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GLOBAL PERSPECTIVES OF CORPORATE SOCIAL RESPONSIBILITY

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ABSTRACT

We live in an age in which companies equivalent in wealth to countries call the shots and control much of the earth's resources. Because corporates intervene in so many areas of social life, they must be responsible towards society and the environment. In India as in the rest of the world there is a growing realisation that capital markets and corporations are, after all, created by society and must therefore serve it, not merely profit from it. And that consumers and citizens‟ campaign can make all the difference. In the age of globalisation, corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. One of the key characteristics of globalisation is the spread of the market and the change in the mode of production. Recently however the term has come to the forefront of public attention and this is probably because of the problems of governance which have been revealed at both a national level and in the economic sphere at the level of the corporation. One core value of doing business is obviously the economic one, that is, business is expected to be profitable and to make money for the owners, shareholders, and investors. However, business is further expected to achieve this economic value in conformity with the value of legality, but also, since the law may be non-existent, deficient, or not enforced, with the value of morality. That is, business must act in a profitable, legal, and moral manner. Today, moreover, business must deal with another value – the expectation that business, as it grows and especially once it attains a certain size, wealth, and prominence, be "socially responsible."

KEYWORDS
corporate social responsibility, values, ethics, morality, philanthropy, globalisation, philosophical.

1. INTRODUCTION

The issue of corporate social responsibility (CSR) has been debated since the 1950s. Latest analyses by Secchi (2007) and Lee (2008) reported that the definition of CSR has been changing in meaning and practice. The classical view of CSR was narrowly limited to philanthropy and then shifted to the emphasis on business-society relations particularly referring to the contribution that a corporation or firm provided for solving social problems. In the early twentieth century, social performance was tied up with market performance. The pioneer of this view, Oliver Sheldon (1923, cited in Bichta, 2003), however, encouraged management to take the initiative in raising both ethical standards and justice in society through the ethic of economizing. By doing so, business creates wealth in society and provides better standards of living. The present-day CSR (also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity) is a concept whereby business organizations consider the interest of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders as well as their environment. This obligation shows that the organizations have to comply with legislation and voluntarily take initiatives to improve the well-being of their employees and their families as well as for the local community and society at large. CSR simply refers to strategies corporations or firms conduct their business in a way that is ethical and society friendly. CSR can involve a range of activities such as working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involving in activities for environmental conservation and sustainability. In recent years the business strategy field has experienced the renaissance of corporate social responsibility (CSR) as a major topic of interest. The concept has not surfaced for the first time. CSR had already known considerable interest in the 1960s and 70s, spawning a broad range of scholarly contributions (Cheit, 1964; Heald, 1970; Ackermann & Bauer, 1976; Carroll, 1979), and a veritable industry of social auditors and consultants. CSR resurfaced forcefully over the past ten years in response to mounting public concern about globalization. Firms find themselves held responsible for human rights abuses by their suppliers in developing countries; interest groups demand corporate governance to be transparent and accountable. There are three emerging perspectives that inform corporate social responsibility: 1. One, a business perspective that recognises the importance of **'reputation capital'** for capturing and sustaining markets. Seen thus, corporate social responsibility is basically a new business strategy to reduce investment risks and maximise profits by taking all the key stake-holders into confidence. The proponents of this perspective often include corporate social responsibility in their advertising and social marketing initiatives. 2. The second is an **eco-social perspective**. The proponents of this perspective are the new generation of corporations and the new-economy entrepreneurs who created a tremendous amount of wealth in a relatively short span of time. They recognise the fact that social and environmental stability and sustainability are two important prerequisites for the sustainability of the market in the long run. They also recognise the fact that increasing poverty can lead to social and political instability. Such socio-political instability can, in turn, be detrimental to business, which operates from a variety of socio-political and cultural backgrounds.

Seen from the eco-social perspective, corporate social responsibility is both a value and a strategy to ensuring the sustainability of business. It is a value because it stresses the fact that business and markets are essentially aimed at the well-being of society. It is a strategy because it helps to reduce social tensions and facilitate markets. For the new generation of corporate leaders, **optimisation of profits** is the key, rather than the **maximisation of profit**. Hence there is a shift from accountability to shareholders to accountability to stakeholders (including employees, consumers and affected communities). There is a growing realisation that long-term business success can only be achieved by companies that recognise that the economy is an "open subsystem of the earth's ecosystem, which is finite, non-growing and materially closed". 3. There is a third and growing perspective that shapes the new principles and practice of corporate social responsibility. This is a **rights-based perspective** on corporate responsibility. This perspective stresses that consumers, employees, affected communities and shareholders have a right to know about corporations and their business. Corporations are private initiatives, true, but increasingly they are becoming public institutions whose survival depends on the consumers who buy their products and shareholders who invest in their stocks. This perspective stresses **accountability, transparency and social and environmental investment** as the key aspects of corporate social responsibility. **Corporate Governance & Social Responsibility: The Typology** Though the concept of corporate social responsibility has only recently been formulated, there is a long history in both the East and West of a commitment to social philanthropy, in the belief that the creation of wealth is primarily geared for social good. This aspect of **ethical business** in modern times can be traced back to 19th-century philanthropists like Robert Owen and the various Quaker-owned businesses. The Quakers "ran successful businesses, made money because they offered honest products and treated their people honestly, gave honest value for money, put back more than they took and told no lies." (Anita Roddick, *KLM Herald* magazine, August 1999) Traditional corporate philosophy is only one of the three broad areas in which business companies can, and should, discharge their social responsibility. These three areas are: 1. Traditional corporate philanthropy 2. Corporate social responsibility, with a focus on sustainable development and attending to stakeholder priorities 3. Ethical business

