INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH & DEVELOPMENT

ISSN: 2278 – 0211 (Online)

"Convergence of Corporate Governance and Social Responsibility – A Need of Today"

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Abstract:

Corporate governance relates to the relationship among various stakeholders in an organization and aims at maximizing shareholders' value legally, ethically on a sustainable basis, while ensuring fairness to the company's customers, employees, investors, vendor partners the government and the community. It is also a system of making directors accountable to shareholders for the effective management of companies, in the best interest of the company and also with adequate concern for ethics and values.

The new model of business success for today's corporations would include a movement from philanthropy to the convergence of business and social interests as a source of sustainability. The concept that corporations should be concerned about social issues is by no means universally accepted social responsibility is a form of corporate strategic management that sets its standards of conduct at a level higher than constraints, and a system for the governance of transactions and relations between the firm and its stakeholders. A comprehensive governance approach considers not only resources based stakeholders but also market-based and socio-political stakeholders as these parties, if fact provide a license for the operation of a business and can influence industrial activities through various manifestations including their representative institutions. Since there is a survival threat from stakeholders other than investors, the CSR gains its importance as an extended governance model.

***Key words**: Corporate governance, Social responsibility, Stake holders.*

1.Introduction

At its broadest governance refers to the relationship between the governors and governed. Such as that between the government and the people and has at its basis the decision making powers ceded by individuals to those in authority so that the common interests of society can be served. It is not limited to economic activities but extends to a variety of political and social arrangements. Similarly, corporate governance, that is, institutional arrangements and relationships through which companies and institutions are directed and controlled, bears most directly upon the conditions of operation i.e. how firms are organised and run but is obviously shaped by conditions for entry and establishments for ownership for financing and for exit and closure.

Corporate governance relates to the relationship among various stakeholders in an organization and aims at maximizing shareholders value legally, ethically and on a sustainable basis, while ensuring fairness to the company’s customers, employees, investors, vendor- partners, the government and the community (Bhattacharya. 2007). It is also a system of making directors accountable to shareholders for the effective management of companies in the best interest of the company and also with adequate concern for ethics value (Prakash 2007)

Though corporate governance has existed in various manifestations ever since the birth of an entity, it has been at the top of the pace since the famous saying of Darwin “survival of the fittest” was replaced with the “survival of the FASTEST” in the present business milieu. Though the importance of governance was felt after the second world war, when the world ever economics were rebuilt through economic co-operation in the international movement of capital and goods and services the recent economic crises in Asia followed by corporate disasters in the USA and Europe have triggered up the need to adopt a better governance practice at corporate level. The loss of public trust due to unethical corporate conduct in the recent past has brought into focus the entire debate about business- society relations.

Corporate social responsibility is not a new concept in India and long before it became an issue for discussion in the board rooms of corporate houses in developed countries it was already under implementation in India by pre-independence established Indian business houses though in different form and shape but mainly through acts of philanthropy. The concept of CSR underwent different changes from time to time starting from early 1930s. The TATA Energy Research Institute through its survey in 2001 had observed different approaches in CSR since pre-independence to the present level as trustee ship approach between motivating corporate houses to manage their business entities as a trust held in the interest of the community. This followed a mixed and socialistic approach indicating the state ownership and legal requirements as a deciding factor for CSR during the period of 1950-70. The current trend which started during 1990s has been consequence of realizing that with growing economic profits, businesses also have certain social obligations fully accommodating accountability and transparency.

2.Present Status Of Corporate Social Responsibility (CSR)

Nearly all leading corporate in India are involved in corporate social responsibility (CSR) programmes in areas like education, health, livelihood, creations skill development and empowerment of weaker sections of the society. Notable efforts have come from the TATA Group, Infosys, Bharati Enterprise, Coca Cola India, Pepsico and ITC Welcome Group among others. Further, according to a survey carried out in June 2008 by TNS India (a research organization) and the Times foundation over 90 percent of all major Indian organizations surveyed were involved in CSR initiatives. The leading areas that corporations were involved in were livelihood promotion, education, health, environment and women's empowerment.

The 2010 list of Forbes Asia's '48 heroes of Philanthropy contains Four Indians namely Sunil Mittal, chairman and Managing director of the Bharati Group, NRI businessman Anil Agarwal, Shiv Nadar, HCL Technologies Chairman and NGO activist Rohini Nilekani. The 2009 list also featured four Indians.

