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METHODS

An enhanced role for CSR in corporate governance?

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This paper examines the relationship between corporate social responsibility and corporate governance, what simple logic suggests should be the case, and what seems to be the perceived reality as described in the literature. Reported attempts at defining corporate social responsibility prove more confusing than might be expected; reasons for this are suggested. Corporate governance is easy to define, but in practice it is often viewed through a narrower lens than a useful definition might suggest. Logic suggests that corporate social responsibility is a subset of corporate governance, but some authors attempt to invert the relationship. According to the literature, progress is now being made in that both corporate governance and corporate social responsibility are being more widely pursued on the ground than hitherto. In the case of corporate governance, this is because activity in the form of a jurisdictional code is often mandated. On the linkage of the two notions, broadly speaking, better corporate governance tends to be aligned with greater commitment to corporate social responsibility and better reporting thereof.

Keywords: CSR, corporate governance, linkage, reporting

Introduction

The aim of this paper is to examine what may be the relationship between corporate social responsibility (CSR) and corporate governance (CG), what simple logic suggests should be the case and what seems to be the perceived reality as described in the literature. A subsidiary aim is to propose, in the light of the arguments adduced, some ways in which the formal requirement for CG in the United Kingdom could be extended for the general good. The notion that this is a topic in need of further inquiry is supported implicitly by Mason and Simmons (1) and explicitly by Jain and Jamali (2).

The obvious first question is how we might sensibly define CSR and CG. In order to define CSR, we start by noting that we construe "social responsibility" to be the responsibility that an individual or organization has to the wider society within which they reside. Hence, "CSR" is that social responsibility or duty that relates to a corporation or firm. According to the Concise Oxford Dictionary (3), "governance" is "the act or manner of governing, or regulating the proceedings of, an organization.' Hence, 'CG" is the manner in which a company is managed and controlled. These definitions are simple and straightforward, but, unfortunately, as soon as one starts to look at their use in either an academic or professional context, one finds complexification and attempts at nuanced distinction-often in an unhelpful manner. Since CG is no more or less than the manner in which a company is controlled or managed, it must logically follow that any activities in which a firm engages and the manner of their pursuit are part of its CG. Hence, doing core activities of the firm (e.g., its production process) in a manner designed to be socially responsible (minimizing pollution in the case of a manufacturer, for example) or choosing to undertake additional activities out of a sense of social responsibility must all be, in essence, part of that firm's CG because they are aspects of how it chooses to manage and control itself. Thus, it must in turn be the case that CSR actions are part of the given firm's CG, or, in set theoretic terms, CSR as it relates to a firm is a subset of CG ($CSR \subset CG$).

However, as we shall see, not all authors working in this particular knowledge pond seem to agree with or accept this

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basic proposition, for whatever reason. It may be because CG has acquired a public persona that often looks more limited than the underlying definition would lead one to expect, as we shall see in the next section.

The rest of the paper is organized as follows: The next section is a brief statement of the research method used. This is followed by a section in which we examine more fully how our two key terms, CG and CSR, are found to be defined, refined, or actually used in the literature. The fourth section briefly describes what the UK regulator for CG (the Financial Reporting Council, or FRC) seems to think about CG, its intrinsic nature, and its regulated form. Then there is a section reviewing the literature on the linkage/s between CG and CSR, leading to some proposals for improved practice, and finally we have the conclusion.

Research methods

This paper is a discursive review of how CG is seen through the lens of formal codes, how CSR is described in the literature, and the reported interlinkages of their practice. From there, we are able to make proposals for how their relationship may be best be seen and the components improved to the benefit of business. The research method deployed in this paper may be described as inductive argumentation based mainly on the existing base of secondary data plus, of course, synthetic organization by the author in order to deliver proposed improvements to practice. The secondary data accessed is of two kinds: country codes for CG and academic articles. There is also a very small input of primary data in Section "4. The view of the UK regulator for CG, the FRC."

The key terms elaborated

Corporate governance

We begin with CG because it is obviously the wider term if we look back at the basic definitions in the Introduction section. What we shall see is that the "definitions" offered are more complex than our common sense definition, but, as we shall see later, the definitions promulgated do not necessarily accurately reflect the living usage.

Currently, many, but not all, developed (or fairly well developed) economies have an official CG code for their jurisdiction. We offer three: the United Kingdom, which is our main locus of reference; Malaysia; and China, which serve as comparators. Finally, we look briefly at the situation in the United States. This last case will be revealing and perhaps surprise some. In the United Kingdom, effectively the first CG code was produced by the Cadbury Committee in 1992; see Cadbury Report (4). Its paragraph 2.5 is still *the* classic extended definition or description of the nature of CG as construed by business regulators:

> "*Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.* The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting."

