ABSTRACT

Corporate Governance (CG) prompts companies to exert tight internal control mechanisms and to protect shareholder rights. As such, companies are encouraged to promote fairness, transparency and accountability in all their dealings. They are expected to continue generating profits, while maintaining the highest standards of governance internally. Also, in this era of environmental awareness and information sharing, investors and customers alike are becoming increasingly selective in their choice of corporations. Consequently, business activities must also stay aligned with society’s legal, ethical and communal aspirations. Corporate Social Responsibility (CSR) has accordingly witnessed a new global resonance and ascendancy in recent years, emphasizing the interactions of firms with their external environments. Both CG and CSR call on companies to assume their fiduciary and moral responsibilities towards their stakeholders. Also, they are both perceived to confer important long-lasting benefits and to assure the sustainability / endurance of the business. Varied positions are presented in the literature on the nature of the CG-CSR relationship. This paper examines the nature of the CG-CSR relationship theoretically by surveying the various postulations on offer and then empirically by investigating the conception / operational-ization of this relationship in the context of a sample of companies operating in Lebanon. The findings suggest that CG is conceived in the majority of cases as a necessary underpinning for sustainable CSR.

Keywords

Corporate Governance, Corporate Social Responsibility, Relationships, Lebanese Context

INTRODUCTION

The urge of political leaders to fulfill their thirst for grandeur has caused the demise of many empires; history books are filled with vivid examples of such ill-fated exploits. In the business world too, corporate empires have seen their share of disgrace and ruin, of wrongdoing and unethical conduct. At the root of their downfall was the urge to amass profits, ironically the latter being the primary goal and survival tool for companies (Clarke, 2004). Analyses of such cases have led to blame managerial greed and competition, but also
investor and shareholder pressure, even indirect, to resort to unorthodox and unethical practices in order to report outstanding financial performance.

Today, enhancing shareholder value is still a major goal. However, the rise in consciousness and activism – on both the shareholder and social dimensions – and the emergence of new expectations have caused other aspects of corporate performance to be examined alongside financial results. As the multiple bottom-line performance attributes are gaining popularity, companies in various contexts are pressured to reconsider their strategies and objectives and to integrate new societal, environmental and ethical concerns in their operations. As firms grow in size and influence, they are no longer expected to be mere contributors to the global economy, but rather to reconcile and skillfully balance multiple bottom lines and manage the interests of multiple stakeholders (Lantos, 2001). Organizations are generally more inclined today to broaden the basis of their performance evaluation from a short-term financial focus to include long-term social, environmental and economic impacts and value added (Hardjono and van Marrewijk, 2001).

This is where the concepts of corporate governance (CG) and corporate social responsibility (CSR) enter the picture. Under the umbrella of CG, companies are encouraged to promote ethics, fairness, transparency and accountability in all their dealings. They are asked to continue generating profits while maintaining the highest standards of governance internally. Thus, Corporate Governance (CG) has been acclaimed as an instigator of tight internal control mechanisms. A firm’s decisions should also be aligned with the interests of different players within and outside the company (Cyert and March, 1963). Hence, businesses have to also keep their activities attuned to society’s ethical, legal and communal aspirations. This falls in the realm of Corporate Social Responsibility (CSR) which has attracted increasing attention in recent years in relation to how companies approach their interactions with their external environments – from providing quality products and services, to undertaking charitable activities. Hence, CSR adds to the control processes which companies must consider, especially from an external dimension or perspective.

Much of the previous literature has researched and discussed CG and CSR independently, as being unrelated accountability models, whose guidelines, reporting standards and oversight mechanisms have evolved separately (Bhimani and Soonawalla, 2005). However, we feel that CG and CSR are strongly and intricately connected, and that previous literature has fallen short in capturing the nature and essence of this relationship. As Bhimani and Soonawalla (2005) put it, CG and CSR are two sides of the same coin. This paper will explore this relationship in depth; first theoretically by reviewing the literature and highlighting how this CG-CSR relationship has been posited. Through a qualitative study in the Lebanese context, this paper will also investigate businesses’ understanding and practical application of CG and CSR, their understanding of the nature of this relationship, as well as their efforts at pragmatic integration of each of these two paradigms in their daily operations.

