

## **CORPORATE SOCIAL RESPONSIBILITY AND GOOD GOVERNANCE**

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### **Abstract:**

Though the concepts of corporate social responsibility (CSR) and governance (CG) have been evolving for decades, no single all-encompassing meaning has as yet been achieved. This paper seeks to explore the interrelationship between CSR and CG and its Indian context. The paper argues about the implication of these concepts in Indian businesses. The first part of the paper states the increased focus of CG in CSR, and its linkage with business practices. The second part states the recent transformation in the legal norms to be followed by corporate houses, highlighting the essential of good governance. The third part of the paper discusses the prospects and challenges drawn by the stakeholders outlining the success of CSR in 2014.

The methodology used for the research is secondary and the main objective is to outline the overlapping of CSR and CG and the growing need of the developing nation to understand the core importance of moving beyond CG conformance towards voluntary CSR performance. This paper can provide an insight about the current CSR practices being carried out in this competitive era, especially in Indian corporate scenario.

**Keywords:** *Corporate social responsibility (CSR), corporate governance (CG), stakeholders.*

### **Introduction:**

*"CSR is about how companies manage the business processes to produce an overall positive impact on society" - Mallenbaker*

In today's dynamic world corporate social responsibility is the emerging area of interest for entrepreneurs, practitioners and academics. "The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time." [Carroll, 1979; 2008, 500] This states the voluntary

integration of the external environment business strategies and internal operations. CSR is mostly concerned with treatment of the stakeholders of an organization in an ethical and responsible manner which is in accordance to the international norms. [Michael Hopkins]

On the other hand corporate governance refers to the set of principles, systems and processes to which a company should adhere to and is governed. Corporate Governance can be defined as “the design of institutions that induce or force management to internalize the welfare of shareholders.” [Tirole, 2001, p.4] CG is based on certain underlying principles such as corporate ethics, accountability, disclosure and reporting followed on a wide spectrum of corporate practices. In order to meet the needs of various stakeholders, in this era of globalization, it has been observed that numerous companies are adopting the CSR practices by incorporating the notion of corporate governance as a vehicle of pushing the management to consider broader ethical considerations.

This paper tries to find the crossroads between CSR and CG, and its acquired undeniably high degree of relevance due to the emergence of the concept of self-regulation and government policies. India as an emerging economy is on the path of transformation that forms a convergence between its governance and CSR. The essential of good governance in the backdrop of CSR enlightens the concept of ethical values. The probing challenges of the two percentage CSR paradigm (Forbes India, 2014) passed by the government of India in its new company's bill are the highlight of this paper. The difference in the contribution made in CSR by the Indian corporate houses is the area of concern.

### **Literature Review:**

There have been a range of perspectives on corporate governance and corporate social responsibility frameworks in search of corporate social responsibility disclosures in the annual reports of corporates within India and abroad and various journals and books on the same. Studies by Lewis (2003) and Nielsen et al. (2009) suggested that society value, new business opportunities, firm's reputation, better stakeholder's relationship acts like a driving force for a business firm to implement CSR. The international journal of business research and development highlighted the CSR activities followed in the changing globalized market scenario. It presents the distinction between theoretical approaches followed throughout the world. The research article on corporate governance and corporate social responsibility by Victoria Wise presented the interrelationship between the two. The Forbes article on the

recent development in Indian scenario highlighted the changes in the norms and the challenges faced by the corporates.

### **Objectives of the study:**

- ❖ To understand the theoretical and practical perspective of CSR and CG.
- ❖ To understand the essentials of moving beyond corporate governance.
- ❖ To determine the convergence between CSR and CG.
- ❖ To highlight the changing developments in CSR and its implication in Indian context.
- ❖ To determine the prospects and exposed challenges faced by CSR following companies.

### **Methodology:**

A comprehensive review of the professional and academic literature on CSR and corporate governance was carried out. An analytical approach was followed to review the trends and identify the current perspective and drivers formulating and implementing the CSR practices in India. Reliable secondary sources were used to understand the integration of stakeholders and CSR.

