"Good corporate Governance as a vital constituent of Corporate Social Responsibility" with reference to Indian MNC's

By Mr. Santhosh Basavaraj[a] & Dr. B.Rajasekaran[b]

Abstract

During the process of Liberalization, Globalization and privatization (LPG) it brought in its newer types of regulations and a variety of regulatory institutions. Changing scenario started demanding separation of ownership and control of corporate. Actions expected in scenario was creation and distribution of wealth and stake holder's value is also started linking to firm performance and situation demanded the considerable reorientation in decision making.

At the same time all stakeholder felt the need to contribute towards strengthening the financial market institutions. It is very clear that corporations exist for the sake of public, their accountability for public & they have social responsibility and debt to society. In the first place, a corporation has to behave as a good citizen and get it directly involved in moral activities by considering it has a custodian of public welfare.

To compete effectively in the global market, corporations started realizing that they must take a long, hard work at their values, practices and to respond to the swift changing circumstances corporations felt the significance of having a strong foundation for their survival and growth which led them crystallize its requirement in the form of Corporate Governance.

This paper studies the concepts of Corporate Governance, CSR Practices.

Keywords: Corporate Governance, CSR, Indian MNC's

[a]**Mr. Santhosh Basavaraj**	[b]**Dr. B.Rajasekaran**
Research Scholar, Anna University of Technology, Coimbatore, India. Email ID: santosh_bs2001@yahoo.com, Ph: +91 997209785	Principal, RKKR School of Management Studies, Ettimanickampatty, Coimbatore Road, SALEM , India.– 637 504

1. Introduction:

CG is built on four strong foundations such as Directors, Investors, laws & regulations and Managers, these four components are also considered as the pillars where it has become an inalienable part of its operations & Strategies. In nutshell, it is about ethical conduct in business. Ethics is concerned with the code of values and principles that enables person to choose between right and wrong and CG is beyond the sphere of law at the same time it stems from the socio-cultural mindset of management and cannot be regulated by legislation alone. The major parties involved in CG include the regulatory bodies which consist of Chief Executive Officer, the board of directors, management and shareholders. Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large.

The definition of Cadbury Committee (1992) UK adopted worldwide and it is note worthy to discuss here: "The process by which companies direct and controlled. It also considered as "an encouragement of companies' compliance with codes". Corporate Governance clearly spells out rules and procedures for making decisions on corporate affairs and consists of mechanisms and controls such as internal control of monitoring by Board of Directors, Compensation and formation of Audit committee. External control consists of external auditors and government regulations. Sometimes instances like the issues of CEO Duality, absence of independent directors, lack of relevant board structure, ineffective audit, and cause severe governance stress.

Protection of investor's interests of both international and domestic is possible only with good corporate governance practice. Sustainable profit and ensuring a continued legitimacy of business is the need for day. Security laws and their enforcement do make a difference.

The corporation should give back to the society for the social costs of conducting business, corporation gets certain privilege and therefore, they should earn them by paying back to the society. A survey of literature analyzing the relationship, between law, governance and economic outcomes and strong corporate laws are necessary to protect stockholders. Ironically Indian corporate were having the perception that only those companies that are going globally were following the stringent international accounting standards and policies; most other companies felt it is not necessary.

A variety of regulatory measures has introduced by various bodies in India for improving CG practices.

1. IIF Guidelines
2. Company law and accounting and Indian Companies Act.
3. CII Code on Corporate Governance (April 1998)
4. National Code on Corporate Governance

5. Clause 49 (February 2000) (2004)
6. Chandra Committee on Auditing and Governance (2002)

On the other hand reforming the legal system taken a lot of time and slow functioning of Indian Parliamentary system added to the problems of CG, at the same time corporate ethics is the cornerstone of long term success of a company and those who followed this foundation have survived and grown. For sustainable value creation, corporate governance needs to align to national and global governance. More recently, many countries have developed their codes of governance with an emphasis on social responsibility. Equally important is the role of private sector in evolving a code of self – governance on matters like corporate ethics, value system, financial discipline,

Main reasons for the need for corporate ethics and corporate social responsibility are the incomplete contracts in the companies which create the agency problems. There are serious problem of information unevenness also. Corporate Governance includes Strategy, top management vision, transparent administration, code of conduct, and standard of performance, accountability and quality of relation between board and top management and board and shareholders.