LITERATURE REVIEW

Corporate Governance (CG)

The importance of CG lies in its quest at circumventing the loopholes in the laws, regulations and contracts that govern companies’ operations and relationships, and ensuring
that shareholder/owner rights are safeguarded, stakeholder and manager interests are reconciled, and that a transparent environment is maintained wherein each party will be able to assume its responsibilities and contribute to the corporation’s future growth and value creation (Page, 2005). This paper will focus on an important – and in no way simplistic – definition of CG as “the system by which companies are directed and controlled” (Cadbury, 2000, p. 8). The control aspect of CG encompasses the notions of compliance, accountability and transparency (MacMillan et al., 2004), and how managers exert their functions through compliance with the existing laws and regulations and codes of conduct (Cadbury, 2000). Governance thus sets the tone for the organization, defining how power is exerted and how decisions are reached.

A narrow view of CG portrays it as an enforced system of standards of ethics and of financial accounting, where socio-environmental needs are a low priority / consideration (Saravanamuthu, 2004). The stakeholder approach to CG offers a broader conception, emphasizing every business’ responsibilities towards the different stakeholders that provide it with the necessary resources for its survival, competitiveness and success (MacMillan et al., 2004). As such, managers are primarily accountable towards stockholders whose wealth and fortunes are at stake. But, they are also responsible toward employees, suppliers, customers, and communities whose investments in the company should in no way be belittled. Thus the interests of these stakeholders should not be perceived as second-rate considerations, but as constraints on managerial action and shareholder rights (Page, 2005).

Other focal elements or ingredients of good governance which are increasingly expected by the public are honesty and transparency, both in corporate dealings and disclosure (Page, 2005). Investor confidence and market efficiency depend on the disclosure of accurate, timely information about corporate performance. To be of value in global capital markets, disclosed information should be clear, consistent and comparable (OECD, 1999). Organizations should not try to mislead the public by providing false and inconsistent information; otherwise, they risk undermining their own credibility in the eyes of investors and customers. Moreover, transparency and disclosure of information between managers and employees are essential to gain employee trust and commitment. These factors ensure an accurate and timely reporting of activities, thus providing the necessary foundation that would lead to a constructive application of governance mechanisms (Cadbury, 2000).

Furthermore, CG is intimately concerned with corporate leadership and strategy setting. This aspect involves orienting management towards a long-term vision of corporate performance, setting proper resource allocation plans and leading the firm’s stakeholders in the desired direction (MacMillan et al., 2004; Cadbury, 2000; Page, 2005). The leadership and control aspects of corporate governance are not mutually exclusive; rather, they go hand in hand and they both define the extent of power accorded to various stakeholders (MacMillan et al., 2004). Ho’s (2005) depiction of the CG dimensions (Figure 1) illustrates this link nicely, both in terms of stakeholder power, and coexistence of the control and leadership aspects; control being namely reflected by the board structure, stewardship and capital structure dimensions. Figure 1 also recalls the basic principles of CG outlined in the OECD (1999) study revolving around protection of shareholder rights, equitable treatment of shareholders, protection of stakeholder rights, accurate disclosure of information and diligent exercise of board responsibilities, which are fleshed out in Table 1.
Figure 1. Framework of corporate governance. Adapted from Ho (2005)

