
CORPORATE SOCIAL RESPONSIBILITY AS A TOOL FOR IMPLEMENTING CORPORATE GOVERNANCE

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ABSTRACT

This research paper aims to focus on corporate social responsibility and its impact on effective corporate governance. Through this research paper we'll come across different types of social responsibilities in the corporate sector and various the advances and demerits of social responsibility in corporate world as well as scrutinize the relationship between CSR and governance in the corporate domains like firms, companies and partnerships for the smooth functioning of these institutions. We can realize that companies have blended to behave in a socially responsible way and it has become crucial for effective working of the corporations. This paper also focuses on the various conditions in an companies due to the implementation of CSR and major incorporation brought in the company. When a company abides by the statutory norms required, avoids delays or any evasion in paying taxes, avoids any kind of corruption, avoids unfair trade practices, and follows ethical standards, the company stays away from any kind of litigation and getting more business achievements.

This research paper also seeks to bring into light the realities of bureaucracy and how in theories social behaviour can be efficient but fails to improvise when it comes to the practicality. The economic conditions and level of competitions plays a vital role in determining the probability with which companies perform in a socially responsible manner. Statistically, major large scale companies and corporations fail to abide with the conduct of effective social responsibility due to the shift in institutional terrain. Essentially the paper cover the necessity for the firms and companies to implement corporate social responsibility to meet the ends in this era of globalization.

Keywords: globalization, social, institutions, responsibility, corporate, governance, companies, economic, business, trade .

INTRODUCTION

Social obligation is an ethical commitment of an organization for making conclusions and lead to a favourable society. In the corporate world, social obligation is essentially known as Corporate Social Responsibility. In a corporate organization, social obligation most likely demonstrates the value of assumptions of the general public and accordingly upholds these values to accomplish the set assumptions. These values also have their own set of advantages and disadvantages in implementing Corporate Social Responsibility in the corporate world. Having set a handful of values leads to a discrete corporate social responsibilities which is widely known as the following ;

1. Profitable Responsibility

Under this type of corporate social responsibility, each and every company are engaged in social and profitable liabilities. Thus, the fundamental point of each business ought to be financial obligation. They ought to distribute items and administration which can fulfill the need of the general public.

2. Legal Responsibility

Here, the political and lawful climate of the nation ought to be agreed by the organization and guarding the terrain is the major responsibility of the company.

3. Ethical Responsibility

When it comes to ethical responsibility, company behaviour and conduct is important for this responsibility. Law doesn't document this behaviour but implication is strictly adhered to.

4. Discretionary Responsibility

The major responsibilities here include elements which make willful strides in the event of normal catastrophes, helping destitute individuals and so forth. Mostly Charitable donation, education conditioning are done to help them. Altruistic assets into speculative exercises are also forestalled.

I. Advantages of Corporate Social Responsibility

A company can enhance its morale value by keeping its workers involved in colorful social and noble causes. Multifarious factors are responsible for positive effect on business structure simultaneously extending social liabilities. These variations can be stated as the following :

- i. Validation of originality and growth of the firm

- ii. Long Lasting interest of the company
- iii. Negates all the unofficial laws that can cause issues in the firm
- iv. Conservation of society
- v. Vacuity of coffers with business
- vi. Vast diversions of issues that opens new doors for the firm
- vii. Create and authentic work culture for the firm
- viii. Builds the business more concerning towards society and its issues

II. Detriments of Corporate Social Responsibility

With the likeliness of vast merits on the plate, social responsibility in the corporate world also serves many demerits. These demerits are highlighted in the following :

- i. It hinders the objective of expansion of the firm
- ii. Often companies and purchasers face troubles
- iii. Mostly likely the companies face absence of interactive qualities
- iv. As a result there is also absence of wide open help

LITERATURE REVIEW

Why Would Corporations Behave in Socially Responsible Ways? An Institutional Theory of Corporate Social Responsibility¹

- By John L. Campbell

In this article the writer begins with discussing about the institutional conditions under which companies and large scale corporations work in a socially responsible manner. The writer elaborates on the various effects of corporate financial performance and the stakeholder theory. The paper tends to define the shift of socially responsible corporate behaviour and thereafter discuss on the rhetorical aspect of socially responsible corporate functions and its significant actions. It is of dire importance to be careful about the use of CSR as it may mean different things in different places.

