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CORPORATE SOCIAL RESPONSIBILITY AS A PART OF CORPORATE GOVERNANCE

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Abstract
This paper will be to discuss the CSR as a part of corporate governance in India. The paper will discuss the role of corporate governance in India, the role of Corporate Social Responsibility (CSR) and the relation between these two aspects. In this paper, I will explain why corporate governance is important for Indian companies and explain how corporate social responsibility can be used as a part of corporate governance in India. The paper will discuss the different inputs needed for corporate governance and how they can be used in India. The paper will also look at the different types of governance mechanisms and their uses in India.
Many companies have recently emerged in the recent years that are attempting to change how business is done. These companies are implementing new ways of doing business that introduce the responsibility of corporate social responsibility into company practices. Corporate social responsibility can be found across all aspects of an organization's strategy, operations, and values. The rise of CSR in the corporate world has brought about mixed reactions from stakeholders (including employees), critics, and observers. Many people question whether or not corporations should be using their power to benefit society instead of only shareholders. Critics of CSR argue that the sole purpose of the practice is to promote shareholders' profits, and that it promotes a disregard to other stakeholders. In addition, critics believe that the practice has become a subterfuge for unethical activity as companies try to appear socially conscious by assuming the role of caring citizens.

Introduction
Corporate Social Responsibility has been implemented in the business environment since the 1970s with leaders focusing on clients' interests. In the early 1980s, CSR was broadened to include all stakeholders in production and distribution. In Canada, CSR has been institutionalized in the 1987 Canada Corporations Act. Many organizations have started to incorporate CSR into their corporate values by listing it on their official corporate charts (PCAR).
National and international labor codes (e.g., European Union) also regulate businesses' responsibility towards employees. Some companies are also taking action by forming their own unit to implement corporate social responsibility strategies.
The global financial crisis of 2007–2008, as well as its subsequent resolution, has raised questions about CSR and the role it plays in the business world. Critics and proponents alike question whether organizations should continue or expand their CSR practices based on the challenging economic times, and whether or not corporations should be forced to be more socially responsible Many companies have scaled back on their CSR activities, while some companies introduce new

CSR initiatives to rebuild their reputation. The CSR activities are mainly spread across three broad categories- employee programs, environmental initiatives, and aid to the poor.

Companies are expected to spend more on CSR. However, the recent economic slowdown would have impacted the way companies allocate their budgets for charitable purposes. The companies can choose either to scale back or to increase their CSR budget in order to build reputation of the company.

In the last three years, the India has witnessed a huge growth in the number of companies and NGOs that provide relief and development in various parts of India. The organizations include:

CSR in the work place is a complex process which requires policies, plans and processes to define objectives and measures. The aim of CSR in employment is to help employees financially so they can be self-sustaining and thereby encourage them to contribute towards their community. CSR in the work place needs to be part of an employee's life. It need not be linked to the corporate social responsibility, which is often identified with corporate social responsibility, but it should be part of the employees' lives and their actions.

WHAT IS CORPORATE GOVERNANCE

Corporate governance is the process by which corporations are controlled and directed to protect the rights and interests of the stakeholders. Corporate governance also refers to the set of rules, standards and best practices that allow corporation to operate responsibly. A corporation will not come into existence if it is not created by law, usually via registration with a public authority, such as a government agency. Corporate governance primarily involves the self-regulation and self-control of a corporation by its founders, directors, officers and shareholders. Corporate governance is derived from[1] the management practices of organizations and is closely associated with corporate law.

Corporate social responsibility (CSR) is a type of company's social agenda that entails the creation of positive social impact through providing for volunteer services, job creation and funding, research benefits etc. CSR works to create a positive impact on the communities in which companies operate and sets an example to the local community.

Corporate Social Responsibility as defined by various Authors

CSR has been defined in many ways, such as:

The term was coined by Dr. William McDonough in 1972. He described it as "a form of corporate government that means business. This idea that CSR is a component of corporate governance is unique to North America and does not exist in other countries such as India, China and Australia. A study conducted by RIT and KPMG in 2002 revealed that companies with high CSR generally perform better than those portrayed as anti-social enterprises. The notion of corporate social responsibility (CSR) has been shown to be important to companies and shareholders alike, and is often hailed as a key pillar of corporate governance.