Table 1. Basic principles of corporate governance

<table>
<thead>
<tr>
<th>OECD Principles</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Protection of shareholders’ rights</strong></td>
<td>Entails the protection of shareholders and maintaining investor confidence at all times in way of ensuring the continuous inflow of needed capital.</td>
</tr>
<tr>
<td><strong>Equitable treatment of shareholders</strong></td>
<td>Entails the equitable treatment of all equity investors, including minority shareholders.</td>
</tr>
<tr>
<td><strong>Protection of stakeholders’ rights</strong></td>
<td>Entails the skilful consideration and balancing of the interests of all stakeholders including employees, customers, partners, and the local community.</td>
</tr>
<tr>
<td><strong>Accurate disclosure of information</strong></td>
<td>Entails the accurate and timely disclosure of clear, consistent and comparable information in good times and bad times.</td>
</tr>
<tr>
<td><strong>Diligent exercise of board responsibilities</strong></td>
<td>Board elections should be totally free from political interference and board members should exercise their responsibilities diligently and independently.</td>
</tr>
</tbody>
</table>
To examine the efficiency of these CG components, it is more important to focus on comparing what companies say versus what they do, than relying on financial analysis and forecasting methods. The qualitative factors – including the business’ decision-making structure, reputation, credibility, along with its devotion to stakeholders – that actually contribute to the corporate value and survival must be explored (Page, 2005). This insinuates that corporate performance as well reflects the degree of accountability and how well the company is run (Cadbury, 2000). Thus, CG attributes do play a role in determining company-wide performance, and, notably, are considered unconventional sources of competitive advantage in themselves (Page, 2005).

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a concept that has attracted worldwide attention and acquired a new resonance in the global economy. Heightened interest in CSR in recent years has stemmed from the advent of globalization and international trade, which have reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship. Moreover, while governments have traditionally assumed sole responsibility for the improvement of the living conditions of the population, society’s needs have exceeded the capabilities of governments to fulfill them. In this context, the spotlight is increasingly turning to focus on the role of business in society and progressive companies are seeking to differentiate themselves through engagement in what is referred to as CSR. The World Business Council for Sustainable Development (WBCSD) defines CSR as “the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities” (WBCSD, 2001). More generally, CSR is a set of policies, practices and programs that are integrated throughout business operations and decision-making processes and intended to ensure the company maximizes the positive impacts of its operations on society or “operating in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business” (BSR, 2001).

At the core of the CSR debate is the idea that companies are accountable for their actions not just formally to their owners but also in less well-defined ways to a group of wider key stakeholders. This view has become central to the management of corporate citizenship and social responsibility issues. Companies of various types are according attention and trying to provide a public account of their relations with employees, customers, business partners and governments, as well as the wider society and community (Logan, 2001). Also implied in the debate is the idea that the private sector is the dominant engine of growth – the principle creator of value and managerial resources and that it has an ethical obligation to contribute to economic growth and opportunity – equitable and sustainable. The private sector thus needs to accept its responsibility as a democratic partner in a world characterized by complexity and dwindling resources. CSR is therefore founded on a stronger recognition of the role of business in society, advocating the need for corporations to practice good governance and to contribute in innovative ways to their respective communities and societies.

Many scholars conceive of CSR as encompassing two dimensions: internal and external. On the internal level, companies revise their in-house priorities and accord due diligence to their responsibility to internal stakeholders addressing issues relating to skills and education, workplace safety, working conditions, human rights, equity considerations, equal opportunity,
and labor rights (Jones et al., 2005). With respect to the external dimension of CSR, attention shifts to the need for corporations to assume their duties as citizens, and accord systematic attention to their external – economic and social – stakeholders and the global environment (Munilla and Miles, 2005). The environmental component addresses primarily the impacts of processes, products and service on the environment, biodiversity and human health, while the social bottom line incorporates issues of public health, community issues, social justice, and public controversies. Addressing these two CSR dimensions often implies difficult adjustments, willingness to consider multiple bottom lines – financial, environmental, social and ethical and to sensitise the corporation to interconnectedness and mutual reciprocity issues. It also often requires good communication of CSR objectives and actions (Hancock, 2005), new standards, control and performance metrics (Lantos, 2002) and the successful integration of CSR into the culture of the organization.

