

## Corporate Social Responsibility: An Ensuing Revelation beyond Corporate Governance

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**Abstract-**The human society has been a rational effervescent of mankind. No more than ever, have we felt the desperate need to understand the basic filaments, which binds us all. Be it corporate or otherwise, a society is a repercussion and reflection of mankind's eclectic vision. The Earth is one big home for the whole mankind and it is our greatest obligation, to preserve the threads of humanity for keeping all of us together. Looking at the social aspects of corporates, the corporate social responsibility has come a long way. Even in the days of royal chartered companies, the fine line between the personal profits and the returns to the society at large was not completely absent. And despite all the alterations and adjustments of corporate laws around the globe, the ultimate accountability of board members of a company to its stakeholders is always cherished and underlined. This paper is a humble attempt to determine and analyse that, it is not only the shareholders or investors, who mandate a company's directors to be accountable and answerable to them, for the sheer objectives for which the company was created, but also to realise that eventually it is the society by and large which commands, governs and questions the motives and performances of a company.

**Keywords-**Corporate Social Responsibility (CSR), Corporate Governance, Corporatism, Stakeholders, Economy, Symbiosis, Performance Parameters

### I. Introduction

Beyond all aces of scientific researches and advancements, the human civilization has finally evolved into a complex structure despite its gregarious roots. Well! Let us not reach the conclusion first, it is the nascent awakening of yet another level of collective existence. From individual to the family, from sole-proprietorship to partnership and partnerships to corporate leagues, the men have been cumulatively rising in all its capacities and aspirations. The society in itself has been one of the greatest marvel of mankind for its own good. It works for the people, to the people and by the people.

Before we start digging in to the unchartered depths and dimensions of corporate social responsibility, let us first have a clarity on the rationale of corporate governance. And let us explore how the concept of corporate governance evolved over the period of time. Since the industrial evolution, the capitalism has nurtured the economies at global as well as state level. Nevertheless, each corporation had its self-seeking motives of its promoters and stakeholders.

Today, when in the times of globalization and scientific explosions, when the national boundaries have given ways to multi-national corporate cultures, many corporate societies and cultures have come into existence. The corporate society or corporatism means a kind of society in which various large-scale corporate organizations with powerful vested interests are involved in the economic, social and political decision-making process. Examples of groups of people acting jointly in their interest include business groups, the professions, trade unions, and pressure groups.

Generally, sociologists emphasize their attention on economic corporations, particularly large multinational corporations, which have mushroomed over during twentieth century, and on the degree to which they relish control over the economy or are themselves controlled by autonomous processes. Corporate society or corporatism refer to a type of society in which various large-scale corporate organizations with powerful vested interests are involved in the economic, social and

political decision-making process. Examples of groups of people acting jointly in their interest include business groups, the professions, trade unions, and pressure groups.

No one can admit otherwise that on one hand, corporate houses and corporations have substantial interest to manipulate the market forces and on the other hand they are restrained by the competitive factors, uncertainty and will of the state and market. Business groups are always reinforcing and weeding out each other.

## II. Roots and Evolution of Current Stature of Corporate Responsibility

Some might argue that corporate social responsibility is novel idea of post-industrial revolution era. However, one should look deeper into the history, so that one can realise that even in the days of royal chartered companies, the fine line between the personal profits and the returns to the society at large was not completely absent. And despite all the alterations and adjustments of corporate laws around the globe, the ultimate accountability of board members of a company to its stakeholders is always cherished and underlined.

In order to understand the deeper and ultimate purpose of corporate social responsibility, we can have a look on a few definitions of corporate governance.

“Corporate Governance is the system by which companies are directed and controlled...”

*Cadbury Report (UK), 1992*

“...to do with Power and Accountability: who exercises power, on behalf of whom, how the exercise of power is controlled.”

*Sir Adrian Cadbury, 1993*

“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders ..... also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”

### - *Preamble to the OECD Principles of Corporate Governance, 2004*

It was a debatable topic in nineteen seventies that corporations were the actual perpetrator scheming the state policies and decisions of not only the trade unions and associations but also the state. The influence of corporatism was self-evident in West Germany, the Scandinavian countries and to a lesser degree in Britain. The privilege of making and manipulating state policy were enjoyed by the corporate groups. Nevertheless, in reference to the trade unions, the new face off was whether corporatism was a form of working-class incorporation, or an expression of worker power. In the ground realities of nineteen eighties the impression of the corporatism faded mostly in Britain, especially when the trade unions were completely left out from the policy making process.

