8

Corporate Governance and Corporate Social Responsibility

Learning Objectives
After reading this chapter, you will be able to-
♦ Define Corporate Governance and understand the term "stakeholder"
♦ Explain various corporate governance initiatives in India and abroad
♦ Understand Corporate Social Responsibility and the need and importance of being a Corporate Citizen
♦ Explain the implementation and list the benefits of Corporate Social Responsibility

"What good did the creatures of the earth do to the clouds that pour the rain? So indeed should you serve society, seeking no return. Good men put forth industry and produce wealth, not for themselves but for the use of society. Wealth is not to be earned for the purpose of self indulgence or for satisfaction of greed. Wealth should be treated as the citizen's instrument for helpfulness. The word is not just helpfulness but helpfulness combined with a sense of duty. There is no pleasure in this or in the other world equal to the joy of being helpful to those around you. Do not lose the opportunity for this rare pleasure."

C. Raja Gopalachari's translation of ThiruValluvar's Kural (Social Cooperation)

8.1 Introduction

The importance of corporate social responsibility surfaced in the 1960s when the activist movement began questioning the singular economic objective of being maximization of profits. This has always been a source of contention. For *example*, were tobacco companies ignoring health risks associated with nicotine and its addictive properties? Times have changed and managers must regularly make decisions about issues that have a dimension of social responsibility. Karl Marx, commenting on business objectives said "*Business is all green, only philosophy is grey.*" What he meant was that 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. Despite such socialist ideology been relegated to the background due to fact that capitalism is being gradually accepted; business is still painted as essentially exploitative

in nature. But one has to accept that much of the progress in the world would not have been possible without entrepreneurship and business which involves risk. Corporate Governance is getting a focused attention particularly after market and public confidence became fragile after a series of high profile corporate failures in which the absence of effective governance was a major factor.

Business ethics if properly understood is neither anti business nor anti capitalist. It is simply articulating a cohesive set of values to guide decision making in running a business. Globalisation and liberalization of economies has brought corporate organizations to the center stage of social development. As a result in the process of corporate decision making, managers contribute, consciously or unconsciously to the shaping of human society. It is not a choice between profits and ethics, but profits in an ethical manner. This mantra has lead to the evolution of Corporate Governance. 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 in the recent past, which focused more attention on the issue of shareholder rights, calling for greater transparency and accountability and enhancing corporate reporting and disclosure. The scandals led to numerous corporate governance reforms, including passage of the Sarbanes - Oxley Act and the adoption of new listing requirements by the New York Stock Exchange in the United States. Other countries have introduced similar legal requirements. As a result, increasing number of companies are working proactively to address issues that concern shareholders and a range of other stakeholders.

Definition: *"Corporate governance is about promoting corporate fairness, transparency and accountability"*.[1] It is concerned with structures and processes for decision making, accountability, control and behaviour at the top level of organisations. It influences how the objectives of an organisation are set and achieved, how risk is monitored and assessed and how performance is optimized.

The term Corporate Governance is not easy to define. The term governance relates to a process of decision making and implementing the decisions in the interest of all stakeholders. It basically relates to enhancement of corporate performance and ensures proper accountability for management in the interest of all stakeholders. It is a system through which an organisation is guided and directed. On the basis of this definition[2], the core objectives of Corporate Governance are focus, predictability, transparency, participation, accountability, efficiency & effectiveness and stakeholder satisfaction

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

♦   Accountability relates to how well the content of workplace decisions is aligned with the organisation's stated strategic direction.

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[1] J.Wolfensohn, President of the Word bank- Financial Times, June 21, 1999
[2] The Cadbury Report , 1992

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

Corporate governance arrangements are key determinants of an organization's relationship with the world and encompass:

1. The power given to management;

2. Control over management's use of power (e.g. through institutions such as Boards of Directors);

3. Management's accountability to stakeholders;

4. The formal and informal processes by which stakeholders influence management decisions.

8.2   Stakeholders

The traditional governance model positions management is accountable solely to investors (shareholders). But a growing number of corporations accept that constituents other than shareholders are affected by corporate activity, and that the corporation must therefore be answerable to them. Coined only in the late part of the 20th century, this word "stakeholders" describes such constituents of an organisation - the individuals, groups or other organizations which are affected by, or can affect the organisation in pursuit of its goals. A typical list of stakeholders of a company would be

♦ Employees

♦ Trade Unions

♦ Customers

♦ Shareholders and investors

♦ Suppliers

♦ Local communities

♦ Government

♦ Competitors.

