principal's risk preferences, and the principle is left with no choice but to take actions that will best serve both parties' interests while incurring agency costs. The principal-agent problem, which must be solved to maintain a balance between the interests of all parties in the company, reduce transaction costs, mitigate agency conflicts, and reduce opportunistic management behaviour, all of which improve the quality of corporate surplus, is at the core of internal control.

¹¹ Uwem Ite, "Achieving Sustainable Development Goals through Corporate Social Responsibility", *Business and Sustainable Development in Africa* (Routledge 2022).

The quality of internal control determines how compliant an organization is in carrying out its social obligation.¹² A strong internal control system may make a significant contribution to the optimization and management of CSR implementation, guaranteeing that the activities have been carried out in a timely and effective way and enhancing the competitiveness of businesses. Companies may effectively manage social responsibility risk, lower CSR risks, and support the attainment of their strategic goals when they are subject to internal control while carrying out their social obligation. By standardizing and enhancing their internal control systems and processes, businesses may contribute to the prevention of CSR risks and the advancement of sustainable development. Therefore, the importance of CSR in fostering sustainable growth will increase in direct proportion to how strong the enterprises internal control system.¹³

2.1.2 The Moderating Effects of the Quality of Accounting Information

According to the notion of information asymmetry, certain people in an economy have access to information that other people do not, and the degree of this asymmetry is impacted by how people and companies act.¹⁴ Enterprises have significant transaction costs as a result of information asymmetry and the principal-agent issue, which hinders them from meeting their social obligations and enhancing their capacity for sustainable growth. Accounting data is a crucial component of the information that businesses give to the public and its governance systems. Selectively revealing information for one's own benefit and changing data and how it is presented in financial reports frequently damage the credibility of financial reports therefore affecting users' opinions of the business's success and future chances for growth. As a result, CSR can lessen the need for stakeholders to be vigilant and concerned about surplus management and can protect them against excess management that cannot be sustained over the long run. It has been demonstrated that the accuracy of accounting information helps ensure the viability of businesses. Businesses' social

¹² Xiao Li, "The effectiveness of internal control and innovation performance: An intermediary effect based on corporate social responsibility" (2020) 15(6) PLOS ONE 506,.

¹³ Xinyuan Wang, Zhenyang Zhang and Dongphil Chun, "The Influencing Mechanism of Internal Control Effectiveness on Technological Innovation: CSR as a Mediator" (2021) 13(23) Sustainability 13122.

¹⁴ Donald D Bergh et al., "Information Asymmetry in Management Research: Past Accomplishments and Future Opportunities" (2018) 45(1) Journal of Management 122.

responsibility performance also has a unique substitution impact. The effectiveness of accounting data detracts from CSR's beneficial effects on businesses' capacity for sustainable growth.¹⁵

2.1.3 Effect of Management Capacity

Decision-making is influenced by management qualities, which impact business performance. The management is directly accountable for all production, operation, investment, and financial choices as well as development initiatives as the driving force behind corporate decision-making. Additionally, they are in charge of carrying out CSR, whose execution has a long-term economic impact and is severely hampered by managerial capability. Therefore, managerial capability will have a substantial influence on CSR performance and therefore, the long-term success of the companies. The more capable a management team is, the better its decision-making will be. As a result, information released will be more readily understood by external parties, better balancing the interests of stakeholders and fostering CSR and the long-term sustainability of the company.¹⁶

3.0 How Corporate Social Responsibility Has Enhanced Sustainability in Developing Companies

Many developing countries lack fundamental infrastructure, services, and products that will promote both human and economic growth and better humanity. With the lack of development elements and institutions, firms have faced immense pressure to interact with their stakeholders in poor countries and collaborate with non-governmental organizations (NGOs), agencies, and donor governments to address underdevelopment. As a result, businesses have been urged to be socially responsible and to operate in a sustainable manner. This is in addition to businesses' usual obligations of creating jobs, paying taxes, and improving society's well-being through innovation. From this angle, CSR has long been seen as a means of development in the absence of effective institutional development and good governance in host communities. It is important to note that some form of CSR is mandatory in some developed nations, such as China and India, and that businesses are obligated to disclose their sustainability and CSR efforts to the public. As a result,

¹⁵ Van Ha Nguyen, Frank W Agbola and Bobae Choi, "Does corporate social responsibility reduce information asymmetry? Empirical evidence from Australia" (2018) 44(2) Australian Journal of Management 188.