In the early nineties the corporate governance disputes were under hot waters, due to a rising trend of sacking of board of directors along with their chiefs, on the grounds of various compliance procedures of company laws and ethical issues.

In simple terms, Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit.

Now let us examine the co-relation and impacts of a business entity or corporation, on its environment, economy and the society. This can be well-understood by the diagram given in figure1.



Figure-1: 3-Tier impact of a business entity

One can make out very positively that any business entity or corporation, during the course of its sustainable development, continuously reacts with its environment for developing various products through efficient and effective use of energy, thereby mitigating its wastes and emissions.

During the same course, the corporation reinforces economy with value of the products it manufactures, through productive employment and in finally through ethical trading of the production, it generates wealth for the economy.

Now, irrespective of the environmental and economic impacts of a corporation, the ultimate impact falls on the society or the community, in which it actually works. Be it education & culture, community regeneration, equal employee opportunities and finally the human rights, a corporation is meticulously and irrevocably embedded in the threads of the society.

No matter, what are the fundamentals of corporate governance that the board and its members are responsible for making all the decisions for a company, but their ultimate accountability lies towards the society in which the corporation grows and prospers.

### **III. Corporate Social Responsibility: The symbiosis of environment, Economy and the society**

What just started as a mere compliance procedure, under various corporate laws in terms of corporate governance has now finally evolved into a full-fledged concern as the corporate social responsibility. The impact factors of corporate social responsibility are far-reaching and at times beyond the wildest imaginations of human mind. Nevertheless the initiative of corporate social responsibility should not be diluted just in the terms of paying back to the society through employability of the community members, contribution to the ex-chequer through taxes and duties or mere environmental consciousness.



Figure-2: Symbiotic Relationship of Environment, Economy & Community for Sustainable Development of a corporation

The relationship of a corporation with its environment, community and economy is not just a temporary and self-centred one, rather it's more or less symbiotic in essence. The real rationale of maintaining this relationship is not short term sustainability, but rather looking for a long and prosperous relationship and with development for each sector.

Now whether we have understood that corporate social responsibility has been the next ensuing

revelation in corporate governance or not, but we have to remember that it is not only for the sake of complying the corporate provisions and ethical norms, it is very much the only tool for the survival and sustainable development of all the elements viz. environment, economy and the community.

Through various legal provisions and educational efforts, corporate social responsibility is slowly but surely gaining bigger and deeper grounds around the globe. It has now become mandatory for all the corporates to allocate a certain percentage of their profits for the community and social

causes, which in turn will reinforce the survival and development of the corporates in the longer perspective.

We can take example of Indian economy, Section 135 of the Indian Companies Act has made it mandatory for Indian corporates to establish a CSR committee in case their profits touches or crosses Rs. Five crores or more in any financial year. And it shall be one of the primary duties of this CSR committee, to see that the company spends at least 2% of the average net profit on the activities and initiatives as recommended and perused by the CSR committee. It will also be the duty of this committee to define, measure and report the details of the spending to its stakeholders, through its representatives appointed by the board.

#### IV. A breakup view of CSR spending

Just taking IT industry as a sample, it was observed that over 50% of IT companies have formed their own foundation through which they carry out CSR activities and almost all companies are working on promoting education or vocational skills, according to a report released by industry group NASSCOM and Boston Consulting Group.

