CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE; INTEGRATED INVESTMENT APPROACH

Emil Sunil George

Symbiosis Law School, Pune

Corporate governance as a multidisciplinary is about the strategic management of the business affairs of a corporate, with the objective of wealth and resource maximization for the internal and external stakeholders in the business. It is the obligation of a business enterprise towards its external stakeholders which brings us to the concept of Corporate Social Responsibility (CSR). One of the major deterrents to invest resources in CSR activities from the perspective of the promoters, is the difficulty in assessing the returns on investment from these CSR initiatives, especially from the view point of the promoters of small business enterprises. Though, brand building can be an irrefutable effect of CSR activities, it is considered as a theoretical approach towards the concepts of CSR by some promoters who seek empirical evidences of CSR benefits. The main objective of the paper is to find a way in which the corporate entities regardless of their size, can contribute to the society, in such a way that, they can create and establish a direct link between the investment on CSR initiatives and its returns to the business, through an 'Integrated Investment Approach'. This approach is more advisable for the small business entities who have limited resources. The paper commences with how fair business practices promotes Investor confidence which bolsters the growth of a developing economy. The fair business conduct brings into ambit the scope of Corporate Governance. Evolution and Objectives of Corporate Governance is briefly explained and the ideals of stake holder theory is clubbed to the concept of Corporate Governance. The Integrated Investment Approach in CSR is explained through case studies of Google and IBM projects and the relevance of this approach to the small business entities is explained through the study of a small initiative by a restaurant owner in one of the southern states of India. Research methodology is primarily based on scholarly write-ups, books on corporate governance and news articles.

Keywords- *Corporate Governance, Corporate Social Responsibility, Stake Holder Theory, Integrated Investment Approach.*

ESSENTIALS FOR A DEVELOPING ECONOMY

In the wake of twenty first century, some of the developed nations are flabbergasted by the meteoric rise of many third world countries. The success stories in each region can be attributed to various factors, which are integrated to each other. Socio-Political Stability, Cultural stability and Economic Stability are considered to be some of the catalysts that plays a role in upbringing the struggling nations. Focusing on the concept of Economic Stability, it is the strength of the internal market of a nation that will act as a building block for creating its own niche in the widespread realm of global market. Governmental policies and legislations to an extent can ensure taking innovate or corrective steps towards making a stable economic environment for the internal market, but at the end of the day, to bolster an economy, the most needed ingredient is 'investor confidence'. The power of an economy lies in its ability to tap the Investor Confidence for mobilizing the funds from the masses and investing these funds in lucrative fields with returns.

Blessings of a growing economy will be the burgeoning Investor Confidence in the market and a conducive society which encourages entrepreneurship. At this juncture, it has to be kept in mind that, it is not just the legislative and policy decisions that contribute to Investor confidence, but the Integrity reflected by the businessmen themselves. From a business corporation's point of view, it is the *internal understanding* of the value of 'investor confidence' that will help the corporation stride forward in the future, rather than the governmental checks and balance. Imperativeness of Corporate Governance as a multidisciplinary can be associated with the *internal understanding* of a corporation or any business concern for that matter, and the governmental understanding of requirement of a system rules and guidelines that will ensure fair and ethical business conduct.

However, with the passage of time, it is relevant to rethink whether Corporate Governance is just for the sake of Investor protection, or is it beyond that? In a world where some Multi-National Corporation's exercise more financial power than many developing countries[1], the objective of Corporate Governance is beyond maximization of shareholder value. It also includes being fair and answerable to the various stakeholders involved in the growth and sustenance of the business concern. Corporate governance contributes to the economic stability of a country which in-turn contributes to the progress of that country.

EVOLUTION OF CORPORATE GOVERNANCE

The inception of the concept of corporate governance can be traced back from the late 1980's. It is fascinating to realize that the importance of corporate governance was recognized after the economies of some major countries had to bear the brunt of huge corporate collapses. These corporate disasters can be mainly attributed to the erosion of business ethics in taking managerial decisions by the top executives of the companies. The senior management was turning a blind eye to the long term objectives of the company and concentrating on short term gains and personal wants. The independence of the auditors were in a muddle due to the executives of the company wielding the authority in their favor.

