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Corporate Governance and Corporate Social Responsibility: A Balancing Strategy

Dr. Neelam Maggu
Associate Professor,
Sh. L.N. Hindu College,
Rohtak, India.

Abstract: Corporate governance and Corporate Social responsibility are the two sides of a coin. Corporate governance is a field that attracting great attention in the world due to its importance to the destiny of enterprises. Corporate Governance and Corporate Social Responsibility (CSR) are conceptualised by the Western countries, where their practices have developed tremendously. During these periods the idea has been exported to other parts of the globe largely through the activities of multinational companies. Corporate governance is the combination of rules, processes or laws by which businesses are operated, regulated or controlled. The term encompasses the internal and external factors that affect the interests of a company's stakeholders, including shareholders, customers, suppliers, government regulators and management. The board of directors is responsible for creating the framework for corporate governance that best aligns business conduct with objectives. On the other hand, CSR means responsibility of the business towards stakeholders. It may be noted that the Corporate Governance and CSR are two related and interwoven business concepts that are deeply embedded in business practices. In this paper, 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 (CG), Stakeholders, Corporate Social Responsibility (CSR).

I. INTRODUCTION

We all live for ourselves but trust me living for others and doing something for them is a different feeling altogether. We should never forget the importance of society and environment in our lives. Corporate Social Responsibility gives an opportunity to organizations to work towards the betterment of the society and make it a better place to live in. It may be noted that CSR and corporate governance are the two entwined business concept that are deeply embedded in business practices.

In the last twenty years, there has been a sea change in the nature of the triangular relationship between companies, state and society. No longer can firms continue to act as independent entities regardless of the interest of the general public. The evolution of relationship between companies and society has been one of slow transformation. Companies are beginning to realize the fact that in order to gain strategic initiative and to ensure continued existence, business practices may have to be molded from the normal practice of solely focusing on profits to factor in public goodwill and responsible business etiquettes.

Firms use two mechanisms to regulate their operations: corporate governance and corporate social responsibility (CSR). Corporate governance, in financial economics, is specifically defined as a mechanism that protects and maximizes shareholder value. The business practices across the world are converging on a shareholder-centric ideology (Engelen, 2002; Hansmann and Kraakman, 2001). However, other stakeholders of a firm are not willing to passively accept the decision by the firm, especially when their interests conflict with the interests of the shareholders. CSR facilitates the integration of business operations and values whereby the interests of all stakeholders, including customers, suppliers, employees, communities, governments, civil society and the environment, are reflected in the company's policies and actions. Over the last several decades, CSR activities have become an increasingly important investment for firms.

II. Corporate Governance

In late 90's the concept of corporate governance was introduced in India by Securities Exchange Board of India (SEBI) through listing agreement which is applicable to the listing companies only. Corporate governance is the essential function of any organization where board members proactively participate to take important decisions under the framework of imperial and corporate laws of the nations. The decisions and board resolution of firm has a definite impact on Stakeholders and Shareholders in different aspects. General meetings (regular, annual, or special) and Board meetings are essence for any firm to regulate the vision and mission of the company on right track. Board of Directors are the key decision makers through board meetings. Their decisions are focused towards on corporate strategies, mergers and acquisitions, corporate financial performance, business developments, Corporate social responsibility. In other terms corporate governance will deal with 4P's-People, Purpose, Process and Performance of the firm

People: Represent the stake holders and shareholders of the company;

Purpose: Represents the vision & mission, strategies of the firms and its activity;

Process: Indicates the hierarchy of patch towards the top performance plan;

Performance: Indicates sustainable growth on quarterly & annual financial results of the firm on year basis.

III. Corporate Social Responsibility

Although responsible companies had already existed for more than a century before, the term Corporate Social Responsibility was officially coined in 1953 by American economist Howard Bowen in his publication Social Responsibilities of the Businessman. The concept of CSR has a varied and long history. It is necessary to trace evidences of the business community's concern for society for centuries. A survey of the literature on studies related to Evolution and Understanding of concept, Awareness, Motivation, Perception and Behavior towards CSR.

Corporate social responsibility is a corporate strategy where the business looks at how it can best serve society and target moral issues. This can put the firm in a more favorable light among the public, thereby improving public relations and its brand image. It can include raising money for charity or promoting good causes in its store. Corporate social responsibility (CSR) can be simply and broadly defined as the ethical role of the corporation in society. The aim of CSR is to increase long-term profits and shareholder trust through positive public relations and high ethical standards to reduce business and legal risk by taking responsibility for corporate actions. It isn't enough for companies to generate a profit and merely meet the letter of the law in their business operations.