8.3   Corporate Governance – Developments Abroad

The trend of developing corporate governance guidelines and codes of best practice began in the early 1990s in UK and Canada in response to problems in performance in some leading organizations, presumably due to lack of effective board oversight leading to pressure from institutional investors for change. The Cadbury Report, 1992 in UK became a pioneering reference code for stock markets. The 'Blue Ribbon Committee' set up in the U.S. in 1998 by New York Stock Exchange and National Association of Securities Dealers studied the effectiveness of audit committees and provided recommendations for improvement. In response to these recommendations, New York Stock Exchange and National Association of

Securities Dealers as well as other exchanges revised their listing standards relating to audit committees. In 2002 the Sarbanes – Oxley Act, passed in response to major corporate scandals, is considered to be one of the most significant. The OECD (Organisation for Economic Co-operation and Development) Principles 1999 and 2004 reflect global consensus regarding the critical importance of corporate governance.

8.4   Corporate Governance Measures

In general, corporate governance measures include appointing non-executive directors, placing constraints on management power and ownership concentration, as well as ensuring proper disclosure of financial information and executive compensation. Many companies have established ethics and /or social responsibility committees on their Boards to review strategic plans, assess progress and offer guidance on social responsibilities of their business. In addition to having committees and boards, some companies have adopted guidelines governing their own policies and practices around such issues like board diversity, independence, and 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 statements and internal controls

♦   Legal compliance

♦   Other disclosures

Developments in India

The Confederation of Indian Industry (CII) took the lead in framing a desirable code of corporate governance in April 1998. This was followed by the recommendations of the Kumar Mangalam Birla Committee on Corporate Governance. This Committee was appointed by the Securities and Exchange Board of India (SEBI). The recommendations were accepted by SEBI in December 1999, and enshrined in Clause 49 of the Listing Agreement of all Stock Exchanges in India.

In August 2002 , the Department of Company Affairs, Government of India, constituted a nine-member committee under the chairmanship of Mr. Naresh Chandra, to examine the Auditor- Company relationship, role of independent directors, disciplinary mechanism for auditors committing irregularities and the CEO/CFO certification introduced by SOX.

SEBI having analysed disclosures made by many companies under Clause 49 constituted a review committee under the chairmanship of Mr. N. R. Narayana Murthy. The Narayana Murthy Committee report, 2003, suggested further improvements and in alignment with these recommendations, the revised Clause 49 has been made effective.

8.5   Benefits of Good Corporate Governance

1.   Protection of investor interests and strong capital markets

2.   Studies show clear evidence that good governance is rewarded with a higher market valuation.

3.   Ensures commitment of the board in managing the company in a transparent manner .

8.6   Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept that organizations, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations. This obligation is seen to extend beyond their statutory obligation to comply with legislation. CSR is closely linked with the principles of Sustainable Development, which argues that enterprises should make decisions based not only on financial factors such as profits or dividends, but also based on the immediate and long-term social and environmental consequences of their activities, especially taking into consideration the needs of future generations. It is an integrated combination of policies, programs, education, and practices which extend throughout a corporation's operations and into the communities in which they operate, about how companies voluntarily manage the business processes to produce an overall positive impact on society. CSR can mean different things to different people:

▪   for an employee it can mean fair wages, no discrimination, acceptable working conditions etc.

▪   for a shareholder it can mean making responsible and transparent decisions regarding the use of capital.

▪   for suppliers it can mean receiving payment on time.

▪   for customers it can mean delivery on time, etc.

▪   for local communities and authorities it can mean taking measures to protect the environment from pollution.

▪   for non-governmental organisations and pressure groups it can mean disclosing business practices and performance on issues ranging from energy conservation and global warming to human rights and animal rights, from protection of the rainforests and endangered species to child and forced labour, etc.

