

## Build Nation – Invest in development, a shared responsibility

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### Abstract

“BUILDS NATION-INVEST IN DEVELOPMENT, A SHARED RESPONSIBILITY” is the current demand of the business environment. The basic motto underlining it is –to return to the society what was being taken from it, by the business to carry out its operation for creation of its wealth. Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable — to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society including economic, social, and environmental. It is more like an implied agreement between business and the society for mutual collaborative development of both. Corporate governance is the code of practice by which a firm’s management is held accountable to capital providers for efficient use of asset. Corporate governance essentially involves balancing the interests of a company’s many stakeholders, such as shareholders, management, customers, suppliers, government etc. This paper is an attempt to study that whether the CSR and corporate governance go the same way or in a different path. We also attempted to study the evolution of CSR and corporate governance and the challenges in the achievement of their objectives. The methodology adapted for study is descriptive in nature and data are collected from secondary sources like e-books, magazines, etc. The findings of this study advocate that proper fulfilment of corporate social responsibility requirements along with the corporate governance is the need of present scenario.

**Keywords:** Corporate social responsibility, corporate governance, corporate citizenship, collaborative development.

### 1. Introduction

The Vedic philosophy of ‘sarva loka hitam’ i.e. ‘well being of all stakeholders has found its prominence in the current business environment. Corporate social responsibility (CSR) a concept that has evolved over years, which is presently used as a basic strategy for enhancing shareholders’ goodwill. The basic motto underlying it; is to return to the society what it has taken from it in its process of wealth creation. Both CSR and Corporate governance (CG) by definition features as an issue of company’s management practices and therefore sometimes get confused with each other. The question mainly moves round the fact whether the CSR and CG go the same way of company’s management or they have their respective way of management. Question also arises whether CSR is part of CG or vice versa. It is already known that CSR is based on self regulatory principles linked to internal and external management of company. On the other hand the term “corporate governance indicates to an idea of company’s governance and management issue. So a clear understanding of the concept of corporate governance and its nature is a crucial matter in order to point out the relationship between CSR and CG.

### 2. Review of literature

1. Being a socially conscience business doesn’t have to be costly – it’s for both big and small players – By Anne Cooney
2. Mc William & S. Seigal (2010) has provided the importance of CSR as a strategy of enhancing reputation of companies.
3. Eight corporate social responsibility trends to look for in 2018 – By Susan Mc Pherson.
4. Companies need to answer two aspects of their operations:
  - The quality of their management- both in terms of people and processes.
  - The nature of and quality of their impact on society in the various areas.
 -By mallenbaker.net/csr/definition
5. Relation between CSR and CG - By D.M.Nasrullah.
6. Corporate social responsibility; what every in-house council should know” (1<sup>st</sup> ed. 2004)
7. By Danette Winberge and Philip H Randolph.

### 3. Research methodology

The methodology for the study is descriptive in nature. The data are collected from various secondary sources like e-books, books, websites, internet, magazines, etc.

#### 4. Objectives:

This paper is made to analyze these following point:-

- i. To examine it whether the concept of CSR and CG is same or there is any difference among them?
- ii. To study how corporate governance helps the business in its overall growth.
- iii. To study how the concept of CSR and CG is evolved and came into existence.
- iv. To analyze the recent trends of CSR being contributed in various sectors.
- v. To analyze the recent trends in corporate governance.

#### EVOLUTION OF CSR:

Though the act of philanthropy has been ruling over years, a fledged concept of CSR emerged around 1950s as a modern concept. Father of modern CSR, Howard Bowen, is largely credited with coining the phrase ‘Corporate Social Responsibility’. The emergence has undergone various phases as stated below:

##### PHASE 1(1850 TO 1914)

The first phase is known for its charity and philanthropic nature which was influenced by family values, traditions, culture and religion, as also industrialization. The wealth of businessman was spent on the welfare of society, by setting up temples and religious institutions. In times of drought and famine these businessman opened up their granaries for the poor and hungry. With the start of the colonial era, this approach to CSR underwent a significant change. In pre-independence time, the pioneers of industrialization, names like Tata, Birla, Godrej, Bajaj, promoted the concept of CSR by setting up charitable foun-

dations, educational and healthcare institutions, and trusts for community development.

