Chapter-8 Corporate Governance and Corporate Social Responsibility.

Introduction

* The importance of corporate social responsibility (CSR) surfaced in the 1960s.
  (Activist movement ; objective of being maximization of profits)

* "Business is all green, only philosophy is grey."
  :- "Karl Marx"

  Explanation:
  Business is all about profits and comfort for its rich owners and discomforts for all other sections of the society who are at the receiving end of the business.

* Business ethics articulate a cohesive set of values to guide decision making in running a business.

* Corporate Governance is getting attention for satisfying the divergent interests of the stakeholders of a business enterprise especially after the corporate scandals and loss of shareholder value at Enron and several other large companies.

* Definition of Corporate Governance (CG)

1. Corporate governance is about promoting corporate fairness, transparency and accountability.

   :- J. Wolfensohn
   Ex-President of the World Bank

2. Other points (self-created)

→ Governance

process of decision making & implementing the decision in the interest of all stakeholders

→ CG relates to enhancement of corporate performance

AND

ensures proper accountability for management in the interest of all stakeholders.

→ CG is a system through which organisation is guided and directed.

→ CG is concerned with structures and process for :

- decision making
- accountability
- control and behaviour

at the top level of organisation.

→ CG influences :

- how the objectives of an organisation are set and achieved.
- how risk is monitored and assessed and ~~how~~
- how performance is optimized.

→ Core objectives of CG

(1) focus
(2) Predictability
(3) Transparency
(4) Participation
(5) Accountability
(6) Efficiency & effectiveness
(7) Stakeholder Satisfaction

→ CG can also be defined "as the formal system of accountability and control for ethical socially responsible organisational decisions and use of resources".

- Accountability relates to how well the content of workplace decisions is aligned with the organisation.

- Control involves the process of auditing and improving organisational decisions and actions.

Stakeholders ⇒ the individuals, groups or other organisations which are affected by, or can affect the organisation in pursuit of its goals.

List of stakeholders : (1) Employees
(2) Trade Unions
(3) Customers
(4) Shareholders & investors
(5) Suppliers
(6) Local communities
(7) Government
(8) Competitors.

Corporate Governance: Developments Abroad

→ The trend of developing corporate governance guidelines and codes of best practice began in the early 1990s in UK & Canada

Corporate Governance Measures

→ In general, corporate governance measures include :

- Appointing non-executive directors,
- Placing constraints on management power and ownership concentration
- Ensuring proper disclosure of financial information and executive compensation.

→ Indian Companies are required to comply with Clause 49 of the listing agreement primarily focusing on following areas :

- Board composition and procedure
- Audit committee responsibilities
- Subsidiary companies
- Risk management
- CEO/CFO certification of financial Statement & Internal Control
- legal compliance
- Other disclosures.