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CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPOSIBILITY: AN OVERVIEW

ABSTRACT

Corporate governance and corporate social responsibility (CSR) are interconnected pillars shaping contemporary business system. Governance mechanisms, emphasizing transparency and accountability, increasingly integrate CSR principles. CSR, beyond philanthropy, aligns business strategies with sustainability and ethical considerations. The symbiotic relationship between corporate governance and CSR is evident: effective governance fosters CSR implementation, while robust CSR practices enhance governance outcomes. Challenges include compliance and stakeholder alignment. Regulatory frameworks and voluntary initiatives drive change. Recognizing their interconnectedness is crucial for sustainable and ethical business practices. This research paper highlights the dynamic interplay between governance and CSR, to explore their implications for organizational and societal well-being.

Keywords: Corporate Governance, Corporate Social Responsibility (CSR)

INTRODUCTION

The corporate sector is itself multidimensional and diverse in nature. The modern companies due to their large size, use vast societal resources. So, there is a need for governance for the proper functioning of corporate system. It is required in corporate field to ensure the conflict free functioning of corporate sector and in cases of dispute corporate governance provides it with the mechanism to resolve the dispute[1].

[1] https://blog.ipleaders.in/corporate-governance-3/

Corporate governance is very much needed for the proper functioning of corporate world and development of nation. It gives a boost to the economy and many big companies such as Apple, Reliance, Samsung etc, have provided themselves with systematic corporate governance system.

CORPORATE GOVERNANCE

Corporate good governance is set of rules and the regulation related to the actives of institutional integration to confirm firms' performances, the efficiency of the customers, the service quality valuation and the profitability, institutional activities like finance, accounting, economics, marketing and the promotion (Fawal & Mawlawi, 2018)[2]. Corporate governance is the process and the mechanisms by which corporation work. It helps to identify the rights and responsibilities that exist in different corporation. Corporate governance broadly refers to the mechanism, processes and relations by which corporation are controlled and directed. Corporate governance identify the distribution of rights and responsibilities among different participants in the corporation (such as board of directors, managers, auditors, regulators, and other stakeholders). It's mechanisms include monitoring the actions, policies, practices and decision of corporations, their agents and affected stakeholders.

The organisation for economic cooperation and development (OPEC) states that corporate governance involves a set of relationship between company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objective of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance provides proper incentive for the board and management to pursue objectives that are in the interest of the company and its shareholder and should felicitate effective monitoring. The presence of effective governance system, within an individual company and across and economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a

[2] Fawal, A., & Mawlawi, A. (2018). The Corporate Governance and Its Effect on the Marketing Performance Strategy in the Lebanese Banking Sector. Management, 8(3), 86-93

result, the cost of capital is lower and forms are encouraged to use resources more efficiently thereby underpinning growth.

VARIOUS ELEMENTS OF CORPORATE GOVERNANCE

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships among a company's management, its board of directors, its shareholders, and other stakeholders. Effective corporate governance is crucial for ensuring that a company operates transparently, ethically, and in the best interests of its stakeholders.

One of the primary purposes of corporate governance is to mitigate conflicts of interest between various stakeholders by establishing mechanisms for accountability, transparency, and oversight[3]. Key components of corporate governance include:

1. Board of Directors

The board of directors play a very crucial role in the day to day functioning of the company. It is the board who is responsible for the company's overall performance. whenever a company needs to take decisions, it will take the decision through the board of directors. For various decisions and managing the day to day affairs, the board of directors are required to need occasionally as well as periodically for taking those decisions by way of passing of resolution depends on the nature of decision. So, effective corporate governance mitigates the risk of company and also ensures transparency in its conduct, which increases the accountability of the company.

2. Shareholders right

Company as a democratic organisation, shareholders have the right to vote for the members of board of directors who carries the management power of the company. Shareholders have right to vote for appointing auditor and approved major transaction of company by resolution.

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[33] https://www.investopedia.com/terms/c/corporategovernance.asp#toc-the-principles-of-corporate-governance

Shareholders invest their money and the right to know where their money utilised. Shareholders enjoy special power to vote, take part in company meeting and have the right to information.