For a company, however, it can simply be seen as responding to the needs and concerns of people who can influence the success of the company and/or whom the company can impact through its business activities, processes and products.

The term **corporate citizenship** denotes the extent to which businesses meet the legal, ethical, economic and voluntary responsibilities placed on them by their stakeholders. Companies can best benefit their stakeholders by fulfilling their economic, legal, ethical and discretionary responsibilities. The benefits of "good corporate citizenship" include:
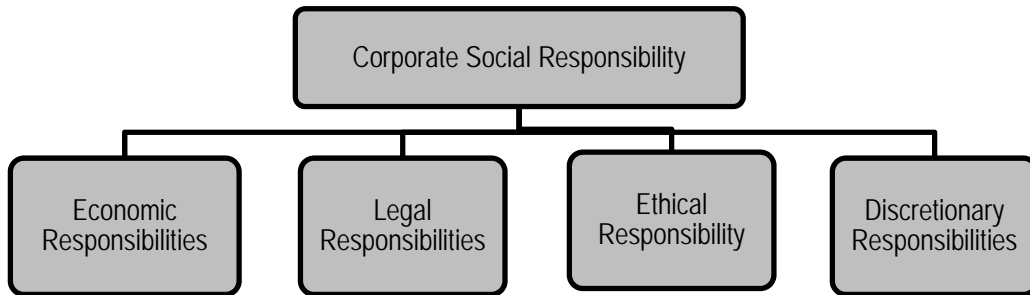
A stable socio-political-legal environment for business as well as enhanced competitive advantage through better corporate reputation and brand image.

improved employee recruitment, retention and motivation, improved stakeholder relations and a more secure environment in which to operate.

8.7   Need for CSR

CSR is pursued by businesses to balance their economic, environmental and social objectives while at the same time addressing stakeholder expectations and enhancing shareholder value. Over the past decade, CSR has risen in global prominence and importance. More companies than ever before are engaged in serious efforts to define and integrate CSR into all aspects of their business, with their experiences being strengthened by a growing body of evidence that CSR has a positive impact on business economic performance.

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                    Corporate Social Responsibility

    Economic         Legal          Ethical        Discretionary
  Responsibilities  Responsibilities  Responsibility  Responsibilities
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New voluntary CSR standards and performance measurement tools continue to grow amidst the ongoing debate about whether and how to formalize legal CSR requirements for companies. Stakeholders, including shareholders, analysts, regulators, activists, labour unions, employees, community organizations, and the news media, are asking companies to be accountable not only for their own performance but for the performance of their entire supply chain. This is taking place against the backdrop of a complex global economy with continuing economic, social and environmental imbalance. Corporate governance scandals such as those at WorldCom, Enron, Daewoo etc. profoundly affected major capital markets worldwide, and placed issues such as ethics, accountability, and transparency firmly on the business, regulation and policy agenda. Additionally, issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights are having a profound effect on businesses and the business environment. While CSR does not have a universal definition, many see it as a way of integrating the economic, social, and environmental necessity of business activities. Social issues with which business corporations have been concerned since the 1960s may be divided into three categories:

(a)   Social problems external to the corporation that were not caused by any direct business action like poverty, drug abuse, decay of the cities and so on.

(b)   The external impact of regular economic activities. For *example* pollution caused by

production; the quality, safety, reliability of goods and services; deception in marketing practices, the social impact of plant closures and plant location belong to this category.

(c) Issues within the firm and tied up with regular economic activities, like equal employment opportunity, occupational health and safety, the quality of work life and industrial democracy.

The second and third categories are of increasing importance and are tied up with the regular economic operations of business. Improved social performance demands changes in these operations.

Corporate social responsibility ensures that corporations promote corporate citizenship as part of their culture. Corporate social responsibility is about businesses transforming their role from merely selling products and services with a view to making profits and increasing their revenue to the development of a society through their abilities of generating capital and investing it for social empowerment.