### **Findings and Analysis:**

CSR is a complex and uncertain term, which has its horizon spread to various assorted meanings. There have been various literatures on CSR defining its theoretical implications and its connection with economical terms. [Basu and Palazzo, 2008] But the difference lies in the practical perspective of the same. As it is concept whereby the corporate firms should voluntarily contribute to the betterment of the social world and the upliftment of the environment and society. The corporate is one umbrella under which all the stakeholders work and take their resources and social responsibility affects the employees and most importantly the environment as a whole. The concepts of good corporate governance and CSR have not been fully understood by the businesses and the development of the framework needs to be done. Corporate governance also mostly comes into picture only after the exposure of a large scam, which put its practicality into doubt.

It has been analysed by the recent studies that there is huge convergence between CSR and CG. It has been stated now that CSR is no more only concerned with social issues but has traversed to corporate citizenship, transparency and accountability. CSR has become an extension of corporate governance. Corporate governance are the policies and principles followed by an organization in order to maximize shareholders wealth and to attain the set objectives formed in adherence to regulatory framework of the country. Its performance largely depends on the managerial set up as well as consideration of the socio-cultural-environment of business which focuses on the legal & ethical practices for its stakeholders.

The concept of moving beyond the shareholder's wealth maximization concept in CG gives the interrelationship between CSR and CG. Now days the concept of triple-bottom- line accounting [Robert J. Rubinstein] is followed that measures the organizational social, environmental and sustainability matters and establishes good governance and CSR disclosures linkage. [Figure 1]

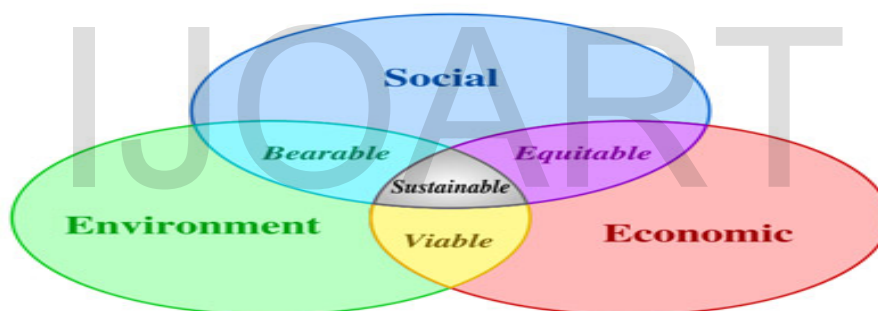


Figure 1

In India, recent developments in Companies act will change the face of CSR activities from 1<sup>st</sup> April 2014. The government has identified 10 major areas including education, gender equality, environment, national heritage and the Prime minister Relief fund where India Inc. can spend to claim credit for the mandatory 2% Corporate Social Responsibility (CSR) expenditure. Now the Indian firms have to move beyond well dressed, hyped CSR activities towards mandatory outcomes for the eradication of some serious societal challenges.

CSR as we know is one of the strength of the business for creation of intangibles like trust, reputation, brand image, tax advantage and for manifestations in balance sheets. But with the advent of new norms the companies will have to look at CSR as a 360 degree perspective

including the strategies, processes and stakeholders which can pose as a challenge as right now it is largely considered as charity and donations.

The most common CSR following Indian companies are Tata's, Hindustan Unilever, and Mahindra & Mahindra which are following several successful CSR programmes. With the changes in the law these companies can contribute more in the self-disclosure of their activities, giving rise to good governance.

But on the other hand for the companies that are only window dressing this concept, it will be hard to invest their company's money for the societal challenges. It is essential that the organization diversify its activities and change its policy framework parameters shifting from the philanthropic practices towards new social responsibility considering the education, health and environment as a holistic approach. What is needed is that firms must build their corporate values to create an organizational culture that is receptive to change and can sustain a CSR strategy over a long run [Maon et al., 2009].

#### **Conclusion and Potential further research:**

The present paper proposes a new insight towards corporate social responsibility and corporate governance. It shows the linkage between the two concepts and its essentials. The changes in the norms of CSR announced recently will replete the inadequacies and grey areas and will encourage the businesses to grow a vibrant CSR culture with greater corporate awareness and sensitivity to issues that have a bearing on sustainable development on climate change, biodiversity, resource extraction. The current research does indicate an interesting path for the future research as recent developments in CSR have yet to show their impact on the corporates and stakeholders. This will encourage researchers to examine whether the effect of changes in organizational lifecycle phenomenon might disappear as organizations include corporate social responsibility practices in their culture. So, companies not doing CSR will not survive. It's only the question of 'When'

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