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A LITERATURE REVIEW ON CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

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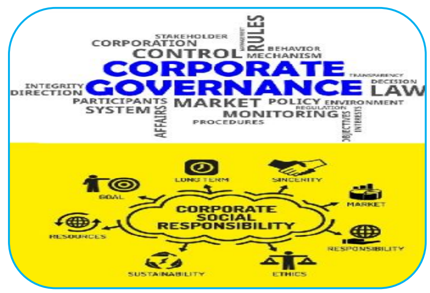
ABSTRACT:

Corporations are traditionally considered profit-maximizing entities based on tenets of capitalism and free market philosophies. Until the moment these connections based on capitalism went unquestioned. However, the monumental scandals and the setbacks have brought these policies to attention. The attention has been redirected to issues like good governance, ethics, trust, accountability, and social responsibilities. This paper at hand studies the various issues and the synergies between them. Good corporate governance provides the foundations of good CSR by creating value-creating relationships with all the stakeholders. The linkage established between CSR and CG seems particularly relevant for corporations that due to globalization face complex challenges resulting in high demand for being transparent and responsible.



KEYWORDS: *corporate governance; corporate social responsibility; ethics; transparency.*

INTRODUCTION:

Post the new economic policy, the entire world has become a platform for businesses to conduct trade & commerce, contributing to the growth of world economies. This has caused a setback for a lot of businesses (ENRON, WORLDCOM, SATYAM, and many more) with many going bankrupt because of inadequate monitoring of the different stakeholders involved in the business. This led to the requirement of increased transparency and accountability of the businesses (Mallin,2010) to be ensured by the shareholders and stakeholders to enable their businesses to grow and exist in the future. Thereby, necessitating the implementation of a code of conduct to ensure the balance of stakeholders' needs in the business through a mechanism of checks and balances. There have been attempts to strengthen Corporate Governance by concentrating not just on the mechanisms and systems in the organization regarding boards, managers, and auditors but on ethical aspects as well like whistleblowers, insider trading, and several other provisions.

This has broadened the notion to include some traditional aspects like corporate social responsibility (CSR). Corporate Governance and Corporate Social Responsibility have gained a lot of importance in the world for the last few years emphasizing the business needs of not only maximizing the shareholder's wealth but also considering the need of other stakeholders involved like the consumers, suppliers, etc., for their businesses to prosper.

CORPORATE GOVERNANCE:

Corporate Governance can be defined as a system enabling control over firms through a mechanism of checks and balances. It aims to ensure transparency in the organization's functioning by fixing its responsibility and accountability. Various authors view CG differently; hence, the exact definition of CG is still debated. It can be defined as "the system by which companies are directed and controlled" (Cadbury,2000), "the notions of compliance, accountability, and transparency" (MacMillan, Money, Downing and Hillenbrad, 2004), "procedures and processes according to which an organization is directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholders, and other stakeholders – and lays down the rules and procedures for decision-making."(OECD). The research on CG still continues as it requires that the laws, regulations, and rules be refined regularly to safeguard the shareholder's rights; reconciliation of the interests of the various stakeholders and the managers working in the organization, and maintain transparency in the firm. Thereby leading to value creation and growth in the organization (Page, 2005).

A literature review by different authors has portrayed different views of Corporate Governance. (Saravanamuthu, 2004), has presented a narrow view of CG defining it as a system of law and accounting and giving socio-environmental considerations a low priority. Whereas (MacMillan et al., 2004) have portrayed a broader view of CG, concentrating on the organization's responsibility not just to its own shareholders but also to different stakeholders involved in the functioning of the organization. Another wider view of CG is portrayed by Ethical Investment Research Services, "Corporate governance defines a set of relationships between a company's management, its board, its shareholders and its stakeholders. It is the process by which directors and auditors manage their responsibilities towards shareholders and wider company stakeholders." (Maier, 2005, p5).

CORPORATE SOCIAL RESPONSIBILITY:

Since the advent of globalization and the opening of borders of the nation worldwide for trade, increased business complexities have necessitated the need for transparency. With this, CSR has gained a lot of attention worldwide (Jamali,2006). As a result of the complexities faced by the corporations, it was understood that being socially responsible had the potential to be a safe trail to stabilize the challenges and opportunities (Carroll,2015). CSR has assumed a greater role for businesses in society despite of government assuming sole responsibility for the welfare of society (Jamali,2006). This can be attributed to the increasing needs of the societies which have surpassed the government's competencies to fulfill them. CSR has been defined differently by different authors. The most commonly agreed argument has been that it encompasses voluntary attention to the business's social, environmental, and ethical implications (Carroll, 1999; Whetten et al., 2002).

CSR can be defined as "the commitment of business to contribute to sustainable economic development, working with employees, their families, and the local communities (WBCSD, 2001)." Different theories have been given by different authors. "Pyramid of Corporate Social Responsibility" given by (Caroll,1991) identifies the need to balance the organization's commitments to the shareholders with their obligations to all the stakeholders. The four responsibilities as identified by (Caroll,1991) in the Pyramid of CSR are as follows:

1. The economic responsibilities of the firm: foundation for the other levels of the pyramid
2. The legal responsibilities of the firm: law-abiding duties of the firm
3. The ethical responsibilities of the firm: responsibilities shaping the firm's behavior
4. The philanthropic responsibilities of the firm: the firm's contribution to society's quality of life.