The most common conceptualizations of CSR are those of Carroll (1979) and Lantos (2001), Carroll (1979) differentiated between four types of corporate social responsibilities, economic, legal, ethical and discretionary, while Lantos collapsed these categories into three, ethical, altruistic and strategic as illustrated in Table 2. Ethical CSR is morally mandatory and goes beyond fulfilling a firm’s economic and legal obligations, to its responsibility to avoid harm or social injuries, even in cases where the business does not directly benefit. As illustrated in Table 2, according to this conceptualization, ethical CSR encompasses the economic, legal and ethical responsibilities outlined by Carroll (1979; 1991). Altruistic CSR according to Lantos (2001) is humanitarian / philanthropic CSR, which involves genuine optional caring, irrespective of whether the firm will reap financial benefits or not. Examples include efforts to alleviate public problems (e.g. poverty, illiteracy) in an attempt to enhance society’s welfare and improve the quality of life. Strategic CSR on the other hand is strategic philanthropy aimed at achieving strategic business goals while also promoting societal welfare. The company strives to identify activities and deeds that are believed to be good for business as well as for society (Quester and Thompson, 2001).

Table 2. CSR classifications (Carroll, 1979; Carroll, 1991; Lantos, 2001; Lantos, 2002)

<table>
<thead>
<tr>
<th>Carroll (1979; 1991) Classification</th>
<th>Lantos (2001) Corresponding Classification</th>
</tr>
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<tbody>
<tr>
<td>Economic responsibility: entails profitability for shareholders, good jobs for employees, and quality products for customers</td>
<td></td>
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<tr>
<td>Legal responsibility: entails compliance with laws and playing by the rules of the game</td>
<td></td>
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<tr>
<td>Ethical responsibility: entails doing what is right, just and fair and avoiding harm</td>
<td></td>
</tr>
<tr>
<td>Philanthropic responsibility: entails making voluntary contributions to society, by giving time and money to social activities</td>
<td></td>
</tr>
<tr>
<td>Ethical responsibility: Mandatory fulfillment of a firm’s economic, legal, and ethical responsibilities</td>
<td></td>
</tr>
<tr>
<td>Altruistic responsibility: fulfillment of an organization’s philanthropic responsibilities, irrespective of whether the business will reap financial benefits or not</td>
<td></td>
</tr>
<tr>
<td>Strategic responsibility: fulfillment of philanthropic responsibilities which will simultaneously benefit the bottom line</td>
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</tbody>
</table>
Links between CG and CSR

At first glance, the link between CG and CSR seems easy to discern. They both call on companies to assume their fiduciary and moral responsibilities towards their stakeholders. This act of accountability is crucial for a business to gain and retain the trust of its financial investors and other stakeholders (Page, 2005). Also, both disciplines are perceived to confer important long lasting benefits and to ensure the endurance of the business. While each discipline is recognized to confer advantages in its own right, the benefits derived can be assumed to be reinforced and multiplied by the joint application of CG and CSR.

It is observed that good governance mechanisms reconcile the interests of owners, managers and all those dependent on the corporation. They permit corporations to get long-term capital, retain the confidence of financiers, and to use the obtained capital proficiently. Good CG allows the company to gain confidence in its product market, support in its community, and to develop a superior strategic focus (OECD, 1999; World Bank, 1999; Ho, 2005). According to Gompers et al. (2003), CG is also significantly correlated with both stock returns and firm value. Ho (2005) finds evidence that, notwithstanding regional policies and industry characteristics, CG generally enhances firm competitiveness and thus results in superior performance.

CSR in turn strengthens core relationships with stakeholders, thus ensuring that the company’s well-being and growth are sustained in the future (Knox and Maklan, 2004). It is also proving to be crucial to profitability: companies characterized by commitment to ethical behavior have exhibited better financial performance over the long-term than those with no such commitment. They are believed to avoid expensive lawsuits, provide greater capital returns, and operate in trusting and prosperous communities, thus appealing to investors as sound and attractive ventures (Hancock, 2005). By influencing corporate reputation, CSR also improves credit ratings, lowers equity risk premiums and concurrently increases share prices. Other benefits of CSR include lower environmental costs, improved productivity and innovation, enhanced recruitment and retention rates of employees and better responses to environmental changes (Hancock, 2005; Knox and Maklan, 2004).

Three Relational Models Examined

While we have witnessed significant advances in research relating to each of these respective paradigms, some lingering questions persist, pertaining to their interrelationships, namely are CG and CSR independent functions? Are they interdependent? Are they mutually exclusive or mutually coexistent? We will survey various models which have been put forward in way of addressing these questions: (1) CG as a foundation for CSR, (2) CSR as an extended model of CG, (3) CG and CSR as coexisting components of the same continuum.

