Corporate Social Responsibility and Governance—Need For Convergence

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Abstract: Frequent corporate frauds and governance failures delineating the global corporate picture have evidenced comparably vigorous efforts of swelling corporate governance practices. India has liberalized the regulatory framework of the country to align her corporate governance norms with those of developed countries. Misusing authority by a particular section of stakeholders incessantly influences the corporate choices largely. Governance can no longer be treated as a set of rules concerning the management of an enterprise; rather, it would establish diverse rights and obligations to reduce the negative externalities of an economic entity. Hence, a sound governance approach should consider not only resource-based stakeholders but also market-based and socio-political stakeholders. This paper intends to explain the gap between corporate social responsibility and governance reforms and to seek why these two movements seem yet to be generated little in the form of widely accepted prescriptions for improvement of business behavior to the satisfaction of the constituents of business. It also suggests as to how regulatory bodies should deal with corporate overcoming the weaknesses concerning the way they conceive modern business operations in the event of non-compliance by corporate.

Keywords: Corporate governance, Business ethics, Business operation, Corporate, Stakeholders, Corporate social responsibility

INTRODUCTION

Prologue

Corporate are efficacious institutions having significant impact on individuals, communities and society at large. Distressed by the experiences of corporate wrongdoings and crumples during the last few decades, business pundits have prescribed strong governance as the therapy for the recent corporate collapses. Corruption is a corrosive drain on public trust and on the legitimacy of public and private sectors. Its tolls can be devastating to India’s economy—particularly at a time when open global markets can rapidly reverse investment. Globalization has also harnessed the necessity for the convergence of national and international corporate governance (CG) with corporate social responsibility (CSR) from a judicial vista.

MATERIALS AND METHODS

Objective of the Study

CG has enjoyed unprecedented attention around the globe. The relationship between CSR and CG has always been uncertain. To understand this, three questions are explored in this paper to find out the answer:-

- Does CG have CSR?
- Is CSR an integral part of CG?
- Does CG also include ethics?

In this context, the intention of this paper is to study the need for convergence between CSR and CG in Indian context and suggest measures for sound governance. Installation of ethical values and standards into the goals, policies, strategies, plans and above all, the culture of the corporate has become absolutely necessary for developing an overall environment for ethical management.

RESEARCH METHODOLOGY

In an attempt to answer the research questions put forward in this study, the researcher has visited the web pages and collected information from the reports published on corporate website. The text in the ethics policies & CG as stated on these websites is analyzed to serve as the input data for study. The study being conceptual and descriptive expresses the author’s own opinion and opinion of some reputed authors. The work is designed for a cross-section of those for making the
issue easily understandable and organized into several parts. First part is concerned with literature review; second and third part deals with conceptual view of CSR and CG; fourth part shows the gap between CSR and CG and the last seven parts reflect the need for CSR and CG convergence in Indian context, impact of CSR and CG convergence on corporate regulation, criticisms, recommendations, conclusion, research scope and concluding comment respectively.

First Part
Literature Review

CG attempts to establish relationships among the stakeholders and maximizes shareholders’ value in all perspectives on a sustainable basis. Thus, it makes certain to the prosperity of the customers, investors, employees, the Government and above all the community (Bhattacharya, S. 2007). For efficacious management, CG makes boards accountable to the shareholders in the interest of the corporate with sufficient concern for ethical values (Prakash, N. 2007). Modern business cannot achieve success without the inclusion of social interest because it is felt that corporate cannot make profits in a weak society without convergence (Sankaran, K. 2003). Large corporate deserve to be socially responsible by making donations, welfare activities, etc.; but even so, they are not beyond the statement of ‘good intentions’ and are unsuccessful to yield public confidence in their conduct (Sethi, S. P., & Emelianova, O. 2006). Several audit committees are required to be recruited to observe that CG helps corporations and its stakeholders much (Bhasin, M. 2012). Research on CG with respect to the emerging market is much needed. Various benefits of better CG practices are noticed Claessens (S., & Yurtoglu, B. B. 2013). Schwartz analyses the managers’ perception on the term “business ethics” and associates the term with elements of ethical behavior and non-ethical behavior (Schwartz, M. S. 2012).