##### PHASE 2(1910-1960)

The second phase was during the independence movement. Mahatma Gandhi urged rich industrialists to share their wealth and benefit the poor and downtrodden in society. According to Gandhi, companies and industries were the ‘temples of modern India’. He influenced industrialists to set up trusts for colleges, and research and training institutions. These trusts were also involved in social reforms – like rural development, education and empowerment of women.

##### PHASE 3(1950-1990)

The phase was characterised by the emergence of PSU<sub>s</sub> (Public Sector Undertakings) to ensure better distribution of wealth in society. There was a natural shift in expectations from public to private sector, with the latter getting actively involved in socio-economic development. In 1965, academicians, politicians and businessmen conducted a nationwide workshop on CSR where major emphasis was given towards social responsibility. What started as charity is now understood and accepted as responsibility accountability and transparency.

##### PHASE 4(1980 ONWARDS)

In the last phase CSR has become characterised as a sustainable business strategy. The New Economic policy of liberalization, privatisation and globalisation (LPG), together with a comparatively relaxed licensing system, led to a boom in the country’s economic growth. This further led to an increased momentum in industrial growth, making it possible for companies to contribute more.

Phase 1 (1850-1914)	Phase 2 (1910-1960)	Phase 3(1950-1990)	Phase 4(1980 Onwards)
Purely philanthropy and charity during industrialisation; corporation is only responsible to owners and managers.	CSR as social development during the independence struggle; corporation is responsible to owners, managers and employees.	CSR under the”mixed economy paradigm”; corporation is responsible to owners, managers and other target environments i.e. charity become a responsibility.	CSR is a globalised world is a sustainable business strategy; corporation is responsible to owners, managers, other target environments and the public at large.

Source: Self-compiled

#### EVOLUTION OF CG:

Some of the initiatives are :

- Cadbury report 1992(UK)
- Greenbury report 1995(UK)
- Hampel report 1998(UK)
- Combined code 1998(UK)
- Turnbull report 1999( UK)
- OECD Principles of CG 1999

Organisation for economic and cooperation and development(OECD) principles:

- Rights of shareholders must be protected.
- All shareholders to be treated equitably.
- All stakeholders to be allowed to play due role
- Timely and accurate disclosures.
- Accountability and responsibility of directors.

More reports:

- Basle committee guidelines 1999(banks)
- Myners reports 2001 (UK)
- Cromme report 2002(Germany)

- Higgs review 2003(UK)
- Smith report 2003(UK)
- Revised combined code 2003 (UK)

#### COMPARISON BETWEEN CSR AND CG:

Corporate governance and corporate social responsibility are actually quit different business concept but they have become much more closely linked in the early 21<sup>st</sup> century due to increased focus on balancing business profits with responsible operations. In fact, the definition of corporate governance has evolved overtime to include core aspects of CSR.

**Corporate governance basics:** CG has traditionally been defined as the system and processes used by a corporation to make certain that operations are optimised to produce the best financial results for shareholders and other company financiers. Corporate boards typically develops and over sea these governing systems. However, as broader government and public demands has increased the expectations that companies balance shareholder interest with other stakeholder needs, company board have routinely incorpo-

rated social and environmental responsibility into corporate guidelines. Furthermore loan such as the Sarbanes-Oxley Act put pressure to hold companies accountable for actions affecting their finances.