The main reasons for the various corporations in North America to create CSR programs are the following:

[1] www.nujscfsl.com last accessed on 25th December 2011

It is these reasons that led to the creation of CSR programs. Since CSR programs are now being seen to be successful, there is a growing tendency for other companies to initiate CSR programs.

Comparative Study

CSR has been well established in the USA and Canada. When businesses are engaged in social activities, they are seen as more ethical to many consumers. This is because social activities contribute to the creation of goodwill among the consumers and help build trust between different stake-holders. Since CSR is a component of corporate governance, this is an example of a newer and more effective way of doing governance and making the company better.

CSR can be defined as an integral part of corporate governance. CSR has been defined many different ways, but the most common definitions are:

CSR works to create a positive impact on the communities in which companies operate and sets an example to the local community.

"Corporate social responsibility (CSR) is about doing well by doing good". A company's CSR is not just restricted to giving charity, but also about how it manages its social and environmental impacts. Corporate governance in India is the framework for good corporate governance. It holds the responsibility of generating long-term shareholder value by limiting risk and maximizing reputation, reputation being the key issue within CSR.

Corporate governance is a concept that emerged from what Lazonick (1997) termed "industrial organization" ideas. While the term corporate governance is used more broadly, I will define it as: "The general process and structure of corporate decision-making and the enforcement of corporate decisions on others" (p. 283). It is about the relationship between investors, corporate management, the board of directors and others involved in corporate decision-making. It is important for India to consider good governance within companies because in the past there have been several scandals in India regarding dishonest activity. For example, one of the largest scandals in India is when Satyam Computers falsified its accounts (Joshi 2009). This company's chairman admitted to inflating profits and assets by $1.5 billion. Satyam's auditor, Price Waterhouse Coopers, failed to uncover the fraud. Corporate governance is important for Indian companies because it balances power between investors, management and others involved in decision-making which can prevent these types of scandals from happening again.

Corporate social responsibility (CSR) is a concept where companies go above and beyond regulation and law (Chenery and Ernst 1998). It includes activities such as: reducing environmental impacts, providing employment opportunities and donating funds for charitable causes (Bodkin 2009). Since its inception, the concept of CSR has been debated in both academic and practitioner circles. The industries that have caught the attention of CSR researchers are mining, oil and gas, agriculture and manufacturing. It is also widely used by reputed companies in India.

CSR has been a huge success in India as a tool for companies to make a good corporate image. The role of CSR has been seen as an important tool for corporate engagement with civil society and it also helps increase the competitiveness of the companies. However, CSR has been criticized by some academics and practitioners for being overrated and only focused on short-term benefits to benefit shareholders (Bodkin 2009).

In India, CSR has been systematically studied by different research[2] streams. In academic research, CSR has been researched to study the various forms of social capital and its role in corporate performance (Bodkin 2009) and also the impact of corporate investments on communities. In practice, CSR is a dimension that can be used as a tool for sustainability assessment to meet targets set by the United Nations Global Compact (UNGCC), a standard for corporations around the world.

As stated by the United Nation's Global Compact (UNGCC), CSR is "the practice of an enterprise that takes into account the wider context—local, national and international—in which it operates, and has due regard for the interests of all stakeholders". It defines companies as those who comply with this definition as long as they are considered public companies in accordance with Indian laws.

As CSR promotes corporate activities that are beneficial to the society at large, it forms a core part of corporate governance in India. It can be observed that many companies often neglect this aspect of their functioning. However, the Indian government is increasingly encouraging these practices and has laid down some guidelines for CSR activities.

CSR in India has been practiced since 2006 when the Parliament passed the Companies Act 2006 (CA 2006). The Act is in accordance with the United Nations Global Compact (UNGCC) and its goals and objectives. It mandates that companies should lead or take part in activities that positively affect the communities; environmental; and social issues. As a result, they should involve these stakeholders in their decision-making processes also.