RESULTS AND DISCUSSIONS
Second Part
Corporate Social Responsibility-Concept

Corporate receive inputs from society in various forms like labor, raw material and natural resources and, in turn, offer goods and services to society. Thus, corporate depend on society for their existence and it is in their interest to take care of society. CSR is the ethical behavior of a corporate towards society. The Government perceives CSR as the business contribution to the nation’s sustainable development goals. As the Indian industry begins to enter international markets, it is imperative to integrate CSR with business goals for long-term sustainability and healthy economic, social and environmental impact. Progressive corporate can develop strategies for socially responsible production utilizing efficiencies along with new technologies and resource promoting sustainable practices.

Third Part
Corporate Governance-Concept

CG is very often viewed as a matter of regulatory compliance, an annual ritual with checkboxes and not as a practice resulting in superior market valuations. It refers to the range of institutions and practices by which authority is exercised to satisfy the needs of all stakeholders including society and its meaning is fashioned by the specific value system prevalent in the country. Broadly, governance refers to the relationship between the governors and the governed, such as that between the Government and the people, and at its basis the decision-making powers yielded by individuals to those in authority so that the common interest of society can be met. A good CG model ensures fairness, civility and excellence in all transactions inside and outside the corporate. Its aim is to ensure commitment of the board to manage corporate bonafide to maximize long-term value of the corporate for all.

Fourth Part
CSR and CG Reforms- A Gap

CG and CSR are closely associated with market domain. They both operate to attain their respective objectives. But CG is within the legal framework of law whereas CSR is not such; it operates freely. Extensively, the concept of CG and CSR involves the entire formal and informal relationships in the corporate world and the consequent relationships within the society in general. CG does not merely maximise stock value; rather, it concerns the ‘relationships among the many players involved and the goals for which the corporation is governed (Corporate Governance.2011, February). CG norms in India have been strengthened over the years; but, weak enforcement of these norms has remained a major issue. Unfortunately, overemphasis on economic performance as the sole yardstick of success brings inevitably several additional market implications in modern society, inflicting it with deterioration in the quality of life through environmental degradation, social dislocation, psychical tumult, exploitation of the weaker members of society and weathering in the value system. The change in the awareness of environmental issues due to declining state of the natural environment and the increasingly persuasive activities of different nations necessitates justice for organizational accountability in corporate social and environmental reporting initiatives. Movement from philanthropy to the convergence of business and social interests as a source of sustainability is the key to success of modern corporations; but, it is still in embryo. While philanthropy is extremely important to any civilized society, what really matters in the life of a society are the associations created and nurtured by the impulse of mutual aid (Andre, B. 2001). Individually and collectively acting with integrity, the board helps regulate and determine the efficaciousness of ethical corporate behavior in the corporation and in the wider society at large (Christine, A. M. 2010). The
cornerstone of governance reforms is the establishment of good CG by providing shareholders more opportunity to monitor and participate in the governance and thus, restoring their confidence in the corporations.

A close scrutiny at the unified governance system reveals a gap in the contract due to its incompleteness for which the other stakeholders are denied benefits accruing to them. Misuse of authority by a particular group of stakeholders creates an inherent risk as one group enjoys the physical assets of the firm at the cost of other groups. Stakeholders having direct access to the business decisions continue to influence the corporate choices to the extent stakeholders having thinner interests by a visible pressure group in the legitimization of their interest. Interest of an individual or of a group of individuals in the modern generation can be achieved with a myopic vision but human society, a relatively permanent institution to approve corporate existence and performance for all times to come cannot afford to bear the risks and hazards associated with that type of a narrow pursuit. For this, the constituents of civil society have come up with their contentious role to guard society from all mischiefs or anticipated mischiefs like social, economic or ecological of today and tomorrow. Any entity causing loss to the socio-ecologic status of society is bound to face such pressure.