Definition: "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".[3]

"Corporate Social Responsibility is achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment."[4]

CSR Policies: Corporate Social Responsibility (CSR) refers to operating a business in a manner that accounts for the social and environmental impact created by the business. CSR means a commitment to developing policies that integrate responsible practices into daily business operations, and to reporting on progress made toward implementing these practices.

Common CSR policies include:

• Adoption of internal controls reform in the wake of Enron and other accounting scandals;

• Commitment to diversity in hiring employees and barring discrimination;

• Management teams that view employees as assets rather than costs;

• High performance workplaces that integrate the views of line employees into decision-making processes;

• Adoption of operating policies that exceed compliance with social and environmental laws;

• Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling); and

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[3] "Making Good Business Sense" by Lord Holme and Richard Watts -The World Business Council for Sustainable Development publication .

[4] Business Social Responsibility, a global non-profit organization.

- Taking responsibility for conditions under which goods are produced directly or by contract employees domestically or abroad.

8.8   Key Developments

Several factors have converged over the last decade to shape the direction of the CSR domain:

Increased Stakeholder Activism: Corporate accounting scandals have focused attention more than ever on companies' commitment to ethical and socially responsible behaviour. The public and various stakeholders are increasingly seeking assistance of the private sector to help with myriad complex and pressing social and economic issues. There is a growing ability and sophistication of activist groups to target corporations they perceive as not being socially responsible, through actions such as public demonstrations, public exposes, boycotts, shareholders' resolutions, and even "denial of service" attacks on company websites. Companies are therefore focusing on meaningfully engaging with their various stakeholders. Companies and stakeholders have, in many cases, progressed beyond "dialogue for dialogue's sake," and are looking to rationalize the process.

Proliferation of Codes, Standards, Indicators and Guidelines: The recent accounting scandals, such as, Enron, Worldcome, Parmalat, AIR, LLP and Author Andersen have created another surge of reforms and new voluntary CSR standards and performance measurement tools continue to proliferate.

Accountability Throughout the Value Chain: Over the past several years, the CSR agenda has been characterized by the expansion of boundaries of corporate accountability. Stakeholders increasingly hold companies accountable for the practices of their business partners throughout the entire value chain with special focus on suppliers, environmental, labour, and human rights practices.

Transparency and Reporting: Companies are facing increased demands for transparency and growing expectations that they measure, report, and continuously improve their social, environmental and economic performance. Companies are expected to provide access to information on the impact of their operations, to engage stakeholders in meaningful dialogue about issues of concern that are relevant to either party and to be responsive to particular concerns not covered in standard reporting and communication practice. Many companies are also instituting various types of audit and verification as further means of increasing the credibility of their transparency and reporting efforts.

Convergence of CSR and Governance Agenda: In the past several years, there has been a growing convergence of corporate governance and CSR agenda. In the 1990s, the overlap was seen most clearly on issues such as board diversity, director independence, and executive compensation. The need for having on the board of directors, directors who are non-executive and who are independent i.e., directors who are not involved in the day-to-day administration of the company but who would bring a non-partisan and unbiased approach to a company's policies is emphasized by both CSR and Corporate Governance dictates. In

addition, more and more CSR activists have begun to stress the importance of board and management accountability, governance, and decision-making structures as imperative to the effective institutionalisation of CSR.

Growing Investor Pressure and Market-Based Incentives: CSR is now more and more part of the mainstream investment scene. The last few years have seen the launch of several high-profile socially and/or environmentally screened market instruments (e.g., indexes like the Dow Jones Sustainability Indexes), This activity is a testament to the fact that mainstream investors increasingly view CSR as a strategic business issue. Many socially responsible investors are using the shareholder resolution process to pressure companies to change policies and increase disclosure on a wide range of CSR issues, including environmental responsibility, workplace policies, community involvement, human rights practices, ethical decision-making and corporate governance.

Advances in Information Technology: The rapid growth of information technology has also served to sharpen the focus on the link between business and corporate social responsibility. Just as email, mobile phones and the Internet speed the pace of change and facilitate the growth of business, they also speed the flow of information about a company's CSR record.

