



## Corporate Governance and Social Responsibilities of Business: An Analysis

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### Abstract

*The paper presents the views regarding corporate social responsibilities of business and their need to the society. In the cut throat competition of the present market scenario is quite tough for the new entries in the market. So, its compulsory for the corporate to have some ethical responsibilities which helps others to grow up with them. The market should work as a team not as fighters. In this particular paper the pragmatic study has been taken where observation of available material and review of literature was studied. The paper states that corporate governance plays an important role in business; it creates a positive and responsible attitude of a company in the market. So, its always necessary to carry such attitude for a corporate firm to survive in the market.*

**Key Words-** *Corporate social responsibility, social audit, board of directors, social ethics.*

### I. Introduction

**Corporate governance** refers to the system by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders.

Corporate governance has also been defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby justifying agency risks which may stem from the misdeeds of corporate officers."



Economic analysis has resulted in a literature on the subject. One source defines corporate governance as "the set of conditions that shapes the ex post bargaining over the quasi-rents generated by a firm." The firm itself is modeled as a governance structure acting through the mechanisms of contract. Here corporate governance may include its relation to corporate finance.

Corporate governance indicates the policies and procedures applied by firms to attain certain sets of objectives, corporate missions and visions with regard to stockholders, employees, customers, suppliers and different regulatory agencies and the community at large. The role of governance is to maximize shareholder's wealth. Corporate governance depends on managerial performance as well as a consideration of social responsibility, the socio-cultural-environmental dimension of business procedure, legal and ethical practices with a focus on customers and other stakeholders of an organization. Corporate Governance is gaining importance among policy makers, entrepreneurs, business personnel, stakeholders and related organizations.

## **II. Responsibilities of the Board of Directors**

Former Chairman of the Board of General Motors John G. Smale wrote in 1995: "The board is responsible for the successful perpetuation of the corporation. That responsibility cannot be relegated to management." A board of directors is expected to play a key role in corporate governance. The board has responsibility for: CEO selection and succession; providing feedback to management on the organization's strategy; compensating senior executives; monitoring financial health, performance and risk; and ensuring accountability of the organization to its investors and authorities. Boards typically have several committees (e.g., Compensation, Nominating and Audit) to perform their work.

The OECD (Organization for economic cooperation and development) Principles of Corporate Governance (2004) describe the responsibilities of the board; some of these are summarized below:

- Board members should be informed and act ethically and in good faith, with due diligence and care, in the best interest of the company and the shareholders.
- Review and guide corporate strategy, objective setting, major plans of action, risk policy, capital plans, and annual budgets.
- Oversee major acquisitions and divestitures.
- Select, compensate, monitor and replace key executives and oversee succession planning.
- Align key executive and board remuneration (pay) with the longer-term interests of the company and its shareholders.

