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# Ambiguous Leadership Undermines Compliance



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## **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**

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 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 a noticeable jump in the number of firms that issued reports in 2008 - suggesting guidelines were important in encouraging CSR reporting - variations in the timing of issuance and quality of reports were substantial. In many cases exemplary firms - those supposed to be the leaders in 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 the 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 for third party auditing, enforcement of the regulations is inadequate. That some firms have to juggle the 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 the 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 to meet the expectations of different levels of leadership. While the CEO and board usually have a goal in mind, they may not have set out a strategy as to how to reach it. This ambiguity gives managers further down the chain room to consider what is important to them. In some cases the end result may be very different from the spirit of the original target.

In the case of China the 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 the 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 to rise, supporting their push for economic growth at the expense of the environment.

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

### **Goals need strategy**

Band aid solution’s like this are of course not an answer to China’s pollution problem which needs to be addressed in a systemic way. But what our study aims to do is to show national governments – and by implication the top leadership of large organisations – that it’s not enough to just lay down a goal. They need to understand the 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 at lower levels, action down the chain may very well be symbolic and they may not get the results they seek.

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