The writer further emphasizes on the conditions under which firms act in a socially responsible way. The conditions are broadly categorized on economic conditions and institutional conditions.

¹ 32 John L Campbell *Why Would Corporations Behave in Socially Responsible Ways? An Institutional Theory of Corporate Social Responsibility*, Published by academy of Management, 956-967 (Academy of Management 2007).

The pressure of globalization, stakeholder activism, political decision making. Finally, the writer analyzes the most viable ways to for the firms to get work in socially responsible ways is for convincing the managers about whats in the best interest of the firm and what is a right and ethical approach of functioning of the firm.

Corporate Social Responsibility And Firm Financial Performance ²

- By Jean B. McGuire, Alison Sundgren and Thomas Schneeweis

The writer researches on the relationship between corporate and social responsibility basing it on a theoretical framework. The emphasis is laid on the important constituencies like investors and government officials and how high corporate social responsibility improves firm's access to sources of capital.

The writer also elaborates his research on the corporate stakeholder theory which states that the value of a firm is dependant on the both implicit and explicit claims. It becomes important for the firm to make necessary stringent regulations and strict adherence to it.

The paper also elucidates on the inter relation between CSR and the risk in finance that is laid upon due to the riskier investments as a result of low social responsibility. Lack of responsibility can also end up making firm cost higher and decrease the firm's ability to get capital at consistent rates. As a result, much more socially responsible firm can reduces it chances o getting debts and financial costs ensuring a low percentage of total debt on total asset.

The paper also goes about discussing the various methods to make analyze their accuracy of research on a firms social responsibility. The methods are likely from data, measures of financial performance, periods of analysis, co-relational analysis and concurrent performance, pre- and post-survey analysis and regression analysis.

The writer finally concludes that it is beneficial to research and observe the pattern on the influences of prior firm performances rather than focusing on implicating the inter-dependence between social responsibility in the corporate framework for the functioning of the firm. The inclusion of new measures of social responsibility will help in reducing the mono-measure bias in the research.

² Thomas Schneeweis, Alison Sundgren, Jean B. McGuire *Corporate Soical Responsibility and Firm Financial Performance* 854-872 (Academy of Management).

RESEARCH OBJECTIVE

The primary goal of this research paper is to broaden the ideas on the implementation of Corporate Social Responsibility. CSR in corporate governance has gained considerable amount of validation since large-scale corporations strive to incorporate social values and environmental considerations into their operations. Furthermore, their contact with stakeholders is optional. Every firm is obligated to implement the Corporate Social Responsibility policy. It publishes an annual report that details all of the corporation's activities. This research paper broadly analyzes as to why and how CSR is important in the modern day globalization and how community development plays an essential role in corporate framework. With the advent of market competition it becomes vital to identify the areas that require improvement and to undertake efforts to bring about such improvements and CSR has proven to be an important asset for the growth of the companies. The research focuses on how governance of the company is directly proportional to the Social responsibility. The Key aspects of this paper centralizes on the relations between CSR and corporate Governance, the impact of CSR in the companies, the legislative enactments in the practical world and the significance of this theory of the CSR in the Corporate Framework.

RESEARCH QUESTION

This research paper analyses the impact of Corporate social responsibility when used as a method for implementation in the various domains of corporate world in order to enable smooth governance in the corporate sector. The paper broadly focuses realities of corporate governance and firms and companies have incorporated corporate social responsibility. These are discussed in this paper in the forms of three main questions which and thereby explanation as we subsequently explore through the paper.