Pressure to Quantify CSR "Return on Investment": Ten years after companies began to think about CSR in its current form, companies, their employees and customers, NGOs, and public institutions increasingly expect returns on CSR investments, both for business and society. Companies want to determine what their CSR initiatives have accomplished so that they can focus on scarce resources more effectively.

8.9 CSR Mechanism

Some companies have established committees that are specifically responsible for identifying and addressing social or environmental issues, or have broadened the scope of more traditional standing committees to include responsibility for CSR.; while others have strategically appointed directors on the board based on the unique expertise and experience they bring on specific issues, who then serve as advisors to others on the Board (see Corporate Governance at ITC). Moreover, companies are finding that a board that is diverse in terms of gender, ethnicity and professional experience is better equipped to grapple with emerging and complex challenges.

Companies implement CSR by putting in place internal management systems that generally promote:

Adherence to labour standards by them as well their business partners;

Respect for human rights;

Protection of the local and global environment;

Reducing the negative impacts of operating in conflict zones;

Avoiding bribery and corruption and;

Consumer protection.

Below are some key strategies companies can use when implementing CSR policies and practices-

Mission, Vision and Values Statements: If CSR is to be regarded as an integral part of business decision-making, it merits a prominent place in a company's core mission, vision and values documents. These are simple but important statements that succinctly state a company's goals and aspirations. They also provide insight into a company's values, culture and strategies for achieving its aims.

Cultural Values: Many companies now understand that corporate social responsibility cannot flourish in an environment where innovation and independent thinking are not welcome. In a similar vein, there must also be a commitment to close the gap between what the company says it stands for and the reality of its actual performance.

Management Structures: The goal of a CSR management system is to integrate corporate responsibility concerns into a company's values, culture, operations and business decisions at all levels of the organization.. It is vital to design a structure that aligns the company's mission, size, sector, culture, business structure, geographic locations, risk areas and level of CSR commitment.

Strategic Planning: A number of companies are beginning to incorporate CSR into their long-term planning processes, identifying specific goals and measures of progress or requiring CSR impact statements for any major company proposals.

General Accountability: In some companies, in addition to the efforts to establish corporate and divisional social responsibility goals, there are attempts to address these issues in the job description and performance objectives of employees. This helps everyone understand how each person can contribute to the company's overall efforts to be socially responsible.

Employee Recognition and Rewards: Most companies understand that employees tend to engage in behaviour that is recognized and rewarded and avoid behaviour that is penalized. The system of recruiting, hiring, promoting, compensating and publicly honouring employees can be designed to promote corporate social responsibility.

Communications, Education and Training: Many companies now recognize that employees cannot be held accountable for irresponsible behaviour if they are not aware of its importance and provided with the information and tools they need to act appropriately in carrying out their job requirements. These companies are emphasising the importance of corporate social responsibility internally, have a code of conduct, provide managers and employees with adequate decision-making processes that help them achieve responsible outcomes.

CSR Reporting: Many companies have come to understand the value of assessing their social and environmental performance on a regular basis. Annual CSR reports can build trust among stakeholders and encourage internal efforts to comply with a company's CSR goals.

8.10   External Standards and Other Developments

The increased interest in CSR has been accompanied by substantial growth in the number of external standards produced for business by governmental, non-governmental, advocacy and other types of organizations. These various standards are designed to support, measure, assist in implementation and enhance accountability for corporate performance on CSR issues.

Various performance and reporting standards have been introduced. Some are explained below

The Global Reporting Initiative: is a reporting standard established in 1997 with the mission of designing globally applicable guidelines for preparing enterprise-level sustainability reports including both social and environmental indicators. The GRI is convened by CERES (Coalition for Environmentally Responsible Economies) incorporates the active participation of corporations, non-governmental organizations, international organizations, United Nations agencies, consultants, accountancy organizations, business associations, universities, and other stakeholders from around the world. The Global Reporting Initiative's (GRI) vision is that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its Sustainability Reporting Framework.

