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POSITIVE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON SOCIETY

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Abstract

In India most of the companies raised capital from the market at high valuation of their shares by projecting wrong picture of the company's performance and profitability. The investors suffered a lot due to unscrupulous management of corporate that performed much less than reported at the time of raising capital. The need for corporate social responsibility has arisen as responses to a growing sense of corporate wrongdoing and also for increasing concern about the non-compliance of standards of financial reporting and accountability by boards of directors and management of corporate inflicting heavy losses on investors. Good Corporate social responsibility policy is key to growing Profits and Reputation. Organizations have to rely upon healthy relations with all these stockholders for their survival and growth. Hence they need to provide not only good returns for shareholders but also good jobs for employees, reliable products for consumers, responsible relations with the community and a clean environment. Good corporate social responsibility should look at all stakeholders and not just the shareholders alone. Corporate social responsibility is not something which regulators have to impose on a management, it should come from within. Corporate social responsibility in a organization represents the relationship among stakeholders that is used to determine and control the strategic direction and performance of organizations. Corporate social responsibility is meant to run companies ethically in a manner such that all stakeholders including creditors, distributors, customers, employees, the society at large, governments and even competitors are dealt with in a fair manner. This paper attempts to explain why the good corporate social responsibility movement should generate in the form of widely accepted prescriptions for improvement of business behavior to the satisfaction of the "constituents" of business, i.e. the major stakeholders.

INTRODUCTION

Corporate social responsibility broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and include the rules and procedures for making decisions in corporate affairs. Corporate social responsibility includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Corporate social responsibility practices are affected by attempts to align the interests of stakeholders.

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Corporate social responsibility is a means not an end, Corporate Excellence should be the end. Once, the corporate social responsibility will be achieved, the Indian Corporate Body will shine to outshine the whole world

The concept of **corporate social responsibility** hinges on total transparency, integrity and accountability of the management and the board of directors. The importance of corporate social responsibility lies in its contribution both to business prosperity and to accountability.

In the age of globalization, global competition, good corporate social responsibility helps as a great tool for corporate bodies. It existed from Vedic times as the Highest standards in ArthaShastra to today's set of ethics, principles, rules, regulations, values, morals, thinking, laws etc as good corporate social responsibility.

Different types of CSR

- **Environmental CSR**: focuses on eco-issues such as climate change.
- **Community based CSR**: businesses work with other organizations to improve the quality of life of the people in the local community.
- **HR based CSR**: projects that improve the wellbeing of the staff.
- **Philanthropy**: businesses donate money to a good cause, usually through a charity partner.

IMPORTANT ISSUES IN CORPORATE SOCIAL RESPONSIBILITY

There are several important issues in corporate social responsibility and they play a great role, all the issues are inter related, interdependent to deal with each other. Each issues connected with corporate social responsibility have different priorities in each of the corporate bodies.

The issues are listed as below:

1. Value based corporate culture
2. Holistic view
3. Compliance with laws
4. Disclosure, transparency, & accountability
5. Corporate social responsibility and human resource management
6. Innovation
7. Necessity of judicial reforms
8. Globalization helping Indian companies to become global giants based on good corporate social responsibility.
9. Lessons from Corporate failure

1. Value based corporate culture: For any organization to run in effective way, it needs to have certain ethics, values. Long run business needs to have based corporate culture. Value based corporate culture is good practice for corporate social responsibility. It is a set of beliefs, ethics, principles which are inviolable. It can be a motto i.e. A short phrase which is unique and helps in running organization, there can be vision i.e. dream to be fulfilled, mission and purpose, objective, goal, target.

2. Holistic view: This holistic view is more or less godly, religious attitude which helps in running organization. It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.

3. Compliance with laws: Those companies which really need progress, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange Board Of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, Banking Laws etc.

4. Disclosure, transparency, and accountability: Disclosure, transparency and accountability are important aspect for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance etc. Transparency is needed in order that government has faith in corporate bodies and consequently it has reduced corporate tax rates from 30% today as against 97% during the late 1970s. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don’t shift to other corporate bodies.

5. Corporate social responsibility and Human Resource Management: For any corporate body, the employees and staff are just like family. For a company to be perfect the role of Human Resource Management becomes very vital, they both are directly linked. Every individual should be treated with individual respect, his achievements should be recognized. Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus in Corporate social responsibility, Human Resource has a great role.

