

# 8

## Corporate Governance and Corporate Social Responsibility

### Question 1

*What is meant by corporate governance? Explain the benefits of good corporate governance.*

### Answer

**Meaning:** According to J. Wolfensohn, President of the **World bank**, "Corporate governance is about promoting corporate fairness, transparency and accountability". It is concerned with structures and processes for decision-making, accountability, control and behavior at the top level of organizations. It influences how the objectives of an organisation are set and achieved, how risk is monitored and assessed and how performance is optimized.

Corporate Governance can also be defined "as the formal system of accountability and control for ethical and socially responsible organizational decisions and use of resources."

Benefits of goods Corporate Governance:

1. Protection of investor interests and strong capital markets,
2. Studies show clear evidence that good governance is rewarded with a higher market valuation.
3. Ensure commitment of the board in managing the company in a transparent manner.

### Question 2

*Answer whether the statement is correct or incorrect with brief reason:*

*Company management has responsibility only towards its shareholders.*

### Answer

**Incorrect:** Company management is responsible not only to the shareholders, but also to other stakeholders i.e. people who have an interest in the conduct of the business of the company. These include employees, customers, vendors, the local community and even society as a whole. These stakeholders have certain rights with regard to how the business operates.

### Question 3

*Answer whether the statement is correct or incorrect with brief reason:*

*'The Governance Model positions management as accountable solely to investors'.*

*OR*

*The responsibility of the corporate management lies towards shareholders only.*

**Answer**

**Incorrect:** The traditional governance model positions management as accountable not to investors only but a growing number of corporations in the late part of the 20<sup>th</sup> century accept that constituents like employees, trade unions, customers, suppliers along with the investors are affected by corporate activity and therefore the corporate must be answerable to them also. Such constituents of an organization are also called the stakeholders.

**Question 4**

*What is meant by 'Stakeholders'? Describe those stakeholders who are affected by or can affect the organization?*

**OR**

*What is meant by 'Stakeholders'? Give the list of such stakeholders.*

**Answer**

**Meaning of Stakeholders:** The traditional governance model positions management as accountable solely to investors or shareholders. But an increasing number of corporations accept that constituents other than shareholders are affected by corporate activity, and that the corporation must therefore be answerable and accountable to them. The word stakeholders describes such constituents of an organization – the individuals, groups or other organization(s) which are affected by, or can affect the organization in pursuit of its goals. A typical list of stakeholders of a company would be employees, trade unions, customers, shareholders and investors, suppliers, local communities, government and competitors.

**Question 5**

*What is meant by 'Corporate Governance'? State the major 'characteristics' of good corporate governance.*

**Answer**

**Corporate Governance:** Simply stated, 'Governance' means the process of decision making and the process by which decisions are implemented. The term 'corporate governance' is understood and defined in various ways. Corporate governance can be defined as the formal system of accountability and control for ethical and socially responsible organisational decisions and use of resources and accountability relates to how well the content of workplace decisions is aligned with the organisations strategic direction. Control involves the process of auditing and improving organisation decisions and actions. Good corporate governance has the following major characteristics:

- (i) Participatory
- (ii) Consensus oriented
- (iii) Accountable
- (iv) Transparent

### 8.3 Business Laws, Ethics and Communication

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- (v) Responsive
- (vi) Effective and efficient
- (vii) Equitable and inclusive and
- (viii) Follows the rule of law.

#### Question 6

*What is Corporate Social Responsibility? Why it is needed in Indian Business environment?*

#### Answer

The concept of Corporate Social Responsibility (CSR) focuses on the idea that beyond making profit, a business has social obligations. It is the responsibility of the companies to produce an overall positive impact on the society. CSR is pursued by business to balance their economic, environmental and social objectives while at the same time addressing stakeholders' expectations and enhancing shareholders' values. Stakeholders, including shareholders, analysts, regulators, labour unions, employees, community organisations and mass media expect companies to be accountable not only for their own performance but for the performance of their entire supply chain. Issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights have a profound effect on business and its environment.

Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Need for social responsibility:

1. The iron law of responsibility
2. To fulfil long term self-interest
3. To establish a better public image
4. To avoid government regulation and control
5. To avoid misuse of National Resources and Economic Power
6. To convert Resistances into Resources
7. To minimise Environmental damage.

#### Question 7

*State with reasons whether the following statement is correct or incorrect:*

*Corporate Social Responsibility is closely linked with the principles of sustainable development.*

#### Answer

Corporate Social Responsibility (CSR) is a concept that organizations, have an obligation to consider the interests of customers, employees, shareholders, communities and ecological considerations in all aspects of their operations. This obligation is seen to extend beyond their statutory obligation to comply with legislation. CSR is closely linked with the principles of

Sustainable Development, which argues that enterprises should make decisions based not only on financial factors such as profits or dividends, but also based on the immediate and long-term social and environmental consequences of their activities. It is an integrated combination of policies, programs, education, and practices that extend throughout a corporation's operations and into the communities in which they operate, about how companies voluntarily manage the business processes to produce an overall positive impact on society.

**Question 8**

*State the "Common Corporate Social responsibility" (CSR) policies for business organizations.*

**Answer**

Common Policies under CSR are as under:

- Commitment to diversity in hiring employees and barring discrimination;
- Adoption of internal controls reform in the wake of Enron and other accounting scandals;
- Management teams that view employees as assets rather than costs;
- High performance workplaces that integrate the views of line employees into decision-making processes;
- Adoption of operating policies that exceed compliance with social and environmental laws;
- Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling); and
- Taking responsibility for conditions under which goods are produced directly or by contract employees domestically or abroad.
- Management teams that view employees as assets rather than costs;
- High performance workplaces that integrate the views of line employees into decision-making processes;
- Adoption of operating policies that exceed compliance with social and environmental laws;
- Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling); and
- Taking responsibility for conditions under which goods are produced directly or by contract employees domestically or abroad.

**Question 9**

*Write a note on "Social Accountability-8000".*

**Answer**

**Social Accountability 8000:** SA 8000 is a comprehensive, global, verifiable performance standard for auditing and certifying compliance with corporate responsibility. The heart of the standard is the belief that all workplaces should be managed in such a manner that basic human rights are supported and that management is prepared to accept accountability for this. SA8000 is an international standard for improving working conditions. This standard is based

## 8.5 Business Laws, Ethics and Communication

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on the principles of the international human rights norms as described in International Labour Organization conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. The requirements of this standard apply regardless of geographic location, industry sector, or company size.

### Question 10

*Explain the role played by different committees in regulating the 'Corporate Governance'.*

### Answer

**Role of different committees in regulating corporate governance:** The core roles of the various committees in regulation of corporate governance are as follows:

1. **Board of Directors:** The Board's role is that of trusteeship to protect and enhance shareholders value through strategic supervision. The strategy should aim at accountability and fulfillment of goals.
2. **Audit Committee:** They have to provide assurance to Board on adequacy of internal control systems and financial disclosures.
3. **Compensation Committee:** The committee has to recommend to the Board compensation terms for executive Directors and the senior most level of management below the Executive Directors.
4. **Nomination Committee:** It is to recommend to the Board nominations for membership of the Corporate Management Committee and the Board, and oversee succession to the senior most level of management below the Executive Directors.
5. **Investor Services Committee:** It is to look into redressal of Shareholders' and Investors' grievances, approval of transmissions, sub-division of shares, issue of duplicate shares etc.
6. **Corporate Management Committee:** Its primary role is strategic management of company's businesses within Board's approved direction/framework.
7. **Divisional Management Committee:** It is to realize tactical and strategic objectives in accordance with Corporate Management Committee/Board approved plan.

### Question 11

*State the benefits of socially responsible corporate performance.*

### Answer

**Socially Responsible Corporate Performance:** The benefits arising out of socially responsible corporate performance include the following:

1. Enhanced brand image and reputation.
2. Reduced Government regulations and controls.
3. Helps to minimize ecological damage.

4. Improved financial performance.
5. Reduced operating costs.
6. Increased sales and customer loyalty.
7. Increased productivity and quality of work life.
8. Increased ability to attract and retain employees.
9. Achievement of certain other objectives like easier access to capital including international capital.