This description is basically what underpins the current code, Financial Reporting Council (5), although it does not appear in exactly that form. The definition offered therein is just the first three sentences, as highlighted in the Cadbury definition earlier, and the bulk of the code is then narrated around a series of more detailed principles.

The *Malaysian Code on CG* (MCCG) defines CG thus:

> "The process and structure used to direct and manage the business and affairs of the company toward promoting business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value while taking into account the interest of other stakeholders." (6, p.1).

Thereafter, matters proceed in a fashion not dissimilar to the UK code.

The PRC's *Code for Listed Companies* is introduced in its Preface as follows (7):

> "In accordance with the basic principles of the Company Law, the Securities Law and other relevant laws and regulations, as well as the commonly accepted standards in international corporate governance, the Code of Corporate Governance for Listed Companies (hereinafter referred to as "the Code") is formulated to promote the establishment and improvement of modern enterprise system by listed companies, to standardize the operation of listed companies and to bring forward the healthy development of the securities market of our country.
>
> The Code sets forth, among other things, the basic principles for corporate governance of listed companies in our country, the means for the protection of investors' interests and rights, the basic behavior rules and moral standards for directors, supervisors, managers, and other senior management members of listed companies.

> The Code is applicable to all listed companies within the boundary of the People's Republic of China. Listed companies shall act in the spirit of the Code in their efforts to improve corporate governance. Requirements of the Code shall be embodied when listed companies formulate or amend their articles of association or rules of governance. The Code is the major measuring standard for evaluating whether a listed company has a good corporate governance structure, and if major problems exist with the corporate governance structure of a listed company, the securities supervision and regulation authorities may instruct the company to make corrections in accordance with the Code."

As can be seen, this is a more prolix statement, but one can also immediately see that it appears to claim to be more far-reaching in intent. For example, in its second paragraph, the PRC code claims to call for standards for behavioral rules and moral standards required of companies listed in China. Neither the UK nor Malaysian codes make such a claim, which is interesting. It could be that there is an underlying assumption by the United Kingdom and Malaysia that such standards are understood to be required, while the PRC government may not feel able to make such an assumption. This latter assumption would seem likely to be merited based on recent past business history in the PRC [see, e.g., (8)], and the UK and Malaysian assumptions, if such they are, may sadly be a tad optimistic.

All three statements and the codes more fully refer to the need for compliance with relevant legislation, such as the UK Companies Act. The Malaysian definition is perhaps notable for highlighting the aim that "the ultimate objective [of a company should be that of] realizing long-term shareholder value." The PRC code sets out what one imagines to be a serious tone for listed companies by explicitly stating that, "The Code is the major measuring standard for evaluating whether a listed company has a good corporate governance structure, and if major problems exist with the corporate governance structure of a listed company, the securities supervision and regulation authorities may instruct the company to make corrections in accordance with the Code." A reviewer expressed skepticism as to whether China's laws really mean in practice what they say on paper. Such skepticism is very likely well founded when it comes to the use of the code, but that should not be confused with the potential good intentions of the drafters.

Finally, we note that all three of these codes concur with the point that CG is fundamentally concerned with the overall good management of the enterprise, directed from the top by the board of directors. The point to note from our perspective is that, such statements notwithstanding, the subsequent principles laid out tend to deal with a rather more limited set of considerations. This may be illustrated by examining the required section on CG in the annual report of any UK company with a primary listing on the LSE. There one finds subsections that examine: the board's composition and its areas of activity (perhaps just three or four pages); reports on the activities of the Nominations Committee and the Audit Committee; and the Directors' Remuneration Report. There may be other materials needed, but these are the most common. Put simply, while all these are important things, they do not collectively tell you whether the company has been well managed or whether the interests of the shareholders and other stakeholders (such as employees, the local community for the company's main activities, or customers) have been respected. In particular, it is commonplace to find no overt reference to CSR in the CG section of such an annual report (AR). There may be some comment on CSR issues elsewhere in the AR, but its absence from the CG section suggests that those overseeing CG do not see CSR as a necessary part of CG. In the UK context, this view may be because the Code is the property of the Financial Reporting Council, which, as its title says, is "owned" by the accounting profession. Issues such as the desirability of sustainable operating practices, freely doing good for the local community, the home country, and even other hosts to one's operations, not exporting unwanted consequences of our operations, and willingly paying all taxes that may fairly be said to have arisen in a given jurisdiction are all key issues in the world of CSR. If we take the underlying definition of CG seriously, surely we must include CSR as part of CG, as explained in the Introduction section, a conclusion supported by Wieland (9).