India has been named among the top ten Asian countries paying increasing importance to corporate social responsibility (CSR) disclosure norms. India was ranked fourth in the list according social enterprises CSR Asia's Asian Sustainability Ranking released in October 2009.

As per a study undertaken by Assochani's "Eco pulse study" on CSR for 2009-10 which studied the CSR activities of 300 corporate houses corporate India has spread its CSR activities across 20 states and union territories, with Maharashtra gaining the most from them. About 36 percent of the CSR activities are concentrated in the state followed by about 12 percent in Gujarat, 10 percent in Delhi, and 9 percent in Tamilnadu. These houses have for their CSR initiatives of these 26 schemes, community welfare tops the list, followed by education, the environment, health, as well as rural development. Further, according to a study by the economic times donations by listed companies grew by 8 percent during the fiscal year ended march 2009. The study of disclosures made by companies showed that 760 companies donated US$ 170 million in FY 09, up from US$ 156 million in the year ago period. As many as 108 companies donated over US$ 216.199 million, up by 20 percent over the previous year.

In another study undertaken by automotive research company TNS automotive, India has been ranked second in global corporate social responsibility. The study was based on a public goodwill index and India received 119 points in the index against a global average of 100. Thailand was in the top slot with 124 points. An estimated 100 corporate foundations and 25 foreign firms are involved in CSR activities in India, but statistics on input and output are elusive.

Times' Pandey quoting from a government report disclosed that the Indian corporate sector spent Rs.30,000 crore on social expenditure during the last financial year up from Rs.17,500 crore the previous year and these companies drew a total exemption of Rs.5,500 crore under income tax laws last year. These figures an analyst said sound improbable as Indian companies still do not distinguish between philanthropy and internal practices to benefit stakeholders such as employees and community.

3.Opinions On Convergence

The most significant difference amongst the interviewees was their opinion on the nature of convergence between CSR and corporate governance. They divided into two groups: 1) those who saw convergence at the level of values and 2) those who saw convergence at the operational risk level. However, the groups were not mutually exclusive, insofar as there was a unanimous view that CSR is increasingly becoming a factor in risk and opportunity management, and therefore, business strategy.

4.Convergence At Values Level

Those who saw convergence at the level of values perceive that good governance is becoming more broadly defined to include ethical considerations, a result of a number of significant governance oversight failures. The two comments below are representative of this view:

• Good governance is primarily about values rather than rules. If good governance flows from values, it is important to state them and live them. CSR is an external expression of those values.

• Corporate governance is going beyond the traditional core governance functions to incorporate the values dimension. Part of the governance process is determining what kind of corporate citizen the company seeks to be; CSR is part of this exercise.

According to this group, governance has largely been a "box-ticking" exercise to date. However, there is an emerging paradigm of governance that perceives CSR and corporate governance to be one and the same at the level of values: an ethical strand joins governance with CSR thinking. Governance must have an ethical backbone because good governance practiced as a technical exercise results in Enron, considered by many to be a shining star in terms of technical governance. Ethical or values-based governance considers such issues as the kind of product and service the company produces, how it is produced and the social and environmental impacts of production — considerations of a CSR nature. A values-based governance program would include a corporate philosophy governing medium and long term actions, articulating an approach that reconciles short term profits with long term profitability.

One interviewee described convergence in this way: corporate responsibility is coming to be understood as the space where business accountability boundaries are being renegotiated. Up until recently power companies wouldn't have been concerned about social issues in the supply chain. Food companies didn't see health of food as an issue beyond legal compliance. The connection is that CSR drives a changing basis of accountability within a business, which drives the basis on which corporate governance is framed and implemented. To address these emerging accountabilities companies come to understand that they need to embed CSR in the governance structure.

5.Conclusion

Corporate Social Responsibility is not a fad or a passing trend but a dynamic approach and philosophy encompassing wealth maximizing goal and focusing on poverty alleviation, environmental protection and sustained development besides improving the quality of life of the workforce and their families as well as of the local community and society at large.

While more and more corporate houses are involving themselves in activities of CSR yet additional input is required both voluntarily and by the strict vigil by the statutory bodies constituted for this purpose by government and commercial bodies. This can be done by monitoring activities and liaising closely with implementation partners to ensure that the financial allocations are earmarked as per prescribed guidelines and spent on activities actually included under the umbrella of CSR. This further warrants that initiatives really deliver the desired outcomes besides reporting performance in an open and transparent way so that all the results can be watched and areas identified for further action.

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