ISSN: 2349-7637 (Online)
Volume-1, Issue-5, December 2014
RESEARCH HUB – International Multidisciplinary Research Journal
Research Paper
Available online at: www.rhimrj.com

Corporate governance and corporate social responsibility

Dr. Falguni C. Shastri
Principal,
Jasani Arts & Commerce College,
Rajkot, Gujarat (India)
Email: f.shastri@yahoo.co.in

Abstract:* Corporate governance represents the value frame work the ethical framework and the moral framework under which business decisions are taken. Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general. Directors, shareholders and professional advisers all have an important role play in the corporate governance regime. Ethics are vital to good corporate governance and CSR. Finally, in India the level of awareness of the corporate sector and civil-society groups is much higher, with extensive debate and discussion on how corporate responsibility could become part of mainstream business practice. One of the more positive developments for the future is the increasing desire of India's educational institutes and business schools to introduce corporate governance and corporate social responsibility in their curricula.

***Keywords:* Corporate, governance, ethical, civil-society, CSR**

I. Introduction

The phase "Corporate Governance" came to the forefront in India due to corporate scandals in the era of economic liberalization. The first was a major securities scam that was exposed in April 1992, which involved a large number of banks and resulted in the stock market collapse for the first time since the advent of reforms in 1991. The second was sudden growth of cases where multinational companies started consolidating their ownership by issuing preferential equity allotments to their controlling group at steep discounts to their market price. The third scandal involved disappearing companies of 1993-94. Between July 1993 and September 1994, the stock index shot up by 120%. During this boom, hundreds of ambiguous companies made public issues at large share premium, supported by sales pitch of obscure investment banks and misleading prospectuses. This shattered investor confidence, and resulted in the virtual destructor of the primary market for the next six years. These three episodes led to the prominence of "corporate governance" within the financial press banks and financial institutions, mutual funds, shareholders, the more enlightened business associations, the regulatory agencies and the government.

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. Generally, two groups of governance mechanisms might be served to reach this general aim of corporate governance: (1) whole set of legal, social and institutional systems of corporations which form the external governance environments of the corporation; and (2) the functions of internal mechanisms mainly including the management incentive plan, board of directors, special governance committees, power of the minority shareholder and stockholders. More broadly, corporate governance involves the relationship of the corporation to stakeholders and society and the combination of laws, regulations, listing rules and voluntary private sector practices that enable the corporation to perform efficiently in achieving the corporate objective and meet both legal obligations and general societal expectations. There have been two major corporate governance initiatives launched in India since the mid-1990s. The first has been by the Confederation of Indian Industry (CII), which is India's largest industry and business association. The second is by the SEBI.

II. Reasons for poor corporate governance

- ✓ Lack of transparency;
- ✓ Inefficient control systems;
- ✓ Imperfect risk management;
- ✓ Inappropriate monitoring system by the government;
- ✓ Anti competitive business practices.

III. CORPORATE GOVERNANCE AND COMPETITIVENESS

The market economy is known to be the most efficient resource allocation system ever made by humans. Among various economic system which have been made to produce, distribute and consume limited goods and services, the market economy has proved to be the best. This is mainly because it enables resources and energy to be mobilized in the most efficient and cost-effective manner. However it does not mean that the market economy is perfect. In the primitive economy, when here was no market in modern sense, resource allocation by tradition had been efficient. Globalization offers fair to continue, bringing countries together through widening and deepening interconnections, for countries that are seeking increasing going of trade and welfare through this process, like Brazil, Russia, China and India the perennial question is how to make globalization work in their respective countries and what are the prime challenges that it poses to their business and industry and to their political economies. Among those challenges, national competitiveness will be seen to rank above the rest. That is all the more so with India because issues of competitiveness had hardly figured in policy in all the years of economic planning, the primary focus being national development based on the largest measure of self-reliance. Open market economy is regarded as an effort to enhance competitiveness to survive in this globalized era, competitiveness has evolved over time into concerns with the advent of globalization. Corporate governance is one of the key ingredients in creating and sustaining the organizational competitiveness. Therefore each nation around the global is making a lot of endeavors to establish good governance through government innovation. This implies that the government has done way with its past practices of intervention, thereby strengthening market functions and re-establishing the role of the government and the market. Spread of market principles, regulatory reform, privatization and restructuring are currently spreading across the world like a fad, showing the active movement towards market-oriented economy.