2. Objectives:

- It aims at gaining an insight into the concepts of Corporate Governance and CSR which enables this researcher to generate new ideas on concepts under study.
- To determine how companies Corporate Social Responsibility practices blended in Corporate Governance and to study integration of CSR with CG which enable future researchers to study how companies are able to sustain its Competitive edge with good CSR activities by considering some good practices followed in industry and their critical evaluations in recent events.
- To set the foundation for future study and refers literature to develop a new hypothesis in the concept of CSR.
- To review the Literature on Corporate governance and studying the Juxtaposition of CG and ethical issues for better corporate social responsibility.

3. Research Methodology:

This is an exploratory research design and it is used to seek insight in general nature of Corporate Governance and Corporate Social Responsibility. Various variables of CG has been considered for the study, here an attempt is made to understand the relationship between CG and CSR and not to measure the result. Secondary Literature survey is used for data collection method.

This research is aimed at very wide exploration of view and this research is an interactive in nature and also open ended.

4. Discussions & Findings

Some of the objectives which also reflect CSR of Corporate Governance are significant here to discuss.

1. Board Objective and social objective:

Firstly, concern for CSR and relative failure of large corporations to safeguard the social objectives such as population dislocation due to fall out effect of their rehabilitation plans. Secondly, lack of proper policies, over and above the Issues of CSR is one of the top – most concern & priorities. Finally, corporate aim is to understand that society is not likely to tolerate adverse effects and State failure to maintain law & regulations exaggerated the problems.

2. Environment Objectives:

Leakage of Methyl Isocyanate (MIC) caused biggest industrial disaster in the country, which also known as Bhopal disaster which occurred on December 3, 1984 made management to question about the inclusion of environment objectives such as Conservations of environment and conform prevalent regulatory requirements.

Gross violation of these standards is quite common and blame lays on both – law & Corporate. If corporate can not conserve at least they should not damage the environment. Serious cases of neglect of employee safety are rampant. Time and again companies have not been able to adhere to safety norms and causing loss of social welfare. Board should set good leadership and use outside experts for legal, technical, social aspects of environment issues. Financial commitment of Boards and Management plays pivotal role under these circumstance which enables to reduce social distance. Companies with increased need of access to markets are increasingly becoming transparent & adopting higher standards.

CSR is about how companies manage the business process to produce an overall positive impact on society. Ethics are thus understood as the means by which individuals construe, decipher, act upon themselves in relation to the true and false, the permitted.

Governments impose some standards for business with a view to support, measure and assist implementation of CSR with the help of CG by variety of regulatory measures. Attempt to include the concept of social responsibility is also an effective Human Resource Management measure .Social responsibility is not exclusive domain of Government.

Passive philanthropy alone no longer constitutes CSR. The social responsibility of business will cover the economic, legal, ethical and environmental expectations of society and it has provided a unifying point of spotlight for the expansion of multiple new forms of knowledge, new methods and objects of measurement and calculation, and new demonstration of corporate conduct.

Corporate citizenship is an organization characteristic with a mature appreciation of its rights and responsibilities, corporate realize their total dependence on society – which can be an input and output model which portray circular dependence of business on society. Depicting social responsibility in corporate governance is golden opportunity for corporate to reciprocate to society. More closely a company which concentrates on solving societal problems better, it grows faster & prospers and welfare measures are essence of morality – Truth & non violence set of rules of conduct applied to business – Do's & Don'ts of business. Business ethics is universal phenomenon.

Doctrine of trusteeship involves strong code of discipline & ethical behaviours, principle of accountability, corporate ethics are vital for Indian business organizations. High standards of business practices through self regulations has to be brought in corporate governance and only then earning goodwill of all through, quality, efficiency, transparency and good values can come in to existence. It is essential for all corporate to demonstrate an exemplary degree of compliance.

Publicly traded companies and family controlled companies with concentrated ownership structures as it demands phenomenal change in the mindset and align the relationship with corporate performance.

International Chamber of commerce recommends nine steps to attain CSR and first six steps are connected with CG

1. Confirm CEO/Board commitment to prioritize responsible business conduct.
2. State company purpose and agree on company values.
3. Identify key stakeholders
4. Define business principles and policies.
5. Establish implementation procedures and management systems
6. Benchmark against selected external codes and standards.
7. Set up internal monitoring.
8. Use language that everyone can understand.
9. Set pragmatic and realistic objectives.

Practical implications:

- To enable managers to understand how companies are governing their corporate responsibility and to provide useful insights on to two inter-related concepts i.e. CSR & CG.
- This literature review and research is a good source for manager to study reality check on practices adopted by some major players in the industry.