**Question 12**

*Explain how corporate social responsibility minimises the ecological damage and helps in achieving long-term objectives, so that the business may gain long-term profit maximization.*

**Answer**

**Corporate social responsibility and ecological damage:** The business institution exists and flourishes only because it performs invaluable services to society. Society gives business its license to exist which may be revoked and amended at any time if they do not fulfill the society's expectations. Therefore, if a business intends to retain its existing social role and power, it must serve society's needs constructively.

A business organization acts in its own self interest and uses natural resources also. The effluents of many businesses damage the surrounding environment. By their own socially responsible behaviour, they can prevent government intervention if they are proactive in recognizing their ecological responsibility towards society. Companies must recognize that a strategy for corporate responsibility can play a valuable role not only in meeting the challenges of globalization by mitigating risks domestically and internationally, but also in providing benefits beyond risk management.

**Question 13**

*Explain the meaning of the "Iron Law of Responsibility". State the resulting benefits which may be acquired by achieving the long-term objectives through the business activities.*

**Answer**

**The Iron Law of Responsibility:** The institution of business exists only because it performs invaluable services for society. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society's expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society's needs constructively. This is known as the "Iron Law of Responsibility". In the long-term those who do not use power in a manner that society considers responsible, will tend to lose it.

Businesses have been delegated economic power and have access to productive resources of a community. They are obliged to use these resources for the common good of society so that more wealth for its betterment may be generated. Technical and creative resources are also

## 8.7 Business Laws, Ethics and Communication

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helpful to it. A business organisation sensitive to community needs would in its own self interest like to have a better community within which the business may be conducted. This way, the resulting benefits would be:

- (a) Decrease in crime
- (b) Easier labour recruitment
- (c) Reduced employee absenteeism.
- (d) Easier access to international capital, better conditions for loans on international money markets.
- (e) Dependable and preferred as supplier, exporter, importer and retailer of responsibly manufactured components and products.

This way a better society would produce a better environment in which the business may gain long term profit maximization.

### Question 14

*State with reasons whether the following statements are correct or incorrect:*

*The phrase 'Iron Law of Responsibility' means that the institution of business exists only because it performs invaluable services towards its promoters.*

### Answer

**Incorrect:** The phrase "Iron Law of Responsibility" means the institution of business exists only because it performs invaluable services for society. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live upto society's expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society's needs constructively rather than it performs invaluable services towards its promoters.

### Question 15

*State with reasons whether the following statements are correct or incorrect:*

*"The institution of business exists only if it fulfils the society's expectations"*

### Answer

The given statement is Correct. It is the society which bestows upon businesses the authority to own and use land and natural resources. In return, society has the right to expect the productive organizations, enhancing the general interest of consumers, employees and community. Society may also expect that organizations to honour existing rights and limit their activities within the bounds of justice. So, under this 'social contract' between society and business, Business ethics provide the guidance as to regulation of the behavior of business enterprises and the minimal duties of the business professionals, including the consequences and complications of their actions. Thus, business ethics is that set of principles or reasons which should govern the conduct of business – whether at the individual or collective level by

the application of ethical reasoning to specific business situations and activities. Thus, it can be said that the institution of business exists only if it fulfills the society's expectations.

**Question 16**

*Explain briefly the key strategies which can be used at the time of implementation of Corporate Social Responsibility policies and practices in a company.*

**Answer**

Each company differs in how it implements Corporate Social Responsibility (CSR). The distinction depends on such factors as the company's size, sector, culture and the commitment of its leadership. Below are some key strategies that companies can use when implementing CSR policies and practices in a company.

- (i) Mission, Vision and Value Statements
- (ii) Cultural Values
- (iii) Management Structures
- (iv) Strategic Planning
- (v) General Accountability
- (vi) Employee Recognition and Rewards
- (vii) Communications, Education and Training
- (viii) CSR Reporting

**Question 17**

Examine the concept of Corporate Social Responsibility (CSR) and also explain in brief some of the key strategies which can be used by companies while implementing CSR policies and practices.