[1] Zlata Rodionova, *World's largest corporations make more money than most countries on Earth combined*, Independent,http://www.independent.co.uk/news/business/news/worlds-largest-corporations-more-money-countries-world-combined-apple-walmart-shell-global-justice-a7245991.html

In United States of America, collapse of major companies like Enron, WorldCom and Waste Management were a triggering factor to develop a proper internal audit system. These scandals took place in spite of the existence of a Code of Corporate governance and generally accepted standards for accounting and auditing. United Kingdom had also witnessed some major corporate failures, like that of, Mirror Group of Newspapers, BCCI and Polly Peck International[2].

In the aftermath of such failures, the world acknowledged the need for advanced and constructive methods to inculcate an ethical management system. The Cadbury Report of 1992, Greenbury report of 1995, Combined Code of 1998, Turnbull Report of 1998 and Smith Report of 2003 were some of the major developments in UK. These reports basically laid down the need for proper internal control on auditing systems, disclosure procedures and executive remuneration. In USA the major step towards development of corporate governance took place with the passing of Sarbanes-Oxley Act, 2002. The Sarbanes-Oxley Act requires public companies to strengthen audit committees, perform internal controls tests, set personal liability of directors and officers for accuracy of financial statements, and strengthen disclosure. The Sarbanes-Oxley Act also established stricter criminal penalties for securities fraud and changed how public accounting firms operate their business.[3]

The global development in Corporate Governance took place throughout 1990's; Vienot Report in France (1995), King's Report in South Africa (1995), Peter's Report in Netherlands (1997) and Hong Kong Society of Accountants Report (1996) and in India, the Securities Exchange Board in India along with Confederation of Indian Industries formed committees and guidelines for evolving Corporate governance.

CORPORATE GOVERNANCE AND ITS OBJECTIVES

As mentioned earlier corporate governance is a multi-disciplinary involving law, economics, finance, politics, management and ethics. Corporate Governance connotes a blend of rules, regulations, laws and voluntary practices that enable companies to attract finance and human capital, perform efficiently and there by maximize long term value of shareholders, besides respecting the aspirations of multiple stakeholders, including those of the society.

The Cadbury Committee simply puts it as 'the system by which the companies are directed and controlled', but a deeper insight into the concept of corporate governance will prove that this definition is very narrow. According to James D. Wolfensohnn, who served as the ninth president of the World Bank, Corporate Governance is about promoting corporate *fairness, transparency and accountability*. After scanning through innumerable literature

[2] Sean Farrell, *The world's biggest accounting scandals*, The Guardian, 21 July 2015
[3] Andriy Blokhin, *What impact did the Sarbanes-Oxley Act have on corporate governance in the United States?,* Investopedia,http://www.investopedia.com/ask/answers/052815/what-impact-did-sarbanesoxley-act-have-corporate-governance-united-states.asp

available on corporate governance, this is one of the simplest definition that highlights the key principles of Corporate Governance.

Corporate Governance can be defined as a system of structuring, operating and controlling a company with the following objectives:

- Fulfilling the long term strategic goals of the owners
- Taking care of the interests of the employees
- A consideration for the environment and local community
- Maintain excellent relations with both customers and suppliers
- Proper compliance with all the applicable legal and regulatory compliance

Anglo-Saxon model, Japanese Model and the German model are some of the main models of Corporate Governance, but in this concept there is no universal system that can be adapted to all conditions. Since Corporate Governance involves law, culture, ethics and several other elements like management and finance, there is no static formulae for a universal model of Corporate Governance as all these elements vary on the basis of each nation. An effective model of governance will be the one which takes into account all these elements and orchestrate a governance mechanism accordingly.

