Chapter 76

Corporate Social Responsibility and Corporate Governance:
Analysis Across Industries in Mexico

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ABSTRACT

Corporate Social Responsibility (CSR) and corporate governance are two distinct concepts that may seem to be isolated in practice. However, there are many parallels to the extent that the latter may define the engagement of the former. As such, it may be argued that corporate governance is essential to the implementation of CSR. Thus, a question arises, are firms' governance policies conducive to the engagement in corporate social responsibility? This study aims to evaluate the dynamics between corporate social responsibility and corporate governance of multinational firms operating in Mexico. Findings indicate that the practice of disclosing corporate social responsibility is more common than the transparent communication of corporate governance; however, the compliance with corporate governance is consistent with that of corporate social responsibility within the analysed firms.

INTRODUCTION

Corporate social responsibility (CSR) is an important element in business dynamics. It is a clear indicator that firms are not only concerned with the interests and needs of all current and potential stakeholders, but are also creative and proactive in tackling social issues that permeate society and the environment. The choice to actively engage in corporate social responsibility practices sends a distinct message to all current and potential interested parties that the firm's moral compass is aligned with that of its stakeholders, and that the organization is looking out for the best interests and wellbeing of the societal ambiance in which it operates.

One of the elements that first brought corporate governance to flourish was that organizational leaders found the need to prioritize shareholders' requirements and interests in the firms' operations. However, the mere compliance with shareholders' needs and wants resulted insufficient, as organizational leaders

came to understand that shareholders were not the only parties with stake in the organization; as such, stakeholders' objectives and interests became essential to the business dynamics of organizations, as well as the achievement of the organizations' desired performance. The engagement in corporate social responsibility, then, is indicative of the attributes and value of a firm's governance.

The concepts of corporate social responsibility and corporate governance have several elements in common. First, neither are new concepts, companies have always had, to some extent, social and environmental interests as well as policies, structures and norms that direct the organization and its dynamics. Second, there are no universal definitions for the concepts, rather there are as many as there are types of organizations. And, third, the approach to corporate social responsibility and corporate governance systems well depends on the type of organization, management and leadership styles, structure, among others.

In 1989, Belkaoui and Karpik argued that disclosing an organization's social information was voluntary; today, transparently communicating corporate social responsibility efforts and corporate governance policies still remains a voluntary practice. As such, it may seem that there has been little advancement on the matter; however, perhaps the most significant change has been in stakeholders' interest to know and understand organizations' business dynamics, their stance on social and environmental development, as well as financial performance.

The objective of the study is to understand the relationship between the engagement in corporate social responsibility and firms' corporate governance. That said, two questions arise, is corporate governance conducive to the engagement in corporate social responsibility? And, do the attributes of corporate governance lead to a sustainable engagement in corporate social responsibility? In order to address the general objective of the study and the research questions, content analysis was employed to evaluate the relationship between the governance and social responsibility of multinational firms operating in Mexico. The paper is sectioned as follows. Section two reviews previous literature on both corporate social responsibility and corporate governance, as well as their relationship. Section three includes the study design and section four encompasses a discussion on the study's findings. Section five includes concluding remarks, limitations of the study and directions for future research.

LITERATURE REVIEW

The existence of an organization significantly depends on stakeholders' acknowledgement of its legitimacy (Deegan, 2002), and accountability. Corporate social responsibility (CSR) is an important strategy carried out by organizations with the aim to address certain social and environmental issues. It is a concept that has many definitions; it is charged with different meanings for diverse organizations (Crowther & Rayman-Bacchus, 2004), determined by their context of operations and characteristics of business dynamics. CSR has been considered as organizations' concern for the impact of their efforts on their activities as well as on society (Bowman & Haire, 1976). CSR consists of organizations' clear communication of their policies and practices that reflect their responsibility towards the achievement of social wellbeing (Matten and Moon, 2008). And, according to Kotler and Lee (2005), corporate social responsibility is a "commitment to improve community well-being through discretionary business practices and contributions of corporate resources." Therefore, it is a firm's active use of its resources (financial and non-financial) to proactively engage in socially responsible practices with the purpose of positively contributing to society's wellbeing.

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