3. Transparency and Disclosure:

Companies are required to disclose information about their financial performance, operations, risks, and governance practices to shareholders and other stakeholders. Transparency helps build trust and confidence in the company.

4. Ethical Conduct:

Corporate governance frameworks promote ethical behavior and integrity throughout the organization. This includes adhering to laws and regulations, as well as adopting codes of conduct and ethics policies.

5. Risk Management:

Effective corporate governance involves identifying, assessing, and managing risks that could impact the company's ability to achieve its objectives. This includes financial risks, operational risks, legal and regulatory risks, and reputational risks.

6. Stakeholder Engagement:

Companies must engage with a wide range of stakeholders, including employees, customers, suppliers, and communities, to understand their concerns and perspectives. This helps ensure that corporate decisions take into account the interests of all relevant stakeholders.

7. Board Independence:

Corporate governance typically emphasizes the importance of having independent directors on the board who can provide impartial oversight of management and represent the interests of shareholders.

Overall, strong corporate governance is essential for building trust, enhancing corporate reputation, and creating long-term value for shareholders and other stakeholders. It helps companies navigate complex challenges, adapt to changing market conditions, and sustain their success over the long term.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is a concept where a company not only considers its profit and growth but also taking responsibility for the welfare and betterment of society and environment[4]. Corporate Social Responsibility (CSR) refers to a business approach that integrates ethical, social, and environmental considerations into its operations and interactions with stakeholders. CSR goes beyond legal compliance and profit-making objectives, aiming to contribute positively to society and the environment. It involves initiatives such as sustainable sourcing, environmental conservation efforts, fair labor practices, philanthropy, and community engagement.

The concept of CSR has evolved over time, from early philanthropic activities to a more strategic and integrated approach within corporate governance. Today, CSR is seen as a fundamental aspect of corporate identity, influencing organizational culture, reputation, and stakeholder relationships. Companies increasingly recognize the importance of CSR in building trust with customers, investors, employees, and communities.[5]

Corporate social responsibility aims to fulfil expectations that society has of businesses and it is viewed as a comprehensive set of social policies, practices and programs that are integrated throughout business operations. The concept of CSR has evolved over the years and now used as strategy and a business opportunity to earn stakeholder goodwill.

The philosophy of giving back to the society has been an integral part of the culture, which has also been imbibed in traditional Indian businesses since time immemorial[6]. India's ancient wisdom, which is still relevant today, inspires people to work for the larger objective of the well-being of all stakeholders[7]. These sound and all-encompassing values are even more

[4] https://www.researchgate.net/publication/5219574_A_Review_of_Corporate_Social_Responsibility_in_India

[5] https://www.researchgate.net/publication/330001773_Corporate_Social_Responsibility_Paper

[6] https://www.mca.gov.in/Ministry/pdf/NationalGuildeline_15032019.pdf

[7] https://www.nfcg.in/pdf/CSR_Voluntary_Guidelines_2009.pdf

relevant in current times, as organizations grapple with the challenges of modern-day enterprise, the aspirations of stakeholders and of citizens eager to be active participants in economic growth and development[8].

Indian business has traditionally been socially responsible and some of the business houses have demonstrated their efforts on this front in a laudable manner. However, the culture of social responsibility needs to go deeper in the governance of all business entities.

In order to integrate CSR into the core business philosophy, the Government has obligated companies, those meeting certain threshold in terms of turnover, net worth or net profit to set apart two per cent of their net profit for CSR activities.

Relation between corporate governance and corporate social responsibility[9]

Corporate Social Responsibility and Corporate Governance are inseparably intertwined. In the recent scenario, there is a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented and responsible behaviour. Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests.

The relationship between corporate governance and corporate social responsibility (CSR) is fundamental in shaping responsible business practices and fostering sustainable value creation. Corporate governance sets the framework for how corporations are directed and controlled, emphasizing transparency, accountability, and the protection of stakeholders' interests. In recent years, effective corporate governance has increasingly integrated CSR principles, recognizing the importance of ethical behaviour, social responsibility, and environmental stewardship in driving long-term value creation.