What of the USA? We were surprised to discover that there appears to be no national (or federal) CG code for the United States; many authors refer to the code of the state of Delaware because more listed companies, including more than half of the Fortune 500, are registered in that state than in any other. Although surprised, this should not have come as a surprise given the complex state-federal tensions in US laws, including electoral laws, as evidenced by their 2020 elections. One possible source to consult regarding the US situation is the NYSE-Corporate Governance Guide (10). It is what the title says it is: a guide that covers the attitudes and approaches of many countries that have companies listed on the NYSE after almost 270 substantive pages of US (or generic) focus. Many of its chapters are contributed by a variety of finance firms, law firms, and university departments. The result is that there is a lot for the interested reader to chew on, but it is arguably not useful in the way that the earlier national codes are, simply because it is too long-winded and diffuse for busy executives who want to know precisely and succinctly what may be the regulations with which they must comply in a given jurisdiction. Of course, one can go beyond the requirements to attempt what one might consider to be desirable, but the requirements are a good first step.

Corporate social responsibility

As explained in the Introduction section, it is our view that, put simply, CSR is the social responsibility or duty that relates to a corporation or firm. This duty will be discharged (or should be if the duty is accepted) by specific CSR-rooted actions. There is a problem, however, when one comes to examine the burgeoning literature on CSR. As happens in other areas of social science, writers choose to decide that they mean something different from others when they use the term CSR. As Foster (11, p.5) noted, "What exactly CSR should comprise has been a matter of argument, even to the extent of a lack of consensus on a universal definition and hence model for CSR activity (12, 13)." This gives the appearance of a collection of publications that claim to reach different conclusions, but the reality is that authors are deliberately (?) using the same terms to mean different things, so their conclusions are not directly comparable.

An example of such CSR definitional sophistication may be found in McWilliams and Siegel (14). They suggest that CSR should be limited to actions that proactively deliver social goods. This seems to leave out actions that are aimed at avoiding harm, such as reducing pollutant emissions from one's factory chimney (by using catalytic "afterburners" or the like). One could argue contrarily that the richest vein for CSR activity may be actions that deliver both social goods, as widely interpreted, and company benefits, aiming for a win-win outcome. All of this occurs against a backdrop where there have been attempts to offer what might be seen as unifying definitions; an example is that offered by the World Business Council for Sustainable Development (15), which posited that "CSR is the commitment of a business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life." The only potential problem we see with this definition is that it does not talk in terms of actions but is couched in terms of a commitment, and we know that good intentions are not always fulfilled by firms, governments, or indeed individuals.

It is useful to list some examples of CSR-type activities that may be undertaken. It makes the idea more tangible.

- Pollution minimization in the production or delivery process ("clean" smoke from the factory chimney, electric rather than diesel traction on the railway, etc.).
- Minimization of energy usage: this encourages sustainable design of buildings, often referred to as "smart buildings." It also militates, or should militate, against vast, glass-walled (floating) skyscrapers that necessarily need air conditioning to make them habitable on the 101st floor or even the 21st.
- Treating all employees decently (fair pay, good ambient workspace, etc.) and ensuring supply chain workers are similarly treated (this means not buying garments made in Asian sweatshops, for example, just because they are cheap).
- Farming should be undertaken in a sustainable fashion. What happened to crop rotation to maintain arable land in good condition? Further, workers should not be modern-day slave labor.
- An increasingly common activity by CSR-aware companies is allowing staff to work as volunteers in community-based projects for X days a year (X to be chosen by the company) while continuing to pay the volunteers their salary. Examples of firms where such practices may be found include well-known, UK-registered companies such as Barclays, Tate & Lyle, and Drax Group.
- Supporting local charities based on turnover in retail businesses could be a donation of x% of turnover, where x is a smallish number, or through schemes to encourage customers to drop small change in a collecting box (as long as COVID-19 doesn't manage to kill off cash payment for the elderly).
- Offering children at local schools or in local FE colleges the chance to get work experience at your company's expense; and so on.

These examples, while by no means exhaustive, seem to offer instances of CSR-type activity with which the relatively CSR-inactive firm could readily up its game. Moreover, it is not hard to see how one may construe them to be activities that contribute to the good or enhanced CG of a firm, provided we do not try to tie ourselves up in restrictive, definitional knots.

At first sight, the title of a paper by Pisani et al. (16) looks enticing, especially the first sentence, "Does it pay for cities to be green? An investigation of FDI inflows and environmental sustainability." One is immediately led to wonder whether there is a sense of collective desire for good in some cities by being sustainable. These are, of course, the same kinds of imperatives mentioned in the first two bullet points earlier. Somewhat disappointingly, the paper is much more restricted in focus than the title led us initially to hope for. The authors tried to investigate whether holding air pollution down to tolerable levels and treating the bulk of waste water effectively (primarily sewage and industrial effluent, as one imagines) in Chinese cities would induce potential foreign direct investors to choose those cities with better ratings on the two measures noted. The short answer was "yes" but of course they only looked at two measures, important though they are, and they only looked at Chinese cities. In the face of the need for action on climate pollution of many types, as seen by ordinary citizens as well as climate activists, a need for all cities to aim for a more sustainable environment seems entirely obvious.

