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Corporate Governance and Social Responsibility: An Overview

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Abstract:

The Corporate Governance (CG), in today's scenario, tries to make balance between economic and social goals. Consequently, behaving socially responsible would increase the human development of stakeholders both within and outside the corporation. Corporate Governance strives for maximization of the profits so as to protect the corporate shareholders interest who have provided capital to firm, while corporate social responsibility (CSR) apparently against maximization because it suggested a set of actions beneficial for external stakeholders that may not be good for a shareholder. However, presently CSR is gradually getting fused into the corporate governance practices of the company because of the mandatory concept evolved by new companies act. Further, it may be noted that the corporate governance and CSR are two related and interlinked businesses concepts that are deeply embedded in the business practices. Thus, CG and CSR are strong compliments to each other. In this context, an attempt is made to discuss the concept of CSR and corporate governance, and their interrelationship, within legal and regulatory framework in India.

Keywords; corporate governance, corporate social responsibility, shareholders and stakeholders.

Introductions

Corporate governance is the whole set of legal, cultural and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised and how the risks and returns from the activities they undertake are allocated. In other hand the corporate social responsibility evolved actually from charity towards individuals or society or undertaking philanthropic activities towards society. It is also concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Though the corporate governance primary duty is to deal with the governance issues while concentrating on the profit making of the company, yet in the present-day context, it has to try to make balance between economic and social goals. Consequently, behaving socially responsible will increase the human development of stakeholders both within and outside the corporation. Corporate governance strives for maximize the profits so as to protect the shareholders interest who have provided capital to firm, while CSR apparently was against profit maximization because it suggested a set of actions beneficial for external stakeholders that may not be good for a shareholder. However, CSR is gradually getting fused into the corporate governance practices of the company. This convergence paves the way for corporate governance to be driven by ethical norms and the need for accountability, and it enables CSR to adapt prevailing business practices. It may be noted that the corporate governance and CSR are two related and interlinked business concepts that are deeply embedded in business practices. In this context, an attempt is made to discuss the concept of CSR and Corporate Governance, and their interrelationship, within legal and regulatory framework in India.

Review of literature

Haldar. (2015) in his research work explicated that the corporate governance framework is there to encourage the efficient use of resources sand equally to require accountability for the stewardship of those resources. In other hand corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. The merger of both can be seen and they are interrelated. And CSR is gradually

Muller ate, R, and Daniel Brennan (2011), in their book they categorically observed that the corporate governance is an umbrella term and CSR is gradually getting fused into the company's corporate governance practices. Hier relationship can be interpreted by abandoning the standard view of the firm as a shareholder's value maximizer and embracing the view of a firm as a stakeholder value maximizer. This convergence paves the way for corporate governance to be driven by ethical norms and the need for accountability, and it enables CSR to adapt prevailing business practices.

Swati ,K.(2014), argues that CSR has become an integral part of the corporate strategy and companies have to be more transparent in their business activities and have to incorporate the social responsibility schemes which they have implemented are directed to be mentioned in their annual report .The challenges here are considerable ,including the integration of CG measures for CSR across.MNCs whose business units operate under very different CG system and particularly for SMEs in emerging and developing countries which have underdeveloped CG systems to start with.

Research Methodology

A doctrinal study has been adopted by the researcher in the completion of the research work where in the material and the data which had been gathered from the various secondary sources like books, articles, concept papers, journals, periodicals, and websites on corporate governance and corporate social responsibility was critically evaluated and analyzed to write the paper.

The concept of corporate governance

Corporate governance may be defined as the broad range of policies and ethical practices which are adopted by an organization in its dealing with the stakeholders. According to the organizations for economic cooperation and development (OECD), the corporate governance structures specify the distribution of right and responsibility among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders spells out the rules and procedures for making decisions on corporate affairs (Verma D.P & Kumar R.,2012).

Conceptually, corporate governance is the system of rules, practices, and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interest of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Corporate governance is concerned with holding the balance between economic and social goals and between individuals' communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. It has to make sure that an organization is running in a responsible manner by guaranteeing accountability, transparency and compliance with existing laws and rules and thereby protect the interest of the shareholders in particular and stakeholders in general. It is the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated (Sharpe, M.E.,1996).