Traditional corporate philanthropy dates back to the 19th century and emerged out of a variety of factors, such as: 1. Concern for the welfare of the immediate members of the corporate body: the staff and employees, and their families. 2. Innovative contributions by visionary business leaders in quest of personal satisfaction, who built up philanthropic institutions out of their individual shares, 3. The desire to establish a strategic relationship with the State or society led some corporate bodies to invest in the establishment of institutions that fulfil the specific requirements of the community, 4. The establishment of trusts and foundations for tax benefits, which also support socially beneficial activities. **Corporate social responsibility** is qualitatively different from the traditional concept of corporate philanthropy. It acknowledges the debt that the corporation owes to the community within which it operates, as a stakeholder in corporate activity. It also defines the business corporation's partnership with social action groups in providing financial and other resources to support development plans, especially among disadvantaged communities. The emerging perspective on corporate social responsibility focuses on responsibility towards stakeholders (shareholders, employees, management, consumers and community) rather than on maximisation of profit for shareholders. There is also more stress on long-term sustainability of business and environment and the distribution of well-being. There is an increasing recognition of the triple-bottomline: **People, Planet and Profit**. The triple-bottomline stresses the following: 1. The stakeholders in a business are not just the company's shareholders 2. Sustainable development and economic sustainability 3. Corporate profits to be analysed in conjunction with social prosperity. In the traditional paradigm, most corporate bodies viewed CSR as the extension of a financial input for a humanitarian cause. However, the contemporary context is more complex: "A company that undertakes activities aimed at communities (be they philanthropic, social investment or commercial initiatives) but does not comply with business basics cannot be termed socially responsible." (Harish Srivastava and Shankar Venkateswaran, *The Business of Social Responsibility*, Books for Change, Bangalore; 2000)

2. RESEARCH OBJECTIVES

The *research paper addresses* the philosophical as well as practical approach to explaining and illustrating the concept of social responsibility in a modern-day global business environment. The four specific research objectives among them:

1. The roles played by business education in the development of key CSR skills,
2. The impact of customer perception on loyalty basing on CSR,
3. How corporate social responsibility is capable of enhancing corporate reputation and
4. Some of the main strategic decisions which are faced by countries like India, Philippines, Thailand, Indonesia, Europe etc in their strive to improve or enhance their performance of CSR.

3. LITERATURE REVIEW

Roles played by business educations towards the development of radical or key CSR: According to CEEMAN, an International management development association, social competencies are building for students in *various business schools* all over the world. These business schools offer relevant educational concepts with an aim of building the trainees‟ or students social competences. This is done through covering the principal methods and approaches which are used in enhancing the trainees‟ social, corporate responsibility levels in the course of their professional training as future business managers or leaders. Through the exploration of various issues, which are related, to **academic activities of business** organizations and through the teaching of various socially significant business disciplines, this ensures that these students who will become business leaders or managers are not only equipped with knowledge on improving their managerial culture but also enhances their understanding on the crucial role played by CSR in business enterprises.

Goldeye (2011, p. 1) concludes that the social aspect is one of the leading professional competence of any business manager or leader since it is through it that a leader‟s activities can be assessed through the effectiveness of such a *leader's interaction with staff*, owners, the state and business partners.

According to Crespo, H, et al (2005, p.1), customer loyalty and valuation of various business services is profoundly influenced by Corporate Social Responsibility. It was ascertained that Corporate Social Responsibility had a lot of influence on the customers‟ behavior. This was done through the identification of the *various dimensions of social responsibility* from the point of view of consumers and the weight of each of the dimension in the global construct of social responsibility. It is not, however, easy for consumers or customers to memorize and acquire information regarding a company‟s social responsibility.

Luo, X and Bhattacharya, C (2006, p. 1-10) argued that it was ascertained that for instance, in the mobile telephone services sector, their existed an extraordinarily strong relationship between the consumers or the clients who consumed the services and the firm due to the inseparability, intangibility, perishability and heterogeneity compared to other tangible products and, therefore,

the user, not only approaches the purchase in a different manner but also establishes a stronger and direct cordial relationship with the service providers. It was from this study that it was confirmed that the multidimensional nature of CSR had an immense influence on the perception of users or customers. There was, therefore, a direct existence of relation between the perception of customers and in service valuation and social responsibility.

According to the article by the **Harvard Law School** on Financial Regulation and Corporate governance, it was ascertained that activities, which were related, to Corporate Social Responsibility had a greater potential in the creation of various forms of value which were distinct to the customers. It was through the perception of customers towards this value that can mediate the relationship between a company‟s CSR activities and its subsequent performance in finance. It is also through this article that it can be established that CSR increases a business firms‟ profitability due to increased loyalty of the clients, lower risks in reputation during crisis and willingness of paying the premium prices (Chandler, 2010, p.48-50).