Another paper, one of whose authors is Kolk, who appeared in the Pisani et al. (16) piece above, is that of Kolk and Pinkse (17). They make what may be described as a surprising point: they suggest, in effect, that CG may be

considered to be part of CSR. They wrote in their abstract (p.15): "In recent years not only has attention to CG increased but also the notion has broadened considerably, and started to cover some aspects traditionally seen as being part of CSR." Given that, as we explained earlier, CSR is logically a subset of CG, they seem to have got the story the wrong way around. In terms of their findings, they state that (p.15): "MNEs that disclose information on a wider variety of social and environmental issues and frame CSR with a focus on internal issues are more inclined to integrate CG into their CSR reporting. This integration seems to be a global phenomenon that cuts across countries and sectors." Had they simply suggested that MNEs seem to be reporting CG and CSR in a more integrated fashion, one might just think this to be a desirable trend. Why might this contrary thinking have arisen? One possible answer is that social responsibility, in many situations not related to corporate matters, may be seen to be very wide in scope and to have a great many facets. That, allied to the fact that, as we have noted, there has been a tendency for official codes on CG to be fairly narrowly interpreted for implementation, may offer a bit of an explanation for the misunderstanding, but it does not constitute a convincing counterargument.

One interesting point we found was that attention to CG principles, broadly construed, and reporting thereto may be particularly vigorously pursued by companies that some investors may eschew because of the nature of their business. One example is Anglo Pacific Group Plc. They are what they themselves describe as a "natural resources royalty company," basically a company that invests in royalty income streams from mining businesses, including coking coal but not steam coal. Some investor groups will very publicly declare that they do not wish to invest in such "polluting" businesses, although I guess most of these very people have smart phones with key metals in them, and they may well have cars made primarily of steel (even if they are electrically powered now, they still need the metals for the bodywork). Hence, there are some double standards at work here. Anglo Pacific has only a standard listing on the LSE and as such is not required to follow the UK's CG code, but they choose to do so voluntarily, and they talk quite a lot in their annual report about so-called ESG issues (environmental, sustainability, and governance), as per Anglo Pacific Annual Report (18). The paradox is that such a company may feel it has to work harder to maintain confidence and hence shareholder interest than other "more acceptable" businesses. Meanwhile, Shell has declared its intention to vigorously diversify its energy provision portfolio, i.e., move away from oil alone and its by-products, though some have questioned the true depth of their commitment to that goal, see, for example, Raval and Hook (19).

The view of the UK regulator for CG, the FRC

It seemed pertinent to try to find out what the UK regulator (the FRC) thinks about the intrinsic nature of CG, its regulated form, and its linkage with CSR, so we approached the FRC. As a result of that initial approach, an FRC official replied, saying that in principle he was prepared to try to answer the four questions outlined in our letter, three of which are found in this section and the fourth in the section on the CSR-CG linkage. Unfortunately, despite this agreement to cooperate, we did not receive a response despite a polite reminder. Given the absence of a substantive reply, we thought it might be informative to draft answers that might reasonably be inferred from the FRC's public documentation to be their institutional positions. We then sent a final reminder, including these "answers" to our FRC contact and asked for comments on them or, if he preferred, their own freshly drafted responses. Having received no reply to this last e-mail, we feel it is fair to infer that our answers, at worst, do no violence to their position, since, if they disagreed materially, one would expect a disclaimer to that effect if nothing else.

The first two questions setting out what might be official baseline thinking are as follows:

(1) What, simply but summatively, does the FRC think CG is?

Based on the format of the published code, it seems they view it as having a limited scope, indexed primarily by directors' duties and remunerations, audits, and governance in the sense of compliance with the code as published. In other words, it seems that the wider remit, which requires a deep understanding of the meaning of CG as being concerned with all aspects of the good management of a firm, is missing. In particular, CSR and now sustainability issues for the UK-listed firm are not embodied in their view of CG.

(2) Why are the code's principles (still) so narrowly framed or focused, given the first two sentences of the Cadbury definition in 1992 (which basically say that CG is about the overall good management of the firm)?

The answer is probably that, when the Financial Services Authority (FSA) started out from where they did, they began with a relatively narrow view of what needed to be done, and even that task took 20 years to fulfill, so they were not rushing to take on a bigger challenge.