Best corporate governance practices equipped with efficient monitoring system will improve transparency in business management, lower capital costs, and enhance corporate value, thus reinforcing organizational competitiveness. For free market to function well there should be strong confidence in the rule that competitors are engaged in fair competition. Improved corporate governance enables to select the most competent business executives, ensure effective management, checks and balances system over managerial rights for holding any responsibility for wrong management. The goal of improved corporate governance lies in increasing business value and facilitating the national economy through enhanced transparency and efficiency in business management exhausting efforts should be made to build good corporate governance with growing awareness over corporate social responsibility, more and more companies are introducing ethical management.

IV. HOW BUSINESS ETHICS INFLUENCE CORPORATE GOVERNS

Ethics area mass of moral principles or set of values about what conduct ought to be. The purity of behavioral responses is a reflection of the character of a person. It can be said that:

ETHICS=Truthfulness + Transparency + Righteousness + Morality

Business ethics are the rule of business conduct, by which the propriety of business activities may be judged. It is the society which dictates the ethical principles. Such principles attempt to ascertain the ethical obligations of the business.

Before liberalization, corporations were never been asked, encouraged and prodded to improve their business practices to emphasize legal and ethical behaviour. Company's professional firms and individuals alike are being held increasingly accountable for their actions as demand graces for higher standards of corporate social responsibility.

As recently as a decade ago, many companies viewed business ethics only in terms of administrative compliance with legal standards and adherence to internal rules and regulations. But today attention to business ethics is on the rise across the

World and many companies realize that in order to succeed they must earn the respect and confidence of their customers. Corporate governance is the basis of accountability in companies, institutions and enterprises, balancing corporate economic and social goals on the one hand with community and individual aspirations on the other.

V. CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

Corporate social responsibility (CSR) is the way for remedy and which is the continuing commitment by business to behave ethically and contribute to the local community and society at large. CRS goes beyond charity and requires that a responsible company takes into full account their impact on all stakeholders and on the environment when making decisions. This requires than to balance the needs of all stakeholders with their need to make a profit and reward their shareholders adequately. In simple words CSR refers to whole range of fundamentals that organizations are expected to acknowledge and reflect in their actions. As regards to CG, it is the set of processes, customs, policies, laws and institutions affecting the way a

ISSN: 2349-7637 (Online)

VI. CORPORATE SOCIAL RESPONSIBILITY

The concept of corporate social responsibility (CSR) emerged from the sense of responsibility and can be defined as the ethical behavior of a company toward society. It is a concept which suggests that commercial corporations must fulfill their duty of providing care to the society.

Corporate social responsibility (CSR) is the continuing commitment by business to behave ethically, contribute to economic development, improving quality of life of workforce, their family, local community and society, build a meaningful relationship between the corporate sector and the rest of the society. Business has to adopt practices that ensure ethical, legal, commercial and public expectations. It must be the integrated part of day to day business engaging all stakeholders, strategies to support individual managers to make socially responsible decision conforming ethical behavior and law.

VII. CSR AND LEADERSHIP

CSR and leadership go hand in hand is infallible. For successful implementations of CSR, it is necessary for people to work in group with co-operation which requires effective leadership to recognize that business cannot grow in isolation and needs to respond holistically through a method aimed at lasting improvements in the quality of lives of people at large. There are various reasons to substantiate this fact: some of the reasons are listed below:

1. Leadership is necessary for maintaining integrity in CSR policies, practices and processes.
2. Leadership helps in contributing sustainable information society for all.
3. Leadership also helps in mutual engagement with staff on work-place issue and environment impact.