Corporate Governance is not an end in itself. Rather it is an important element in building up international competitiveness, because each nation needs strong Boards, strong corporate managements and strong investors, all working under the well planned environment of creative tension so as to ensure good corporate governance.

STAKE HOLDER THEORY

The nascent stages of corporate governance were characterized by a focus on the maximization of the shareholder's wealth. Milton Friedman's concept of good governance was about the role of the directors and management akin to that of an agent to the owners of the company i.e. the shareholders. The job of the agent was to take the best managerial decision that would contribute to the growth of the share prices.

The problem with this view is that, the impact of a business concern on the society is overlooked. The key players in a good corporate governance scheme is not limited to the directors, management and the shareholders. A better insight into the working of a business concern helps us to observe the intricate effects it has on various other entities of a society. This is where the concept of Stake holder theory gains prominence.

There is no disagreement to the fact that Directors, Management and Shareholders are key players in the functioning of a corporation. But are they the only key players is the question to ponder about. Stake holder theory is a conceptual framework of business ethics and organization management which addresses moral and ethical values in the management of a business or other organization. A business corporation should look beyond the interests of the internal stakeholders (key players mentioned above) and take into consideration the external stakeholders as well, which includes, customers, suppliers, creditors, competitors, government and the Society as a whole.

Adoption of a Unitarian View on business ethics rather than the separatist view, will enlighten the business management to understand how ethics and business can be weaved together. Edward Freeman proposed the stakeholder theory in 1983[4], where the focus of the spearheads of a corporation is the wealth maximization of all the stakeholders of the corporation. It is vital to comprehend that, stakeholder theory cannot be equated to a complete philanthropic take on running business, because at the end of the day, investors need return on their investment and their primary aim is self-enrichment; Stake holder theory is about attaining the goals of the corporation through a managerial course that will ensure, economic equality along with social accountability and efficiency[5]. This is where the relevance of Corporate Social Responsibility (CSR) of a corporation comes in, CSR activities of corporations are a result of inculcating the ideals embedded in Stakeholder theory.

CORPORATE SOCIAL RESPONSIBILITY

CSR can be seen as a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.[6] There is a tendency for a layman to juxtapose CSR activities of a corporation to that of philanthropic activities and equate them. This is not entirely wrong, but as mentioned in the definition above, the approach of the corporations have gone to a stage where well planned and structured CSR is being viewed as a means of increasing business. Initiatives for incorporating CSR practices into the legal framework is now a global movement. India was one of the first countries to include CSR provisions to its Companies Act of 2013 along with CSR rules of 2014. In U.K the Companies Act of 2006 and in U.S.A legislations like California's Transparency in Supply Chains Act are all steps towards ensuring that huge corporations are liable for the betterment of the social and environmental societies[7]. There are some commonalities which run through all the various

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[4] Freeman R.E, *Strategic Management: A Stakeholder Approach*, Oxford: Blackwell Publishing (1984).
[5] Dr. C.L Bansal, *Corporate Governance*, University of Delhi (2005).
[6] United Nations Industrial Development Organization, *What is CSR*, http://www.unido.org/csr/o72054.html
[7] Amartya Bag, *CSR laws around the world*, iPleaders, https://blog.ipleaders.in/corporate-social-responsibility-csr-laws-around-the-world/

CSR oriented legislations as well as international guidelines, like the OECD guidelines[8] and the CSR national action plans. A few of them being, the emphasis given to disclosures by the corporations on the CSR related activities taken up by them, the establishment of a CSR committee under the board of directors, with a preferable constitution of committee with non-executive independent directors as well as governmental policy initiatives which will, facilitate the CSR activities of the corporations and confer adequate recognition for those corporations with exemplary performance and a proportionate reward system through concessions or other means.