The adoption of Corporate Social Responsibility by business organizations is beneficial because it leads to improved financial performance by the company, increased customer loyalty and sales, reduced regulatory oversight, workforce diversity, decreased liability, access to capital and product safety, more ability in attraction and retention of employees by the company, lower operational costs, greater quality and productivity and enhanced brand reputation and brand image among others (Joyner and Pyane,2002, p. 297-311).

Various business enterprises have been faced with an uphill task in making decisions of whether they should adopt and implement the use of Corporate Social Responsibility in their enterprise. However, majority of the business firms have fully supported the adoption and use of Corporate Social Responsibility because of the various benefits that arise as a result of its application. Business firms who have failed to adopt and apply the use of CSR within their midst have attributed this failure to lack of funds toes enable the use of various strategies and poor management or leadership styles of the business managers or leaders.

4. RESEARCH METHODOLOGY

Research methods refer to particular strategies, which are used, by researches in the collection of evidence that is vital for building and eventual testing of the theories. There exist various research methods that can be used by the researcher in the collection of data and information regarding Corporate Social Responsibility. For instance, we have got experiments which are commonly **used in exploratory research**. The use of experiments as a method of data collection is expensive also time consuming and therefore it cannot be effectively be as method of data collection in Corporate Social Responsibility. In order to find the empirical relationship that exists between the various parameters in a research, the use of observation as a research method is deemed to be appropriate though it is also expensive and time consuming. The use of existing data can also be used as a method of data collection though its accuracy will depend on the experience of the researcher using it. In order to achieve the various *objectives of this research paper*, secondary data has been verified, collected from journals, articles and web by applying descriptive research method.

4.1 THE CONCEPT OF GLOBAL CORPORATE RESPONSIBILITY

All systems of governance are concerned primarily with managing the governing of associations and therefore with political authority, institutions, and, ultimately, control. Governance in this particular sense denotes formal political institutions that aim to coordinate and control interdependent social relations and that have the ability to enforce decisions. Increasingly however, Global Perspectives on CSR in a globalised world, is the concept of governance being used to describe the regulation of interdependent relations in the absence of overarching political authority, such as in the international system. Thus global governance can be considered as the management of global processes in the absence of a form of global government. There are some international bodies which seek to address these issues and prominent among these are the United Nations and the World Trade Organisation. Each of these has met with mixed success in instituting some form of governance in international relations but is part of recognition of the problem and an attempt to address worldwide problems that go beyond the capacity of individual states to solve (Rosenau, 1999). To use the term global CSR is not of course to imply that such a system actually exists, let alone to consider the effectiveness of its operations. It is merely to recognise that in this increasingly globalised world there is a need for some form of governance to deal with multinational and global issues.

The term global governance therefore is a descriptive term, recognizing the issue and referring to concrete cooperative problem-solving arrangements. These may be formal, taking the shape of laws or formally constituted institutions to manage collective affairs by a variety of actors – including states, intergovernmental organisations, non-governmental organisations (NGOs), other civil society actors, private sector organisations, pressure groups and individuals). The system also includes of course informal (as in the case of practices or guidelines) or temporary units (as in the case of coalitions). Thus global governance can be considered to be the complex of formal and informal institutions, mechanisms, relationships, and processes between and among states, markets, citizens and organisations, both inter- and non-governmental, through which collective interests on the global plane are articulated, rights and obligations are established, and differences are mediated.

Global governance is not of course the same thing as world government: indeed, it can be argued that such a system would not actually be necessary if there was such a thing as a world government. Currently however the various state governments have a legitimate monopoly on the use of force – on the power of enforcement. Global governance therefore refers to the political interaction that is required to solve problems that affect more than one state or region when there is no power of enforcing compliance. Improved global problem-solving need not of course require the establishing of more powerful formal global institutions, but it would involve the creation of a consensus on norms and practices to be applied. Steps are of course underway to establish these norms and one example that is currently being established is Corporate Governance and Corporate Social Responsibility the creation and improvement of global accountability mechanisms. In this respect, for example, the United Nations Global Compact10 – described as the world‟s largest voluntary corporate responsibility initiative – brings together companies, national and international agencies, trades unions and other labour organisations and various organs of civil society in order to support universal environmental protection, human rights and social principles. Participation is entirely voluntary, and there is no enforcement of the principles by an outside regulatory body. Companies adhere to these practices both because they make economic sense, and because their stakeholders, including their shareholders (most individuals and institutional investors) are concerned with these issues and this provides a mechanism whereby they can monitor the compliance of companies easily. Mechanisms such as the Global Compact can improve the ability of individuals and local communities to hold companies accountable.