Of course, the revision of the forms for boards of directors, increased transparency around their payments, tighter regulation of their terms of office, etc., are all good. They were and are praiseworthy outcomes, but there is much more still to do in our

view. When the FSA was disbanded and replaced by several other bodies, the code became the property of the FRC, and they are an accounting-based organization in reality, so it may come as no surprise that their mindset remains rooted in the matters found in the code. What many saw as the "old boys club" of non-executive directors, or NEDs, is less true than it was, although the same names still tend to crop up in several places at a given point in time. In our opinion, the role of chairman is a critical issue for NEDs. How many large companies can one person properly chair simultaneously? Our own view is that even two may be one too many. Being chairman of a large company (with remuneration typically in excess of £350k, possibly plus some perks) is surely a task requiring the equivalent of at least two and probably three days of work each week. If that is so, then one chairmanship plus a couple of less demanding NED positions is surely a full load if the jobs are to be done properly.

As a way of benchmarking this point, we formally asked two large, UK-listed firms, who have the same chairman currently, what they considered to be the annual quantum of input expected of their chairman. One firm is a FTSE 100 company; the other is in the FTSE 250. The short answers were 100 and 120 days per year but both made the point that, at times, more input may be required depending on circumstances. One firm noted that dealing with the COVID-19 situation in 2020 gave rise to just such a need. Based on our own work experience, we further suggest that once one reaches any type of senior management (or directorial) role, the need to "spend more time possibly" tends to become an inevitable reality, and that extra quantum can often be something in the range of 10—20% more. If our hypothetical chairman spends 10% more time than the notional figures, his total will be 242 h per year; if he spends 20% more than 264 h per year, his total will be 266 h per year. Both of these totals imply a working week in excess of 45 h, the latter in excess of 50 h. These are heavy workloads, and a further issue is the mental juggling required in order to be able to focus on the complex details of two very different businesses, one in luxury apparel, and the other in foodstuffs. Can he really give his best attention to both companies? There is at least room for doubt.

The third question concerns the code's implementation or reality by firms, and it is as follows:

(3) Given the possible responses to (1) and (2), how seriously do they (the FRC) believe FTSE companies now take the code? [Back in the 1990s, there was a widespread view that "the new CG code" as designed by Cadbury, was often observed as a "tick box' activity," e.g., the (20)].

Their answer may well be that they believe firms take compliance with the code as written very seriously but are often not minded to look to widen the scope of good CG in their firms.

The fourth question on the FRC view of the CG-CSR linkage (if any) is handled at the end of the next section.

The linkage of CG and CSR and proposals for improvement

Chan et al. (21) report that they found some evidence to suggest that companies with better CG ratings tend to be more proactive in providing CSR information about their activities. More precisely, they wrote (p.59): "Our analysis of the annual reports for a sample of 222 listed companies suggests that firms providing more CSR information: have better corporate governance ratings; are larger; belong to higher profile industries; and are more highly leveraged. *Our findings support the limited prior research suggesting a link between corporate governance quality and CSR disclosure in company annual reports* and suggest that, rather than mandating specific disclosures, regulators might be better served focusing on corporate governance quality as a way of increasing CSR disclosures" [author's emphasis]. In the context of our research, this is useful data, although one might argue that their findings are only what one might logically expect. For, if a firm has good CG ratings, one may suppose (or hope) that it is indeed well governed or managed, and hence one might expect it to do well in the CSR area as well as in others. If the firm acts positively in the area of CSR, one might in turn expect it to wish to share the good news with its shareholders and others in its AR. Size and profile appear to be unremarkable conclusions among the other presumed drivers discovered. The only oddity is the inclusion of leveraging, or gearing, in their list of drivers, since high gearing is not necessarily a wise policy and hence may be a symptom of less good CG, one might argue. In that their analysis sees good CG as a driver of CSR, we believe they have things backwards.

In their analysis of prior literature, Chan et al. (21) cited the work of Haniffa and Cooke (22), who investigated the relationship between CSR disclosure and certain CG variables for a sample of Malaysian corporations. They reported that three of the control variables included in their study were found to be positively associated with CSR disclosure: firm size, industry profile, and creditor power/leverage. Chan et al. (21, p.68) suggest that "this finding is consistent with much of the previous literature." The other two control variables (stockholder power/dispersion and economic performance) were reported to show no significant association with CSR disclosure, a finding that is also said to be consistent with previous literature. This work is interesting first and foremost because

of the location of its sample. Again, the inclusion of firm size and industry profile as positive drivers seems unsurprising, but the lack of obvious impact of creditors and economic performance are more interesting. Why, one might ask, should one expect creditors to be overly concerned with the CSR activities of their debtors? Might they not be likely to focus primarily, if not wholly, on the debtors' economic performance, which will tend to guarantee their investment or otherwise? We are perhaps surprised by the lack of impact of economic performance on CSR, unless the point is that the firms sampled are thought to have been cynical milkers of their economic machine, interested only in being able to pay large dividends. In the 21st century, one might expect a more enlightened world view, and in any case, there is some evidence that doing good now, albeit with some associated cost, actually pays off in the long run (23, 24), and at a minimum provides good public relations (25).