Corporate Governance: The Indian Scenario

Corporate Governance is a system which set up certain principles and guidelines by which a company is governed. The guidelines proved ensures that the company is directed and controlled in a way so as way to achieve the goals and objectives to add value to the company which in turn benefit the stakeholders in general and shareholders in particular. Good Corporate Governance (Principles of good corporate governance have been incorporated to have transparency, accountability and responsibility on directors) is essential for the growth, profitability and stability of any business. The company act, 2013 introduced some progressive and transparent methods which would increase the involvement of the shareholders in decision making and introduced the transparency in corporate governance, which ultimately safeguards the interest of the society (Ritchie, J.M.,2015),

In India, the concept of corporate governance has been strengthened through the board and board process under the present companies act,2013 which indirectly has emphasized on corporate social responsibility through its following provisions (Vaish Associates, 2017):

- Every company is required to appoint 1 (one) resident director on its board.
- Nominee shall no longer be treated as independent directors.
- Listed companies and specified classes of public companies are required to appoint independent directors and women directors on their boards.
- The companies act for the first time codifies the duties of directors.
- Listed companies and certain other public companies shall be required to appoint as least 1 (one) women director on its board.
- New companies act mandated following committees to be constituted by the board for prescribed class of companies which include corporate social responsibility along with a) audit committee, b) nomination and remuneration committee and c) stakeholders relationship committee

The new companies act, which was enacted on a august 30, 2013 and the subsequently amendments by securities and exchange board of India to clause 35b and 49 of the equity listing agreement (amendment,2014)placed the duty on board of directors to monitor the social activities of the Indian companies so as to compliance with regarding mandatory spending of the amount for social activities in the annual report and report to the stock exchange signed by the compliance officer to disclose compliance with non-requirements in annual reports under clause 49 (Haldar., 2015).

Corporate social responsibility (CSR): The concept

Corporate social responsibility (CSR) is an initiative to improve corporate operations in relation to a range of values beyond profit, namely, human rights, environmental protection, contribution to local communities, and promotion of labor rights, etc. It implies that companies voluntarily integrate with social and environmental concerns in their operation and interact with stakeholders. It is nothing but responsibility of the corporate towards society in which they operate their business and therefore the importance of CSR should be propagated by conducting the campaigns so as to create awareness among corporate, civic, and government bodies.

Under the corporate social responsibility, the company or organization or firm has the responsibility to promote social development. CSR is a business approach that contributes to sustainable development by delivering economic, social and environment benefits all stakeholders is a concept with many definitions and practices. Corporate social responsibility (CSR) is corporate form of self-regulation integrated into the business model to create a positive impact on the stakeholders and the environment.CSR is a concept, as per European Commission, whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis (Haerens, M., & L.M.,2014).

Corporate social responsibility (CSR): Indian Scenario

In India, prior to the new companies act,2013, both the public and private companies were taking up certain philanthropic activities on a voluntary activity (G.H., & A.S. (nd.)). Up to 2009, there were no specific guidelines for CSR in the country. It was only in 2009 that the Ministry of Corporate Affairs issued certain guidelines for the companies to undertake C

SR activities on voluntary basis. The Ministry, however, issued fresh guidelines for the central public sector enterprises (CPSEs) in 2013 according to which the budgetary allocation to CSR was linked to their profit after tax (PAT) of the previous year. Now with the enactment of the Companies Act,2013, the public as well as private sector companies with a net worth of Rs. 500 crore, turnover Rs, 1000 crore, or net profit of more than Rs. 5 crores, are required to spend at least 2 percent of the average net profit in the three immediately preceding years on CSR activity (The Ministry of Corporate Affairs) MCA and its notification, 2014.Although spending is mandatory, companies will only have to report how much they spent and explain why they could meet the commitment. Another main provision under the new act is that companies will have to set up a corporate social responsibility (CSR) committee at the board level that must be headed by an independent director on the board. the committee will frame a CSR policy for the company or group and recommend expenditure on various projects. It will also monitor the CSR policy and the attendant spending on the website and in the directors' report, putting all the relevant information in the public domain that can be accessed by the company's shareholders, media and social activities (Section 135 of the companies act, 2013). Thus, the act encourages companies to spend at least 2% of their averages net profit in the previous three years on CSR activities. the act also categorically lists out a set of activities eligible under CSR. companies may implement these activities, taking into account the local conditions, after seeking board approval (indicative activities of CSR).