6. Innovation: Every Corporate body needs to take risk of innovation i.e. innovation in products, in services and it plays a pivotal role in corporate social responsibility.

7. Necessity of Judicial Reform: There is necessity of judicial reform for a good economy and also in today’s changing time of globalization and liberalization. Our judicial system though having performed salutary role all these years, certainly are becoming obsolete and outdated over the years. The delay in judiciary is due to several interests involved in it. But then with changing scenario and fast growing competition, the judiciary needs to bring reforms accordingly. It needs to speedily resolve disputes in cost effective manner.

8. Globalization helping Indian Companies to become global giants based on good governance: In today’s age of competition and due to globalization our several Indian Corporate bodies are becoming global giants which are possible only due to good corporate social responsibility.

9. Lessons from Corporate Failure: Every story has a moral to learn from, every failure has success to learn from, in the same way, corporate body have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success.

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Mechanisms and controls

Corporate social responsibility mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. There are both internal monitoring systems and external monitoring systems. Internal monitoring can be done, for example, by one (or a few) large shareholder(s) in the case of privately held companies or a firm belonging to a business group. Furthermore, the various board mechanisms provide for internal monitoring. External monitoring of managers' behavior occurs when an independent third party (e.g. the external auditor) attests the accuracy of information provided by management to investors. Stock analysts and debt holders may also conduct such external monitoring. An ideal monitoring and control system should regulate both motivation and ability, while providing incentive alignment toward corporate goals and objectives. Care should be taken that incentives are not so strong that some individuals are tempted to cross lines of ethical behavior, for example by manipulating revenue and profit figures to drive the share price of the company up.

Internal corporate social responsibility controls **:**Internal corporate social responsibility controls monitor activities and then take corrective actions to accomplish organizational goals. Examples include:

Monitoring by the board of directors: The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate social responsibility and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes. It could be argued, therefore, that executive directors look beyond the financial criteria.

Internal control procedures and internal auditors: Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting

Balance of power: The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

Remuneration: Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes,

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however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behavior.

Monitoring by large shareholders and/or **monitoring by banks and other large creditors**: Given their large investment in the firm, these stakeholders have the incentives, combined with the right degree of control and power, to monitor the management. In publicly traded U.S. corporations, boards of directors are largely *chosen* by the President/CEO and the President/CEO often takes the Chair of the Board position for him/herself (which makes it much more difficult for the institutional owners to "fire" him/her). The practice of the CEO also being the Chair of the Board is fairly common in large American corporations.

While this practice is common in the U.S., it is relatively rare elsewhere. In the U.K., successive codes of best practice have recommended against duality.

Importance of Corporate social responsibility

The need, significance or importance of corporate social responsibility is listed below.

So why CSR?

Satisfied employees

Employees want to feel proud of the organization they work for. An employee with a positive attitude towards the company is less likely to look for a job elsewhere. It is also likely that you will receive more job applications because people want to work for you.

More choice means a better workforce. Because of the high positive impact of CSR on employee wellbeing and motivation, the role of HR in managing CSR projects is significant.

Satisfied customers

Research shows that a strong record of CSR improves customers' attitude towards the company. If a customer likes the company, he or she will buy more products or services and will be less willing to change to another brand.

Positive PR

CSR provides the opportunity to share positive stories online and through traditional media. Companies no longer have to waste money on expensive advertising campaigns. Instead they generate free publicity and benefit from worth of mouth marketing.

Costs reductions

Yes, you read this correctly. A CSR program doesn't have to cost money. On the contrary. If conducted properly a company can reduce costs through CSR.

Companies reduce costs by:

- More efficient staff hire and retention
- Implementing energy savings programs
- Managing potential risks and liabilities more effectively
- Less investment in traditional advertising

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More business opportunities

A CSR program requires an open, outside oriented approach. The business must be in a constant dialogue with customers, suppliers and other parties that affect the organization. Because of continuous interaction with other parties, your business will be the first to know about new business opportunities.

