Ambiguous Leadership Undermines Compliance

Forcing companies and people to juggle conflicting demands can encourage symbolic compliance.

When top state or corporate leaders lay down goals, compliance may not always meet their intended aims. This is the case in China, where companies have been under increasing pressure from the central government to comply with rising standards in CSR.

Since 2007, China’s central government has recognised the need to address its massive pollution problem, through sustainable (what they call scientific) development. To this end companies have been encouraged to adopt more environmentally friendly projects and to report on their activities and performance, assisted by central government guidelines and training. Nine years on the pollution problem is not getting better.

A recent study I co-authored, Whose Call to Answer: Institutional Complexity and Firms’ CSR Reporting, looked at why China was struggling with its CSR, and found that the timing and quality of CSR reporting by major Chinese companies was varied and the impact of the central government’s regulatory posturing far from uniform. While there was no objection to the new CSR requirements by companies per se, difficulties stemmed from the demanding economic targets set by the governments in the provinces in which they operated.

Conflicting demands

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Despite the new central dictum, these local governments were less concerned about CSR and more concerned about increasing GDP growth. To better understand the environment in which these companies were operating, and the conflict pressures they faced, we have to understand that in China having government support is extremely important if firms are to survive.

While it may be expected that central government demands would over-ride the lower jurisdiction, in China it is local governments which interpret and implement law and wield much of the power.

Local bureaucrats have influence over loans and delivery of supplies and the power to temporarily shut down plants and delay production. As the World Bank noted in its 2016 Ease of Doing Business survey, companies expend a lot of time and effort meeting their requirements.

In some cases noted in the study local governments actually shielded large companies (the major polluters) from the central government’s environmental protection agency and would openly invite big polluters into provinces to boost GDP.

Effect of conflicting demands by the state

While research on CSR reporting, and CSR in general, acknowledges the influence of government
To how reach it. Ambiguity gives managers further down chain room to consider what is important to them. In some cases end result may be very different from spirit original target.

In case China central government is saying “CSR is important, you have to do it”, but it is not saying “economic growth isn’t important”. In fact it later clarified its position to say “GDP growth is not only target.” Local government took this to mean that while there were other considerations, economic growth was still very important and it was their role to ensure that GDP numbers continue rise, supporting their push for economic growth at expense environment.

In some cases this double intent, tension between two governments, can present business opportunities. IBM, for example, realising pressure Chinese central government was under be seen environmentally active, and the embarrassment felt when high profile, international events were held under Beijing’s smog-filled skies, came up with software help map control air pollution by identifying which plants needed be temporarily closed ease city’s toxic air pollution. The software is in process of being adopted by local governments, allowing them to continue pushing economic development while appearing responding central government’s push for increased CSR.

Goals need strategy

Band aid solution’s like this are of course not answer to China’s pollution problem which needs to be addressed in systemic way. But what our study aims to do is show national governments – and by implication the top leadership of large organisations – that it’s not enough just lay down goal. They need understand conflicting pressures entities (be they companies or departments) are under to achieve that goal. Without this understanding and without strong tools for evaluation, penalties for non-compliance and incentives lower levels, action down chain may very well be symbolic and they may not get the results seek.

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regulations and guidelines, little has been written about how corporations behave when they come under competing, and conflicting, pressures from the state.

We found that while there was noticeable jump in the number of firms that issued reports 2008 - suggesting guidelines were important in encouraging CSR reporting - variations in the timing issuance and quality of reports were substantial. In many cases exemplary firms – those supposed to be the leaders their field – were issuing very short, substandard CSR reports, an indication that not much was being done in terms of environmental protection and sustainable development. These firms usually responded to the central government guidelines quickly by adopting CSR reporting speedily, but their reports were of relatively low quality. They were, in effect, symbolically adopting the central government’s new policy, while substantively moving in other direction.

Our study reveals that the local government’s high economic targets can explain such symbolic adoption. While the central government had been proactive in outlining standards and highlighting the need third party auditing, enforcement of the regulations is inadequate. That some firms have to juggle conflicting demands from central and local government is a key factor in the country’s deteriorating environmental situation.

Given the importance and effort expended by the central government to ensure company compliance, it could be expected that the politically-connected firms - those partially owned by the central government or whose CEOs held central government positions – would have paid more attention to releasing stronger CSR statements. But this was not case. What we found was that, because these firms experienced the greatest tension from central and local bureaucracies’ demands, they were the most likely to display this type of symbolic compliance.

Unless there is a change in local government priorities the pollution problem is likely to continue.

The problem with double intent

The problem of symbolic compliance brought about by conflicting pressures on business is not confined to China. In many emerging markets companies are juggling demands of different government jurisdictions.

A similar situation can happen inside organisations where lower-level managers may find themselves trying meet the expectations different levels leadership. While the CEO and board usually have a goal in mind, they may not have set out strategy as