4.2 GOOD GOVERNANCE AND CORPORATE BEHAVIOUR

Good governance is of course important in every sphere of the society whether it be the corporate environment, or general society or the political environment. Good governance levels can, for example, improve public faith and confidence in the political environment. When the resources are too limited to meet the minimum expectations of the people, it is a good governance level that can help to promote the welfare of society. And of course a concern with governance is at least as prevalent in the corporate world. Good governance is essential for good corporate performance and one view of good corporate performance is that of stewardship and thus just as the management of an organisation is concerned with the stewardship of the financial resources of the organisation so too would management of the organisation be concerned with the stewardship of environmental resources. The difference however is that environmental resources are mostly located externally to the organisation. Stewardship in this context therefore is concerned with the resources of society as well as the resources of the organisation. As far as stewardship of external environmental resources is concerned then the central tenet of such stewardship is that of ensuring sustainability. Sustainability is focused on the future and is concerned with ensuring that the choices of resource utilisation in the future are not constrained by decisions taken in the present. This necessarily implies such concepts as generating and utilizing renewable resources, minimising pollution and using new techniques of manufacture and distribution. It also implies the acceptance of any costs involved in the present as an investment for the future. A great deal of concern has been expressed all over the world about shortcomings in the systems of corporate governance in operation and its organisation has been exercising the minds of business managers, academics and government officials all over the world. Often companies‟ main target is to become global – while at the same time remaining sustainable – as a means to get competitive power. But the most important question is concerned with what will be a firm‟s route to becoming global and what will be necessary in order to get global competitive power. There is more than one answer to this question and there are a variety of routes for a company to achieve this. Corporate governance can be considered as an environment of trust, ethics, moral values and confidence – as a synergic effort of all the constituents of society – that is the stakeholders, including government; the general public etc; professional/service providers – and the corporate sector. Of equal concern is the question of corporate social responsibility – what this means and how it can be operationalised. Although there is an accepted link between good corporate governance and corporate social responsibility the relationship between the two is not clearly defined and understood. Thus many firms consider that their governance is adequate because they comply with The Combined Code on Corporate Governance, which came into effect in 2003. Of course all firms reporting on the London Stock Exchange are required to comply with this code, and so these firms are doing no more than meeting their regulatory obligations. Many companies regard corporate governance as simply a part of investor relationships and do nothing more regarding such governance except to identify that it is important for investors/ potential investors and to flag up that they have such governance policies. The more enlightened recognise that there is a clear link between governance and corporate social responsibility and make efforts to link the two. Often this is no more than making a claim that good governance is a part of their CSR policy as well as a part of their relationship with shareholders. It is recognised that these are issues which are significant in all parts of the world and a lot of attention is devoted to this global understanding. It cannot be understood without taking geographical, cultural and historical factors into account in order to understand the similarities, differences and concerns relating to people of different parts of the world.

4.3 GOOD GOVERNANCE AND SUSTAINABILITY

It is clear that all these long term benefits are also directly related to the sustainability of a firm and that firm‟s success. We can evaluate corporate governance from different perspectives, such as that of the general economy; the company itself; private and institutional investors; or banking and other financial institutions. Some research results show that the quality of the corporate governance system of an economy may be an important determinant of its competitive conditions (Fulghieri and Suominen, 2005). Authors suggest the existence of a reverse causality between corporate governance and competition and also examined the role of competition in the production of good corporate governance. Van de Berghe and Levrau (2003) on the other hand investigated from the perspective of companies, investors and banks. From the company‟s perspective, it can no longer ignore the pressure for good corporate governance from the investor community. Installing proper governance mechanisms may provide a company with a competitive advantage in attracting investors who are prepared to pay a premium for well-governed companies. From an investor‟s perspective, corporate governance has become an important factor in investment decisions as it is recognised to have an impact on the financial risks of their portfolios. Institutional investors put issues of corporate governance on a par with financial indicators when evaluating investment decisions. From the creditor‟s perspective, there is a plea for increased attention for corporate governance in a bank‟s risk measurement methods: a plea which is supported by the new requirements put in place by Basel II. Bøhren and Ødegaard (2004) also showed that corporate governance matters for economic performance; insider ownership matters the most while outside ownership concentration destroys market value; direct ownership is superior to indirect; and that performance decreases with increasing board size, leverage, dividend payout, and the fraction of non-voting shares. Black et al. (2005) investigated the relationship between governance and firm value. They found evidence that better governed firms pay higher dividends, but no evidence that they report higher accounting profits.

4.4 CORPORATE SOCIAL RESPONSIBILITY PRINCIPLES

Since corporate governance can be highly influential for firm performance, firms must know what are the corporate governance principles and how it will improve strategy to apply these principles. In practice there are four principles of good corporate governance, which are:

1. Transparency;
2. Accountability;
3. Responsibility;
4. Fairness.

All these principles are related with the firm‟s corporate social responsibility. Corporate governance principles therefore are important for a firm but the real issue is concerned with what corporate governance actually is. Management can be interpreted as managing a firm for the purpose of creating and maintaining value for shareholders. Corporate governance procedures determine every aspect of the role for management of the firm and try to keep in balance and to develop control mechanisms in order to increase both shareholder value and the satisfaction of other stakeholders. In other words corporate governance is concerned with creating a balance between the economic and social goals of a company including such aspects as the efficient use of resources, accountability in the use of its power, and the behaviour of the corporation in its social environment.

The definition and measurement of good corporate governance is still subject to debate. However, good corporate governance will address all these main points:

- ✓ Creating sustainable value.
- ✓ Ways of achieving the firm‟s goals.
- ✓ Increasing shareholders‟ satisfaction.
- ✓ Efficient and effective management.
- ✓ Increasing credibility.
- ✓ Ensuring efficient risk management.
- ✓ Providing an early warning system against all risk.
- ✓ Ensuring a responsive and accountable corporation.
- ✓ Describing the role of a firm‟s units.
- ✓ Developing control and internal auditing.
- ✓ Keeping a balance between economic and social benefit.
- ✓ Ensuring efficient use of resources.
- ✓ Controlling performance.
- ✓ Distributing responsibility fairly.
- ✓ Producing all necessary information for stakeholders.
- ✓ Keeping the board independent from management.
- ✓ Facilitating sustainable performance.