Swiatkiewicz (26) sought to address what the title of his paper, suitably paraphrased, calls "the practical linkage of CSR to strategy." His main point is that the two phenomena should go hand in hand, but there is still dissonance between them in many business settings. Since at its root, CG is about the notion of good management of the firm, it would seem that he should also be of the view that CSR and CG should go hand in hand, a position with which we would concur. However, his perspective on the dissonance, as noted, tends to align with Foster (11) previously reported conclusion that most listed firms in the United Kingdom with some positive CSR activity fall short of the ethical goal of being socially responsibly managed firms with SRM policies built into the firm's very foundations.

Süsi and Jaakson (27) present a rather unexpected but nevertheless welcome finding. They made a detailed study of a single (Baltic) private equity (PE) firm. Surprisingly, this private equity firm, if not others, believed that good CSR and sustainability practices were desirable in the companies in which it sought to invest. They found that long-term sustainability supported by CSR increased firm values and, as such, provided a rationale for the PE firm's stance. Put another way, CSR can be an important aspect of an overall CG approach. The surprising note is that PE firms are widely seen as short-termism in general, as Süsi and Jaakson (27) note, and as such may not have the patience or inclination to place emphasis on factors such as CSR activities, which may take time to pay off. The limitation of this study, acknowledged by the authors, is its focus on a single firm, but maybe it offers an example for other PE firms to follow.

Ajina et al. (28) sought to investigate the relationship between CSR and earnings management and the moderating effect of CG and ownership structure on that relationship. Based on data for French listed companies for the years 2010—2013, their analysis suggested that engagement in CSR tends to constrain earnings management practices. They suggest that this constraint may be the result of managers agreeing to act ethically and to try to satisfy stakeholders' desires. Their results also showed that the effect of CSR on earnings management was stronger in more independent boards and where there was a high institutional ownership structure, both of which factors they note as CG "devices." This CG focus aids in the reduction of opportunistic, managerial behavior. This is then another example of CG creating a managerial setting that facilitates good CSR practices.

Jo and Harjoto (29) used a large and extensive US sample to try to examine the interaction between CG and CSR. They attempted to model the impact of each concept on the other, each lagging by one time period. They found that while lagged CSR did not affect CG variables, lagged CG variables (measured in t-1) positively affected firms' CSR engagement (in period t), after controlling for various firm characteristics. In addition, they tried to examine the importance of stakeholder theory, regarding the associations among CSR, CG, and corporate financial performance (CFP) and the relation between CSR and CFP. After correcting for endogeneity bias, their results showed a positive influence of CSR engagement on CFP. One reservation about this work concerns the actual modeling. Despite their estimated regressions being based on a composite sample in excess of 2,000 units (actual numbers used for different models varied somewhat), even when "significant" relations were found, most of the R^2s were "modest" (0.37 at best). This leaves the question of what were the missing factors in their models, which might have accounted for the majority of the variance in the models. Nevertheless, a finding supporting the view that good CG drives positive CSR policies seems both plausible in terms of pure logic and somewhat comforting. Altuner et al. (30) also reported some support for positive links between CG, CSR, and intellectual capital, but, in our opinion, the nature of the modeling and the statistics used mean the relationships alluded to are somewhat "loose" in character. Ruangviset et al. (31), however, claimed to have found some evidence of a negative impact of CG on CSR, but their results seemed fairly weak in a statistical sense: they only reported a significant link for a model that pooled data for all four years for which they had data, none for models using data for each year separately, and they omitted some key outcome data such as R^2s for their five attempted models.

Bharej (32) offered a discursive piece on the relationship/s between CG and CSR in the Indian context. The two key points he makes seem to be that: there have been changes to the legal framework in India aimed at establishing the need for good CG; and, there is a growing need for the developing nation to understand the need to move beyond CG conformance toward voluntary CSR performance. The important point from our perspective is the emphasis by the author on the setting of India as a developing nation. Continuing with the sub-continent as context, Rahim and Alam (33) argue that in weak economies such as Bangladesh, even if there are CG codes, they tend to lack weight and are therefore ineffective or undermined by corruption in

the bureaucracy. They argue that where progress is to be seen in such a setting, one may observe a convergence of purpose between CG and CSR, relying on the enlightened self-regulation of well-intentioned companies.