INTEGRATED INVESTMENT APPROACH TOWARDS CSR

Google Wi-Fi Project

There is no need to introduce 'Google', as the name of this U.S giant is almost synonymous to 'Internet' itself. As an internet giant, they have always been in the forefront when it comes to innovate services and ideas. The company believes that, internet has already proved to be a basic necessity of our times and every one should have access to Internet. In September 2015, when the Prime Minister of India, Narendra Modi, visited the company's campus in California, the CEO of Google Mr. Sundar Pichai, had talked to the PM about Google's plan to set-up and provide free Wi-Fi connectivity to around 400 Indian Railway Stations in support with the Digital India Initiative by Mr. Modi [9].

Now in India, railways work as a lifeline. Indian Railways is the largest rail network in Asia with over 23 million passengers on a daily basis, which is clearly more than the population of some countries. India is also one of the world's largest employers with close to 1.5 million employees. So, when Google decided to take a step towards giving back something of value to one of the company's greatest market, they chose a very brilliant platform.

The Wi-Fi connectivity was set-up by Google in collaboration with a public sector undertaking called RailTel, and as on August of 2017, around 140 major railway stations are provided with internet connectivity. It provides a speed of around 20-40 Mbps for the first 30 minutes and this free service has garnered millions of active users on a monthly basis. Many of the people experienced Internet for the first time through this Google initiative[10].

Now analyzing this initiative by Google, this can be considered as a very sensible CSR project of Google with an incredulous impact on the lives of many people of a developing nation. But now, if we dig deeper, we can connect the dots to understand the humongous

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[8] OECD, *Guidelines for multi-national enterprises*, 2011 Edn., https://www.oecd.org/corporate/mne/48004323.pdf

[9] Shruti Dhapola, What is Google's Wi-Fi at 100 railway station project and how will it work, The Indian Express December 17, 2015.

[10] Shobhit Verma, *Inside Google Rail Wi-Fi in India and how it is connecting millions to the web*, India today Intech, http://indiatoday.intoday.in/technology/story/inside-google-rail-wi-fi-in-india-and-how-it-is-connecting-millions-to-the-web/1/1024707.html

return on investment by the company. First of all the idea to commence a project like this, in one of the busiest railway networks in the world as well one among the biggest smartphone market in the world is a well thought out one. Second, the company got into the good books of the Central Government by showing solidarity to the Digital India Initiative. Now the name 'Google' is familiar to even the tea sellers and coolies who work in these railway stations. Each user who gets the connectivity will be directed to the Google website and we can simply imagine the effect this is going to have on the advertisement revenue of Google, which by the way, is core revenue source for the company[11].

Corporate Service Corps by IBM

In 2007, IBM launched the Corporate Service Corps (CSC), a global pro bono consulting program. Over the next ten years, the CSC had grown to be the largest corporate assistance program in the world, sending nearly 500 IBM employees a year on team assignments in more than 30 countries in the developing world. Employees engage in two months of training while working full time, spend one month on the ground on a 6- to 12-member team tackling a social issue, and then mentor the next group for two months. By the time it completes its 10th anniversary in 2018, the CSC will have sent approximately 4,000 employees from over 60 countries to consult on over 1,300 projects in nearly 40 countries. [12] By early 2011, 1000 IBMers had participated in 100 engagements in nearly 20 countries, including Vietnam, India, Kenya, Nigeria, Egypt, Brazil and Romania. They take on issues from local economic development, entrepreneurship, transportation and education, to government services, healthcare and disaster recovery[13]. The Corporate Service Corps represents not only cutting-edge career training but also a major advance in the practice of corporate social responsibility. The CSC creates value in three dimensions. For the communities, the result is tangible IT and business improvements, and a blueprint for progress. For the IBMers, working with colleagues, local citizens and officials from around the world, it's an opportunity to hone their cultural and marketplace literacy. For many of them, it's also a life-changing experience, inspiring them to deepen their societal engagement and even career direction. For IBM, the company gains experienced leaders, inspired employees, and insights into new markets. CSC has also helped IBM gain its 'global citizen status'. The staff turnover rate of the participants in this program is just 1% as compared to the company wide range of 12%. The exposure given to these employees, makes them feel that they too have a direct impact in contributing to society, and for IBM, they get employees with enhanced market knowledge and increased job satisfaction, along with potential business from these places. From the inception of this program till 2015,