As can be seen, all of these issues have many ramifications and ensuring their compliance must be thought of as a long term procedure. However, firms naturally expect some tangible benefit from good governance, so good governance offers some long term benefit for firms, such as:

- ✓ Increasing the firm‟s market value.
- ✓ Increasing the firm‟s rating.
- ✓ Increasing competitive power.
- ✓ Attracting new investors, shareholders and more equity.
- ✓ More or higher credibility.
- ✓ Enhancing flexible borrowing condition/facilities from financial institutions.
- ✓ Decreasing credit interest rate and cost of capital.
- ✓ New investment opportunities.
- ✓ Attracting better personnel/employees.
- ✓ Reaching new markets.

4.5 KEY ELEMENTS OF CORPORATE GOVERNANCE IN ASIA

In the context of corporate governance in Asia, one of the key elements to be taken into account is ownership concentration. Concentrated ownership with large shareholders, compared to the traditional Berle and Means proposition of dispersed ownership with atomistic shareholders, has attracted more interest in recent empirical literature. La Porta, Lopez-de-Silanes and Shleifer (1999) shows that widely-dispersed ownership is not prevalent around the world except in the United States and the United Kingdom; rather, concentrated ownership is a more common organizational form for modern firms in developed countries.

The outbreak of the Asian currency crisis in 1997 called attention to corporate ownership structure in Asian developing countries in relation to corporate governance and performance. Researchers, headed by Stjin Claessens of the World Bank, have traced the ultimate owners of East Asian firms and have found that corporate ownership is concentrated in the hands of few families. They provide evidence of the expropriation of minority shareholders with a gap between the control rights and the cash flow rights of controlling shareholders, and suggest that insider- control contributed to the firms‟ weak performance and risky investment prior to the crisis (Claessens, Djankov and Lang 1999b; Claessens, Djankov, Fan and Lang 1999a). Concentrated ownership and the associated problems of Asian firms have thus become hot issues in the negative sense.

Another key element, which closely relates to ownership concentration but should be distinguished from it, is the coincidence of ownership and management, or the existence of large shareholders who concurrently hold top managerial positions. How can we deal with such owner-manager firms in corporate governance analysis? The traditional shareholder-value perspective pre-supposes separation of ownership and management. The logical consequence is that, if ownership coincides with management, firms have no agency problem, so the self-governance of owner-managers works perfectly. In the Shleifer and Vishny extended framework of financiers and managers, relations between owner-managers and other financiers, such as minority shareholders, general investors through stock markets, creditors, and potential takeovers, and the way in which these financiers make owner-managers assure their return are worth analyzing. The stakeholder-society perspective would provide wider possibilities of analysis; relations between owner-managers and other stakeholders, for example, salaried professional managers, employees, joint venture partners, and the government (or power elite) as licensing authorities or patron. In the Aoki framework, the relevant governance mechanism in this context is (i) and (ii), namely owner-manager‟s control over workers with or without a threat of liquidation imposed by outside investors/ creditors.

4.6 DEVELOPING A FRAMEWORK FOR CORPORATE GOVERNANCE

The structures, institutions, and legal framework of corporate governance are developed and administered by individuals whose behaviors are shaped by cultural and personal concepts of hope, ambition, greed, fear, uncertainty, and hubris, as well as by the social ethos. A problem arises when these influences do not conform to the regulatory prescriptions of corporate governance. The ministry of corporate affairs is developing a reporting framework for corporate social responsibility (CSR), which could potentially be a game-changer for CSR in India. The government is formulating guidelines to classify what activity can be qualified as CSR and what expenditure can be counted as CSR spend, even as companies prepare to comply with a new guideline that encourages them to spend 2% of their net profits on such causes. The new Companies Bill, passed in the Lok Sabha, made it mandatory for firms to report on how much they spend on CSR every year. If companies spend less than 2% of their average net profit over the last three years, they are required to explain the reasons. India is the first nation in the world to frame such legislation. If companies in the BSE 100 were to comply with this fully, their combined CSR spend could total up to about 5,800 crore. The ministry is developing guidelines and reporting framework for companies to implement and report their CSR initiatives as per Clause 135 of the Companies Bill, 2012. The Indian Institute of Corporate Affairs is the nodal agency spearheading this effort along with the MCA. These guidelines will include an extended Schedule-7 of the Companies Bill including more activities that qualify as CSR spends. Some of these activities in the pipeline include promotion of sports and games, promotion of art and culture, welfare measures for differently able and adoption of villages, among others. The guidelines also include the types of organizations: trusts, societies, etc, that are eligible consumers of CSR capital.

The American approach tends to be rules-based while the European approach is more based on the development of principles – a slower process. In general rules are considered to be simpler to follow than principles, demarcating a clear line between acceptable and unacceptable behavior. Rules also reduce discretion on the part of individual managers or auditors. In practice however rules can be more complex than principles. They may be ill-equipped to deal with new types of transactions not covered by the code. Moreover, even if clear rules are followed, one can still find a way to circumvent their underlying purpose – this is harder to achieve if one is bound by a broader principle. There are of course many different models of corporate governance around the world. These differ according to the nature of the system of capitalism in which they are embedded. The liberal model that is common in Anglo-American countries tends to give priority to the interests of shareholders.