**Answer**

**CSR Concept-** Some companies have established committees that are specifically responsible for identifying and addressing social or environmental issues, or have broadened the scope of more traditional standing committees to include responsibility for CSR; while others have strategically appointed directors on the board based on the unique expertise and experience they bring on specific issues, who then serve as advisors to others on the board. Moreover, companies are finding that a board that is diverse in terms of gender, ethnicity and professional experience is better equipped to grapple with emerging and complex challenges.

Companies implement CSR by putting in place internal management systems that generally promote:

- i. Adherence to labour standards by them as well their business patterns;
- ii. Respect for human rights;
- iii. Protection of the local and global environment;

## 8.9 Business Laws, Ethics and Communication

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- iv. Reducing the negative impacts of operating in conflict zones;
- v. Avoiding bribery and corruption and;
- vi. Consumer protection.

**key strategies which can be used by companies while implementing CSR policies and practice-**Some of the key strategies which can be used by companies when implementing CSR policies and practices are as follows:

- (a) Mission, vision and values statements
- (b) Cultural values
- (c) Management structures
- (d) Strategic planning
- (e) General accountability
- (f) Employee recognition and rewards
- (g) Communication, education and training
- (h) CSR reporting

### Question 18

*State with reason whether the following statement is correct or incorrect:*

*Inclusion of environmental consideration as a part of corporate strategy improves corporate performance.*

Answer

***CORRECT: Inclusion of environmental consideration as a part of corporate strategy improves corporate performance is a correct statement.***

*Environmental consideration is a part of corporate strategy, which means incorporating environmental issues in the process of developing a product, in new investments and in the organizational set up. A good environmental practice improves corporate performance. In many industries it has been found that environmental friendly practices have resulted in more saving; for example the process of recycling the waste. Thus, environmental considerations play a key role in corporate strategy. Markets of new millennium will be able to create wealth if they respond to the challenges of sustainable development, as unsustainable products will become obsolete.*

### Question 19

*What is meant by 'Corporate Governance'? State the 'measures of Corporate Governance' with reference to Indian companies.*

Answer

***Meaning and Measures of Corporate Governance :***

*Meaning: "Corporate governance is about promoting corporate fairness, transparency and accountability. It is concerned with the structures and processes for decision-making, accountability, control and behavior at the top level of organizations. It influences how the objectives of an organization are set and achieved, how risk is monitored and assessed and how performance is optimized.*

*Measures: In general, corporate governance measures include appointing non-executive directors, placing constraints on management power and ownership concentration, as well as ensuring proper disclosure of financial information and executive compensation. Many companies have established ethical and/or social responsibility committees on their Boards to review strategic plans, assess progress and offer guidance on social responsibilities of their business. In addition to having committees and Boards, some companies have adopted guidelines governing their own policies around such issues like board diversity, independence, and compensation. Indian companies are also required to comply with Clause 49 of the listing agreement.*

### Exercise

1. Write short notes on:

- (i) Code of Conduct on Insider Trading
- (ii) (APEC) Business Code of Conduct

[Hints:

- (i) In pursuance of the Securities and Exchange Board of India ((Prohibition of Insider Trading) Regulations, 1992 (duly amended), the Board has approved the Code of Conduct for Prevention of Insider Trading. The objective of the Code is to prevent purchase and/or sale of shares of the Company by an Insider on the basis of unpublished price sensitive information.]
- (ii) APEC is known as the primary international organization for promoting open trade and economic cooperation among 21 member countries. The Code, issued as a draft in 1999, is a standard that draws significantly on a variety of other internationally recognized codes and standards. The drafting of the Code was initiated by business leaders from companies operating in APEC countries and is designed to supplement and support companies existing codes of conduct]

2. Explain the meaning of Corporate citizenship.

[Hints: The term corporate citizenship denotes the extent to which businesses meet the legal, ethical, economic and voluntary responsibilities placed on them by their stakeholders. Companies can best benefit their stakeholders by fulfilling their economic, legal, ethical, and discretionary responsibilities. The benefits of good corporate citizenship, include:

- ◆ A stable socio-political-legal environment for business as well as enhanced competitive advantage through better corporate reputation and brand image.
- ◆ improved employee recruitment, retention and motivation, improved stakeholder relations and a more secure environment in which to operate]