

# Balancing Corporate Governance with Corporate Social Responsibility

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## Abstract

*Corporate Governance can be defined as a set of rules and regulations which are required for effective governance of any corporate organization. The effective and transparent corporate governance is becoming increasingly important now. As per the provisions of Companies Act, 2013, corporate are required to spend a stipulated amount of their profits on social activities as Corporate Social Responsibility (CSR).*

*In order to adapt to the prevailing business practices, a path driven by the ethical norms and sound accountability needs to be taken in the form of good Corporate Governance and CSR. It can be said that today, both Corporate Governance and CSR focus on ethical practices in business and the responsiveness of an organization to its stakeholders and the environment in which it operates.*

*This paper is an attempt to strike a balance between good corporate governance and CSR thereby having a tradeoff between social welfare and profit maximization. Further, the research does not take into account the CSR practices of private organizations and is limited to the public organizations only. This adds to the gap in research and hence a suitable scope for further research.*

**Key words**-CSR, Corporate Governance, Philanthropy, Accountability

## I. Introduction

Corporate governance is concerned with maximizing shareholder value by balancing the economic and social goals as well as between individual and collective goals. The corporate governance framework aims at encouraging the efficient use of resources and thereby enhancing the accountability for the stewardship of those resources.

The integration of social and economic goals along with the interests of the stakeholders is the main concepts of Corporate Social Responsibility (CSR). The concept of Triple Bottom Line Approach (an accounting framework with three parts- social, environmental and financial. Also known as TBL or 3BL) can be fulfilled by synchronizing CSR with Corporate Governance. In other words, Corporate Governance and CSR are the integration of the corporate world with the government and local masses for the overall economic and social development of the nation. Such type of integration will result in the growth of the GDP of India as well as creation of employment and investment opportunities among the common masses.

## II. Pathway To Good Corporate Governance

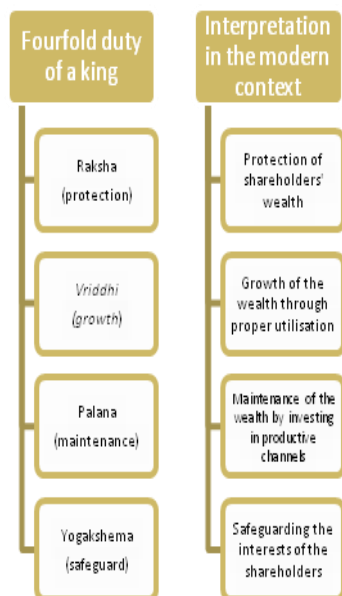
In order to achieve good corporate governance, we need to imbibe certain set of rules and regulations, which are followed by the firms to achieve its objectives. In the words of Mr N R Narayana Murthy, "Good corporate governance is about maximizing shareholder value on a sustainable basis while ensuring fairness to all stakeholders: customers, vendor partners, investors, employees, government and society."

Corporate Governance also involves the monitoring of the following basic principles periodically.

- Disciplined and ethical corporate behavior,
- Parity between accountability and responsibility,
- Transparency, effective and adequate disclosures, and
- Independent and considered judgment.

The existence of corporate governance dates back to centuries. The great Indian philosopher Chanakya has emphasized on the principles of good corporate governance in "Arthashastra". As per Chanakya, the king has four-fold duty towards his people. The four-fold duty

can be interpreted in the modern context in the following ways:



So, good corporate governance emphasizes on protecting and safeguarding the interests of the stakeholders. This can be achieved by maintaining transparency in the affairs of the firm and righteous attitude towards the stakeholders, employees, customers, investors etc.

At a conference titled Corporate Governance: New Dimensions of Board's Practices and Responsibilities organized by Indian Chamber of Commerce and National Foundation for Corporate Governance held in Kolkata on 23rd July 2016, V. S. Sundaresan, former Chief General Manager of SEBI said, "corporate governance must look to earn the trust of the people for the proper running of the business. These include corporate framework, consideration of all stakeholders, responsibilities of the board, disclosure and transparency, role of stakeholders in corporate governance, equitable treatment of stakeholders, rights of shareholders." Atanu Sen, Chairman of Indian Chamber of Commerce also believes that the evolution of code of conduct would lead to a better management. Anirban Datta, former Chairman of the Eastern Region of the Institute of Chartered Accountants of India, New Delhi spoke about the study involving number of companies and their commitment towards good governance, where he

emphasized that for a corporate governance there must be adequate and timely intervention in the functioning, equitable treatment, disclosure and transparency in the business.