- I.** What is the reliance between Corporate Social Responsibility and corporate governance emerging corporate and commercial sector?
- II.** Whether using Corporate Social Responsibility as a boon for the emerging corporate sector or whether it can create dilemma between the investors and shareholders of company?
- III.** How does Corporate social responsible lays its reliance on corporate sustainability and business ethics in the corporate framework?

SCOPE AND LIMITATION

Corporate Social Responsibility is a widely emerging topic in the companies and firms. It is something which was considered to be philanthropy earlier but now has been developed as a business strategy. Prior to the Companies Act, 2013 it was not mandatory for companies to do social works but now the statute itself mandates it. This has led both for the benefit of society as well as the company itself. This paper is to critically analyze the effect of CSR on Corporate Governance of a company so that it can be used as a tool for upgrading the governance mechanism which would ultimately benefit the stakeholders of a firm. Effective Corporate governance can be achieved by various mean. However, the study focuses on using CSR as a tool and implementing effective CG. The study covers various pros and cons of CSR and its effect on various stakeholders as well. Some cases have also been analyzed to further enhance the credibility of the topic. The paper tries to show the effect of CSR by relating to terms such as Business ethics, corporate sustainability, corporate responsibility. The main purpose of the case laws is to show the practical scenario of implementing CSR in companies.

IMPACT OF CSR ON CORPORATE GOVERNANCE

From the previous discussions in the research paper it is justified the word ‘Social’ in Corporate Social Responsibility covers a wide area and have vast implications. Further in this paper broadly focuses on the relationship between social responsibility in the corporate structure with respect to corporate governance and how CSR has an impact on it.

I. Relation between Corporate Social Responsibility and Corporate Governance

Corporate Social Responsibility as the name itself suggests is the responsibility of a body corporate towards the society. It is an approach by the companies towards the betterment of the society. The companies try to integrate social and environmental tasks in their business operations in order to help the society and build a brand image of the company. The most important part of CSR is that it builds a strong connection between the company and the society.

On the other hand, Corporate Governance is a kind of control of the company by various means. The main objective of corporate governance is to build trust for the shareholders and investors and maximize their profit. However, in doing so, the company needs to check that the stakeholder’s interests are in par. The four main pillars of corporate governance are fairness, accountability, transparency and responsibility.

CSR and Corporate Governance are interrelated as both deals with management of a company with the aim of building the company's image and elevating its growth. From a broader perspective, it can be said that CSR is embedded in Corporate governance. If we take Corporate Governance as the Genus, then CSR can be one of its species. For example, building stakeholder relationship is an essential part of CSR and accountability to stakeholders is one of the pillars of Corporate governance. So CSR can be used as a mechanism in developing a healthy corporate governance. In this way they are related to each other.

II. Positive impacts of corporate social responsibility in Corporate Governance

As the governance of the company focuses on the increasing of the profits of the company and maximizing shareholders interest, CSR keeps the interest of all stakeholders like employees, customers, society, etc. CSR builds profits for the company in different ways.

CSR activities like providing education to poor, avoiding unethical practices, helping the weaker sections of society in their development, involving in the improvement of cultural life of society, etc. all these activities result in many positive impact on the company. It helps in building a good brand image in the society as people start trusting the corporate and gain confidence towards it. All these activities make the company unique or different from other companies which lets the company become more competitive than others. As the customers start having a trust in such company so they prefer to have the product of that company over others. These factors help in increase of sales leading to increase in profits of the company.

CSR activities like conserving electricity by using renewable resources of electricity like Solar Panels and decreasing the wastage of electricity helps in saving huge amount energy and the capital spent on electricity. Further this makes the company stand apart from other companies. Further when a company acts fairly by taking care of the interest of its employees like giving the fair wages, providing adequate services benefits, providing education opportunities or training, promoting them, including them in some of the decision making of the company, etc. helps in boosting up the confidence of employees which leads to more growth of the company and also develops good and healthy relationship with the stakeholders.