Long term future for your business

CSR is not something for the short term. It's all about achieving long term results and business continuity. Large businesses refer to: "shaping a more sustainable society" (Vodafone 2010 report):" Deliver a sustainable society in which business and its stakeholders can prosper in the long term"

Changing Ownership Structure : In recent years, the ownership structure of companies has changed a lot. Public financial institutions, mutual funds, etc. are the single largest shareholder in most of the large companies. So, they have effective control on the management of the companies. They force the management to use corporate social responsibility. That is, they put pressure on the management to become more efficient, transparent, accountable, etc. The also ask the management to make consumer-friendly policies, to protect all social groups and to protect the environment. So, the changing ownership structure has resulted in corporate social responsibility.

Importance of Social Responsibility: Today, social responsibility is given a lot of importance. The Board of Directors have to protect the rights of the customers, employees, shareholders, suppliers, local communities, etc. This is possible only if they use corporate social responsibility.

Growing Number of Scams: In recent years, many scams, frauds and corrupt practices have taken place. Misuse and misappropriation of public money are happening everyday in India and worldwide. It is happening in the stock market, banks, financial institutions, companies and government offices. In order to avoid these scams and financial irregularities, many companies have started corporate social responsibility.

Indifference on the part of Shareholders: In general, shareholders are inactive in the management of their companies. They only attend the Annual general meeting. Postal ballot is still absent in India. Proxies are not allowed to speak in the meetings. Shareholders associations are not strong. Therefore, directors misuse their power for their own benefits. So, there is a need for corporate social responsibility to protect all the stakeholders of the company.

Globalisation : Today most big companies are selling their goods in the global market. So, they have to attract foreign investor and foreign customers. They also have to follow foreign rules and regulations. All this requires corporate social responsibility. Without Corporate social responsibility, it is impossible to enter, survive and succeed the global market.

Takeovers and Mergers : Today, there are many takeovers and mergers in the business world. Corporate social responsibility is required to protect the interest of all the parties during takeovers and mergers.

SEBI: SEBI has made corporate social responsibility compulsory for certain companies. This is done to protect the interest of the investors and other stakeholders

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Wide Spread of Shareholders: Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganized and having an indifferent attitude towards corporate affairs. The idea of shareholders' democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate social responsibility.

Changing Ownership Structure: The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors (foreign as well Indian) and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate social responsibility to build up its image in society.

Corporate Scams or Scandals: Corporate scams (or frauds) in the recent years of the past have shaken public confidence in corporate management. The event of Harshad Mehta scandal, which is perhaps, one biggest scandal, is in the heart and mind of all, connected with corporate shareholding or otherwise being educated and socially conscious. The need for corporate social responsibility is, then, imperative for reviving investors' confidence in the corporate sector towards the economic development of society.

Greater Expectations of Society of the Corporate Sector: Society of today holds greater expectations of the corporate sector in terms of reasonable price, better quality, pollution control, best utilization of resources etc. To meet social expectations, there is a need for a code of corporate social responsibility, for the best management of company in economic and social terms.

Hostile Take-Over's: Hostile take-over's of corporations witnessed in several countries, put a question mark on the efficiency of managements of take-over companies. This factors also points out to the need for corporate social responsibility, in the form of an efficient code of conduct for corporate managements.

Huge Increase in Top Management Compensation: It has been observed in both developing and developed economies that there has been a great increase in the monetary payments (compensation) packages of top level corporate executives. There is no justification for exorbitant payments to top ranking managers, out of corporate funds, which are a property of shareholders and society. This factor necessitates corporate social responsibility to contain the ill-practices of top managements of companies.

Globalisation: Desire of more and more Indian companies to get listed on international stock exchanges also focuses on a need for corporate social responsibility. In fact, corporate social responsibility has become a buzzword in the corporate sector. There is no doubt that international capital market recognizes only companies well-managed according to standard codes of corporate social responsibility.

Conclusion

Corporate social responsibility is a means not an end, Corporate Excellence should be the end. Once, the good corporate social responsibility policy will be achieved, the Indian Corporate Body will shine to outshine the whole world. Further, in the context of liberalization and globalization there is growing realization in the emerging economies

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including India that a country's business environment must be maintained and operated in a manner that is conducive to investors' confidence so that both domestic and foreign investors are induced to make adequate investment in corporate companies. This will be conducive to rapid capital formation and sustained growth of the economy.

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