Good corporate governance demands integration of corporate world with the government and the different sections of the society. The companies must safeguard the interests of the stakeholders thereby contributing to the sustainable economic development of society.

### III. Implication Of Corporate Social Responsibility (CSR) Towards Good Corporate Governance

With the evolution of Liberalization, Privatization and Globalization (LPG), the interdependencies in the global production and consumption have increased manifold. Consequently, the focus of the business enterprise should be towards inclusive growth that meets social needs and dovetails with corporate governance policies.

CSR is one of the initiative to fulfill the social requirements introduced in the business world. As per the former Union Minister for Corporate Affairs, Government of India, Dr. M. Veerappa Moily, CSR should not be instilled as charity but for bringing in inclusive growth and instilling solicitude in the society for the corporate world. He further highlighted that CSR is a responsible way of doing business, taking into consideration development concerns of the people in the area in which the business is located, running the affairs of the company in a manner consistent with business ethics, transparency, good governance and becoming accountable to both shareholders and the general public. Therefore, prudence demands that while drawing up plan for the business, the corporate include activities that add value to the society and the business.

### IV. Legal Requirement Of Csr

The CSR requirement is stated in Section 135 and Schedule VII of the Companies Act, 2013:

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“Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee”

As per Ministry of Corporate Affairs Notification dated 27th February 2014, Central Government has included, inter alia, following activities as CSR activities in Schedule VII of the Companies Act, 2013

- promotion of health care, education, sanitation, gender equality and rural development project,
- eradication of poverty,
- Safeguard of environment, ecological balance and national heritage, and
- contribution towards the various funds formed for the development of the people like Prime Minister National Relief Fund and technological incubators.

One of the ways to accomplish CSR is the Swachh Bharat Mission launched by India's incumbent Prime Minister, Shri Narendra Modi in New Delhi on 2nd October 2014 to fulfill the dreams of Mahatma Gandhi. To quote him, “A clean India would be the best tribute India could pay to Mahatma Gandhi on his 150th birth anniversary in 2019.”

A healthy workforce with clean society not only contributes to the profitability of the concern and but also the GDP of the nation as well. Nowadays, many companies have come forward to promote the social and economic development of citizens of the society to fulfill the objectives of Swachh Bharat Abhiyan as part of their CSR like SAIL, BHEL, ONGC, NTPC, Larsen & Toubro, Dabur, Unitech etc. They have allocated huge funds in the areas of cleanliness and sanitation of the society.

### Some Insights of PSU's Contribution towards CSR

1. Distribution Camps of Aids & Assistive Devices organized by ALIMCO – A PSU of the Department.

Snapshot of CSR Business Done by ALIMCO for past three Financial Years.

Camps Conducted Under CSR Initiative of Various Central Public-Sector Undertakings during 2013-14

Sl.No.	CPSUs	No of Camps	Value in Lakhs(Rs)
1.	ONGC	100	3362.20
2.	REC	15	251.51
3.	HUDCO	03	82.06
4.	IRFC	01	66.45
5.	MIDHANI	01	16.65
6.	HPCL	01	2.10
7.	NRL	02	39.67
8.	IFFCO	03	5.28
9.	BEML	01	1.45
10.	BEL	02	67.18
11.	NPCIL	01	2.63
12.	NTPC	01	2.78
13.	HAL	01	5.10
14	SPM	01	15.15
<b>Total</b>		<b>133</b>	<b>3920.18</b>

### MoU Signed Under CSR Initiative of Various CPSUs during 2014-15

Sl. No	CPSU	Value in Crore (Rs.)	No. of Beneficiaries	No. of Camps
1.	NPCIL	5.88	camps under progress	14
2.	BOI	0.25	267	01
3.	IDBI	1.00	845	05
4.	CONCOR	1.05	Camps under progress	03
5.	PGCIL	1.98	1082 (05 camps)	08
6.	BEML	0.05	61	01
7.	IIFCL	0.30	Camps under progress	02
8.	NIACL	0.63	688	01
9.	Canara Bank	0.30	288	01
10.	RITES	0.25	302	01
11.	IRFC	1.50	Camps under progress	03
	<b>Total</b>	<b>13.19</b>	<b>3533</b>	<b>40</b>

Source-<http://www.disabilityaffairs.gov.in/content/page/csr-projects.php>

Since PSUs will be spending a large amount as part of their CSR, the Ministry of Power also demanded activity of CSR to be verified suitably and services of chartered accountants be utilized for the purpose on Pro Bono basis.