In a study based on data from another developing nation, Vietnam, Trong Tuan (34) concluded that: "CG is, importantly, about ethical conduct in business; it needs to become principle-based rather than rule-based if it is to be effective; and it can be facilitated by the leverage of CSR initiatives" [so positing a link between CG and CSR; my comment]. Hence, to be effective, it should, in his view, be structured as a set of guidelines for the strategic actions of members of a firm. The empirical work underlying these conclusions was based on a large sample of firms listed on the Ho Chi Minh City Stock Exchange.

We conclude this section by making reference to two papers that do not really help our line of argument, but neither do they detract from it either. Rather, what they illustrate is the confused and confusing nature of some of the work reported in this important area of study, where CG and CSR occur. Sacconi (35) wrote (p. 157): "[in this] first part of a comprehensive essay on the Rawlsian view of corporate social responsibility (in short, CSR), CSR is defined as a multi-stakeholder model of corporate governance and objective function based on the extension of fiduciary duties toward all of the firm's stakeholders." This appeared to us to be a thoroughly muddled statement: he conflates the concept of CSR with an attempt to model the concept of CG. If one sets out with confounded terms of reference, one cannot expect to get to a useful outcome.

The abstract of a paper by Zaman et al. (36, p.690) includes the following two sentences:

> "Drawing on the national business systems approach, this article systematically reviews 218 research articles published over a 27-year period to map how CG–CSR research has evolved and progressed theoretically and methodologically across different institutional contexts. To shed light on the full gamut of the CG–CSR relationship, we categorize and *explore the nature of this relationship along two strands: (a) CSR as a function of CG and (b) CG as a function of CSR* [author's emphasis]."

On the one hand, we are invited to be impressed, or so one imagines, by the thoroughness of the literature review (more than 200 papers cited), but on the other, the whole matter is thrown into confusion by the two evidently contradictory positions in the italicized clauses. From the perspective of pure logic, one cannot have A as a subset of B and also have B as a subset of A unless the two sets A and B are identical [in set theoretic notation: $A \subset B \wedge B \subset A \Leftrightarrow A = B$]. In their conclusion (p.46 of 64), they state that "our review unpacks the dominant trend that establishes CSR as a governance function within firms, with scant focus on other important themes such as responsible governance." At least that sentence seems to acknowledge the truth that CSR is indeed a subset of CG. However, it raises a fascinating point: namely, what sort of governance should there be in principle other than responsible governance? Of course, not all firms are well and ethically managed, but the codification of CG was undertaken precisely to try to counter such deficiencies. Our only criticism of the codes such as those we described earlier is that they do not go far enough; they could, and arguably *should,* also embrace CSR.

So much for the academic discourse on this linkage; what then does the FRC think it is or should be? This was the subject of the fourth question in the short questionnaire sent to them. It read:

(4) How do they (the FRC) see the boundaries and linkages between CG and CSR?

Since the UK CG code does not cover CSR issues, one may reasonably infer that the FRC would have no official view of the linkage or otherwise of these two key processes. The more teasing but unanswered question is perhaps whether the FRC thinks that it really should be getting around to taking on some sense of CSR in the code. Were that to be the case, then the next question would be, "What should be the first CSR-type issue to be added to the code's remit?"

Our view would be that developing a greater sense of ethical understanding and behavior in all matters related to the running of the firm would be an excellent starting point. Of course, many firms will immediately cry, "But we have a constant focus on ethics in the running of our business." However, if that were true, why does even the United Kingdom's seemingly "less than effective" Serious Fraud Office (SFO) gets any positive results on its fraud/corruption enquiries? They do get some. Moreover, if firms went beyond merely obeying the law (and avoided contact with the SFO), they might also avoid negative press from serious lobbying groups. We use the word "serious" here because it is our view that, sadly, some lobbying groups are not in reality honest and sincere in their activities.

Some examples of what such ethical firms might do are these: They would ensure payment of a genuine "living wage" to all their employees and would not use partners/suppliers unless they too adopted such a position, couched, of course, in terms of their own domestic economic circumstances. They would also accept the moral duty to pay tax on their trading profits in the countries in which they earn the money; there are well-known MNCs that do not do this. The problem here is that some of the most well-known examples of tax holiday tourists are US firms, so the FRC would probably be unable to get them to comply: we should require US authorities to

implement firm policies in the United States as the primary registration country.

This sort of emphasis in the code on ethics would be an important example of a move to bring an obviously CSR-related theme into the code. Because ethical issues are harder to tie down than matters such as the balance between executive and non-executive memberships of a board of directors, it may well be that the guidelines in this area would have to be quite broadly couched. Our suggestion is that the mere presence of such guidelines, even though broad, would very likely spur companies to do better on such issues, be they issues on "living wage" rates, acceptance of the need to pay taxes where profits are earned, improved sustainability behavior, or others. It would give shareholders and shareholder pressure groups issues on which to focus regulatory support.