IV. Common Principle of CRS and CG

Because of the uncertainty surrounding the nature of CSR activity it is difficult to define CSR and to be certain about any such activity. It is therefore imperative to be able to identify such activity and we take the view that there are three basic principles which together comprise all CSR activity.

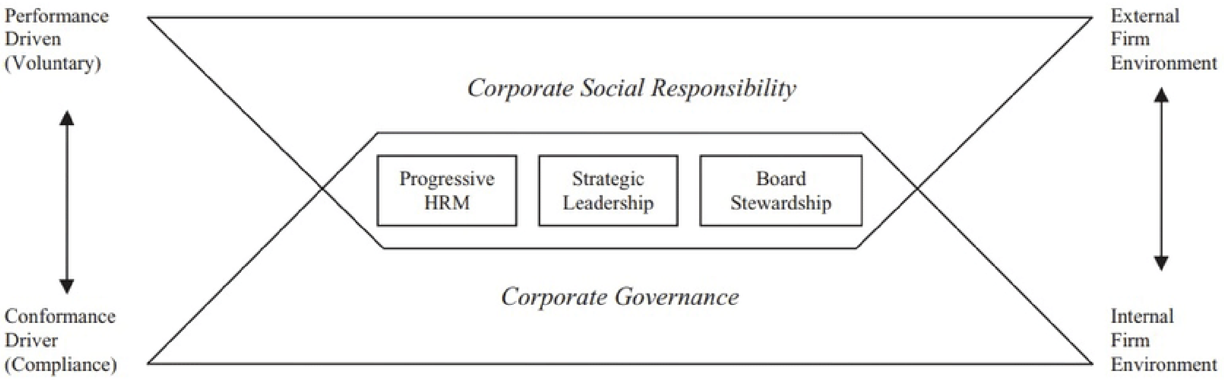
- **Sustainability:** This is concerned with the effect which action taken in present have upon the options available in the future.
- **Accountability:** This is concerned with an organization recognizing that its actions affect the external environment, and therefore assuming responsibility for the effects of its actions.
- **Transparency:** This as a principle means that the external impact of the actions of the organization can be ascertained

from that organization's reporting.

V. Relationship Between CSR and Corporate Governance

Both CSR and Corporate Governance (CG) by definition feature as an issue of company's management practices and therefore sometimes gets confused with each other. The question mainly moves round the fact whether the CSR and CG go the same way of company's management or they have their respective way of management. Question also arises whether CSR is part of CG or vice-versa. It is already known that CSR is based on self-regulatory principles linked to internal and external management of the company. On the other hand, the term corporate governance indicates to an idea of company's governance and management issue. So a clear understanding of the concept of corporate governance and its nature is a crucial matter in order to point out the relation between CSR and CG.

The conceptualization of CSR was, initially, purely in terms of philanthropy or charity. However, the post-liberalization phase has seen a fundamental shift from this philanthropy-based model of CSR to a stakeholder- participation based model. Furthermore, CSR is gradually getting fused into companies' Corporate Governance practices. Both Corporate Governance and CSR focus on the ethical practices in the business and the responsiveness of an organization to its stakeholders and the environment in which it operates. Corporate Governance and CSR results into better image of an organization and directly affects the performance of an organization.



Source: Jamali et al., 2008, p. 456

Several types of research on this theme showed that the relationship between CG and CSR exists, and that business success is influenced by both concepts, and their interconnections. Jamali et al. (2008) proposed a model that presents the main interfaces of CG and CSR (Figure 1), where CG is a necessary "building block" for CSR. The main interfaces between CG and CSR are in strategic leadership, stewardship, and progressive human resource management. While CG is increasingly conformance or compliance-driven, CSR falls on the other hand in the realm of voluntary social performance (p. 456). Mentioned authors found that "a company without an efficient long-term view of leadership, effective internal control mechanisms, and a strong sense of responsibility vis-à-vis internal stakeholders cannot possibly pursue genuine CSR, while CG is not entirely effective without a sustainable CSR drive because a company has to respond to the needs of its various stakeholders in order to be profitable and create value for its shareholders/owners" (Jamali et al., 2008, p. 457).

VI. Benefits of CSR and Corporate Governance

Furthermore, the objectives and benefits of CSR and Corporate Governance are similar in nature, some of them are stated here in below:

- Rebuilding of public trust and confidence by increased transparency in its financial as well as non-financial reporting and thereby increasing the shareholder value.
- Establishing strong brand reputation of the company.

- Making substantial improvement in its relationship with various stakeholders.
- Contributing to the development of the region and the society around its area of operation.
- Addressing the concerns of its various stakeholders in a balanced way so as to maintaining a strong market position.

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