Model # 1: CG as a Pillar of CSR

This depiction of CG as a pillar of CSR requires an effective CG system to be in place before venturing into CSR activities. Johnson & Greening (1999) emphasize the impact of some governance mechanisms on two dimensions of corporate social performance. The first is the people dimension, relating to companies’ contribution to communities, and their approaches to hiring and treating employees, especially minorities and women. The second is the
product quality dimension, which incorporates concerns relating to quality and the natural environment. Their research suggests that senior managers’ dedication to the product quality dimension increases the more they hold shares in the company (Johnson & Greening, 1999), i.e. the more their compensation is tied to corporate performance. They also find that the presence of outside directors on the board adds diversity to both the board and the staff body, improves the company’s socially acceptable hiring and staff management practices on one hand, increases the company’s commitment to providing high-quality services and products and protecting the environment on the other hand, all while safeguarding the long-term interests of shareholders (Johnson & Greening, 1999).

Hancock (2005) depicts CG as one of the main pillars of CSR along with “environment”, “stakeholder capital” and “human capital” (Figure 2). CG is hence considered one of CSR’s basic building blocks, because of its ability to provide the company with proper guidance, self-regulation and access to investment capital in pursuit of its various activities (including CSR initiatives). A sound CG framework can also allow managers to put in place various milestones and monitoring mechanisms for CSR (Hancock, 2005). Frankental (2001) goes further by asserting that CSR cannot materialize unless the company is transparent and open. He proposes that managers must rely on the codes of conduct that their businesses voluntarily set up as part of their existing CG framework to pave the way for the inclusion of CSR issues in company law and compliance mechanisms.

Figure 2. Four key pillars of CSR. Adapted from Hancock (2005)

Model # 2: CSR as an Extended Model of CG

When CSR is perceived as a prolonged governance system, managers’ fiduciary stipulations are channeled simultaneously towards the company’s owners and its various stakeholders. This view is rooted in a stakeholder theory or approach. As the rights of all stakeholders must be protected, the negative externalities of corporate transactions can be minimized (Sacconi, 2004).
Ho (2005) considers CSR as an ingredient of CG, thus widening the scope of CG, and incorporating non-financial risks into the risk mitigation dimension of CG activities. “An effective approach to corporate governance needs to encompass all aspects of corporate responsibility if it is to ensure the long-term viability of the company”, because stakeholders will be more confident in the governance of the firm, and the board’s ability to manage strategic risks will be enhanced (Hancock, 2005, p.117).

By reorganizing the components presented in Figure 1, we can establish a parallelism between the CSR elements and the major CG features (Figure 3). Herein, each element of the CSR cycle is directly linked to one or more corresponding CG components: for instance, to enforce CSR policies and implement CSR activities, the company’s leaders must set CSR objectives, decide on a CSR competitive focus and strategy, and measure the results. This will in turn affect the strategy of the firm as well as its control mechanisms.

Furthermore, as the desired CSR scope and theme are defined, the board and management can determine the type of CG practices to put in place, and can modify the company’s CG framework accordingly (Hancock, 2005). For instance, board committees may be formed to handle safety, sustainability and liability issues (Hancock, 2005), whereas auditors may carry out CSR compliance inspections (Sacconi, 2004).

Figure 3. CSR embedded in CG. Adapted from Ho (2005)

Model # 3: CG and CSR as Part of a Continuum

Bhimani and Soonawalla (2005) portray CG and CSR as complementary constituents of corporate accountability activity, whose dual presence can bring about various performance benefits. Their corporate responsibilities continuum reflects a varying degree of compliance with laws and legally enforceable standards, by different accountability categories; with concern about mere compliance diminishing as we move along the continuum (to the right) and concern about performance increasing instead.
Corporate conformance entails a strict adherence to the rules and regulations, while corporate performance relies on notions, mainly instruments and methods of best practice, which can be more easily tailored and implemented (Bhimani and Soonawalla, 2005). Therefore, the existence / adherence to CG standards is compulsory. This would ensure that the firm is being run proficiently and operates efficiently. Practicing CSR, on the other hand, is optional but desired out of necessity to safeguard the interests of inactive shareholders and other constituencies (Hart, 1995; Sternberg, 2003; Bhimani and Soonawalla, 2005). Moreover, it is implied in this model that the guidelines, reporting standards and monitoring devices of CG and CSR are codependent and should be developed jointly (Bhimani and Soonawalla, 2005).