Moreover, the number of corporations registered in India in the year 2006 was around 2200; that's when CA 2006 came into force; since then there is no data available on the increase in the number of companies registered. And out of almost 10% (210+ out of 2100+) CSR-aware companies, only 2% (11) are active in this field. This shows that most Indian companies are unaware or not interested to implement CSR goals and objectives.

CSR funding is already being spent on education, health[3], women's empowerment, environment, community development & infrastructure. Out of these, the Government of India has included educational and health under mandatory CSR; and environment is on the way. So this leaves us with women empowerment and community development and infrastructure as resources for CSR activity.

But this is not yet a part of any business strategy; even though Mahindra & Mahindra (M&M) has linked CSR to its business plan. This is a new trend that holds promise.

In the United States of America, corporations are increasingly using CSR to differentiate their products and services from competition, and thus building a competitive advantage through CSR. As a result, firms have been increasingly integrating CSR into their business agendas. For example,

[2] Naresh Kumar, Shareholders Activism – Healthy Trend for Corporate Governance, Chartered Secretary, 39(8) 2010. 1075-1080

[3] Uday M. Karnik, CSR – A Challenge for the Corporates, Chartered Secretaries, 39(6) 2009.737-742

Walmart has been able to raise its market value by nearly US$20 billion because it took on the cause of sustainability and environmental protection initiatives. In India, ICICI Bank has been able to break the shackles of its "image as a low level bank", because of its CSR activities.

Indian Scenario

In India, there are three significant trends that could assist in the growth of CSR within businesses. First, India is a vast country with a large potential for creating new jobs and creating wealth through development of its human resources. Second, business strategy can play a crucial role in developing CSR as a core component of both corporate social responsibility and corporate governance. Third, the government of India is promoting CSR.

India is the second most populated country in the world with more than 1.2 billion citizens; that's almost 17% of the world's population next only to China (19%) and almost 3 times that of USA (4%). With an average age of 28 years, the literacy rate is around 65%.

The nominal GDP of India is nearly US$1.7 trillion, poor infrastructure, low human capital development, along with high level of poverty are two problems faced by the nation.

Legal Landscape of Corporate Governance In India

As corporate governance becomes increasingly driven by ethical norms and the need for accountability, and CSR adapts to prevailing business practices and legal framework, a potential convergence between them surfaces.

In India, the provisions relating to Corporate Governance and CSR are covered under following heads:

- The Companies Act, 1956 (applicable to both listed and unlisted companies)
- Securities and Exchange Board of India and regulations (applicable to listed companies) It may be noted that for the unlisted companies the norms are made comparatively easier and are prescribed in the Companies Act, 1956. Whereas in case of listed companies, all the Companies Act, 1956 provisions are applicable and also the SEBI regulations, including the provisions of listing agreement with Stock Exchange, for transparency, disclosure and corporate governance are applicable

CSR Concept in India

This poor infrastructure leads to several problems for businesses in India, most notably traffic congestion and pollution. It is estimated that more than 40% of the population lives below the poverty line, earning less than $1.25 per day. The most common solution to these problems is a government undertaking, but the Indian government lacks the funding and infrastructure to address these issues adequately. Thus, Indian businesses are taking matters into their own hands.

India has recently adopted the idea of corporate social responsibility (CSR)[4] as an innovative way for businesses to partner with governments and NGOs (non-governmental organizations) to tackle some of the nation's key problems. With almost every major Indian business taking responsibility for some aspect of social development, CSR is a constantly growing trend in India.

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[4] Sudip Mahapatra and Kumar Visalaksh, Emerging Trends In Corporate Social Responsibility: Perspectives And Experiences From Post-Liberalized India, available at http://www.csrweltweit.de/uploads/tx_jpdownloads/Sudip-Emerging_Trends_in_Corporate_Social_Responsibility1.pdf last accessed on 25th December 2011