VIII. CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

Mr. Narayana Murthy says, “Social responsibility is to create customers, the government, the community and environment”. In this global era, the corporate behaviour so publicly available to broadcast, there appears to be a trend in social behavior slowly changing from an individualistic mindset to more holistic and collective reasoning. The kyoto protocol is an example of societies coming together and seeing the need of change on a global level (Bulkdey 2001). Peer persue form society is changing the way businesses are conducted. As regards to CG, it is the set of processes, customs, policies, laws and institutions affections the way a corporation is directed, administered or controlled. It also includes the relationship among the many players involved and the goal for which the corporation is governed. It is a multifaceted subject. An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protect shareholders. The corporate governance structure spells out the rules and procedures for making decisions on corporate affairs. It also provides the structure through which the company objectives are set as well as the means of attaining and monitoring the performance of those objectives. It is the mechanism by which individuals are motivated to align their actual behaviors with the overall participates.

IX. INDIAN SCENARIO

We are familiar with the outline of a successful company. One that is profitable, productive with a strong reputation and efficient in the use of natural resources. Yet, simply achieving these goals may not be enough to be a responsible company - if profit do not lead to per capital income growth, if employee well being does not improve, if community programs do not raise social welfare, and if the company’s eco-efficiency fails to sustain the underlying natural resource base. The task of the corporate sector is now to rigorously focusing on priorities, allocating finance for treating CSR as an investment from which returns are expected, monitoring activities to ensure initiatives really deliver outputs and repeating performance in an open and transparent way so that all can celebrate progress and identify areas for further action.

India is striving hard to bring the huge divide between the urban and the rural areas. A nation where about 7 million Indians reside in villages; the government and corporate are probing efforts to reach to the bottom of the pyramid through their CSR institutes. Gaps on hiccup areas tend to develop from both ends-facilitators and beneficiaries. To pursue corporate social responsibility and address a sustainable system, it is necessary for any corporate company to look at the concept of CSR as their core rather than a strategy of developing goodwill. The challenge here is to redefine corporate outlook towards sustainability and identifying their impact on the same.

The next issue is whether the corporate has the capacity, expertise, resources or access to the necessary support to implement CSR as identified. Generally, under-developed resources for implementation have created huge gaps and have increased the cost of CSR implementation. For having CSR activities implemented, many villages in India are deprived of basic infrastructure such as roads, water, sewages, electricity, schools, hospitals transport and the list is endless.

ISSN: 2349-7637 (Online)

Another issue at the grass-root level is education or availability of literate man power. Recent figure according to United Nations suggest that in India, around to 42 million children between the ages of 6 and 14 are not in school. The national literacy rates of girls over seven years are 54%, compared to 75% for boys literacy rates face by these people. Illiteracy is the root of all consequences owing to which, many rural citizens fail to recognize certain opportunities where they can have better chances of earning a living. This needs to be a drastic change in the attitude and mindsets of the rural manpower to adapt to changes, revolutions and the new system.

To elaborate more on the changes mentioned, since the literacy rate is poor, the belief amongst most rural population about castes, superstitions, communities and races makes it very difficult for corporate sector to accomplish new developments and involve the new population. In this condition, the results can be achieved through strategic implementation of plans and actions.

Despite the huge development and changes in the concept, CSR in India has yet to realize its full potential. Through the number of CSR projects and programmers are many in India; there is a lack of clear metrics for evaluating their actual impact in improving social conditions. For instance, if a company claims that its employees are the greatest assets, it fails to provide an evidence of how this asset is being valued and enhanced. In the same context, if a company claims that it develops the grass root lives, apart from their inflated financial figures, there are no quality and quantity measures that can measure the overall development.

Tough positions indeed, people who do charitable work often talk about how rewarding it is. Call it the next generation of corporate philanthropy, from writing cheques, companies are more closely integrating their cause agendas into their business strategies. And it's paying off in many ways. Companies recognize CSR dividends. Companies with a public commitment to ethics perform better on 3 out 4 financial measures. On an average, CSR-oriented companies also have 18% higher profits.

Steps to implementation CSR in an organization:

- Ensure commitment of top management and particularly, the CEO is communicated throughout the organization.
- Appoint a CSR position at the strategic decision-making level to manage the development of policy and its implementation.
- Incorporate a social audit within the company's annual report.
- Ensure that the compensation system within the organization reinforces the CRS policies that have been created.