Beltratti (2005) believes that CG and CSR reinforce each other: an effective CG structure protects stakeholders from unlawful actions, while an effective CSR program prevents “actions which are legal but inappropriate” in their impact on some constituencies (p.384). Beltratti (2005) also suggests that CG and CSR are complementary in the sense that the process of value creation cannot ignore the concerns of various relevant stakeholders. It is more important that managers realize that elements of basic rights and social responsibility are pertinent to society’s perception and evaluation of the company, than worry whether the accounting profits accords attention to these elements. This will encourage modern companies to accord attention to multiple bottom line considerations. “Corporate governance and corporate social responsibility are therefore complementary in their shaping of the objective function and the constraints faced by corporations” (p.384).

Figure 4. The corporate responsibilities continuum (Bhimani and Soonawalla, 2005)

RESEARCH METHODOLOGY

Scholars are divided in their theoretical conceptions of the CG-CSR link. While the existence of a link is quite obvious, very few studies have examined the CG-CSR relationship from the perspective of practicing managers based on their practical conceptions and applications. Thus, the objective of our research is to explore the nature of the relationship between CG and CSR from the perspective of practicing managers.

The research is qualitative in nature, capitalizing on in-depth interviews with top managers to explore their perceptions of the CG-CSR relationship. A questionnaire comprising three sections was developed, based on the literature review presented in the previous section. The questionnaire comprised questions relating to CG, CSR, in addition to CG-CSR relationships. The purpose was to derive insights into how managers understand CG, CSR, as well as how they conceive the relationships of these complex constructs.
The sample consisted of five medium and large companies operating in Lebanon (Table 3). Three of these companies are Lebanese owned, while two are subsidiaries of multinational corporations (MNCs). The majority of the sampled companies consisted of service providers. These companies were selected based on their known involvement in socially responsible activities, to better examine the authenticity and motives of these actions – crucial for the coveted analysis of the CG-CSR link.

Table 3. List of organizations included in study

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Line of Business</th>
<th>Geographic Origin</th>
<th>Geographic Reach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albina S.A.L.</td>
<td>Wholesale of mechanical and electrical material for the construction sector</td>
<td>Lebanese</td>
<td>Regional</td>
</tr>
<tr>
<td>Aranex</td>
<td>Express delivery, freight forwarding, logistics, warehousing, and distribution services</td>
<td>Foreign</td>
<td>International</td>
</tr>
<tr>
<td>Société Nationale d’Assurances (SNA)</td>
<td>Insurance, reinsurance and financial products</td>
<td>Lebanese</td>
<td>Regional</td>
</tr>
<tr>
<td>Lebanese Canadian Bank S.A.L.</td>
<td>Banking services</td>
<td>Lebanese</td>
<td>Local</td>
</tr>
<tr>
<td>Standard Chartered PLC</td>
<td>Banking services</td>
<td>Foreign</td>
<td>International</td>
</tr>
</tbody>
</table>

An in-depth interview was conducted with one or two senior managers from each of the sampled companies, during the months of January and February 2007. Some data was also gathered from the corporate websites of the sampled companies to supplement some of the information provided by the respondents. Responses were then compiled into a case format. Table 4 highlights the main topics that were tackled in the interviews.