In 1999, the government of India set up the National Council for Corporate Social Responsibility (NCCSR). This council is intended to "facilitate and support CSR activities in India and abroad." The NCCSR's primary function is to encourage and promote CSR by various businesses in India and also help facilitate cooperation between businesses with national and international NGOs. The NCCSR also encourages and supports the use of CSR in marketing, advertising, and other media. India introduced the desirable corporate governance Act in 1998 and the formal Act of India contains rules and regulation for the working of the effective corporate governance. The Act is also represented by clause 49 which includes listing agreement; this clause was issued by SEBI and started from the years 2000-2004. **Clause 49 of the listing agreement is taken from the UK and USA without analyzing the Indian Corporate system. That's the reason why Clause 49 is criticized a lot.**

On 1st October, 2014 the listing agreement was amended by SEBI in[5] **accordance with the new companies Act. Clause 49 of the Act deals with the strengthening of the corporate governance. It aims at putting the check over the company's activity and in the stakeholder's interest. Clause 49 describes the following:**

clause 49 of the listing agreement of the company that will acquire the target business

corporate governance is defined by Reuters as "the management of a public company so it fulfils its obligations to stakeholders and creates value for all shareholders"

effectively, corporate governance refers to how well a company is managed, so it has an impact on the wider economy.

The importance of good corporate governance policies became clearer after the 2008 financial crisis.

Board Structure: The board[6] size plays a very important role for analyzing the ability of the directors and how they control the executives and accounting and finances. The board's size is increased with the oversight so that work is divided among larger number of observers. The larger the board is the better will be the monitoring and controlling.

Director's Independence: The main role of[7] the directors is to provide with independent management control. This control solely depends upon the percentage of the independent directors. Size of the board plays an important[8] role as it may affect the independence and structure of the board, it can affect the performance of the directors. The structure and [9]the characteristics of the directors determine the level of risk taking and management of risk committee. If the boards'

[5] https://www.mondaq.com/india/shareholders/456460/corporate-governance-framework-in-india

[6] Adams, R., & Mehran, H. (2011). Corporate Performance, Board Structure, and Their Determinants in the Banking Industry. Federal Reserve Bank of New York Staff Reports, N.330.

[7] Armstrong, C.S., Core, J.E., & Guay, W.R. (2014). Do independent directors cause improvements in firm transparency? Journal of Financial Economics, 113(3), 383-403.

[8] Coles, J.W., McWilliams, V.B., & Sen, N. (2001). An examination of the relationship of governance mechanisms to performance. Journal of Management, 27, 23–50.

[9] Vafeas, N. (2003). Length of board tenure and outside director independence. Journal of Business Finance and Accounting, 30(7-8), 1043-1064.

characteristics are strong the quality of the risk management will also be strong and the level of risk taking will be low.

CFO/CEO certification

They help in certifying[10] the Board regarding the financial statements and ensure the validity of the report with complete fairness and in accordance with the laws and supervision of the internal control systems.

Responsibility of the board:

1. Making of the appropriate risk management internal control system and analyze the risk which the company will face in the coming future. Enabling the board from making the robust assessment for the principal risks.
2. Analyzing the nature of the risk which is taken by the organization and how to achieve its strategic objectives.
3. Reward system should be made within the organization
4. Managing of the principal risk in such a way that the likelihood of the incident to occur in the future is reduced.
5. Monitoring of the internal control system and risk management so that the committee is satisfied about the functioning and monitoring of the system.
6. Ensuring that the information and communication from the internal and external control is secured and take the responsibility for the same.

Conclusion

It is very well heightened worldwide **that good corporate governance is inculcated by transparency, equal treatment of shareholders and foreign corporation. It also aims to promote sustainable development. There is a strong need for the partnership of both public and Private Corporation so that the awareness of the corporate governance is improved. The efforts made by the corporation must be mindful and relate with each country culture and society value. Like every country, every corporation has its own.** The corporate governance acts as a guideline to all investors[11], directors and managers to take a decision that would be good for the profit and interest of the shareholders. Practice of risk management is based on the approach that is either decentralized or compartmentalized or an integrated approach to risk management

[10] https://www2.deloitte.com/in/en/pages/risk/articles/governance-101.html

[11] Andres, P., Azofra, V., & Lopez F. (2005). Corporate boards in OECD countries: Size, composition, functioning and effectiveness. Corporate Governance: An International Review, 13(2), 197-210.