The coordinated model, which is normally found in Continental Europe and in Japan, recognizes in addition the interests of workers, managers, suppliers, customers, and the community. Both models have distinct competitive advantages, but in different ways. The liberal model of corporate governance encourages radical innovation and cost competition, whereas the coordinated model of corporate governance facilitates incremental innovation and quality competition. The board of directors is nominally selected by and responsible to the shareholders, but the articles of many companies make it difficult for all but the largest shareholders to have any influence over the makeup of the board. Normally individual shareholders are not offered a choice of board nominees among which to choose, but are merely asked to rubber-stamp the nominees of the sitting board. Perverse incentives have pervaded many corporate boards in the developed world, with board members beholden to the chief executive whose actions they are intended to oversee.

Frequently, members of the boards of directors are CEOs of other corporations – in interlocking relationships, which many people see as posing a potential conflict of interest. The UK on the other hand has developed a flexible model of regulation of corporate governance, known as the „comply or explain‟ code of governance. This is a principle-based code that lists a number of recommended practices, such as:

- ✓ the separation of CEO and Chairman of the Board;
- ✓ the introduction of a time limit for CEOs‟ contracts;
- ✓ the introduction of a minimum number of non-executive directors,
- ✓ and of independent directors;
- ✓ the designation of a senior non-executive director;
- ✓ the formation and composition of remuneration, audit and
- ✓ nomination committees.

Long before the collapse of Enron and WorldCom, the Philippines had its own share of corporate scandals like BW Resources Corporation, whose share prices hit record highs and then collapsed in 1999. These scandals brought down the stock market‟s image and weakened private investor confidence. The scandals have their roots in management‟s desire to project a false picture of performance, with the aim of driving up the value of the corporation in a competitive global market. Corporate governance is needed to make corporate managements more accountable, and their auditors more rigorous. But good governance requires fair legal frameworks that should be enforced impartially. In this country, the Philippine Securities and Exchange Commission (SEC), a principal player in matters of corporate governance, recently issued Memorandum Circular 2, Series of 2002, otherwise known as the Code of Corporate Governance, under resolution no. 135 dated April 4, 2002. The code is now effective and must be followed under pain of penalty.

The Code aims to promote corporate governance reforms that will raise investor confidence, develop the capital market and help achieve high sustained growth for the corporate sector and the economy. The code applies to:

(1) corporations whose securities are registered or listed,
(2) corporations who are grantees of permits/licenses and secondary franchises from the Commission,
(3) public companies and
(4) branches or subsidiaries of foreign corporations operating in the Philippines whose securities are registered or listed.

Some of the code‟s salient features are as follows:

- ✓ The code prescribes that the Board of Directors shall be primarily responsible for the governance of the corporation.
- ✓ The Board should establish the corporation‟s vision and mission, strategic objectives, policies and procedures that guide and direct the activities of the company, and the mechanism for monitoring management‟s performance.

The basic idea of the code is that one size does not fit all in matters of corporate governance and that instead of a statuary regime like the Sarbanes-Oxley Act in the US, it is best to leave some flexibility to companies so that they can make choices most adapted to their circumstances. If they have good reasons to deviate from the sound rule, they should be able to convincingly explain those to their shareholders. A form of the code has been in existence since 1992 and has had drastic effects on the way firms are governed in the UK. A recent study shows that in 1993, about 10 per cent of the FTSE 350 companies were fully compliant with all dimensions of the code while by 2003 more than 60 per cent were fully compliant. The same success was not achieved when looking at the explanation part for non-compliant companies. Many deviations are simply not explained and a large majority of explanations fail to identify specific circumstances justifying those deviations. Still, the overall view is that the UK‟s system works fairly well and in fact is often considered to be a benchmark, and therefore followed by a number of other countries. Nevertheless, it still shows that there is more to be done to develop a global framework of corporate governance.

In East Asian countries, the family-owned company tends to dominate. In countries such as Pakistan, Indonesia and the Philippines for example, the top 15 families control over 50 per cent of publicly owned corporations through a system of family cross-holdings, thus dominating the capital markets. Family owned companies also dominate the Latin model of corporate governance, that is companies in Mexico, Italy, Spain, France (to a certain extent), Brazil, Argentina, and other countries in South America.

Corporate governance principles and codes have been developed in different countries and have been issued by stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes which are linked to stock exchange listing requirements12 will tend to have a coercive effect. Thus, for example, companies quoted on the London and Toronto Stock Exchanges formally need not follow the recommendations of their respective national codes, but they must disclose whether they follow the recommendations in those documents and, where not, they should provide explanations concerning divergent practices. Such disclosure requirements exert a significant pressure on listed companies for compliance.