Fifth Part  
CSR and CG-Convergence

Board of directors is the apex body to frame policies to direct corporate management to discharge their social responsibilities. Further, with the emergence of modern CSR, the role of CG has broadly extended; Eisenberg delineated this as the ‘board as manager’ (Eisenberg, M. A. 1982). In the marketplace, CG is an old actor, whereas CSR is comparatively new. However, it aims at highlighting some key initiatives over the last few decades contributing to the movement of CSR from the margins to the mainstream of the policy agenda. Corporate demonstrate its responsibility to society through the intersection between CSR and CG. The regulation of corporate directors’ duties requires modification to incorporate an obligation for directors to consider social responsibilities at the core of corporate strategies. The elected legislature ensures that corporations acting in a socially responsible manner and directors responsible for assuring that corporate operating for long-term profit maximisation comply with regulatory compulsions. It makes CG possible to be driven by ethical norms and enables CSR to adapt prevailing business practices.

Corporate should discharge its responsibility to internal stake holders concerning issues relating to skills, workplace safety, working conditions, human rights, equal opportunity and labor rights. It finds ‘corporate self-regulation’ in the field of corporate conduct. (Mathews, M. R., & Reynolds, M. A. 2001) in their study demonstrate that although many corporations have started responding to the perceived demand for environmental disclosures in published accounts, their perspective of organizational legitimacy is narrow where information is not targeted to the common people but towards specific stakeholders. Demand for increased corporate accountability now comes from all sectors of modern society or so called civil society. CG goes beyond the traditional governance practice to incorporate the values dimension and CSR becomes a part of the governance process. Hence, it necessitates ethical strand joins governance with CSR thinking. CSR is also connected to CG at the operational level. Corporate lacking processes for identifying and managing these risks fly blindly. Corporate addressing social and environmental issues have an opportunity to enhance its business in competitive ways as a major part of the risk to a firm in the current business scenario coming from its social and environmental issues. Corporate products and services embracing CSR values will find market benefit. In Finland context (Juholin, E.2004), demonstrates that CSR is more a matter of business than ethics or philosophy. It is both value-laden and top management-driven as it is linked with risk management and long-term profitability. So convergence of CSR and CG is essential as CSR risks can have an impact on corporate financial performance. Corporate do not make value judgments, but some things become so reprehensive in society that they become risky to business. A civil society plays an important role in putting CSR at the top of the corporate agenda. If a corporate is socially responsive, it may hesitate to continue its operation in countries where the social norms are not up to the mark or it may try to influence changes in the unethical norms. A legally binding, externally driven arrangement requiring parties to decree laws designed to enforce environmental and social accountability in corporate has the potential to make extensive difference to communities currently facing the negative impact of awful corporate behavior. Corporate social performance surrounds an organization’s commitment to act in an economically and environmentally sustainable manner while honoring the interest of the greater community including direct stakeholders at large. CSR being an integral part of CG, modern corporations cannot ignore it. Corporate have to balance the growth of values and skills to achieve success. CSR, an actually stimulating value mixed with formalized structures can create an awe-inspiring pompous establishment.

Convergence of CG and CSR ideologies is viewed as an innovatory shift leading to decentralization of regulatory power away from public sector to private one. CG-CSR convergence provides promising opportunities for companies operating across both developed and developing countries (Rahim, M. M., & Alam, S. 2014). Scholars are dominant players in revision of the self-centered CG ideology based on...
management selfishness and investor shortsightedness. The call for a more optimistic view of human nature could stress theoretical development and practical application of non-economic theories of CG, like stewardship theory (Francoeur, C. et al., 2015) Top manager is a pro-organizational steward of corporate assets demanding job for non-financial motivations rather than being a self-centered and opportunistic individual. Family firms, a dominant ownership structure in the world (Amit, R. et al., 2015), have a variety of non-financial goals (i.e. sense of identity, family values, altruism, trust, relational contacts, socioemotional wealth) that shapes their decision-making processes and organizational performance (Chrisman, J. J. et al., 2012). Furthermore, given the presence of diverse range of stakeholders within a corporate, a steward is motivated to take decisions that one believes is in the best interest of the group. A steward places much emphasis on cooperation seeking to achieve the objectives of organizational performance (Francoeur, C. et al., 2015). Success of a firm aligns the interests of various shareholders, and thus shareholders’ interests are satisfied when a steward is able to achieve increased organizational performance. Empirical evidence suggests that corporate performance is indeed improved by combining CEO and chairman roles due to the unity of direction and strong control (Krause, R. et al., 2014).