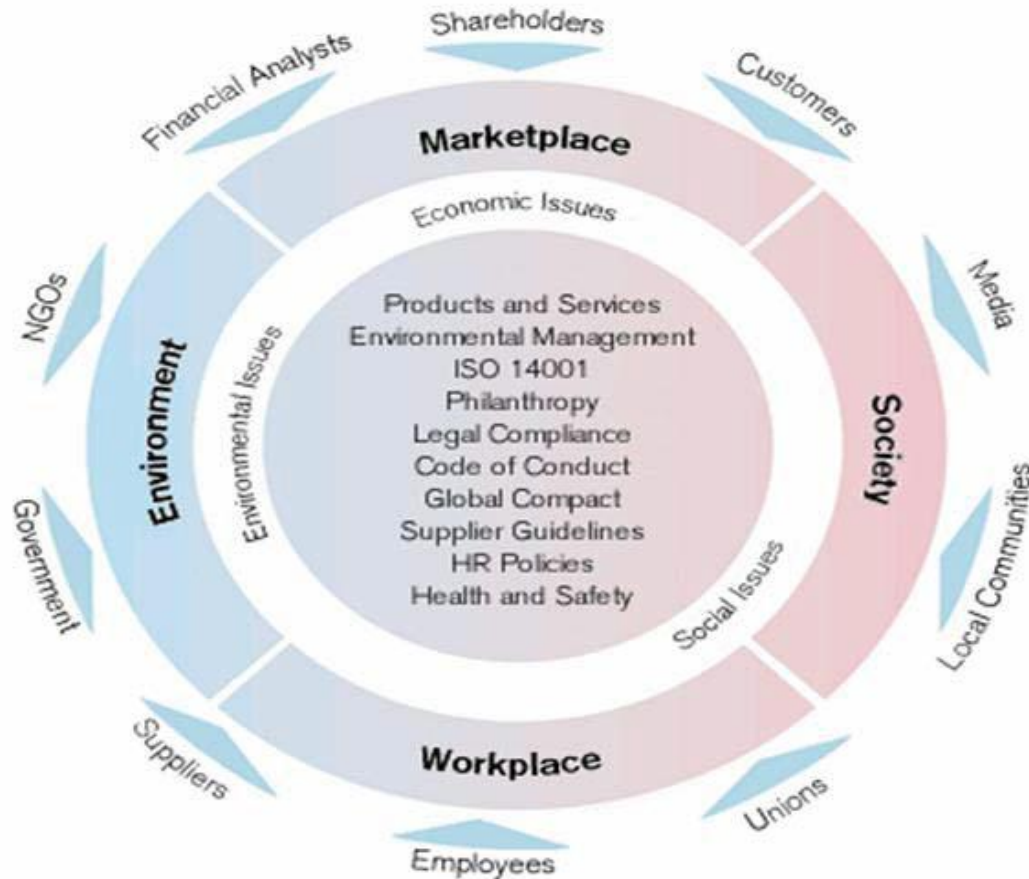


- Ensure a formal and transparent board member nomination and election process.
- Ensure the integrity of the corporations accounting and financial reporting systems, including their independent audit.
- Ensure appropriate systems of internal control are established.
- Oversee the process of disclosure and communications.
- Where committees of the board are established, their mandate, composition and working procedures should be well-defined and disclosed.

### III. Corporate social responsibility

“Corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.” Corporate Social Responsibility (CSR) is viewed as a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains, and decision-making processes throughout the organization -- wherever the organization does business -- and includes responsibility for current and past actions as well as future impacts<sup>1</sup>. CSR involves addressing the legal, ethical, commercial and other expectations society has for business, and making decisions that fairly balance the claims of all key stakeholders. Effective CSR aims at “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment.” Simply put it means “what you do, how you do it, and when and what you say.” It can be taken as the biggest obligation of any business. It is directly indirectly related with the ethics of business. The organization is in debted to society in every sense whether it is ethical or professional. The organization has its own responsibilities towards the society, employees, trustees, shareholders and stakeholders etc. the community, particularly with respect to charitable activities and environmental stewardship. Corporate and social responsibility is sometimes described as being a tacit contract between business and a community, whereby the community permits the business to operate within its jurisdiction to obtain jobs for residents and revenue through taxation. Additionally, the community expects the business to preserve the environment and to make the community a better place to live and to work through charitable activities.

Business for Social Responsibility (2001) speaks of CSR in the following terms: “Socially responsible business practices strengthen corporate accountability, respecting ethical values in the interests of all stakeholders. Responsible business practices respect and preserve the natural environment. Helping to improve the quality and opportunities of life, they empower people and invest in communities where a business operates.”



**Fig. 1 Areas of Corporate Social Responsibility**

Source: <http://www.bombaychamber.com/image002.jpg>

These groups of society get benefitted by the corporate social responsibility. The Corporate governance (Board of directors, managers etc.) work for the sake and satisfaction of all these groups. The first and foremost responsibility of CG is to make the owners i.e. the shareholders satisfied by providing appropriate return on their investment as well as their risk taking. The second targeted group of their CSR is to make their employees happy and satisfied by providing appropriate salary and bonus on time, by providing better working conditions, job satisfaction, security of employment, by giving more opportunities for their personal development etc. the third group for which the CG needs to work is Consumer, without which we cannot even think about the business i.e. the Consumers. It is very important for a business to make its consumers satisfied by various ways like: by supplying goods on proper time when they are needed, providing goods of high quality in cheaper rates according to the customer's taste, educate the customers for their upcoming products, be honest and truthful for customers etc. The last scope



of CSR is Community i.e. our own society. CSR is all about the responsibility towards society, by various ways like: optimum and proper use of resources, maintain healthy environment, pollution control, population control awareness programs, public health, education, employment these all are the social responsibility of a business which must be fulfilled. These are more or less their moral responsibilities which provide them an inner satisfaction.

CSR is a business strategy that works. In a world where brand value and reputation are increasingly seen as an organization's most valuable assets, CSR can build the loyalty and trust that ensure a bright sustainable future. In our complex, global society, corporations are becoming increasingly visible. These businesses are not judged on their results but on their behavior too. Thus CSR should be an integral part of every aspect of business life. The following are some of the benefits of CSR.