4.7 THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

In its „Global Investor Opinion Survey‟ of over 200 institutional investors first undertaken in 2000 (and updated in 2002), McKinsey found that 80 per cent of the respondents would pay a premium for well-governed companies. They defined a well-governed company as one that had mostly outside directors, who had no management ties, undertook formal evaluation of its directors, and was responsive to investors‟ requests for information on governance issues. The size of the premium varied by market, from 11 per cent for Canadian companies to around 40 per cent for companies where the regulatory backdrop was least certain (e.g. those in Morocco, Egypt or Russia). Other studies have similarly linked broad perceptions of the quality of companies to superior share price performance. On the other hand, research into the relationship between specific corporate governance controls and the financial performance of companies has had very mixed results.

4.8 THE DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY

There has been considerable debate about the relationship between corporate social responsibility (CSR) and corporate governance but in recent years the term corporate social responsibility has gained prominence, both in business and in the press to such an extent that it seems to have become ubiquitous.

There are probably many reasons for the attention given to this phenomenon not least of which is the corporate excesses witnessed in recent years. For many people the various examples of this kind of behaviour – ranging from BCCI to Enron to Union Carbide to the collapse of Arthur Andersen – will have left an indelible impression among people that all is not well with the corporate world and that there are problems which need to be addressed13 (Crowther and Rayman-Bacchus, 2004). One of the implications of this current concern however is that this is a new phenomenon – one which has not been of concern previously. Issues of socially responsible behaviour are not of course new and examples can be found from throughout the world and at least from the earliest days of the Industrial Revolution and the concomitant founding of large business entities (Crowther, 2002) and the divorce between ownership and management – or the divorcing of risk from rewards (Crowther, 2004). Thus, for example, in the UK (where the Industrial Revolution began), Robert Owen (1816, 1991) demonstrated dissatisfaction with the assumption that only the internal effects of actions need be considered and the external environment was a free resource to be exploited at will. Furthermore, he put his beliefs into practice through the inclusion within his sphere of industrial operations the provision of housing for his workers at New Lanark, Scotland.

4.9 THE RELATIONSHIP BETWEEN CSR AND BUSINESS FINANCIAL SUCCESS

Often the more significant the power that multinational corporations and some groups of stakeholders in a firm have, the more is spoken about corporate social responsibility. Thus a concept that was some kind of luxury years ago, nowadays has reached the top of the public opinion discussion. Some steps taken in the corporation‟s development, in the environment, and in human values can be the guilty causes of this CSR fashion. If in the beginning firms were small and there was no distinction between ownership and management, the economic development made that there was a necessity to join more capital to set up bigger enterprises. Thus, there were owners, who gave the funds, and experts in management, who managed the company and were paid by the owners. Agency Theory establishes this relationship between the principal, the shareholder, and the agent, the manager, bearing in mind that the goals of the shareholders must be got through the management of the agents. But, which are the shareholders´ objectives? Obviously to increase the enterprise value through the maximisation of profits. But a company‟s structure is nowadays more complex than before and there have appeared other people, not owners, directly or indirectly implied in the company‟s operations – known as stakeholders. Multinational corporations have sometimes even more power than governments in their influence, and stakeholders have gained more power through the media and public opinion in order to require some kind of specific behaviour from companies. Within this new environment, although explained in a very simple way, the primary objective of the company has become wider. Although generally speaking, the assumption may be that the first goal is to get financial performance in the company, after it the next step will be to comply with other socially responsible policies. That is because to pay attention to social objectives, or to show an orientation to multiple stakeholder groups, could be considered a luxury, because it must have meant that the other basic company‟s goal had been met. This argument is the basis of the first hypothesis about the relationship between CSR, linked to pay attention to stakeholders, and business success: „Better performance results in greater attention to multiple stakeholders‟ (Greenley and Foxall, 1997, p. 264). While the other hypothesis about this relationship will run in the opposite direction: „that orientation to multiple stakeholder groups influences performance‟ (Greenley and Foxall, 1997, p. 264), which means to „attend‟ to social policies in a better way. This double-sided relationship increases the difficulty to try to empirically prove it. Intuitively it seems as if there is a clear relationship between CSR and business success, but although the measurement of business success may be easy, through different economic and financial tools, such as ratios; the measurement of the degree of compliance of a company with social policies is really difficult. We can have in mind some kind of indicators such as funds donated to charitable objectives, but a company can spend immeasurable quantities of money on charitable questions and have problems in the relationship with labour unions because of bad working conditions, or low wages, for example. In this sense there are, since a long time ago, some companies whose objectives include philanthropic aims. We can highlight in this point the Spanish example of the saving banks, which emerged with the peculiar distinction of including in their aims charitable purposes. But finally, if they want to survive in the competitive market they have to bear in mind the „traditional‟ objectives of profit maximisation. It may be understood as the initial values are ones, and then the market and the capitalism forces the firm to change them in order to survive in this maelstrom. Although at the same time the double-sided relationship operates, because people socially concerned, bear in mind these basic aims and the image of the saving banks is improved, which has got a direct relationship with the economic performance. This example may be only one speaking about the market inefficiencies17 and the trend to acquire human values and ethics that must be forgotten when we are surrounded by this society and the market. In this attempt to satisfy the necessities of the stakeholders there can appear other conflicts between the interests of the different groups included in the wider concept of stakeholders. Sometimes due to this conflict of interests and to the specific features of the company it tries to establish different levels between the stakeholders, paying more attention to those ones that are most powerful, but are there some goals more socially responsible than others? In the end the hierarchy will depend on the other goals of the company, it will give an answer to those stakeholders that can threaten the performance of the economic goals. The difficulties in measuring the social performance of a company are also due to the ownership concept. This is because the concept of corporate social responsibility is really comprehensive. There are companies whose activities are really different but all of them have to bear in mind their social responsibility, and not only companies, but also people in whatever activity they do. From a politician to a teacher: ethics, code of conducts, human values, friendship with the environment, respect to the minorities (what should not be understood as a dictatorship of the minorities) and so on, are values that have to be borne in mind and included in the social responsibility concept. A good example of this diversity can be seen in this directory where are included opinions of different experts in such different topics as „building and construction‟ or „auditing‟, although everyone has got a deep relationship with the other. The same can be said about the regions, besides the classification according to topics in the directory, there has been included another classification of CSR in accordance with regions. The point of view of the concept can vary depending on the country or the region, because some important problems linked to basic human values are more evident in some countries than in others. These social problems cannot be isolated because they have got an important relationship with the degree of development of the country, so in the end it is the economy that pushes the world. Capitalism allows the differences between people, but what is not so fair is that these differences are not only due to your effort or work but are also due to have taken advantage of someone else‟s effort. And this can be the case with multinational corporations, which sometimes abuse of their power, closing factories in developed countries and moving them to developing countries because the wages are lower, or because the security and health conditions are not so strict and therefore cheaper to maintain for the company. And then the same companies obtain big amounts of profits to expense in philanthropic ways.