Another such contribution came from (Burke and Logsdon,1996) who were among the first to evaluate the benefits of the strategic implementation of CSR by finding evidence linking CSR to the firm's positive financial performance. It was stated that CSR can be used to aim at supporting business activities and henceforth result in a company's effectiveness in achieving its goals. (Burke and Logsdon,1996) have given five dimensions to achieve the business objectives which are:

1. Centrality: representing CSR's closeness to the company's mission.
2. Specificity: representing the company's ability to gain benefits.
3. Proactivity: representing the tendencies to anticipate social trends and create policies.
4. Voluntarism: representing discretion in decision-making.
5. Visibility: representing apparent CSR for all the stakeholders.

Implementation of CSR through the five dimensions will help the firm in value creation that can be measured and recognized (Burke and Logsdon,1996).

Many scholars have given two dimensions of CSR; internal and external. Companies accord priority to the internal stakeholders on an internal level. It addresses issues like workplace safety, equal opportunities, health & safety of the employees, human rights, equity considerations, etc. (Jones, Comfort and Hillier,2005). The external level focused on the companies assuming their responsibility towards society & its citizens (Deakin and Hobbs, 2007). Due diligence must be accorded by the companies to the economic and social stakeholders and the natural environment (Munilla and Miles, 2005). It addresses issues like companies' product offerings or processes having an impact on the environment and society at large.

The identification of the two dimensions leads to the need to address these two dimensions. Addressing the dimensions may lead to challenges like adjustments to the changes and readiness to consider the multiple bottom lines (Elkington, 2006). This requires good communication of CSR objectives (Hancock, 2005), new standards, control, and performance metrics (Lantos, 2001), and the successful integration of CSR into the culture of the organization (Jamali, 2006).

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY:

Links between CG & CSR as established from the above literature are as follows:

BROADER VIEW OF CG:

Ensuring Responsibility towards all the stakeholders. (Dunlop, 1998; Kendall, 1999)

EXTERNAL DIMENSION OF CSR:

Corporations consist of various stakeholder relationships and have an obligation or responsibility to these different stakeholders (Freeman, 1984)

NARROWER VIEW OF CG:

Ensuring accountability, transparency, and compliance (Keasy and Wright, 1997; MacMillan et al., 2004)

INTERNAL DIMENSION OF CSR:

According due responsibility to internal stakeholders and addressing issues relating to skills and education, workplace safety, working conditions, human rights, equity/equal opportunity, and labor rights (Grosser and Moon, 2005; Jones et al., 2005)

The above pictorial representation shows that there is a clear overlap between the two initiatives, i.e. CG and CSR. Both CG and CSR are considered to confer benefits that are long-lasting and lead to value creation in business. CG ensures good governance in terms of ensuring accountability, transparency, and compliance along with the reconciliation of the interest of owners, managers, and all other stakeholders. At the same time, while fulfilling CSR, corporations focus on strengthening the relationships with the core stakeholders (Aguilera, Rupp and Ganapathi, 2007). Ensuring both initiatives result in positive outcomes for businesses. The linkage between the two considers business as responsible vis-à-vis complex relationships of stakeholders that sustain and add value to the firm (Freeman, 1984; Post, Preston and Sachs, 2002; Jamali, 2008).

CORPORATE GOVERNANCE AND ETHICS

According to (Potocan and Mulej,2009), ethics is "an integral sentimental part of human characteristics and the subjective portion of the starting points of any human behavior process encompassing business." Ethics define right or wrong and act as guidelines for human behavior. Ethics in business became a necessity when the corporate scandals started uncovering to help guide businesses to take decisions.

Business ethics is about conducting business ethically which means pursuing the business objectives while satisfying ethical constraints. Business ethics deals with the link between business goals and approaches to specifically human ends (Tran,2008). Ethics in business form the social responsibilities of a person and citizen to the business world of which he is part. Ethical obligations ensure that corporations always act on high ethical standards so that the goodwill of the corporation is protected while protecting the rights of all the shareholders. The realist approach to business ethics defines business ethics as "business is ethical when it maximizes long-term owner value while respecting distributive justice and ordinary decency." This approach helps to understand how good ethics is good business meaning ethical conduct improves business performance.

SHAREHOLDERS' AND STAKEHOLDER'S VIEWS OF CORPORATE GOVERNANCE:

While rooting CG in its foundation businesses follow two models namely, the shareholder model (which prioritizes the return on investment for investors) and the stakeholder model (all the direct and indirect stakeholders like employees, customers, competitors, government, and the external community have a stake in the company). The shareholder theory focuses on maximizing short-term returns for its investors. Whereas the stakeholder theory focuses on the effect of corporate activity on all the identifiable stakeholders of the corporation. This theory necessitates the need for corporate managers to take into consideration the interest of each stakeholder in the governance process. Key to the stakeholder theory is recognizing that all the stakeholders engage in the organization's function directly or indirectly. Thus, in order to address the modern issues of the CG and ensure good corporate governance the companies make sure to adopt the stakeholder model of governance and root it deep into its CG foundation.

CONCLUSION:

In researching the synergies of the relationships between various issues the conclusion that can be safely drawn is that CG and CSR coexist and should not be considered and sustained independently. CG-CSR both result in positive outcomes for the businesses and one cannot effectively be implemented without the implementation of the other initiative. CG cannot be effective without CSR as the company has to respond to the needs of all its stakeholders in order to be a profitable venture. Similarly, CSR interventions risk taken for public relations without attempts being made to root CSR in the foundation of CG. The paper provides an insight into the meaningful linkages between various issues and how their synergies lead to the effective carrying of business activities but it suffers from the limitation that this is not universal and the relationship between them is dynamic and hence keeps on changing. The study makes an important contribution to studying the literature and constitutes a significant advancement in learning the relationships between the initiatives.

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