One key aspect of the relationship between corporate governance and CSR is the alignment of objectives. Governance mechanisms such as board oversight and shareholder activism play a crucial role in ensuring that CSR considerations are integrated into the company's strategic

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[8] https://www.mca.gov.in/Ministry/pdf/CSR_Voluntary_Guidelines_24dec2009.pdf

[9] Dr. D.P.Verma, Raj Kumar, Relationship between Corporate Social Responsibility and Corporate Governance, 2012

decision-making processes. By aligning governance structures with CSR objectives, companies can foster a culture of sustainability, integrity, and responsible business practices.

NEED OF CSR

Corporate Social Responsibility (CSR) has become increasingly imperative for businesses across the globe, driven by a confluence of factors that underscore its necessity and significance in contemporary corporate landscapes[10].

CSR meets the expectations of stakeholders, including consumers, investors, employees, and communities. In an era characterized by heightened social consciousness and digital connectivity, stakeholders expect businesses to operate ethically, transparently, and responsibly. By engaging in CSR initiatives, companies demonstrate their commitment to ethical behaviour, environmental sustainability, and social impact, thereby enhancing trust, reputation, and stakeholder relationships.

CSR aligns with the global agenda for sustainable development. The United Nations Sustainable Development Goals (SDGs) provide a framework for addressing global challenges such as poverty, inequality, climate change, and environmental degradation. CSR initiatives enable companies to contribute to these goals, demonstrating their commitment to sustainable development and social progress.

CSR can confer a competitive advantage. Consumers are increasingly choosing products and services from companies that demonstrate a commitment to social and environmental responsibility. CSR initiatives can differentiate a company's brand, enhance customer loyalty, and drive market share growth, ultimately contributing to long-term profitability and success.

CSR is essential for maintaining a social license to operate. Companies operate within the context of society and are expected to contribute positively to the communities in which they operate. By engaging with local communities, addressing their needs, and minimizing negative impacts, companies can build trust, enhance relationships, and secure their license to operate.

Law relating to Corporate social responsibility

[10] Menyah, K. (2013). Stewardship Theory. In S. Idowu, N. Capaldi, L. Zu, & A. Gupta, Encyclopedia of Corporate Social Responsibility. Berlin, Heidelberg: Springer

The Companies Act, 2013 is a legislation which officially embarked on one of the world's largest experiments of introducing the concept of CSR as a mandatory provision. The inclusion of CSR is an attempt by the government to engage the businesses with the national development agenda. With the introduction of new Act, there is a statutory obligation for the corporates to take initiatives towards Social, Environmental and Economic Responsibilities.[11]

Applicability

[12]As per section 135(1) of the Companies Act 2013, the CSR provision is applicable to companies which fulfils any of the following criteria during the immediately preceding financial year:-

i. Companies having net worth of Rs. 500 crore or more; or
ii. Companies having turnover of Rs. 1000 crore or more; or
iii. Companies having a net profit of Rs. 5 crore or more.

The Companies (Corporate Social Responsibility Policy) Rules, 2014 have widen the ambit for compliance obligations to include the holding and subsidiary companies as well as foreign companies whose branches or project offices in India which fulfils the criteria specified above.

According to the Rule 3 of the CSR Rules[13], the CSR provision will also be applicable to every company including its holding or subsidiary, and a foreign company having its branch office or project office in India having net worth of Rs. 500 crore or more, or turnover of Rs. 1000 crore or more or a net profit of Rs. 5 crore or more during the immediately preceding financial year.

Provided further that a company having any amount in its Unspent Corporate Social Responsibility Account as per sub-section (6) of section 135[14] shall constitute a CSR Committee and comply with the provisions contained in sub-sections (2) to (6) of the said section.

Challenges relating to Corporate social responsibility

[11] https://blog.ipleaders.in/corporate-social-responsibility-light-human-rights-law-indian-legal-framework/#CSR_in_Indian_Legal_Framework

[12] Section 135(1) of Company Act, 2013
[13] Rule 3 of Company (CSR) Rules, 2014
[14] Section 135(6) of Companies Act,2013

Implementing Corporate Social Responsibility (CSR) initiatives presents several challenges for businesses. One significant hurdle is the complexity and scope of CSR, which encompasses a wide range of issues such as environmental sustainability, social justice, labour rights, and community development. Managing the multifaceted nature of these issues, especially for multinational corporations with diverse operations, can be daunting.