Following CSR activities, when the company abides by the statutory norms required, avoids delays or any evasion in paying taxes, avoids any kind of corruption, avoids unfair trade practices, and follows ethical standards, the company stays away from any kind of litigation and getting more business achievements.

Initiatives like waste management by making eco-friendly products, reducing the industrial emission by using alternatives, by recycling waste products, etc. also helps in reducing waste expenses and hence increasing profits.

III. Shortfalls of Corporate Social Responsibilities in Corporate Governance

Apart from all the above mentioned benefits from CSR activities, there also exists some shortfalls or some negative impacts on the company. One of the major shortfall in CSR activities is that it leads to large agency costs. This is even criticized by many research scholars stating that sometimes the management uses the shareholder's capital for their own benefit. There may arise conflicts between the interest of investors or shareholders and the management as their money is used by the organization.

Further an organization when gets into CSR activities, the focus sometimes shifts from its own business objectives as it starts receiving attention from public for its social activities which may lead to the company's downfall.

When a company is engaged CSR activities such as propagating to use eco-friendly products to help in saving the environment and if the same company does make some product which is hazardous to health, then it gets a lot of criticism. So when a company engages in such activities publicly, it needs more scrutiny or else it can damage its image more than it can build.

The cost of incorporating CSR in a company's business activities may lead to increase in the cost of its production which leads to increase in cost of the products which may affect the sales as people tend to buy things which are cheaper.

Further there are also chances that the funds allocated for CSR activities may be misused by the managers for their personal benefits.

SIGNIFICANCE OF CSR

Corporate social responsibility signifies its broad values in the field of corporate world.

A commercial enterprise's desire to set up a logo identity and carve out a recognition with its clients is one in all Corporate social responsibility's major drivers. Most organizations have set up a project statement or declared commitments to sure desires or causes. However, as

clients have come to be greater adept at scrutinizing a enterprise's practices and operations, it is come to be essential for agencies to actively work to meet their venture.

For instance, Hobby Lobby was installed via deeply religious founders whose family has reaffirmed their enterprise's dedication to their religious ideals thru donations to ministries and supplying oblique donations to church buildings. In doing so, the corporation has set up a strong identification that has introduced it both backlash and reward from clients and non-clients alike.

The overwhelming benefit of establishing such an identification is that it can help a commercial enterprise resonate greater strongly with its center purchaser demographic. Moreover, it provides a clean and absolute direction to steady CSR efforts, as a commercial enterprise must work to reaffirm its commitment to its undertaking.

I. CSR and Corporate Sustainability

The report 'The Business Case for Sustainable Development' released by *the World Business Council for Sustainable Development* during preparations for the 2002 World Summit on Sustainable Development in Johannesburg defines sustainable development as a method of satisfying social needs of the present without affecting or degrading the needs of the future generation.

In the *World Commission on Environment and Development Report*, the concept of corporate sustainability was first introduced. This development elucidated the fulfillment of societal needs by adding socio-economic and environmental value in the operation and services of the company.

II. CSR and Business Ethics

The integration of CSR and business ethics emphasize the constraints in the working of the businesses that are not guided by law but by corporate ethics. . For example, when the employees are treated ethically and theirs works are morally valued it creates a balance hence creating a structure of works which also reflects when the employees ethically deal with their customers as well without any discrimination or arbitration. It is an example of implementation of CSR without its integration with the business ethics of the company. Business ethics provides a solid foundation for the business to operate.

Business ethics means equal, fair and honest treatment to all the stakeholders besides shareholders. The CSR program in Enron was a problem to be solved through rational analysis like any other business process such as marketing, sales or finance. An organization has to inculcate ethics in its culture for actual CSR implementation because CSR on paper and not in spirit is of no use. The example in this context would be collapse of the Enron, a US company.

III. CSR and Corporate Responsibility

The *World Business Council for Sustainable Development* gives the division of CR into: corporate financial responsibility, corporate environment responsibility and corporate social responsibility. It is witnessed that there is a noticeable shift from CSR to Corporate responsibility as it incorporates wider aspects of governance and code of ethics. The key motive in this shift is that the leaders find it convenient to negate the word 'Social' from the concept thereby drawing less focus on the behavioral aspects of the business i. e. being philanthropic or focusing too much towards societal needs.

LEGISLATIVE ANALYSIS OF CSR IN SOCIETY

In the case of *Technicolor India (P.) Ltd. vs. Registrar Of Companies*,³ the petitioner was a company which came under the ambit of section 135 for following the CSR criteria and was bound to make a CSR Committee with requisite number of members. However, the petitioner company failed to have the requisite number of members in the CSR Committee and further in the Board's report mentioned to co-opt two more members to the committee and the amount spent for CSR activities as mentioned by the audited finance was below the requisite criteria under section 135 of the companies act, 2013 for which the company had stated its reason. Further, the company's board report with regards to the amount spent for CSR was quite different from the actual amount as per the audited financials. So the company requested the NCLT to amend the boards report with its prior approval and the bench after hearing the required authorities like Income Tax Department, ROC found that the fault was genuine and allowed the petitioner to amend the report and rectify the error.

*Pan Asia Logistics India Private Limited*⁴, is a case where the company failed to compose the CSR policy and even did not comply with any of the provisions of Section 135 of Companies Act for two financial years i. e. 2014-15, 2015-16. The NCLT bench of Chennai ordered the

³ *Technicolor India (P.) Ltd. vs. Registrar Of Companies*, (2020) 7 TMI 423(India).

⁴ *Pan Asia Logistics India Private Limited*, (2018) 80 C. A CB

two directors and the Company itself to pay RS 1, 00, 000 each as a penalty for the non-compliance of the provisions.

In the case of *Charan Singh Meena vs UOI*⁵, it was held that although the respondent company have mentioned about the CSR expenditures in its report but it only remained in pen and paper and there was no actual expenditures by the company. The petitioner applied to the court to give direction to the government in order to ensure the strict compliance of CSR policies and not just merely on paper.

Growing consumer awareness, as is customary, has resulted in corporations embracing CSR practices. An estimated 90% of companies have incorporates CSR since 2011. Customers are motivated to buy from companies that are dedicated to making the world a better place and investors believe initiatives to improve the environment and society affect their investment decisions. Almost 90% of CEOs believe that a strong sense of collective purpose inside their company is what fosters employee satisfaction. It is believed and have been highly proven that CSR has an influence on the organization's ability to adapt and increase consumer loyalty.

CONCLUSION

Social Responsibility theory in the corporate framework or as we know the CSR theory is a major concept in the world of ethical conduct of business that is primarily based on the very famous stakeholder theory, which implies that it is a responsibility among firms to pursue social and environmental goals in addition to maximize the profits, and among a firm's stakeholders it is important in order to hold the firm accountable for its actions. Good governance is characterized by openness, involvement, transparency, effectiveness, accountability, and coherence. Tourism destination, organization, and SME management necessitates the application of sound governance practices at all administrative levels. The concept of socially responsibility in the corporate framework has been infamous worldwide mention and has successfully added an innovative meaning in the global economy .

Due to the advent of Globalization there has been a rise in the interest of the companies in incorporating social responsibility and ethics in their company in order to stand out in the market and smooth functioning of the company. Due to increase in complex business methods and new demand for enhanced transparency and corporate citizenship, CSR has become the

⁵ Charan Singh Meena vs UOI, (2017) WP no. 877

one of the most reliable implementation in the corporate sector. As seen by the statistics in the research paper, corporate social responsibility is a critical idea for businesses to understand. Customers are increasingly scrutinizing a firm's CSR efforts before making a purchase, investors before allocating funds, employers before selecting a company to work for, and executives before finishing their business strategy. Previous researches have shown the accuracy that CSR in Corporate governance has led to both customers and workers value the purpose of the company and actively seek firms that attempt to make a difference.