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[11]Eric Rosenberg, *The Business of Google*, Investopedia , http://www.investopedia.com/articles/investing/020515/business-google.asp

[12] *IBM Corporate Service Corps*, Yale school of management, http://som.yale.edu/case/2017/ibm-corporate-service-corps

[13] *Corporate Service Corps*, IBM, http://www-03.ibm.com/ibm/history/ibm100/us/en/icons/corporateservicecorps/

IBM has received a return on investment of 600 million dollars on its 200 million investment[14].

Brief Analysis

Most of the times, the top executives of a company frown upon the thought about the expenditure they have to make in the name of CSR, this is mainly because CSR is seen as an 'add-on' and distinct activity that is unrelated to the core business activities. Though the executives know that their corporations are morally obligated to promote sustainability and provide for the society's growth, the inability to create a nexus between the investment on CSR and the return on this investment generates only a lukewarm approach from the company executives. The case study of the above mentioned CSR projects are prime examples of CSR through business activities. It is all about hatching a well-orchestrated plan for investment towards CSR, where an integrated approach is adopted, i.e. investing for the benefit of the external stake holders, in such a way that it also creates a direct positive impact on the business of the company. The positive effects of CSR is a well-researched area, but most of the times, the benefits of CSR are indirect and it is in fact hard for a company to assess these benefits. This is where the 'Integrated investment approach towards CSR' stands apart. A direct link is created between the CSR initiatives of the company and the return that the Company gets through this initiative. This will help in assessing the efficiency of the initiatives taken and more or less accurate judgment on the value of returns. Having said all of this, there is no dispute to the fact that, the main focus on CSR should not be how to make returns from it. It is primarily about giving back to the society and contributing towards sustainability. The true spirit in doing something for the society should not be stained or corrupted by the underlying business greed. The catch here is to align the business interests and social interests in such a way that a 'direct' link between the two is created.

THE ROLE OF SMALL BUSINESS ENTITIES

There is no dearth of literature on how small business concerns have a huge role to play in the economy, especially in that of a developing economy. Small and Medium sized enterprises (SME) contribute a lot to alleviate the economic disparity and often acts as a catalyst in the process of equitable economic distribution. SMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment. However, their importance in the development process goes beyond their strength in number[15]. Though there are many advocates for the practice of socially responsible activities carried out by SME's, CSR is still considered to be something that should be

[14]Ellen Weinreb, The ROI of CSR: How one company generated a $600 million return, GreenBiz, https://www.greenbiz.com/article/roi-csr-how-one-company-generated-600-million-return

[15] Peter Raynard and Maya Forstater, *Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries*, UNIDO, www.unido.org/fileadmin/import/userfiles/puffk/corporatesocialresponsibility.pdf

applicable to the big players in the economy. Even if we look into the global CSR legislations and guidelines[16], mandatory CSR provisions are made applicable only to the big guns. For example, the California Transparency in Supply Chains Act, 2010 makes it mandatory for all retail manufacturers and sellers with an annual gross worldwide receipts exceeding $100 million, who are located in California to provide consumers with information regarding companies efforts to eradicate slavery and human trafficking from their supply chains[17]. Taking an example from India, the Companies Act 2013, requires a company with a net worth of close to $77 million (1 USD= 64.08 INR) or with a turnover of around $156 million is required to spend 2% of its net profit for CSR initiatives.

But, this is fair enough. It will be insensitive to put an SME through the arduous procedures of disclosures, CSR committee formations or even mandatory contributions. Does that mean we should turn a blind eye towards the untapped potential of the small business entities to contribute to the society? The answer to this question lies in the suo moto realization by these business concerns of the benefits of governance pattern that promote and facilitate the process of societal development.

But one can cogitate on how you expect a small business entity to shell out their resources, which are comparatively limited at the first place, for the societal development through self-realization. Cliché answers of contribution to the repute of the business and adherence to business ethics will not provide the necessary incentive for the small business entities, this is where Integrated Investment approach comes with an answer.