Another major area for potential beneficial inclusion in CG codes is a greater emphasis on risk. For example, in the current UK code, the task of dealing with risk is mentioned, but with inadequate emphasis, we should argue. In the code, provision 31 of the Financial Reporting Council (5, p.12) makes brief reference to the need for adequate analysis of and mitigating policies for such risks as may be deemed serious for the given company. It also states that companies should report their actions in this respect in their annual reports. In the Risk Analysis section of an annual report, what typically appears is a verbal assessment of how a set of diagnosed, specified risks are offset and to what degree, with perhaps some indication of where further measures appear to be indicated. When questioned, e.g., at an AGM, senior directors will sometimes say that there is some more coherent, technical modeling conducted by back office staff, but this is not seen publicly; hence, such an assurance can only be taken on trust. The very real problem here is that serious risk analysis requires a degree of mathematical knowledge and skill that many general managers and accountants simply do not possess. A non-executive of a FTSE100 company told me, at an AGM a few years ago, that one of the reasons for the somewhat basic, or anodyne, risk data shown in the Annual Report of the company whose AGM we were attending was that "the lawyers" don't want real, more substantive information to be put into the public realm in order to guard against possible future lawsuits, however ill-founded such suits might be.

We conclude this section on findings related to the CSR-CG linkage with a comment on ESG (environment, social, and governance) issues. Some jurisdictions have already made some sort of annual ESG reporting mandatory, but, at the time of writing in early 2022, there is no such requirement in the United Kingdom, and in particular, there is no such section within the latest code, Financial Reporting Council (5). An outline environmental emissions statement is required but is not included in the code. It is unsurprising that there is now focus on environmental emissions, given their connection to the global warming crisis, and the fact that Britain will host COP 26 in Glasgow in November 2022 has added zing to the matter from a UK perspective. Indeed, some commentators are anticipating that some form of publication/report requirement will be mandated in the United Kingdom in the near future; see, for example, Hopper (37).

To us, the odd thing about the ESG phrase is the apparently equal weight afforded to the three words and their ordering. It seems obvious to us that the E and the S in ESG are CSR issues; see the examples of CSR issues listed earlier. Furthermore, we have shown that CSR is a subset of, or part of, CG. Hence the appearance of the G at the tail end with apparently equal weight seems illogical. Governance reporting is already required for major, listed companies, and logic suggests that any move to focus further on environmental and social issues would be best handled by amending the code to embrace such issues. The only issue with doing so would be whether, in the United Kingdom, the FRC, with its accounting roots, would be best suited to dealing with these scientific, and social scientific issues. That problem could be readily resolved by establishing a new division within the FRC, manned by people with appropriate knowledge and skills.

Conclusion

Having defined what we believe CG and CSR clearly should mean, given the very words that comprise the two phrases, we find that CSR is logically, or necessarily, a part of that wider concept, which is CG. This seems straightforward enough, but is confounded in the literature examined by a tendency to treat CG as if it were a subset of the real concept and by incoherence in the definitions of CSR used. What the two points noted in the last sentence suggest to us is that a malaise quite commonly found in social science research is at play. Namely, authors define terms to mean what they find expedient for their own purposes and then argue that the work of others is flawed because they use different (and very possibly more sensible) definitions of the concepts considered.

In short, CG is certainly concerned with the good management of the firm as a whole, while CSR is necessarily concerned only with those components of this wider picture that are concerned with some element of social responsibility. Hence, we conclude that it is certainly true that $CSR \subset CG$.

The CG codes found in the United Kingdom and other countries tend to focus on just a subset of the whole CG picture, particularly issues concerning the structure of boards of directors, the terms of office of their members, the remuneration of directors, and audit policies. This has certainly improved those matters on which the code focuses but leaves many other aspects of the good management of the firm untreated, including much of CSR, which tends to deal with a more eclectic mix of topics. This may well be precisely because CG matters are dictated by a published code or overseen by a regulator.

On the linkage of the two notions, broadly speaking, the literature suggests that better CG tends to be aligned with greater commitment to CSR and better reporting thereof. Moreover, there is a balance of views in the published work on the topic that supports the logical position that CSR is a subset of CG.

In the preceding section, we noted two key areas for potentially strengthening the UK code and, by implication, those of other jurisdictions: an enhanced focus on risk treatment and the inclusion of a section on ethics. These proposals would improve the CSR coverage within CG codes and also include the inclusion of so-called ESG issues. These proposals contribute significantly to the improvement and globalization of CG codes, while the clarification of terms and the logical relationship between CSR and CG, while ostensibly modest in nature, are clearly very necessary given some of the confusions we have exposed.

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Conflict of interest

The author declares that the research was conducted free from any commercial or financial relationships that could be construed as a potential conflict of interest.

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