X. SUCCESSFUL CASES

Coca-cola India has installed 320 rain water - harvesting structures in 17 states and has restarted several traditional water bodies and checks dams across the country for water conservation. The company has a target to reach a "net zero" balance with respect to ground-water bodies and checks dams across the country for water conservation.

ITC is significantly widening its farmer partnerships to embrace a host of value adding activities such as creating likelihoods by helping poor tribal, make their wastelands productive, investing in rainwater harvesting to bring much - needed irrigation to parched dry land; empowering rural women by helping them to evolve into entrepreneurs; and providing infrastructural support to make schools exciting for village children. Through these rural partnerships, ITC touches the lives of nearly 3 million villages across India.

Minerals foundation of Goa, with the strength of their exclusive programmers, has contributed to economic growth, employment generation, social upliftment of communities and environment conversation in mining belt of Goa. Health care has been at the heart of the foundation's activities. Efforts have been made to reach out to all the sections of the society, through general and specialized health camps for children and public association with Help Age India for the elder ones. Programmes such as Weekly OPD in remote areas, financial assistance for specialized treatment outside the state, and projects wherein, free cataract surgeries have been taken just to benefit the community.

Successful experiments are as yet few and far between in India. Companies tend to pay lip service or remains in the philanthropic mode. Companies tend to give away financial resources to NGOs or charities and this continues to be the favored root. Others set up their own in-house foundations such as Infosys and Wipro. India evolved a tradition of "Trusteeship" pronounced by Mahatma Gandhi and this was later adopted by corporate leaders such as G.D.Birla and Jamnalal Bajaj. These were initiatives of the pre-independence era. Some of these CSR experiments have succeeded in the establishment of excellent institutions such as Indian Institute of Science, TIFR, TISS by the Tatas, BITs pilani by Birlas and the Jamnalal Bajaj Institute by Bajaj.

Corporate contribution to society, environment and business when guided by enlightened self-interest improves quality of life for all. Effective corporate responsibility requires a good level of commitment from the entire organization and especially the top management who can ensure that CSR practised well.

ISSN: 2349-7637 (Online)

Godrej industries Ltd; one of the largest Industrial groups in India, has not only integrated conservation of natural resources in its business operations but has minimized its carbon footprint. The company's windmills have brought down carbon emissions, earning its carbon credits.

XI. CONCLUSION

The basic objective underlying CSR is maximization of social benefits from business and when by organizations consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all spheres of their operations collective criticism of miss-governance will pull down the stock market. But persistent constructive criticism will help to reform business attitudes, improve accountability and make businessmen more sensitive to shareholder needs. To conclude, the social responsibility and governance of the corporate should be the two pillars which to run the organization economically viable and feasible, and eco-friendly for its prolonged walk in the tussle of the business boat.

REFERENCES

1. H.K. Singh (1994). Management in the Social Responsibility Era, in Edited Book, current Business school in India, Allahabad.
2. The Indian Journal of Commerce (2008) Vol-61 No-3, July-September.
3. Monappa, A (1977), Ethical Attitudes of Indian Managers (All India Management Association, New Delhi)
4. Maheswari G.C (2003) Corporate Governance: The search of India Inc. for new Mantra, Corporate Governance, Edited by N.P Agarwal & Sugan C. Jain, Indus Valley Publications, Chapter-1, PP-1-39.
5. Bhatia S.K (2004) "Business Ethics and Corporate Governance", Deep & Deep Publications Pvt.Ltd, New Delhi.
6. Srkar.J and S.Sarkar (1999), The Governance of India Companies, in K.S.Parikh (e.d.) India Development Report, 1999-2000 oxford University Press, New Delhi.
7. Bhasin M.L (2005), Corporate Governance in Asia, the Challenge of Improving Transparency. The Accounting World, the ICFAI University press, Hyderabad, August-2005, Vol.v.7, 15-19.

ISSN: 2349-7637 (Online)