Illustrations where companies Corporate Social Responsibility practices blended in Corporate Governance:

- We see more of corporate misgovernance in India rather than Corporate Governance. The increasing corruption in the government and its various services kept the managements of country's industrial and business organizations above accountability of their misdeeds, encouragning them to indulge in more unethical practices.
- In India, the kind of ownership also contributes to misgovernance one could see a number of privately owned business organizations too indulging in extensive corporate misgovernance and there are series of scams that wobbled investor confidence and realized the need for CG.
- The first instance of most terrible situation was Harshad Mehta's securities scam that was uncovered in April 1992. The second incident was in the preferential allotment scam where investors lost roughly Rs.5, 000 crore. The third one was disappearances of companies during 1993-94 where Rs 25,000 crore vanished or did not set up their projects and there are continuums of different scams till the biggest corporate scam of Satyam.
- Satyam is a company which had won Golden Peacock Global Award for excellence in Corporate Governance. This company was named the winner by the World Council for Corporate Governance as recently as in September 2008. This is after approving the false balance sheet presented in the Board of Directors. The Satyam story poses a big question over the credibility of auditors in general, as PricewaterhouseCoopers was auditor of the company. The bankers to Satyam included Bank of Baroda, BNP Paribas, ICICI, HDFC, Citi Bank, HSBC. Even after placing false account details in its balance sheet no bank came out and asked details about that. Satyam was also being accused by the World Bank for bribing its employees to get certain contracts awarded in the company's favour which affected the diverse shareholders wealth and scandal resulted in a loss of around $3 billion (Approximately around Rs.13,500 Crores)
- Post Satyam scam made regulatory bodies realize the importance of strong corporate governance which is blended with the Social responsibility and there are some good players who are imbibed CSR in their Corporate Governance same has been discussed in the following instances where CSR is reflected in the Corporate Governance practices.

Infosys Techonologies Ltd.,

- Infosys revolutionalised the Information Technology sector in India and set the best Corporate Governance benchmarks to the industry. In an exclusive interview of Mr.N R Narayana Murthy revealed how Infosys seen its shareholder and said "As a CEO never focused on shareholders relations and he believed in the value sytem,ethics, integrity & focus on product market competition and reiterated that Weak governance is not a part of evolutionary process.
- All the aspects of Governance which directly integrate the CSR are mentioned by Mr. and they range from Selection of Board members, code of conduct, forming various committees and the role of Independent directors in monitoring and advising the corporate activities and this is the reason why Infosys gains an extra edge comparing to its competitors and trades at premium due to its better governance practices. Infosys believes in underlying values that drive the premium.
- Mr.N R Narayanamurthy considers that the day they start worrying about shareholders they loose the business and strongly believes in taking care of customer satisfaction, employee happiness to ensure and safeguards future growth and sustainability.
- Let us take a look at financial performance of Infosys to identify relationship, if any .Shares fell nearly 10%, the most since May 2009, after its sales forecast came in lower than expected and profits trailed analyst expectations dragging down the rest of the sector and the wider market.
- According to Bloomberg consensus estimates, revenue for Infy, was expected to be Rs 7,760 crore while actual outcome came in at Rs 7,250 crore. Net profit was estimated to be Rs 1,930 crore as against an actual achievement of Rs 1,818 crore. Despite all these measure we observe lag in target achievements and could not find clear evidence of effects of CSR on corporate financial performance.

Social Responsibility, corporate governance - by Reliance

- According to Reliance, Corporate Responsibility extends beyond the ambit of company's facilities and offices. The prime focus is on to the account in its periodic review – continuing relevance, effectiveness and responsiveness.
- Some other good corporate governance practices are recognizing roles & responsibilities of Board which emphasis on efficient discharge of duties & responsibilities and ensure balance of authority and power. Board is structured in such a way that it has proper understanding of variety of prospective including social responsibility
- Independent verification & safeguarding integrity of the company's financial reporting – truthfulness & factual presentation is of paramount importance and Audit committee are

constituted to give investors an equal & timely access to material information & announcements are factual and balanced & in compliance with the application of provisions of law.