Table 4. Topics addressed in interviews

<table>
<thead>
<tr>
<th>Corporate Governance (CG)</th>
</tr>
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<tbody>
<tr>
<td>Ownership structure</td>
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<tr>
<td>Board of Directors’ composition</td>
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<tr>
<td>BOD committees</td>
</tr>
<tr>
<td>Codes of conduct / Codes of governance</td>
</tr>
<tr>
<td>Executive compensation schemes</td>
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<tr>
<td>Required disclosure</td>
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<tr>
<td>Familiarity with CG</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate Social Responsibility (CSR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description of CSR activities</td>
</tr>
<tr>
<td>Formality of CSR program</td>
</tr>
<tr>
<td>CSR values</td>
</tr>
<tr>
<td>Internal communication</td>
</tr>
<tr>
<td>External communication</td>
</tr>
<tr>
<td>Targeted stakeholders</td>
</tr>
<tr>
<td>Familiarity with CSR</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Motives:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respond to pressure group(s)</td>
</tr>
<tr>
<td>Follow owner’s personal interest or moral values</td>
</tr>
<tr>
<td>Reap benefits</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relationship:</th>
</tr>
</thead>
<tbody>
<tr>
<td>CG pillar of CSR</td>
</tr>
<tr>
<td>CSR extension of CG</td>
</tr>
<tr>
<td>CG-CSR continuum</td>
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</tbody>
</table>
RESEARCH FINDINGS

Each interview underlined specific aspects of the CG-CSR relationship. Generally, the interviews provide some interesting insights into the CG-CSR relationship based on the perspective of practicing managers. This section presents the findings in the aggregate and analyzes those findings in relation to the theoretical models encountered in the literature.

Assessment of CG / CSR Practices

CG: Three of the interviewed Lebanese owned business managers were not familiar at all with the term CG. However, as per Ho’s (2005) framework, they discussed many aspects of CG that are commonly integrated in the practice of their respective firms, primarily revolving around transparency, stewardship, strategic leadership and disclosure. One major incentive for these companies to adopt sound governance norms and principles of good conduct is the requirements of ISO Quality Management Certification, and to keep up with new managerial trends and the requirements of global competitiveness.

In terms of board structure, no correlation could be inferred with efficient governance practices or CSR involvement although the BODs of the two Lebanese publicly listed firms consist mostly of independent directors. Moreover, all the Lebanese companies in this study have set for themselves clear organizational structures, visions, values, policies, processes, and reward schemes. They are committed to conforming to laws and regulations, and tailoring their responses to changing external conditions. Hence, there is high observance of the legislative safeguards, agility and monitoring elements of CG. Overall, it seems that the control facet of CG, especially regarding quality norms and employee conduct, is more emphasized than that of setting strategic direction.

CSR: Each interviewee has tackled a different element or combination of Hancock’s (2005) pillars of CSR. However, all the Lebanese respondents claim to recognize the necessity of giving back to the community, and attending to the needs of their stakeholders. This orientation is catalyzed by various legitimacy concerns in addition to the influence of founders, owners and CEOs, often translating their individual engagement into altruistic corporate initiatives. All interviewees adhered to the economic, legal and altruistic conceptions of CSR, with discretionary CSR activities revolving mainly around philanthropic donations and sponsoring of scholarships and events. Modest strategic initiatives are also observed, as in attempts at creating good will and a differentiated brand through social and environmental involvement. However, only two of the interviewed Lebanese companies have explicitly articulated CSR values, goals and/or strategies for CSR.

In way of comparing the conceptions and practices of Lebanese and foreign companies, managers on both sides expressed the view that the initial short-term costs incurred in developing CG and CSR are offset and justified by the long-term benefits. The most important outcomes flowing from sound CG and CSR relate to stakeholder trust, enhanced corporate image and reputation, enhanced innovation, a long-term competitive edge and consequently long-term gains. Foreign companies add to these benefits other gains stemming from increased employee loyalty, customer loyalty, and increased productivity.
Most of the interviewed Lebanese businesses do not explicitly mention proper governance and CSR in the company values or mission statements, although they claim to incorporate CG and CSR principles in some form in their operations. Most local managers are also not familiar with the terms CG and CSR, but understand and anticipate the benefits from properly running the company and giving back to the community. Also, the shareholder owned Lebanese businesses do not have independent board structures and have only made modest progress in way of integrating CSR into daily operations and decision-making processes.