Traditional financial accounting does not provide necessary framework for environmental and social reporting to different stakeholders. There is a lack of rigorous disclosure of non-financial information among corporations (Nulla, Y. M. (2015). Bebbington and Thomson (Bebbington, J., & Thomson, I. 2013) observed accounting theory quite often remains within the standard-setting bodies and is, in turn, an inadequate framework to consider new developments such as CSR/sustainability reporting. Society also has a duty to claim the reconfiguration of the traditional accounting techniques and to insist on the development of sustainability accounting as a subject due to the ambiguity of CSR metrics.

Sustainability accounting deals with activities, methods and systems that capture social and economic impacts of a firm, environmentally and socially induced financial effects, and interplay between social, environmental and economic dimensions of sustainability (Passetti, E.et al., 2014). Existing sustainability reporting practices are at early stage of development and at present provide information mainly on a voluntary basis (Hahn, R., & Kühnen, M. 2013). The connection between sustainability accounting and sustainability reporting needs to be developed as a pragmatic imperative (Bebbington, J., & Thomson, I. 2013). Development of sustainability accounting along with new accounting standards ensures that CSR activities are relatively comparable and easily visible to stakeholders. Further, corporate can improve its reputation in constructing a sustainable shareholders’ value, thereby decreasing information asymmetries between firm’s insiders and outsiders. Investors and creditors are able to make investment decisions utilizing both financial and CSR-related information. Public authorities eliminate sunk costs associated with imposing ever-increasing accountability and transparency standards on the private sectors. Passetti (Passetti, E. et al., 2014) noted policymakers could lead the process of societal and environmental initiatives’ integration into an internal part of corporate decision making processes. Ideologies of CG and CSR can be probably linked through the development of non-economic theories of CG and of sustainability accounting together with new accounting standards. Consequently, convergence of CG and CSR in a single construct becomes feasible.

Sixth Part
Impact of CSR and CG Convergence on Corporate Regulation

Corporate self-regulation is an important part of business regulation. Advocates of this convergence believe that corporate self-regulation containing the principles of CSR offers opportunities to corporate for greater market access, cost savings, productivity and innovation as well as broader social benefits such as education and community development. The notion of corporate self-regulation is usually enshrined either through its own code of conduct or through its incorporation of a multi-stakeholder initiative or guidelines prepared by another social or commercial establishment.

The right and power of the nation-state is facing dramatic change in the age of globalisation. Several transitional bodies are gradually becoming involved in building regulatory mechanisms for corporate. Converging CSR and CG properly leads corporate to make conform to standardisation both inside and outside the regime. The impact of this regime no longer remains only within business management. Rather, it has extended to areas such as consumer safety, environmental degradation, ethical operation and a myriad of others. Against the background of the less proscriptive role of national governments, the organizations help corporate manage the pressures from society to account for the adverse consequences of their activities as profit-seeking corporations. These initiatives as ‘lubricant for modern industrial society’ can facilitate contact, cooperation and trade throughout the world. They are not only standardising CSR but also developing their management, and thus, CSR has taken the form of quasi-binding responsibility.

The increasing acceptance of multi-stakeholder codes by corporate and civil society organisations’ affiliation with these codes have further developed standardization regime helping corporate to demonstrate their efforts towards accomplishing their
social, economic, environmental and ethical responsibilities. Most global corporate have acknowledged this development.

Seventh Part
Criticisms
A major part of industries might strongly oppose to the legally binding governance of corporate social activities as the loss caused to society due to their unethical practices may be costly. However, the following criticisms are put forward:

- CSR being used as public relations tool, corporate can use it as a façade to hide behind and to conceal their actual performance.
- CSR cannot be used to address any real issues or as a change agent.
- Corporate can think CSR as an extra financial burden and, therefore, can find excuses for not adhering to it.
- Initially corporate embracing CSR will get eroded when other corporate surrounding them are found reluctant to follow CSR.
- CSR always remains at the periphery of corporate practice and never receives the importance of core practice.
- Practice of CSR may not achieve the inclusive growth as it is either Government regulated or incentive dependent.
- Corporate argues that there is no consensus on the corporate case for CSR to be integrated in the strategy and hence, defeats its own purpose.