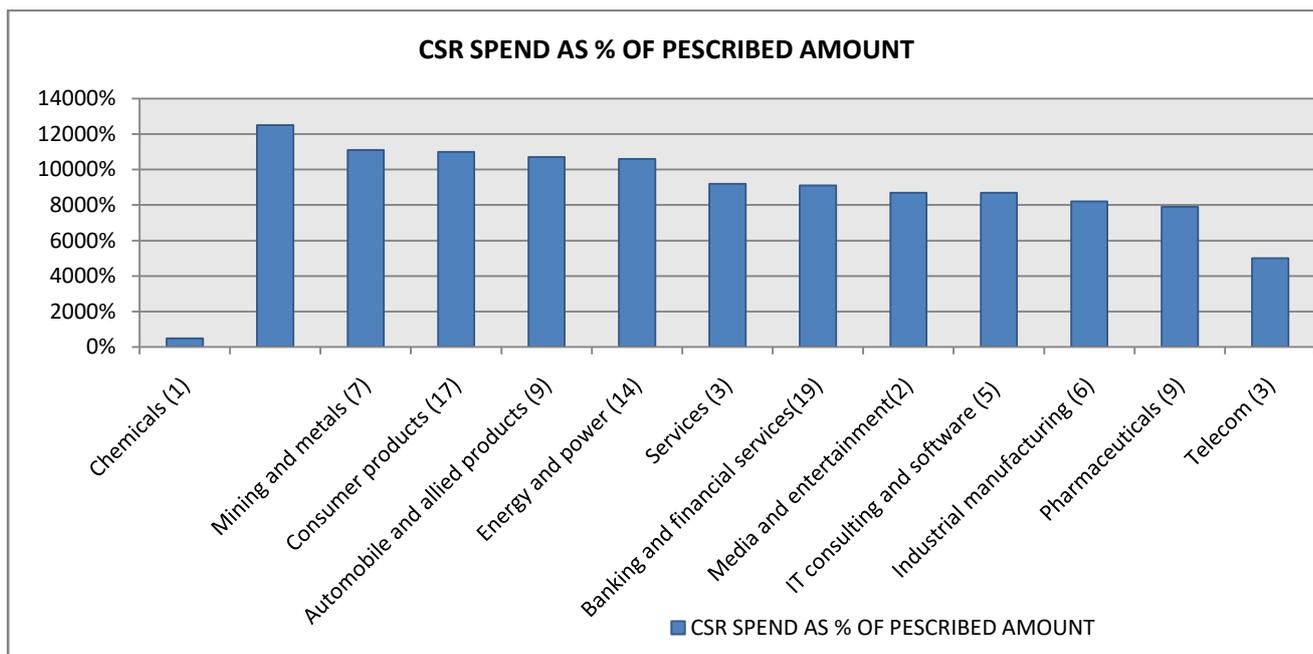
**Convergence with CSR:** there continues to be a debate surrounding whether corporation should feel compelled to include other stakeholder interest within the corporate governance system. Some

companies still hold to long held beliefs that primary responsibility as publically owned companies is to maximise shareholder value. Others believe that by balancing social and environmental responsibility with profits, long term viability and success will be even greater.

**RECENT TRENDS IN CORPORATE SOCIAL RESPONSIBILITY**

**CSR PERFORMANCE BY TYPE OF COMPANY:**

SECTOR (NUMBER OF COMPANIES)	CSR SPEND AS % OF PESCIBED AMOUNT
Chemicals (1)	487%
Construction and cement industry (5)	125
Mining and metals (7)	111
Consumer products (17)	110
Automobile and allied products (9)	107
Energy and power (14)	106
Services (3)	92
Banking and financial services(19)	91
Media and entertainment(2)	87
IT consulting and software (5)	87
Industrial manufacturing (6)	82
Pharmaceuticals (9)	79
Telecom (3)	50



Source: Self-complied

**FINDINGS:**

CSR is no longer viewed as just a regulatory discretionary cost but as an investment that brings financial returns. It is a great opportunity for the corporate for getting sound financial returns, efficient human capital, customer relationship, government support, etc, there by earning goodwill and reputation. This as a result enhances its duration of business to sustain and exists in this era of competition. If we say that management is about running the business, than corporate governance is about seeing that it is running properly or not. All companies need managing and governing. Corporate governance is the process under which people in power, monitor, direct and lead an organisation in order to create, modify

or destroy the structure and procedures under which the organisation operate.

**Conclusion:**

The time has come to be cautious about the impact of various dimensions of CSR activities on business. Efforts have to be made from the grass root level by the enterprises through its plans and policies. Moreover, its proper implementation is the key for success. Corporate governance extends beyond corporate law. There are several corporate government structures available in the developed world but there is no one structure, which can be singled out as better than the others. There is no, one size fits all , structure for corporate governance. Code of corporate governance should be redesigned to reflect international best practices. In corporate gov-

ernance there must be a stringent enforcement of law. Overall ethical values in all segments should be promoted for effective accounting, auditing, disclosure and transparent system. The common motto of firms existence should be- “live and let others live”.

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