Corporate governance and CSR: The interplay

A traditional view suggested a contradiction between CSR and Corporate Governance. Corporate Governance was related to profit maximization and provided protection to shareholders who have provided capital to firms, while CSR apparently was against profit maximization because it suggested a set of actions beneficial for external stakeholders that may not be good for a shareholder. But now it is the not case or not anymore. Corporate governance is an umbrella term and CSR is gradually getting fused into the company's corporate governance practices (Mullerat, R., & Brennan, D., 2011). Though it can be said that CSR and CG are not one and the same, yet they are overlapping, interrelated. Corporate Governance emphasizes external regulation and internal control of the firm by legal means and assumes that the monitoring function is controlled by the board of directors and senior managers. CSR is about how the firm governance system (e.g. multi actor, private regulates its own behavior with reference to social norms; now including external, mainly soft

Private codes of conducts, commitments, partnerships, associations. Yet CG is often at odds with, or pitted against, CSR, notwithstanding their overlaps. This is true in all business systems, but particularly in the Anglo- American systems (Hoppe, U, 2006). Here CSR is sometimes seen as a threat to the agent principal relationship in which the agents(managers) should simply serve the assumed priority of their principals (shareholders)

For short run profits. But it is clear that the agent principal relationship is itself misguided and misrepresents proper governance of the company. In short, key corporate documents, company law, other regulations pertaining to company responsibility and judicial history confirm that companies do have wider purposes than shareholders quarterly profits alone. The interests of the company itself, of other stakeholders and of society at large have been recognised as appropriate points of managers responsibility. Moreover, there is plenty of evidence that not all shareholders are motivated by quarterly returns. Many prize long – term stability, and many recognized the company benefits of CSR investments.

Many of the countries and their CSR initiations intended to protect the consumer concerns and it is evident from UK, UK and Indian CSR initiatives which would reflect on fair and ethical trade systems or investor interests. This contrasts with the CG-CSR links in coordinated market economies (e.g. Denmark, Germany) which yield both greater attention to the labor stakeholders and the collective interest in environmental sustainability. It also contrasts with the CSR in state – led market economies (e.g. France, Korea) which tend to reflect a CG focus on national development. It, indeed, contrasts with CSR in emerging and developing economies which tend to reflect a community orientation reflecting the features of high inter-personal trust and low institutional trust underlying the CG arrangements in many such countries (Sharma, J.P.and Khanna, S., 2014).

However, notwithstanding the ways in which CSR has emerged as a feature of business as usual complementary with their respective CG systems, it seems that there are often deficits in company level governance of CSR.CSR is often removed from governance departments (in HR , Marketing);apart from main business (e.g. Financial institutions & crisis); CSR accounting is often in parallel with, rather than integrated with , other management accounting; and there is little measurement of social impacts (Hunnicutt,S.,2009).Therefore , the challenges here are considerable , including the integration of CG measures for CSR across MNCs whose business units operate under very different CG systems; and particularly for Small Scale Enterprises (SME) in emerging and developing countries which have underdeveloped CG system to start with .But CSR does not only reflect CG structures it can also shape them. Thus, the fact that an increasing number of companies now fall under new reporting requirements such as come with stock exchange listing(e.g. in the USA ,South Africa , China), or with operation in business system s which specify responsibility requirements (e.g. Danish and Swedish) non-financial reporting regulations ,
UK board responsibilities for their companies environmental ,social and governance impacts) , or sign up to CSR principles and standard should be regarded as a CG opportunity as well as challenge.

Conclusion

Today both corporate governance and CSR focus on ethical practices in business and the responsiveness of an organization to its stakeholders and the environment in which it operates. This conjunction paves the way for corporate governance to be driven by ethical norms and the need for accountability, and it enables CSR to adapt prevailing business practices. Given that CSR has become an integral part of the corporate strategy and companies have to be more transparent in their business activities and have to incorporate the social responsibility schemes which they have implemented are directed to be mentioned in their annual report. It is a welcome measure and will ensure employment opportunities, product safety, worker safety, and environmental protection etc. It is also significant note that in India a positive relationship between CSR and proportion of controlling shareholders be seen which implies that the governments are driven by strategic decision of investing into CSR related activities. This is also in line with the positive relationship between insiders' control over board and CSR (Bharduri, S.N., & Selarka, E., 2016). Thus, the present developments in the world and particularly in India with regard to CG strategies Vis-à-vis CSR will provide opportunities for CG to reconnect and support its underlying base in social responsibility. Therefore, it could be said that in the present world any company or firm or organization or multinational organization which would take care of society in which it is operating its business is viewed as the most respected and profitable firm.

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