#### **IV. Benefits of CSR**

- Improved financial performance
- Better risk and crisis management
- Reduced operating costs
- Increased worker commitment
- Good relations with government and communities
- Enhanced brand value and reputation
- Long-term sustainability for your organization and society
- Long-term return on investments
- Increased productivity
- A license to operate

#### **V. Ten Universal Principles According to the UN Global Compact**

##### **Human Rights**

Business should;

- 1: support and respect the protection of internationally proclaimed human rights; and
- 2: make sure that they are not complicit in human rights abuses.

##### **Labour Standards**

Business should uphold;

- 3: the freedom of association and the effective recognition of the right to collective bargaining;
- 4: the elimination of all forms of forced and compulsory labour;
- 5: the effective abolition of child labour; and



6: the elimination of discrimination in employment and occupation.

**Environment** Business should;

7: support a precautionary approach to environmental challenges;

8: undertake initiative to promote environmental responsibility; and

9: encourage the development and diffusion of environmentally friendly technologies.

**Anticorruption**

10: Business should work against corruption in all its forms, including extortion and bribery

## VI. The main benefits of implementing Corporate Social Responsibility

Being an essential part of business language and practice, CSR is in an exponentially growing path. Since CSR applications have a lot of benefits to organizations, they are increasingly assuming and integrating a social perspective in their culture. As a resume of key CSR benefits, the following can be highlighted (Fernández B. & Souto F., 2009):

a) Maybe, the most important benefit is the organizations satisfaction for its own responsibility.

b) Getting a good reputation from community and getting better financial performance; linked to increasing market share, maintaining key personnel and directing investors' confidence towards CSR.

c) Assuming consumer selective elections that are increasingly including CSR criteria to make business more competitive.

d) Changing relationships all along the chain value, based on trust and doing things the right way with suppliers and customers.

e) Improving working climate, thus increasing employee permanence, motivation and productivity.

f) Reducing legal conflicts on complying with regulatory requirements.

g) Improving relations and implications within the local community, given the wide range of opportunities this question poses in terms of reputation, positive press and wealth.

h) Assuming positive and negative impacts of the company activity as a key question in management decisions, with a long-term perspective.

i) Re-designing processes with CSR green parameters, reducing waste that often simplifies operations and saves money.



j) Managing risks is, also, one of the main benefits of CSR in the short-term. To manage risks and to ensure legal compliance companies may be exposed to a variety of legal and reputational risks if they do not have adequate social compliance or CSR/Sustainability programs in place.

Companies have started scheme of social audit, it is like a measure of their performance towards society in which company prepared a social audit for itself. The social audit report contains:

- Amount spent on rural development
- Employment provided to scheduled caste, scheduled tribes, handicapped, minority communities etc.
- Contribution to national relief funds to be used during natural calamities.
- Amount spent on public health, adult literacy, pollution control etc.
- Expenditure on cost-reduction and product improvement measures etc.
- Contribution to import substitution and export promotion.

Other than the above legislative measures some social and voluntary measures are also involved to enforce corporate governance to work for the betterment of the society.

## **VII. Conclusion**

In the last it can be said that society and its welfare is not only the government's responsibility no business can exist for a long time in the market unless it performs all its social obligations properly. Corporate governance is becoming stricter towards the organizations to accomplish their responsibilities, and organizations are also identifying their moral obligations towards community. So, a sort of honesty and dedication can be seen in today's corporate world. Corporate social responsibility makes the business worth living for endless years. If a company knows its ethics and responsibilities well and perform them in appropriate manner, the business will get maximum profits as well as superior image in the society. Corporate governance can be helpful for the society and for the business by keeping these points in view:

1. It will help export and will provide maximum opportunities in domestic and foreign business.
2. Ethical values will help the society and the nation in character formation.
3. The generation of employment and poverty reduction can be seen after implementation of social audit by each company.
4. Social audit and other social schemes will be helpful to upgrade the rural people and it will create a balance between rural and urban areas.



5. If a company inculcates moral values in itself, it can achieve high profits like TATA and so many others.

At the end it can be concluded by saying that social responsibility of a company is required not only for the service of human beings, society or nation but for earning the most profits and leading to the top and corporate governance is now making it possible for all such companies to be ethically strong and turning them into an asset for the society as well as for the nation.

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