Eighth Part
Recommendations
Opinion differs about the social impact and the degree of corporate commitment, but, the majority opines that CSR will gradually evolve into mainstream of corporate practice. The following arguments are put forward in favor of it:

- CSR becomes imperative for corporate to come forward and share the responsibilities for distributive justice and inclusive growth.
- The crisis of trust in modern industrial capitalism will drive industry towards creating a better branding in society by defining the role corporate should play in society.
- A favorable environment coming into force wills certainly focus more openness towards the concept and practice of CSR. Globalization can play an important role in implementing CSR in the social science.
- The value of intangible assets like trust, loyalty, honesty, etc. will obviously increase with the increasing acceptance of CSR.
- Different levels and framework of CSR can evolve to cater to the unique local needs of the region where the corporate is in operation especially when industrial crises are guaranteed towards the practice of CSR.
- Sustainability reporting emerges as a key component of CSR implementation, measurement and reporting in organizations.
- A conscious move among corporate entities is of utmost importance to involve stakeholders more closely in corporate affairs.
- Corporate can reap the benefits of establishing trust of their brands among the consumers by increasing the purchasing power of community and creating a space in the minds of the prospective young consumers.
- Corporate has to create and sustain hearty relationship with the ever-growing number of stakeholders demanding share of benefits from the business.
- The awakened stakeholders should put pressure on the corporate to deliver responsibly leading to the question of CSR.
- The dynamic and complex business environment require an in depth study with regard to chart the future course of CSR by looking at optimistic and pessimistic views on the subject.
- Since there are many regulators in support of CG application, one of the initial difficulties is to harmonize the decision making centers.
- Provisions of CG should be streamlined under the Companies Act and the SEBI so that unscrupulous corporate cannot take advantage of slipping between the conflicting mandates of two regulators.
- The Government should promote professionalism and independent functioning of the board in corporate.
- CG reports should be done by experts with reference to utility, cost and contents of the details disclosed by each industry. Corporate report should be prepared to reduce box-ticking exercise and enhance the quality of the governance.
- The regulators are expected to be more vigilant to curb any plundering practices in corporate. Although the new Act has strengthened the provisions, speedy disposal of cases relating to corporate offences is desirable.
- Risk taking is a driving force for any corporate. The cost of the management failures including the cost in terms of management time is still both externally and internally underestimated. CG should ensure that risks are understood, managed, and, if appropriate, communicated.
- For CG, the corporate rather than mere compliance should focus on internal ethical code to increase transparency, accountability, fairness and independence.
• Management should endeavour continuously to ensure the CSR process in a right direction and generate collective support within the corporate.
• Corporate should reflect the confidence of management which stresses that management should do what it promises or ‘walk the talk’. There should be consistency between verbal and non-verbal affairs of the corporate.
• A positive and sincere attitude and the motivational activities to be observed should be fresh and interesting. Corporate should show respect and courtesy to its all stakeholders.
• A constant endeavor should be followed to find commonness between the different stakeholders and society at large based upon emotional understanding of the close connection between them.
• Corporate should stay focused in proving that good ethics means good business in the long run.
• The easiest path to success depends on the process and put down the targets, objectives and action plan so that the focus is visible and transparent to all.
• Return on investment (ROI) for evaluating the benefits of investment or comparing the benefits between numbers of investments by corporate should be studied to assess the value of the activities. The stakeholders should be updated about ROI plans in the planning stage to get their commitment on CSR.
• There should be a continuous searching process for global governance and development of a social market economy and methods to integrate sustainable ethics.
• An extended governance model containing corporate culture, legal environment and the liveliness of the members of civil society in putting CSR at the top of the corporate agenda is the need of the hour.
• Efforts must be made to resolve the ambiguities in the provisions concerning CSR to ensure adoption of healthy practices by corporate.
• Improving investors’ education and awareness for better participation and deliberation at general meeting is desirable.
• Independent directors should be imparted periodic training on the various aspects of identifying, analysing and preventing abusive activities. Their appointment should be under binding regulation.