The subsidiaries of MNCs on the other hand seem to maintain high levels of standardization in way of applying the same CG and CSR principles in Lebanon as in their head offices. They take their social responsibility seriously in local countries where they set shop and adapt their CSR models to local needs and expectations. Most have set objectives and budgets, formal training for staff and management, motivation schemes and dedicated units and officers for their local CSR programs. They are thus more sophisticated in their approach and more at ease in communicating their values, strategies and programs.

**Assessment of the CG-CSR Link**

All but one Lebanese company recognizes that CG and CSR are not independent managerial practices, but rather complement, reinforce and strengthen each other. Two of the respondents argue that CG and CSR are part of the same corporate accountability continuum aimed at promoting sustainability, growth but also stakeholder wellbeing and that CG and CSR are two facets (external and internal) of the same commitment to ethical business conduct. Hence, we could detect some support for the Bhimani and Soonawalla’s (2005) model examined earlier (Model # 3).

The remaining respondents insist that a company cannot have a genuine CSR orientation, if it does not have a solid CG foundation. It is essential according to most of the interviewees to lay the necessary infrastructure in way of strategic leadership and good control systems, in order for the firm to benefit its owners and external stakeholders. Thus, the strategic governance component is largely necessary to support the environment, human and stakeholder capital pillars of CSR. Also, the firm cannot undertake projects of social and environmental enhancement, if it does not uphold similar values and practices internally. These views lend support in turn to the Hancock (2005) postulation (Model # 1).

**CONCLUDING REMARKS**

In researching the nature of the CG-CSR relationship, this paper has surveyed the literature and explored the perceptions of CG and CSR in Lebanon. The first conclusion that can be safely drawn is that CG and CSR should not be considered and sustained independently. Irrespective of the type of relationship that exists between CG and CSR, a company without an efficient long-term view of leadership, effective internal control mechanisms, and a strong sense of responsibility vis a vis internal stakeholders cannot possibly pursue genuine CSR. CSR interventions risk being taken for PR attempts particularly when the CSR orientation is not rooted in the context of a solid internal foundation. Conversely, CG cannot be effective without a sustainable CSR drive; because a company has to respond to all its stakeholders’ needs in order to be profitable and create value for its shareholders/owners. This proves that the link between CG and CSR is unequivocally a salient two-way relationship.
Issues of CG seem to be addressed in Lebanese businesses, more in terms of monitoring daily operations, than in dealing with issues of strategic leadership, board infrastructure, strategic capital structures and market relations. Also, Lebanese businesses can be characterized as in the early learning phases with regard to CSR assimilation and implementation: the majority of Lebanese companies are engaged in philanthropic CSR programs and viewing these as sources of differentiation and competitive advantage, but they still have not put in place clear guidelines objectives and standards to be met in the course of their CSR activities. In relation to the CG-CSR link, the majority of the respondents seem to support the view that there is a strong link between CG and CSR with CG conceived as being a necessary underpinning for a long-term sustainable CSR orientation.

This paper has thus served the purpose of providing an introductory exploration of the CG-CSR relationship in practice. It is clear that this paper has its own set of limitations. This paper constitutes a preliminary exploratory investigation of the practical relationship and implementation of CG and CSR in Lebanon. However, it is only a guide for future more inquisitive research, and does not present results that can be generalized for the wider population. The size and composition of the sample studied play a role in the sense that only 5 companies were considered and examined in depth. Also, the majority of the sampled companies were service providers. The study also failed to fully inspect the effectiveness of existing governance systems, taking employees’ input into account, and it did not research previous or outstanding lawsuits and problems tied to management and ownership issues.

Future research can further tap into and attempt to shed light on the nature of the CG-CSR relationship, by researching a wider sample, and collecting more detailed information relating to the remuneration, reward and punishment systems, percentages of ownership, number of people involved in CSR in each company, value of budgets allocated to socially responsible activities, employee turnover, and market share. Another suggestion is to research CG and CSR along supply chains: by examining partners’ individual applications, how they interact, join forces or pool resources, researchers will better understand how supply chain relations affect organizational structures, rules, standards, and strategy setting, in terms of better aggregate governance and CSR. Hence there is still much room for additional research to enhance our understanding of the nature of the CG-CSR relationship.

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