AA1000: Launched in 1999, AA1000, based on John Elkington's triple bottom line (3BL) reporting is an accountability standard designed to complement the Global Reporting Initiative's (GRI) Reporting Guidelines with the objective to improve accountability and performance by learning through stakeholder engagement. The AA1000 Stakeholder Engagement Standard (AA1000SES) is a generally applicable, open-source framework for improving the quality of the design, implementation, assessment, communication and assurance of stakeholder engagement. The AA1000 Assurance Standard was launched in 2003 as the world's first sustainability assurance standard and applies to the principles of Materiality, Completeness and Responsiveness.

CSR initiatives in India

Indian companies like Tata and Birla Groups have regularly maintained since several decades a certain level of expenditure for social and charitable causes . Some of the observations made by the Sachar Committee (1978), which was formed by Govt. of India to consider and report on the changes necessary in the form and structure of the Companies Act and MRTP Act. Though there are no Govt. directives or legal compulsions, some progressive companies in India like SAIL, BHEL, MMTC, and ONGC, etc., in the public sector and TISCO, ITC, BATA, etc., in the private sector have ventured into the field of social responsibility reporting since 1980. Companies like Infosys, Wipro, Hero Honda and Bharti Enterprises have taken various initiatives to promote and support the environment, education, health, cultural harmony and welfare in the society.

Social Accountability 8000: SA 8000 is a comprehensive, global, verifiable performance standard for auditing and certifying compliance with corporate responsibility. The heart of the standard is the belief that all workplaces should be managed in such a manner that basic human rights are supported and that management is prepared to accept accountability for this. SA8000 is an international standard for improving working conditions. This standard is based on the principles of the international human rights norms as described in International Labor Organisation conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. The requirements of this standard apply regardless of geographic location, industry sector, or company size.

United Nations Global Compact: The Global Compact is a voluntary international corporate citizenship network initiated to support the participation of both the private sector and other social sectors to advance responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalization. The UN Global Compact was formally launched in September 2000.

Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises: The guidelines were first published in 1976 and updated most recently in June 2004. The guidelines are recommendations addressed by governments to multinational enterprises and are voluntary principles and standards, not legally enforceable. Governments adhering to the Guidelines encourage the companies operating within the countries to observe the guidelines wherever they operate.

The Caux Round Table (CRT): promotes principled business leadership and the belief that business has a crucial role in identifying and promoting sustainable and equitable solutions to key global issues affecting the physical, social and economic environments. The CRT is comprised of senior business leaders from Europe, Japan and North America, and is based in Caux, Switzerland. The CRT has produced "Principles for Business," a document which seeks to express a worldwide standard for ethical and responsible corporate behaviour for dialogue and action by business and leaders worldwide. The principles include the social impact of company operations on the local community, a respect for rules and ethics, support for multilateral trade agreements that promote the "judicious liberation of trade," respect for the environment and "avoidance of illicit operation," including bribery, money laundering, and other corrupt practices.

The Global Sullivan Principles: Introduced in 1999, the Global Sullivan Principles expand upon the original Sullivan Principles, as a voluntary code of conduct for companies doing business in apartheid South Africa. According to Rev. Sullivan, "The objectives of the Global Sullivan Principles are to support economic, social and political justice by companies where they do business; to support human rights and to encourage equal opportunity at all levels of employment, including racial and gender diversity on decision-making committees and boards; to train and advance disadvantaged workers for technical, supervisory and management opportunities; and to assist with greater tolerance and understanding among peoples; thereby, helping to improve the quality of life for communities, workers and children with dignity and equality."

Asian-Pacific Economic Cooperation (APEC) Business Code of Conduct: APEC is known as the primary international organization for promoting open trade and economic cooperation among 21 member countries. The Code, issued as a draft in 1999, is a standard that draws significantly on a variety of other internationally recognized codes and standards. The drafting of the Code was initiated by business leaders from companies operating in APEC countries and is designed to supplement and support companies' existing codes of conduct.

8.11   Benefits of Corporate Social Responsibility

Corporate social responsibility is the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large. Social responsibility becomes an integral part of the wealth creation process - which if managed properly should enhance the competitiveness of business and maximize the value of wealth creation to society. There is a growing body of data, quantitative and qualitative, that demonstrates many benefits of socially responsible corporate performance.