According to Prime Database, Indian companies spent Rs 9,309 cr on CSR projects in 2015-16, which was Rs 163 cr more than the amount required by law, and Rs 703cr more than the previous year. The requirement of funds in the accomplishment of such mission would be colossal hence,

the services of a professional accountant becomes even more relevant to maintain accountability and transparency. Few reasons given by companies for not being able to spend 2 per cent towards CSR include scaling up of activities, multi-year and long-term projects, difficulty in the identification of appropriate partners, exploring new opportunities and areas of intervention, and delay in planned spends.

However, the horizon of CSR is beyond sponsorships, charity or philanthropy as it is a strategic business management concept. For the successful implementation and accomplishment of CSR and to provide guidance on certain accounting issues related to the expenditure on CSR activities, the Institute of Chartered Accountants of India (ICAI) on 15th May 2015 issued a guidance note on accounting for expenditure on the CSR activities. It provides guidance on the recognition, measurement, presentation and disclosure of expenditure on activities relating to CSR activities.

The reported expenditure on CSR projects cannot be said to be always a good measure of societal welfare. It is not clear whether firms have really increased their CSR spending after the law compared to what they were spending voluntarily before the law, because there is no clear evidence of CSR spending. There are some studies, which prove that CSR spending leads to brand building enhanced goodwill, harmonious public relations and employee engagement. In that case, firms would have carried out these activities with or without the law.

The revised guidelines of the Department of Public Enterprises (DPE) on Corporate Social Responsibility (CSR) and Sustainability for Central Public-Sector Enterprises (CPSEs) emphasize on the allocation of budget for CSR and Sustainability activities or projects. The budget so allocated needs to be spent within a year. It further promulgates the treatment of the unutilized amount of the above-mentioned budget. As per Para 1.5.3 of the revised DPE guidelines, the unutilized amount of the budget can be carried forward for only two consecutive

financial years and to be utilized for the purpose of CSR and sustainable activities only. After the lapse of two years, the unutilized amount is transferred to 'Sustainability Fund'.

The efforts of the company in the area of CSR are communicated to the stakeholders through CSR reports which is commonly known as corporate citizenship, social and sustainability reports. To ensure transparency and good governance CSR reports serves as an effective tool for both existing and potential investors. With the ever-increasing change in the complex business world, the traditional reporting system gradually needed a new reporting system with new sets of law and regulations, accounting standard, code of ethics and different listing requirements of stock exchange. Several endeavors have been made to initialize the changes in the reporting system like the convergence of International Financial Reporting System (IFRS) together with US Generally Accepted Accounting Principles (US GAAP). International Integrated Reporting Council has evolved International Integrated Reporting Framework to suit the needs of the reporting system of the current world. Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization creates value, now and in the future. ([www.integratedreporting.org](http://www.integratedreporting.org)). Most of the companies follow Global Reporting Initiative (GRI) G4 guidelines for drafting CSR Reports.

Since reporting of financial as well as the performance in the area of Environmental, Social and Governance (ESG) has become an integral part of the corporate governance, the corporate are issuing several types of reports. A New York based G & A Institute reported that there has been an increase in reporting among companies in the S&P 500 Index and the Fortune 500 from the prior year's especially S&P 500 which increased from 19% to 53%. These reports help the company both externally and internally. Internally the information collected in the formation of reports can

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influence the companies to find more innovative means of production thereby reducing wastes and exploring different areas of growth. Externally it helps the companies to sustain competition from their peer groups as well as gain confidence from the employees and investors. Thus, there is a need for efficient reporting system, which reflects the social as well as economic goals of the organization in question.

### V. Conclusion

With the growth in the international trade, corporate governance should be backed by the concept of corporate social responsibility to achieve success globally. CSR-based policies serve as the corner stone for good corporate governance. CSR integrated with Corporate Governance, leads to the economic growth and development, thereby creating a great challenge and opportunity for the professionals.

Thus, it can be concluded that Corporate Governance is an umbrella term, which fuses CSR into the company's corporate governance practices. We can interpret the relationship between Corporate Governance and CSR by embracing the view of a firm as a stakeholder value maximize rather than taking the standard view of the firm as a shareholder value maximize. To adapt to the prevailing business practices, a path driven by the ethical norms and sound accountability needs to be taken in the form of good Corporate Governance and CSR. Finally, it can be said that today, both Corporate Governance and CSR must focus on ethical practices in business and the responsiveness of an organization to its stakeholders and the environment in which it operates.

### VI. Limitations of the Study

No research can be said be devoid of any limitations. This research also has limitations of time, cost and physical constraints. Further, the research does not take into account the CSR practices of private organizations and is limited to the public organizations only. This adds to the gap in research and hence a suitable scope for further research.

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