Development conditions of regions can determine the relationship between CSR and business success, as we have highlighted, if it is allowed in some developing countries to damage the environment or there are no appropriate labour unions and so on. Because lack of requirements or government´s attention, the global players use these facilities to obtain a better economic performance although they can be aware of their damaging policies. But not only the development degree has to do with CSR, countries or regions are deeply associated with human values through education and culture. The values are so deep inside us that even it is said that people from different regions of the world who have shared the same education, for example, ethics courses at university, do not share the same human values, because they are marked by their origins. Perhaps it should be understood as the inclusion of ethics courses as university degrees is useless because finally people will go on thinking what they thought at the beginning, depending on the values of their origin culture. But everything is not so simple, because there have been proof of situations where different values have been imported from one culture to another and accepted as their own values without any problem (only point out the success of McDonalds food all over the world and even in the former communist countries, can be understood a McDonalds restaurant in the Red Square in Moscow?). So, it shows that the questions related to CSR are complicated and not so simple as they can seem at first glance. This complexity can be argued as a disadvantage to take into account when speaking about the creation of global standards about companies‟ socially responsible behaviour: there are so many different cases that to establish a general regulation may be really difficult. But at the same time this diversity can be argued to require this regulation, because there have been different initiatives, most of them private, and they have added diversity to the previous one and the subject requires a common effort to try to tackle the problem of its standards and principles. The latest financial scandals have proved that it is not enough for a business to work with its own codes or human values, that it is necessary to reach an agreement to establish a homogeneous regulation at least at the level of global players, multinational corporations that play globally.

CONCLUSION

Corporate social responsibility (CSR) can be defined as a company's obligation to pursue goals and policies that are in society's best interests. A socially responsible company conducts business in an ethical manner. In many companies, a formal statement or code of ethics summarizes corporate values, and expectations. The practical need for CSR comes from changing social expectations, affluence, and globalization. Mostly, CSR is often criticized because it is believed that the first and foremost responsibility of a company is its financial responsibility to its shareholders. In order for Board Members to fulfill their responsibilities, they should be provided with complete, adequate and timely information prior to Board meetings on an on-going basis.

The Board is primarily accountable to the shareholders, and Management is primarily accountable to the Board. The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which financial statements are prepared and presented. The external auditor should be rotated every five (5) years or earlier or the handling partner should be changed.

The Board shall also constitute committees in aid of good corporate governance such as,

a. The Audit Committee, whose responsibility is to inculcate in the minds of Board members the importance of a sound system of internal control and the Board‟s oversight responsibility;

b. The Nomination Committee, whose function is to review and evaluate the qualifications of all persons nominated to the Board; and

c. The Compensation or Remuneration Committee, whose task is to establish a formal and transparent procedure for developing a policy on executive remuneration.

The code also emphasizes the importance of the work of the Corporate Secretary, who must be a Filipino and an officer of the corporation. He should work and deal fairly and objectively with all the constituencies of the corporation.

The management may establish a performance evaluation system to measure the performance of the Board and top-level management of the corporation. Disclosure is a vital and dominant theme in the Code. The more transparent the internal workings of the company and cash flows, the more difficult it will be for management and controlling shareholders to misappropriate or mismanage company assets. Corporations shall promulgate and adopt their corporate governance rules and principles in accordance with the Code. Any corporation who fails to adopt a manual of corporate governance shall be penalized after due notice and hearing.

It is also concluded that skills needed by CSR managers do vary due to the diverse disciplines involved and also the complexity of the roles and responsibilities of a CSR initiative. There are no specific qualifications required for this field. Because the field is new, transferable skills and knowledge from other related specializations such as environmental management, business ethics, transfer of technology, human resource management and community development, are valued. In short, the skills required by CSR managers are classified as business skills, people skills and technical skills; and the specific skills required are further determined by the mission and vision of the organizations where the CSR managers serve.

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals