A REVIEW OF CORPORATE SOCIAL RESPONSIBILITY AND BUSINESS ETHICS IN CORPORATE STRATEGY

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ABSTRACT

In the present scenario corporate responsibility is a key feature of the business and society covering areas of business ethics, corporate social performance, global corporate citizenship, and stakeholder management. Corporate Social Responsibility (CSR) mainly focuses on corporate governance as a medium for incorporating social and environmental concerns into the business decision-making process which benefited not only financial investors but also employees, consumers and communities. This paper is an attempt to present a review of the theoretical literature focusing on different conceptual models of Corporate Social Responsibility and Business Ethics in old and modern business environment. The effects of globalization and its impact on the transition from the industrial to the globalized scenario are explored. Three basic concepts of corporate responsibility, corporate governance, and business ethics emerge as being complementary. The issues that represent a company’s CSR focus vary by business, by size, by sector and even by geographic region. CSR activities go beyond charity and require that a responsible company take into full account of the impact on all stakeholders and on the environment when making decisions. This requires them to balance the needs of all stakeholders with their need to make a profit and reward their shareholders adequately.

KEYWORDS

INTRODUCTION

Recently academic research has developed a new area involving business and society. The business world is also increasingly paying attention to the concepts of corporate governance, corporate social responsibility (CSR), stakeholder management, and business ethics. According to Sir Adrian Cadbury “Corporate Governance is the system by which companies are directed and controlled to do with Power and Accountability: who exercises power, on behalf of whom, how the exercise of power is controlled.” The primary purpose of corporate leadership is to create wealth legally and ethically. Thus organization puts emphasis on providing a high level of satisfaction to five constituencies - customers, employees, investors, vendors and the society-at-large. The ethical climate of Indian organizations is improving. A variety of terms are used sometimes interchangeably to have a discussion about corporate social responsibility (CSR): business ethics, corporate citizenship and corporate accountability. In its simplest terms it is: “what you do, how you do it, and when and what you say. Social responsibility and ethics are blended together and applied in various discipline of management such as HR, Finance, IT etc.

Kotler and Levy, in their book defines Corporate Social Responsibility as “a commitment to improve community well-being through discretionary business practices and contributions of corporate resources”. Business ethics and corporate governance have become topics of worldwide importance in present scenario.

These have become top concerns at international business community and financial institutions. In recent years we have news in media filled with shocking stories of corporate misconduct and wrong doing by individual business people. It is difficult to imagine areas of study that have greater importance to business, managerial leaders and society at large. Business ethics now occupies a center stage in management education in India and is a topic of public concern. Monks and Minow have defined corporate governance as “Relationships among various participants in determining the direction and performance of a corporation”.

Standard and Poor has defined corporate governance as “the way a company is organized and managed to ensure that all financial stakeholders( shareholder and creditors) receive their fair share of a company’s earning and assets. Another operational definition of Corporate Governance as presented by Institute of Company Secretaries of India as “It is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders. Corporate governance and economic development are interrelated. Effective corporate governance systems promote the development of strong financial systems irrespective of whether they are largely bank-based or market-based which in turn have an unmistakably positive effect on economic growth and poverty reduction.
In India SEBI (Security Exchange Board of India) has taken up the task of building the regulatory norms for the smooth functioning of the companies. In 1996 Confederation of Indian Industry (CII) took the first initiative on corporate governance by developing a code for the Indian companies. This was followed by Securities and Exchange Board of India (SEBI) appointing a committee under the chairmanship of Kumaramangalam Birla to study the corporate governance measures to be implemented. The Kumar Mangalam Birla Committee constituted by SEBI has observed that “Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. Based on the report of the committee, Clause 49 was introduced as part of the Listing Agreement for the companies listed on the Indian stock exchange. Many steps have been initiated by Government of India towards Corporate Governance through comprehensive corporate governance laws and regulations but its implementation part is still to be seen taking shape. The Ministry of Corporate Affairs had appointed a Naresh Chandra Committee on Corporate Audit and Governance in 2002 in order to examine various corporate governance issues. It made recommendations in two key aspects of corporate governance: financial and non-financial disclosures: and independent auditing and board oversight of management. It is making all efforts to bring transparency in the structure of corporate governance through the enactment of Companies Act and its amendments.

N. R. Narayana Murthy Committee on Corporate Governance constituted by SEBI has observed that “Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.”

Literature Review

The modern day uproar over corporate governance problems of insider trading, excessive executive compensation, managerial expropriation of shareholders' wealth, false reporting, non-disclosure of certain accounting and governance malpractices and self-dealing among others, are assumed to be related to the theory of separation of ownership and control. Cadbury (1992) defined corporate governance as a system by which companies are directed and controlled. One of the most classic definition, it talks about a system (not concentrating on individual), direction (board) and control (by shareholder) of business. Zingales (1998) defines corporate governance as a complex set of constraints that shape the ex post bargaining over the quasi-rents generated by a firm. Hussey (1999) defines corporate governance as the manner in which organizations are managed and the nature of accountability of the managers to the owners. From these definitions, it may be stated that different systems of corporate governance will embody what are considered to be
legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies.

Giving a very comprehensive definition on corporate governance, OECD (1999) defined it as ‘a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Through these relationships it provides a structure for setting the objectives of the company, the means for attaining them and monitoring performance. Theoretical interest in corporate governance in India is a recent phenomenon. It is a result of a spate of corporate scandals that shook the country during the early liberalization era (Goswami, 2000). Moreover, with increasing foreign investment in Indian industries, accountability to foreign shareholders had become an increasing necessity. With the institutional investors emulating the practices of their counterparts from developed economies, better governance practices had to be adopted for such organizations to sustain themselves in the economy for longer periods.

Objective

This research work is an attempt to review Corporate Social Responsibility and Business Ethics in Corporate Strategy of different business organizations.

Literature Review

The demands of financial liberalization, it appears, have helped in imparting greater control to the banks in their operations. Responsibility has now been totally fixed upon them for any likely loan losses (D’Souza, 2000). This has led to banks now extending external finance in lieu of some control rights, apart from their regular pecuniary priorities. Bushman and Smith (2001) refer to the dual role of financial accounting systems. Financial accounting system provides direct inputs to corporate control mechanisms as well as it allows indirect inputs into corporate control mechanisms through its contribution to the information contained in stock prices. According to Mallin (2002), information provided to shareholders is one of the basic aspects of corporate governance. The term Corporate Social Responsibility (CSR) includes environmental, social, and human rights-based impacts and initiatives of companies (Ward and Fox, 2002) and many countries in both industrialized and the third world take the concept and practices seriously (Hopkins 2003). Gupta et al. (2003), in their study, have analyzed the corporate governance reports of 30 companies listed on Bombay Stock Exchange (BSE) for the years 2001-02 and 2002-03. Their research found that reporting practices of the companies vary to a large extent. In some cases, mandatory requirements as per Clause 49 have not been adhered to. However, Subramanian (2006), in his study involving 90 companies from BSE 100, concluded that public/private sector companies do not differ in financial transparency and information disclosure. CSR is playing an increasingly significant role in companies’ narratives and practices, particularly in the case of mining (Hamann and Kapelus, 2004). Corporate Governance basically lays down the structure and incentives for
the board and management to pursue certain objectives, in the best interests of the company and its shareholders and thereby facilitates effective monitoring of the company’s operations (Rao, 2006).

Discussion

The corporate governance movements in India picked up momentum after debacle of big companies such as Enron, world com and BCCI Bank. Enron, the Houston, Texas based energy giant, and WorldCom, the telecom behemoth, shocked the business world with both the scale and age of their unethical and illegal operations. Those were times when the confidence of the financial community, shareholders and investor took a beating the world over. It was around that time that foreign financial institutions started investing money in Indian companies, which also triggered the need for greater accountability. In terms of corporate laws and financial system, therefore, India emerged far better endowed than most other colonies. The 1956 Companies Act as well as other laws governing the functioning of joint-stock companies and protecting the investors’ rights built on this foundation. Today, fund managers view firms such as Tata Motors, ITC, Ranbaxy, Infosys and Hero Honda Motors as having higher governing standards. Luckily many companies are exhibiting good governance standards. They are setting up schools, health centers, agro-based industries and improving the quality of rural life. BHEL is actively involved in the Welfare of the surrounding. BHEL is also providing drinking water facilities, construction of roads and culverts, provision of health facilities, educational facilities; and so on companies like ONGCs are encouraging sports by placing good players on their pay rolls. TISCO, TELCO and HINDALCO won the award for excelling in CSR, jointly given by FICCI and Business world for the 2003. The “Shakti” programme, which aims at empowering rural women through critically needed additional income by equipping and training them to become an extended arm of company’s operation. On the other hand Godrej Industries views CSR initiatives as philanthropy started by their founders and continues even today. Even its competitor P&G has a different view regarding CSR. P&G believes in building the community in which it lives and operates by supporting the ongoing development of the community. Social projects are based on its motto “Business with a Purpose”. IT companies like TCS and Wipro have come out with software to help teachers and children in schools across India to improve the standard of education. The adult literacy software has made substantial impact on reduction in illiteracy in remote communities.

ONGC has also committed resources by adopting a few villages to implement President Dr. Abdul Kalam’s idea of PURA (Provision of Urban Amenities in Rural Areas). NTPC has established a trust to work for the cause of the physically challenged people. Similarly in the private sectors like Infosys, Wipro and Reliance are believed to be most socially responsible corporations. According to Narayanmurthy, “At the end, respect comes to people who do desirable things and who can be trusted. When you make a statement, people should say, we believe. It is no surprise that Narayanmurthy holds
J.R.D Tata in great esteem as an icon. The first name that comes to any Indian on the subject of CSR is that of the Tata Group. There has been a long history of CSR in India and the Tatas have been the role models on this path. Explains the chairman of the Tata Group, Mr. Ratan Tata “We do not do it for propaganda. We do not do it for publicity. We do it for the satisfaction of having really achieved something worthwhile.” The Tata Business Excellence Model integrates social responsibility into the framework of corporate management wherein social responsibility is encapsulated as Key Business Process. In fact all social service departments in Tata companies have annual programmes and budgets… and all this is aligned to the MD’s Balanced Score Card.

Corporate Social Responsibility programmes at the Tata group of companies extend across a wide spectrum including rural development, community development and social welfare, family initiatives, tribal development and water management. About 7000 villages around Jamshedpur and Orissa benefit from development programmes run by the Tata Steel Rural Development Society (TSRDS). Programmes of TSRDS cover issues like education, irrigation, afforestation, adult literacy, vocational training, handicrafts and rehabilitation of the handicapped persons. The Community Development and Social Welfare Department (CDSW) at Tata steel carries out medical and health programmes, blood donation drives, mass screening of Tuberculosis patients immunization camps and drug de-addiction. In 1999, Tata Steel embarked on an AIDS awareness programme, which has now become an integral part of all training programmes. Routine activities like immunization programmes, sterilization operations and mother and child health care programmes are conducted through 9 family welfare centres, 9 child clinics and 6 community-based clinics. The foundational argument of corporate governance as seen by both academic as well as other independent researchers can be traced back to the pioneering work of Berle and Means (1932) who observed, as early as the 1930s, that the modern corporations having acquired a very large size can create the possibility of the separation of control over a firm from its direct ownership. Erstwhile promoters who largely controlled and managed their organizations increasingly needed specialized skills. Professionals with the required skill-sets were to be hired. Berle and Means’ observation of the departure of the owners from the actual control of the corporations led to a renewed emphasis on the behavioral dimension of the theory of the firm.

The Economic Times did a survey of Indian corporate governance and published its finding in its issue dated August 19, 2005. The criteria used by the Economic Times Survey to identify the winners are:

- Accounting quality
- Value creation focus
- Fair policies and actions
- Communication
- Effective governing board
- Reliability

When terrorists attacked Mumbai November 2008, the media called it
“India’s 9/11.” That tragedy has been succeeded by another that has been dubbed “India’s Enron.” Is one of the biggest frauds in India’s corporate history, B. Ramalinga Raju, founder and CEO of Satyam Computers, India’s fourth-largest IT services firm, announced on Jan. 7 that his company had been falsifying its accounts for years, overstating revenues and inflating profits by $1 billion. Ironically, Satyam means “truth” in Sanskrit, but Raju’s admission — accompanied by his resignation — shows the company had been feeding investors, shareholders, clients and employees a steady diet of asatya (or untruth), at least regarding its financial performance. What has shocked analysts is that the money, that is now supposed to be fictitious, had been recorded in Satyam’s balance sheets and books of account that had been audited by the internationally reputed firm of auditors, PriceWaterhouse Coopers. Raju, who is politically influential, disclosed details of the fraud in a resignation letter to the company’s board of directors forwarded to stock exchange authorities as well as the regulator of the country’s capital markets, the Securities and Exchange Board of India (SEBI). The Satyam scandal stunned the Indian business community and shook the confidence of foreign investors in Indian corporate governance. Naturally, questions have since been raised about investing in a country where corporate governance standards have apparently not kept pace with a rapid rise in economic power. This is unfortunate because the scandal occurred against a backdrop of steadily improving governance practices in India. However, to be sure, further reforms are still needed in certain critical areas.

Corporate managers see positive fallouts to the Satyam episode. “After what happened there is bound to better self-regulation among Indian IT companies,” said Puneet Kumar, a top manager at WIPRO, a globally respected, Bangalore-based IT company. “Satyam was an aberration,” Puneet Kumar said. “The fact is that the IT industry thrives on good reputation and every major in the business lays great emphasis on maintaining global standards of corporate governance.” Large shareholders tend to be active in Corporate Governance either through their representatives on company boards/through their active participation in annual general body meetings. This has been demonstrated by Reliance Industries Ltd., which has the highest number of equity shareholders spread across the country.

Concluding Remarks

The Indian Economy has consciously shifted from a controlled one to a market driven one. In the process, several developments have unfolded. Indian corporates need to assimilate these developments in order to survive and flourish in presence of tough competition. They can try to reach their goals with success if they pursue the right means. Good governance is the means to that end. As we go to the future, corporate governance will become more relevant and a more acceptable practice. Seeds are already sown towards honest but practices. More and more progressive companies are drawing and enforcing codes of conduct, are accepting tougher
accounting standards and are following more stringent disclosure norms than are mandated by law. These tendencies would be further strengthened by a variety of forces that are acting today and would become stronger in years to come. Globalization has opened up new avenues for domestic players but with different challenges. Foreign Institutional Investors too demand greater professionalism in corporate activities. As Indian companies compete globally for access to capital markets, many are finding that the ability to benchmark against world-class organizations is essential. For a long time, India was a managed, protected economy with the corporate sector operating in an insular fashion. But as restrictions have eased, Indian corporations are emerging on the world stage and discovering that the old ways of doing business are no longer sufficient in such a fast-paced global environment. For the new generation of corporate leaders, optimization of profits is the key, rather than the maximization of profit. Hence, there is a shift from accountability to shareholders to social responsibility to customers and other stakeholders.

In today’s competitive global marketing, ethics play a vital role, because we are dealing with human values and beliefs. Business spreads beyond boundaries. The marketer has to deal with cross country culture. Many MNC’S like Mc Donald and Nestle had faced lot of problems because of neglecting ethical issues in their marketing practices. They have incurred billions of dollars in monetary values and above all losing thousands of valuable hybrid customers due to the adaptation of unethical advertising & promotional strategies. According to experts, marketing is viewed as human conduct and is subject to academic analysis and public scrutiny. Ethics is the study of the moral principles that guide the conduct.

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