Emerging issues in CSR:
Corruption, political connections, tax behaviour and inequality

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0. Introduction
CSR and its reporting

... Eureka! Finally we have another Anglo-Saxon term for something so self-evident: ‘corporate social responsibility’ is the magic word that means nothing but the fact that corporations also have to take into account the public good (something that, by the way, the wise architects of the Austrian Stock Corporations Act formulated decades ago with enduring validity). (Herbert Krecji, former Secretary General of the Austrian Federation of Industrialists, in: Gewinn 12/02, p. 180, 4 December 2002; translation by the author) (Hollerer, 2013. p. 573).
First, Do No Harm
Actions business can take that would most damage trust in a better future (top 5 most-selected)

1. Pay bribes to government officials to win contracts
2. Pay executives hundreds of times more than workers
3. Move profits to other countries to avoid taxes
4. Overcharge for products that people need to live
5. Reduce costs by lowering product quality

Source: 2017 Edelman Trust Barometer. Q732. What can businesses do that would cause the most damage to your trust in a better future? (Please select up to five.) General Population, 28-country global total, question asked of half the sample.
CSR and its reporting

- CSR
  - Ethical issues
  - Business contribution to sustainable development
  - Corporate profits:
    - How profits are obtained
    - How profits are used
CSR and its reporting

- Responsibility:
  - Undertake certain activities or refrain from doing so because they are beneficial or harmful to society
  - Report on it

- CSR reporting:
  - Nowadays, sustainability reporting and integrated reporting
Issues under ongoing discussion:

- What is a corporation
- The purpose of the corporation

The Purpose of the Corporation Project
http://www.purposeofcorporation.org/en
I. Corruption
Introduction

- CSR and corruption

  - Some initial lack of attention

  - Transformation into an importante aspect of CSR:
    - Global Compact
    - Global Reporting Initiative
    - OECD Guidelines for Multinational Enterprises
    - Sustainability indices
Corruption and its consequences

- **To business:**
  - Operational costs
  - Legal risks
  - Competitive risks

- **To society:**
  - Reduced government services
  - Constrained economic growth
  - Decreased trust in government
CSR and the fight against corruption

- 10.º principle of the UN Global Compact:
  - “Businesses should work against corruption in all its forms, including extortion and bribery”

- Three elements when fighting corruption and implementing the 10th principle:
  - Internal
  - External
  - Collectiv
CSR and the fight against corruption

- Reasons explaining why anti-corruption reporting is challenging:
  - Cannot be measured directly for activities which are preventive, and when corruption occurs it may remain undetected.
  - Companies can find it difficult to discuss countering corruption publicly for fear that raising the topic may generate suspicions of problems.
Part of GRI’s Guidelines since the G2 edition

GRI Standards

- GRI 205: Anti-corruption
  - Topic-specific disclosures
    - Operations assessed for risks related to corruption
    - Communication and training about anti-corruption policies and procedures
    - Confirmed incidents of corruption and actions taken
Some papers

II. Political connections
■ Direct
  □ Revolving door

■ Indirect
  □ Funding of political parties, politicians or political campaigns
  □ Lobbying activities
Widespread view: PC as something detrimental to society; socially irresponsible practice that is associated with distortions of competition and of democratic representation

Notwithstanding, firms with PC may deal with stakeholder activism and vigilance by resorting to CSR
Benefits for the company include preferential access to credit and government aid in cases of financial trouble, favourable regulatory conditions, obtain benefits in terms of taxation, and benefit from protective import tariffs.
Implications for society: not farfetched to suspect that the distortion in the allocation of public and private funds may have significant impact in social and economic development.
Part of GRI’s Guidelines since the G2 edition

GRI Standards

- GRI 415: Public Policy
  - Management approach disclosures
    - The reporting organization should report the significant issues that are the focus of its participation in public policy development and lobbying;
  - Topic-specific disclosures
    - The reporting organization shall report the total monetary value of financial and in-kind political contributions made directly and indirectly by the organization by country and recipient/beneficiary
Some papers

III. Tax behaviour
- Tax planning
- Tax avoidance
- Tax evasion
Corporate taxation and Carroll's CSR Pyramid

- Conflicting relations:
  - Economic responsibility…
  - Society’s standpoint…
Taxes paid by companies are their “largest and most obvious contributions” to other stakeholders besides shareholders and employees
Possible explanations for apparent lack of attention:

- Less sensationalist nature when compared to environmental and human rights abuses.

- Most advocates of stakeholder theory consider employees, customers, and investors as the three most important corporate stakeholders.
Studies examining the association between CSR and tax behaviour offer mixed results:

- Some find that socially responsible companies engage in aggressive tax avoidance practices.
- Others find the opposite.
OECD Guidelines for Multinational Enterprises

Chapter on taxation: “It is important that enterprises contribute to the public finances of host countries by making timely payment of their tax liabilities.”
Part of GRI’s Guidelines since the G3 edition

GRI Standards

- GRI 201: Economic Performance
  - Direct economic value generated and distributed
    - Includes payments to government by country
- Project Proposal: Disclosures on tax and payments to government
Some papers

IV. Inequality
Lack of attention to inequality:

- Surprising in view of the numerous studies on the detrimental effects of inequality
- Not surprising in view of the lack of discussion of the issue in influential standards
Potential business consequences of high levels of inequality (Bapuji e Neville, 2015):

- Social movements that coerce and constrain firms’ actions
- Alternative organizational forms that displace existing organizations
- New political and regulatory risks that undermine firms’ performance or survival
Some papers