

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.

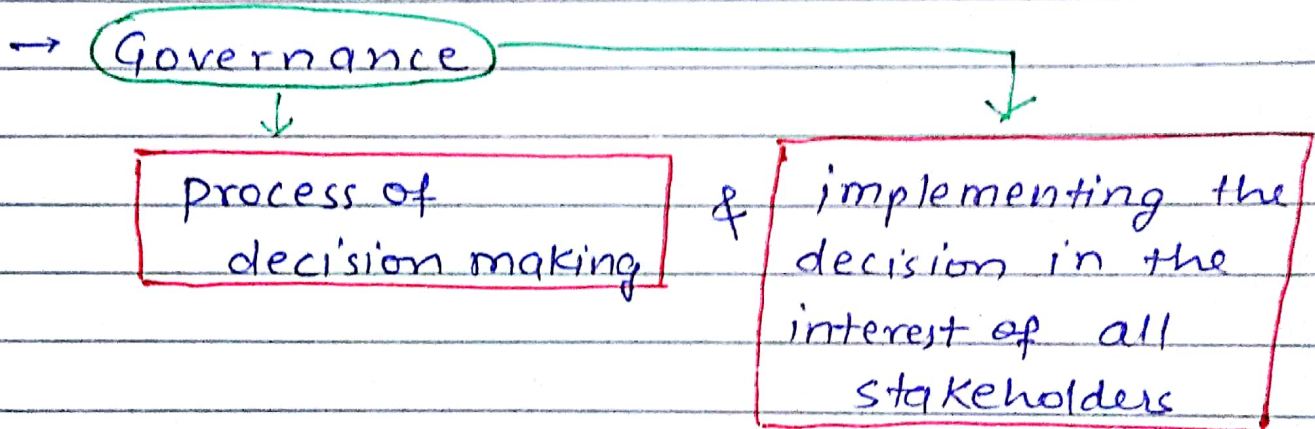
* Definition of Corporate Governance (CG)

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

:- J. Wolfensohn

Ex-President of the World Bank

2. Other points (self-created)



→ 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 ~~test~~
- 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.