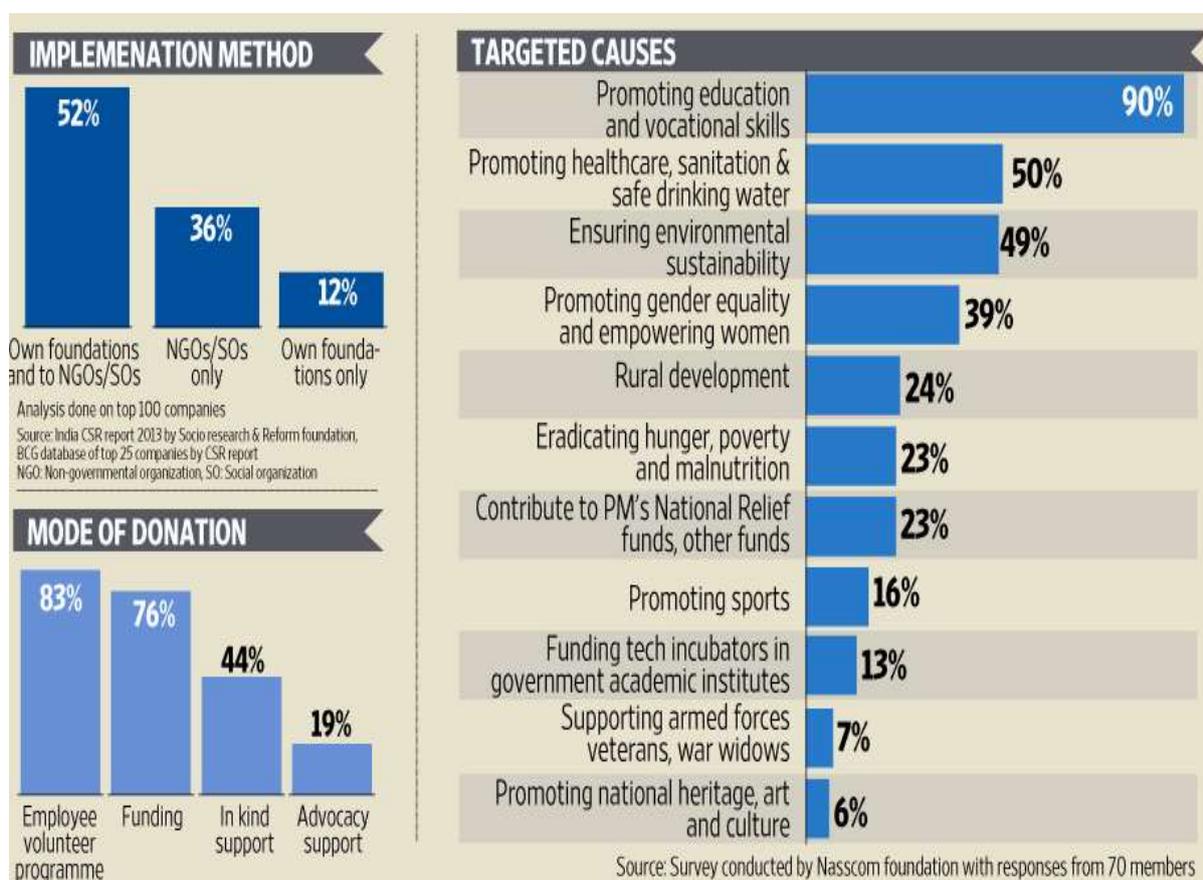


Figure-3: A glimpse of CSR spending (Source: www.livemint.com, February 16<sup>th</sup>, 2015)

One cannot undermine the rising face of CSR and its new horizons, which are now becoming more than a trend. The Nielsen Global Survey on CSR polled 30,000 consumers in around 60 countries, to seek out how willing and considerate the consumers were about the sustainable practices, when it comes to their purchase considerations. They also tried to find out the real rationale for their behaviour and also any specific trend or concern, in reference to CSR.

It came to light that approximately 50 to 55 % of the consumers around the globe were willing to pay more for the products and services which they were purchasing online, especially from a company which was determined to creating positive social and environmental impacts. And now, it is not any more a sheer performance parameter for justifying the corporate governance, the corporate social responsibility is now the ultimate tool, not only for the stakeholders, but also the conscious

customers, who are willing to go for an extra mile or even spend an extra penny for environmental and human friendly manufacturing and distribution efforts of corporates.

## **V. Conclusion**

UNESCO contends that education is still the most underprivileged area, which globally takes a back seat in the CSR initiatives. CSR is mostly concentrating on healthcare. It has been recommended by UNESCO to all the big business houses and the governments that at least 20% of the CSR funding be spent on education. The essence of this whole discussion lies not in its ends but the means and the roots through which the real objective of corporate governance be realised through corporate social responsibility. The whole challenge of sustainability depends on educating and bringing more and more people to the enlightenment that the eventual objective of every corporate is not their glittering profits and big empires, but rather spreading smiles and satisfaction in the hearts of not only their shareholders and employees, but also to the whole society to which they serve. This is the only path of salvation. As the real soul of corporate governance lies in the welfare of the people it serves, through the beautiful tool called corporate social responsibility.

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