- Mechanism to give information on financial position, performance & governance. Highest importance is given to information to investor's relations. Performance of senior executives – Evaluator's process is fair & transparent and uses both quantitative and qualitative measures. Corporate ethics Values and commitments and its conducts is only ethical when it tests on nine core values such as Honesty, Respect, Fairness, Purposefulness, Trust, Response, Citizenship & caring which are core for Corporate Social Responsibilities.
- Various initiatives includes such as Educational Initiatives, Healthcare initiatives, Community Development etc.
- Not to be lost irrespective of goals to be achieved and feels means are as important as the ends.
- Code of ethics & Business policies – employee should conduct the business with integrity in compliance with applicable law.
- In the case of Reliance the stock has underperformed in the markets since the last two years. If we look at the sales and profit figures of the company, there is consistent growth y-o-y. The sales have increased from Rs1,46,000 crore in 2008-09 to 2,59,000 crore in 2010-11. Profits have also increased from 15,000 crore in 2008-09 to 20,000 crore in 2010-11. EPS has also gone up from Rs48.5 to Rs62. It shows that the stock is trading fairly under-valued.
- Again in the above case we can clearly link the CG & CSR to financial performance.

Corporate Governance practices of TATA GROUP.

Vast majority of Indian corporate is controlled by promoter families which while owning a negligible proportion of share capital in their companies, rule them as if they are their personal fiefdoms and some corporate stands exemplary and are recognized and appreciated by its stakeholders. One such company is TATA. Credibility, trust, integrity, vaues, and commitments are transferred from generation to generation in TATA Group. Jamshedji Tata mentions "We do not claim to be more unselfish, more generous or more philanthropic than other people" and Ratan Tata reiterated the importance of self-imposed framework ethics, values, fairness and objectivity at all times.

In its **"Tata Code of Conduct 2008"** TATA clearly spell out conduct required by all its internal members**.** it has included clause like National Interest which focuses on wider interests of the communities. In second Clause it discussed the fair and accurate Financial Reporting and Records, and in subsequent clauses it focuses on core issues of CSR such as Competition policies, Equal opportunity provider, interaction with Government agencies, political non-alignment, Health, safety and Environment and corporate citizenship.

The results of this effort are clearly seen in their financial performance and various prestigious awards like Golden Peacock award for corporate governance by the Institute of Directors. The sales have decreased from Rs.321,850 crore in 2008-09 to 311,129 crore in 2009-10. Profits after Tax has increased from Rs.8163 crore in 2008-09 to Rs.8240 crore in 2009-10.

There are some other corporations also which focuses on various CSR activities: BHEL has contributed to the development of quality of life in rural areas, health care and family welfare, adult education, etc. Wipro Technologies are involved in spreading quality primary education through its Azim Premji Foundation. SAIL contributes to the sectors of agriculture, industry, education, health care, dairy, poultry, fisheries and drinking water supply.

5. Conclusion:

For countries that try to attract investors – corporate governance matters a great deal in getting the hard currency out of potential investors. At the same time it is important for Management to understand the creations and Enhancement of a corporation's competitive advantage and Enabling a Corporation Perform Efficiently by Preventing Fraud and Malpractice and providing proper protection for Shareholders Interest.

When CSR adopted as a business strategy for sustainable development it goes to improve corporate performance. It offers internal and external benefits to an organization externally it creates positive image and goodwill and internally, it cultivates a sense of loyalty and trust amongst employees in organizational ethics reduced attrition

Ironically Management fail to appreciate the fact that CSR is a key constituent of business strategy which can be brought in to the Corporate Governance, as to many of them it is pure philanthropy and do good activity unconnected with business. Cost effective way of gaining competitive advantage.

A survey conducted by Indianngos.com shows that the major obstacles to CSR in India are lack of awareness and conviction amongst the managers, lack of impact analysis, that is a, system of measuring the impact of social activities. Absense of a clear linkage between CSR and financial success is another barrier to CSR.

Lack trained managers and advisors are also one of the main reasons for this. We can not evidently say that improved financial performance Increases sales & profit because many other factors of market also determine the profit. According to Scot Bayman, a socially responsible company is a respected and successful company. Most originations in India have not instituted structured systems for approaching or deploying CSR. Formal articulation of policies and guidelines, allocation of resources and performance evaluation is only possible when CSR is aligned with proper Corporate Governance. Increasingly media is playing a phenomenal role in unmasking the corporate darker face.

This study revealed how the Corporate Social Responsibility practices blended in Corporate Governance of some selected organizations and their impact on financial performance and result obtained are erratic (There is no positive relation observed) but there increase in the financial performance. It has set the foundation for future study and refers literature to develop a new hypothesis in the concept of CSR.

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