**Ninth Part**

**CONCLUSION**

CG compliance manifests growing trend over the years among the corporate for transparency. Legislation alone cannot improve the practices among the corporate without attitudinal change on the part of the management. Achieving excellence in governance should come in spirit and cannot be enforced upon any corporate by regulators prescribing certain rules and regulations. Bitter experience of corporate scandals suggests few stringent policies for protecting investment better. Loss of public trust censed by unethical industrial conduct has worsened the entire debate about corporate – society relations and calls for a rock-hard multi-stakeholder governance adverse to the present mono-stakeholder governance. Boards must emerge from the shadows and be in the vanguard of stakeholder governance to assert their role as trustees and creators of socially responsible corporate of the 21st century. CSR goes beyond just compliance to rules and codes and includes moral values as well. In a developing country like India, the challenge is at the level of eradicating poverty and providing the basic necessities to the deprived masses. Lack of awareness and sensitivity to CSR practices calls for a need for constant vigilance to ensure that greed and profiteering does not take over. A conscious effort has to be made by all to create a respective environment for arresting the deteriorating political and social values. There should be a multidisciplinary approach to teach, train and practice CSR.

The understanding of the core values of CSR will create growing attention on issues of democracy and capitalism, both in the economy and in the political arena- locally, nationally and globally. Consolidation of the various standards of measuring CSR should be undertaken globally. Decay in socio-economic sphere is arrested by society and CSR is one such tool developed by society to answer the concerns on unsustainable behavior. Internationally, corporate sectors are focusing on high standards of CG as a matter of business strategy rather than compliance. CG and CSR are difficult to distinguish in the global economic landscape. Their convergence in the face of regulatory, business and social changes in transitory markets has evoked debate and controversy over both the potential and limitations of corporate accountability mechanisms. Recently, scholars and practitioners in many fields have looked beyond their traditional cognition to explore how synthesizing governance and responsibility affects existing practices in business and social advocacy.

It is true that the process of implementation may take some times and efforts before it bears fruit, but, in the end, it is worthy. We cannot remain complacent about CSR. We have to orient ourselves to the sustainability ideal. We need visionary leadership, heart-felt commitment and enduring hard work. And each of us, in our own way, in our own place has a contribution to make (Wayne, V. 2004).
Tenth Part
Research Scope

Convergence of CG and CSR is a dynamic process. A typical CG-CSR study is of empirical nature using a quantitative research approach. Therefore, there is sufficient scope to benefit from the adoption of qualitative and mixed research methods in the CG-CSR domain to obtain more comprehensive understanding of the studied phenomena. Most of the existing research on the CG-CSR nexus uses secondary data and largely neglects the endogeneity problem. Therefore, future studies can provide more detailed insights into the mechanisms linking CG and CSR by using sophisticated econometric methods and datasets covering both public and private firms. Given that there are several specialized journals across non-business disciplines examining the CG-CSR convergence, the analysis of CG and CSR ideologies dominant in other social science disciplines represents another potential area for future research. Moreover, interdisciplinary studies analyzing the CG-CSR convergence could be, particularly, beneficial for development of the holistic view of the phenomena. It also might be interesting to analyze various CG and CSR ideologies in a single research setting. Overall, our knowledge about the CG -CSR convergence is far from complete, and more research needs to be done in the near future. A better understanding of the ideological connection between CG and CSR could help to possibly merge these two constructs for stimulating sustainable development, efficient self-regulation, social change and a more stable business landscape. The author hopes that other possible conditions for the combination of CG and CSR ideologies will be extricated by future studies.

Eleventh Part
Concluding Comment

CSR and CG help make lives better not just corporate lives, but the lives of various stakeholder groups too. Society, at large, may, in the long- term become better off in a holistic sense, not only commercially but in terms of overall well being. This paper offers a framework to approach this evolving study suggesting that while the synthesis between CG and CSR poses serious challenges to how we currently apply business law and policy, it may also generate innovative concepts and methodologies. Pursuing CG as social responsibility is a platform for new research and new policies that, if designed effectively, may create more equitable global business environment.

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This paper is devoted to ALMIGHTY GOD who shows HIS blessings in all walks of my life.

REFERENCE