Additionally, resource constraints pose a challenge, as implementing CSR initiatives requires significant financial, human, and technological resources. Small and medium-sized enterprises (SMEs) may lack the necessary resources, while larger corporations may face budgetary constraints or competing business priorities. Measurement and reporting of CSR activities also present difficulties due to the lack of standardized metrics and inconsistent reporting frameworks, making it challenging for companies to assess and communicate their CSR efforts transparently and effectively. Furthermore, engaging diverse stakeholders, including employees, communities, NGOs, and governments, is essential for successful CSR implementation but requires time, resources, and effective communication strategies. Regulatory compliance, the risk of greenwashing, and reputational risks further complicate CSR implementation. Overcoming these challenges requires a strategic and integrated approach to CSR, with clear objectives, stakeholder engagement, resource allocation, measurement, and continuous improvement. Collaboration with stakeholders, industry peers, and civil society can also help overcome barriers and drive meaningful progress towards sustainable and responsible business practices.

Challenges relating to Corporate Governance

Corporate governance faces several challenges that can impact the effectiveness of oversight and decision-making processes within organizations. One significant challenge is the issue of board diversity and independence. Many boards lack diversity in terms of gender, ethnicity, and skill sets, which can limit the range of perspectives and expertise available for decision-making. Moreover, boards may lack sufficient independence from management, leading to potential conflicts of interest and a lack of effective oversight[15].

[15] https://www.researchgate.net/publication/332092548_Corporate_Governance_New_Challenges_and_Opportunities

Another challenge is the complexity of regulatory requirements and compliance standards. Keeping abreast of evolving laws, regulations, and governance best practices can be challenging, particularly for multinational corporations operating in multiple jurisdictions. Ensuring compliance with these standards requires significant time, resources, and expertise[16].

Executive compensation is also a contentious issue in corporate governance. Ensuring that executive pay is aligned with company performance and shareholder interests while also promoting long-term sustainability and fairness is a complex undertaking. Excessive executive compensation can lead to issues of inequality and shareholder discontent, while inadequate compensation may fail to incentivize performance.

Furthermore, shareholder activism and stakeholder engagement pose challenges to traditional governance structures. Shareholders increasingly demand greater transparency, accountability, and responsiveness from boards, challenging the traditional model of governance focused primarily on shareholder value maximization. Balancing the interests of various stakeholders, including employees, customers, communities, and investors, requires careful consideration and strategic decision-making.

Addressing these challenges requires a proactive approach to corporate governance that emphasizes diversity, independence, transparency, accountability, and stakeholder engagement. Boards must continually evaluate and adapt their governance practices to meet evolving regulatory requirements, market dynamics, and stakeholder expectations, ultimately promoting sustainable long-term value creation and organizational success.

CONCLUSION

In conclusion, the interconnectedness between Corporate Social Responsibility (CSR) and corporate governance underscores the fundamental role of ethical and responsible business practices in today's corporate landscape. CSR initiatives, driven by ethical considerations and societal expectations, are increasingly integrated into corporate governance frameworks to align business strategies with broader social and environmental goals. Effective governance

[16] https://proschoolonline.com/blog/corporate-governance-india#:~:text=What%20is%20Corporate%20Governance%3F,employees%2C%20government%20and%20industry%20bodies

structures facilitate the implementation of CSR initiatives by embedding ethical values, stakeholder engagement, and risk management into organizational culture and decision-making processes. Conversely, robust CSR practices enhance governance outcomes by fostering transparency, accountability, and long-term value creation for stakeholders. Despite the challenges posed by regulatory compliance, resource constraints, and stakeholder expectations, the symbiotic relationship between CSR and corporate governance offers opportunities for companies to enhance their reputation, mitigate risks, and contribute positively to society and the environment. Moving forward, a strategic and holistic approach to CSR and corporate governance is essential to promote sustainable business practices, build trust with stakeholders, and drive long-term organizational success and societal well-being. By embracing the principles of CSR and embedding them into governance structures, companies can navigate the complexities of the modern business landscape while creating shared value for stakeholders and contributing to a more inclusive, equitable, and sustainable future.