

## Chapter 5

# Corporate Social Responsibility and Foreign Direct Investment: Engaging Innovation, Auditors, and Stakeholders in Corporate Social Responsibility

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### **ABSTRACT**

*As well as highlighting how corporations and multinational enterprises can be effectively engaged in entrepreneurship and innovation, as a means of fulfilling corporate social responsibility goals and objectives, this chapter aims to propose means whereby auditors could fulfil corporate governance roles more effectively. Having drawn vital lessons from past corporate collapses and the devastating of these in terms of unemployment - particularly for uninsured wider stakeholders, a vital goal of an enterprise should also namely, embrace that of facilitating initiatives aimed at job creation – through entrepreneurship programs which should also have a role in determining how directors and executives are remunerated – in addition to corporate governance measures which are currently in place. By way of reference to corporate collapses which have severely and adversely impacted the lives of many “un-insured” stakeholders, particularly in developed countries, the chapter also aims to address how the fulfilment of obligations and commitments to such stakeholders, can be secured.*

### **INTRODUCTION**

Whilst Corporate Social Responsibility is considered to be generally used as “an umbrella term to describe the complex and multifaceted relationships between business and society and to account for the economic, social and environmental impacts of business activity”, another definition which incorporates the role of corporate governance, regards corporate social responsibility as:

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- A model of extended corporate governance whereby those in control of the firm have responsibilities that range from the fulfilment of their fiduciary duties owed towards the owners (principal), to the fulfilment of analogous fiduciary duties owed towards all the firm's stakeholders (Sacconi, 2004:6).

Whilst the focus accorded to CSR in developed countries, appears to revolve round its role in facilitating greater accountability to stakeholders, particularly given the devastating consequences of corporate collapses on wider stakeholders, as well as the need for more effective corporate governance mechanisms, the focus of CSR as a means of philanthropy and charitable donations, appears to be a more predominant feature in developing countries (Jamali & Mirshak, 2007: 243-262). The role which political environments may play in obstructing the desired objectives of contributing positively to the economies of the host countries, where matters relating to Foreign Direct Investment are involved, and where regulations, standards, principles and codes of conduct are not complied with, will also be considered in this chapter – by way of reference to the vital role assumed by legal and ethical responsibilities within the framework of Carroll's pyramid of Corporate Social Responsibility.

It will be argued that even though economic responsibilities assume a primary role in certain cases, that basic goals of profit maximization will not attain their potential where rules, regulations, codes and principles are not effectively complied with or enforced. Herein lies the need for vital corporate governance mechanisms whose effectiveness is further bolstered by the role of external auditors in the corporate governance process.

## **AIMS AND OBJECTIVES OF THE CHAPTER**

In line with the main objective of this chapter, namely highlighting how corporations and enterprises, national or multinational, can be effectively engaged in entrepreneurship and innovation, as a means of fulfilling corporate social responsibility goals and objectives, the chapter also seeks to:

1. Recommend means whereby audits, auditors, and forensic accountants could be engaged more effectively, in enhancing and complementing corporate governance mechanisms in more advanced economies.
2. To illustrate how CSR can benefit locals in developing countries, more effectively, by specific reference to Foreign Direct Investment, as well as the goals of charitable donations and projects.
3. To illustrate and recommend how CSR can be effectively enhanced to particularly, better serve the needs of developed countries by enhancing their corporate governance structures.

Given these considerations, as well as profound evidence of lack of operation of effective corporate governance mechanisms and structures in developing countries, should there not be a re-think in the role and focus of CSR in developing countries?

Whilst charitable projects could still feature prominently as goals, such goals require a vehicle whereby their realization could be facilitated and achieved. Such a vehicle assuming the form of effective corporate governance mechanisms and structures.

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