The Iron Law of Responsibility

The institution of business exists only because it performs invaluable services for society. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society's expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society's needs constructively. This is known as the Iron Law of Responsibility. In the long-run those who do not use power in a manner that society considers responsible, will tend to lose it.

Achievement of long term objectives

Businesses have been delegated economic power and have access to productive resources of a community. They are obliged to use those resources for the common good of society which delegated these to them to generate more wealth for its betterment. Technical and creative resources of a business if applied to social problems can help in resolving them. A business organisation, sensitive to community needs would, in its own self-interest, like to have a better community in which to conduct its business. To achieve that, it would implement special programmes for social welfare. The resulting benefits would be:

Decrease in crime

Easier labour recruitment.

Reduced employee turnover and absenteeism.

Easier access to international capital, better conditions for loans on international money markets.

Dependable and preferred as supplier, exporter/importer, retailer of responsibly manufactured components and products.

A better society would produce a better environment in which the business may gain long-term *profit maximisation.*

Enhanced Brand Image and Reputation:

Customers are drawn to brands and companies with good reputations. A company considered socially responsible can benefit both from its enhanced reputation with the public as well as its reputation within the business community, increasing a company's ability to attract capital and trading partners. Proactive CSR practices would lead to a favourable public image resulting in various positive outcomes like consumer and retailer loyalty, easier acceptance of new products and services, market access and preferential allocation of investment funds.

Checks Government Regulation /Controls

Regulation and control are costly to business, both in terms of energy and money and restrict its flexibility of decision-making as failure of businessmen to assume social responsibilities invites government to intervene and regulate or control their activities. Businessmen have learnt that once a government control is established, it is seldom removed even though the warranting conditions change. If these are the facts, then the prudent course for business is to understand the limit of its power and to use that power responsibly, giving government no opportunity to intervene. By their own socially responsible behaviour, they can prevent government intervention.

Helps minimise Ecological Damage

The effluents of many businesses damage the surrounding environment. By their own socially responsible behaviour, they can prevent government intervention if they are proactive in recognising their ecological responsibility towards society. Companies recognize that a strategy for corporate responsibility can play a valuable role not only in meeting the challenges of globalization by mitigating risks domestically and internationally, but also in providing benefits beyond risk management.

Improved Financial Performance

Business and investment communities have long debated whether there is a real connection between socially responsible business practices and positive financial performance A DePaul University study in 2002 showed that overall financial performance of the 2001 Business Ethics Best Citizen companies was significantly better than that of the remaining companies in the Standard and Poor (S&P) 500 Index, based on the 2001 Business Week ranking of total financial performance. The ranking was based on eight statistical criteria, including total return, sales growth, and profit growth over the one-year and three-year periods, as well as net profit margins and return on equity.

Reduced Operating Costs

Some CSR initiatives can reduce operating costs dramatically. For *example,* many initiatives aimed at improving environmental performance, such as reducing emissions of gases that contribute to global climate change or reducing use of agrochemicals also lower costs. Many recycling initiatives cut waste-disposal costs and generate income by selling recycled materials. In the human resources arena, flexible scheduling and other work-life programs that result in reduced absenteeism and increased retention of employees often save costs through increased productivity and reduction of hiring and training costs.

Increased Sales and Customer Loyalty

A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must satisfy customers' key buying criteria, such as price, quality, availability, safety and convenience.

.Increased Productivity and Quality of Work life

Efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-making often lead to increased productivity and reduced error rate in a company. For *example,* companies that improve working conditions and labour practices among their suppliers often experience a decrease in merchandise that is defective or can't be sold.

Increased Ability to Attract and Retain Employees

Companies perceived to have strong CSR commitments often find it easier to recruit and retain employees, resulting in a reduction in turnover and associated recruitment and training costs. Even in difficult labour markets, potential employees evaluate a company's CSR performance to determine whether it is the right "fit".

For *example,* the corporate governance structure of ONGC Ltd. is provided below. The Corporate Governance Structure of ONGC has been chosen to be included, as ONGC has received many awards for best Corporate Governance practices. The structure of this company also complies with Clause 49 requirements as provided in the SEBI's Listing Agreements.