¹⁶ Charlotta Sirén et al., "CEO burnout, managerial discretion, and firm performance: The role of CEO locus of control, structural power, and organizational factors" (2018) 51(6) Long Range Planning 953.

governments in developed and emerging economies are increasingly requesting MNEs domiciled in their countries to undertake CSR and sustainability programs and projects.¹⁷

Under normal circumstances, governments are accountable for meeting the needs, improving infrastructure, and improving the lives of their population; yet, there have been instances in which governments were unable to perform this function. In light of this, MNEs in developing countries have been under pressure to take over the roles and responsibilities of governments as ‘surrogates.’ This claim is comparable to the claim that MNEs contribute to global development not only by investing in capital, but also and more importantly by investing in human capital and giving locals the means to drive their own economic development. Therefore, in developing and emerging economies, the true definition of CSR and sustainability may be defined as one in which firms are required to contribute to the economic progress of the nation as a whole.¹⁸

4.0 Benefits of the Interconnection between CSR and Corporate Sustainability

Corporations can prevent or limit possible conflicts in regard to its commercial activities when it builds its relationships with the organization's stakeholders. The organization is also able to make better judgments thanks to the more frequent communication with stakeholders because it has a better awareness of what the public expects from it. The company's reputation and the confidence of stakeholders and the general public are both enhanced by rigorously promoting sustainability. Therefore, with CSR and sustainability, organizations can create access to fresh markets and major development prospects. Other benefits include:

4.1 Risk Management

The strengthening of the organization's risk management is especially important for major international corporations. This is accomplished, for example, by incorporating ‘codes of behaviour’ into the organization's numerous national and worldwide supplier partnerships. Misunderstandings between the buyer firm and the supplier are decreased when the prerequisites for cooperation are explicitly expressed and agreed upon. In the event that the supplier fails to fulfil the criteria, the company can end the relationship and demonstrate to the public that the

¹⁷ Majid Khan and James Lockhart, ‘Corporate social responsibility decoupling in developing countries: Current research and a future agenda’ (2022) 127(1) *Business and Society Review*

¹⁸ Uwafiokun Idemudia, ‘Corporate social responsibility and developing countries’ (2011) 11(1) *Progress in Development Studies* 1.

specifications were part of an agreement that the provider failed to meet. This does not necessarily absolve the corporation from buying services of accountability and/or blame, but it does provide a clearer picture of what the partners have committed to.¹⁹

4.2 Employee Retention and Healthier Employees

Organizations that focus on social components and their employees in their CSR strategy and operations see improved employee health, greater work-life balance, and increased employee well-being. These bonuses might also assist the organization in retaining qualified staff. Furthermore, better well-being will aid in the reduction of sicknesses, stress, and even depression among employees, which may cost businesses a fortune and represents both financial and non-monetary business benefits.²⁰

4.3 Keeping and Bringing In Customers

Another benefit of CSR for business is the ability to attract and keep customers. This can be done, for instance, by establishing long-term relationships with clients, suppliers, non-profit organizations, and other partners who can help the business grow its CSR and become more sustainably profitable. As part of their branding, and communications, businesses can also gain from linking their CSR profiles with their goods and services. CSR can be targeted toward the company's internal and external communications as well as the creation of new inventions. According to consumer research, a strong CSR image improves brand differentiation, equity, competitive advantage, and consumer loyalty.²¹

4.4 Getting Investments

There is significant pressure for change in the form of escalating expectations from investors who start considering environmental and social responsibility as crucial factors in their investments and risk management. Investing in businesses that do not prioritize sustainability carries a sizable amount of risk. Social media has worked really hard to make the world more transparent and open. A growing number of people are able to and will monitor how businesses behave and how they

¹⁹ Ibid

²⁰ Tomohisa Nagata and others, 'Occupational safety and health aspects of corporate social responsibility reporting in Japan from 2004 to 2012' (2017) 17(1) BMC Public Health.

²¹ Poh Ling Tan, Mostafa Rasoolimanesh and Manickam Govindaraju, 'How Corporate Social Responsibility Affects Brand Equity and Loyalty? A Comparison Between Private and Public Universities' [2021] SSRN Electronic Journal <<http://dx.doi.org/10.2139/ssrn.3894298>> accessed 26 April 2023.

behave when they invest in them or buy their products. Engaging in CSR and sustainable business practices has a significant positive impact on businesses.²²

Conclusion

In recent years, there has been an increased pressure on enterprises to fulfil their social responsibilities to ensure sustainable development in all spheres of industry. In this context, this paper discussed corporate social responsibility's impact on enterprises' sustainable development. It examined the role of internal corporate governance in the relationship between social responsibility and sustainable development of enterprises particularly in developing countries. The following conclusions were drawn; that CSR has a positive impact on enterprise sustainability and the fulfilment of CSR is conducive to enhancing corporate sustainable development ability. Also, that internal control and management capabilities positively moderate the process of social responsibility, influencing the corporate sustainable development ability. Furthermore, the research revealed the benefits of the relationship between CSR and corporate sustainability. This paper puts forward the theoretical and managerial implications that, in realizing sustainable development, enterprises must take the initiative to fulfil their social responsibilities, improve their corporate system, and formulate sustainable development strategies.

²² *ibid*