Nanma Maram- The tree of Goodness

In the city of Cochin in Kerala (a southern state of India), a young entrepreneur Ms. Minu Pauline, who owns a decent restaurant business, which currently employs around 30 workers, decided to do something to tackle the issue of hunger on the streets with an innovative plan. She decided to invest some money on an extra fridge with 420 liter capacity and placed this fridge right nearby the entrance of the Restaurant.

The idea was for the general public to donate food and beverages by depositing them in this fridge and the fridge will be left unlocked and accessible throughout the day and night, so that, those who couldn't satisfy one of the basic needs of life for themselves, could come at any hour and take food from this fridge. When Ms. Pauline came up with this idea, many of her well-wishers were dubious about investing amount in a program like this, and thought it might turn out to be a futile initiative. But, she didn't budge from the plan, as she strongly believed it was her duty. She named the initiative 'Nanma Maram' which means the 'Tree of Goodness'. Today dozens of homeless are fed through this program, and the restaurant is thriving with business. Majority of the customers of the restaurant

[16] OECD Guidelines for multinational enterprises.
http://www.oecd.org/corporate/mne/1922428.pdf
[17] Kamala D. Harris, *The California Transparency in Supply Chains Act A Resource Guide*, California Department of Justice, https://oag.ca.gov/sites/all/files/agweb/pdfs/sb657/resource-guide.pdf

started ordering an extra dish so that they could donate it, which directly supplemented the daily earnings of the restaurant. The initiative became so successful that, the news about *'Nanma Maram'* was spread through national and even international news platforms[18]. The local administrative authorities heartily appreciated the initiative and commended highly upon it. A number of restaurant owners in the locality are already planning to commence similar projects and Ms. Pauline is busy setting up two more restaurants. The *Nanma Maram* initiative, is a perfect example of how even the small business entities can discharge their social duties through an integrated investment approach. The investment on the fridge and the returns from it, had a direct link which was assessable by the owner. The repute and the business flourished through this thoughtful investment.

THE WAY FORWARD

There is no speck of doubt regarding the power of good corporate governance practices to transform a bleak economy to a vibrant one. Good corporate governance happens when the business entities, regardless of their size, contribute to the development of a society with fair and equitable distribution of resources, which will culminate in the prosperity of all the stakeholders. For the same reason, corporate governance is also about dutiful discharge of societal obligations through Corporate Social Responsibility initiatives. Rather than viewing CSR as an add-on or an extra burden, the business entities should focus on how to align its corporate goals with that of the expectations of the society, and formulate an *Integrated Investment Approach* towards CSR.

This approach, which has been explained through the above discussed case studies, will help in creating the direct link between the investment on CSR initiatives and the return on these investments. Unlike the big corporations who have the financial might to invest in diverse CSR operations that might not be related to their core business activities, the small business entities do not have the luxury to engage itself in a fancy CSR activity for PR gains due to scarcity of resources. It is for this very reason why Integrated Investment Approach turns out to be the best way forward for the small business entities to contribute to the society with assured returns. As discussed earlier, since there is no mandatory obligations cast on the small business entities, it is important that they themselves realize their obligations towards the society. When these business entities realize their obligations themselves, it is the duty of the Governmental authorities to support their initiatives as seen in the case of 'Nanma Maram'. Because sometimes all it requires to ignite the spark, is a word of appreciation. The local government authorities should encourage the self-motivated activities of social responsibility by the small enterprises, and this can be done through various ways like an award of recognition, tax benefits or granting of any special privileges. To metamorphose a developing economy to a developed one, the key is to boost the small business enterprises which forms the backbone of a developing economy.

[18] Will Worley, *Restaurant owner installs fridge outside to feed the homeless*, Independent, http://www.independent.co.uk/news/world/asia/restaurant-owner-installs-fridge-outside-to-feed-the-homeless-a6963861.html