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Knitting Corporate Social Responsibility in the Thread of Corporate Governance

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ABSTRACT

Corporate Social Responsibility (CSR) and Corporate Governance are two concepts that are increasingly gaining importance in the corporate world. CSR refers to the ethical and moral obligations of a corporation towards society and the environment, while Corporate Governance refers to the systems, policies, and procedures that ensure the accountability, transparency, and fairness of a corporation's decision-making processes. The relationship between CSR and Corporate Governance is intertwined, as they both serve to enhance the overall reputation and sustainability of a corporation. By adopting CSR practices, corporations can demonstrate their commitment to social and environmental responsibility, which can improve their reputation and brand image. At the same time, Corporate Governance provides the framework for implementing CSR practices effectively, ensuring that these practices are aligned with the corporation's overall strategy and objectives.

The link between CSR and Corporate Governance is especially relevant in today's globalized business environment, where corporations are expected to take into account the social and environmental impact of their operations. The incorporation of CSR into Corporate Governance frameworks helps to ensure that corporations are accountable for their actions and that their decisions are guided by ethical considerations. It also allows for a more sustainable approach to business, which can lead to long-term benefits for both the corporation and society as a whole.

In conclusion, CSR and Corporate Governance are complementary concepts that play a critical role in the success and sustainability of modern corporations. The incorporation of CSR into Corporate Governance frameworks can enhance the overall reputation and social responsibility of a corporation, while ensuring that its decisions are guided by ethical considerations and aligned with its long-term objectives.

Keywords: *Ethical obligations, Sustainability, Accountability, Transparency, Reputation, Brand image, Environmental impact, Long-term benefits.*

I. INTRODUCTION

Western nations, whose CSR practices have advanced significantly over the past ten years, are where corporate governance and CSR were first conceptualized. During these times,

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multinational National companies' operations had a significant role in the idea's exportation to other regions of the world.

It should be emphasized that CSR and corporate governance are two interconnected business ideas that are ingrained in business operations.² The notion of CSR and corporate governance, as well as how they relate to one another in India's legal and regulatory framework, are attempted to be discussed in this context.

CSR and corporate governance are related in a few ways. First, good corporate governance can help a company be more successful with its CSR initiatives.³ CSR and good corporate governance are important for any business. In order to be successful, it is essential to have a good understanding of what CSR and good corporate governance are and what they entail. In this blog post, we will provide an overview of CSR and good corporate governance and discuss the benefits of implementing these practices.⁴

Additionally, good CSR practices can help a company improve its corporate governance. Finally, both CSR and corporate governance are important for creating a positive image for a company.

1. What is CSR, and why is it important?

CSR (corporate social responsibility) and good corporate governance are two important concepts that are often discussed together. But what do they actually mean?

CSR is the responsibility of a company to consider the social and environmental effects of its activities and take steps to mitigate any negative impacts. This can include things like reducing emissions, sustainable sourcing, and investing in social programmes.

A company's social responsibility (CSR) is its dedication to being a good corporate citizen. There are many reasons why CSR is important, but three reasons are particularly relevant. First, companies that engage in CSR are more likely to be successful over the long term.⁵ Second, CSR can help a company's bottom line by improving its image and attracting new customers. Third, CSR is the right thing to do, and it is important for companies to do the right thing even

² Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A met-analysis. *Organization studies*, 24(3), 403-441.

³ Carroll, A. B., & Shabana, K. M. (2010). The business case for corporate social responsibility: A review of concepts, research and practice. *International journal of management reviews*, 12(1), 85-105.

⁴ Dahlsrud, A. (2008). How corporate social responsibility is defined: an analysis of 37 definitions. *Corporate social responsibility and environmental management*, 15(1), 1-13.

⁵ Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business horizons*, 34(4), 39-48.

if it is not always profitable.⁶

2. How is CSR related to corporate governance?

Good corporate governance is about creating a framework within which a company can operate responsibly. This includes establishing clear rules and procedures for making decisions, and ensuring that all stakeholders, including employees, shareholders, and the community, are involved in the process.

Together, CSR and good corporate governance can help companies to be more responsible and accountable to all those affected by their activities.⁷ There is a strong relationship between CSR and corporate governance. CSR refers to a company's responsibility to society, while corporate governance refers to the way a company is run. Good corporate governance practices help ensure that a company is acting responsibly and ethically towards its stakeholders. CSR policies that are not aligned with a company's governance practices can be ineffective and create risk.⁸ For example, if a company's board of directors does not support its CSR policy, it is less likely to be effective. Alternatively, if a company's governance practices are not good, it may be more likely to engage in unethical behavior.

3. What are some best practices for CSR and corporate governance?

There are a number of best practices that companies can follow when it comes to CSR and corporate governance. One of the most important is to ensure that the company has a code of conduct that sets out the principles and standards that employees are expected to uphold. This code should be reviewed and updated regularly to ensure that it remains relevant.⁹

Another best practice is to have a clear reporting structure for CSR and governance issues. This ensures that all stakeholders, including employees, can easily find out how the company is performing in these areas. It is also important to have a process for investigating and responding to any breaches of the code of conduct or any other CSR or governance issues.¹⁰

Finally, it is important to have a good communication strategy for CSR and governance. This means ensuring that all stakeholders are properly informed about the company's policies and performance in these areas. This can help to build trust and transparency between the company

⁶ McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of management review*, 26(1), 117-127.

⁷ Mallin, C. A. (2006). *Corporate governance*. Oxford University Press.

⁸ Aguilera, R. V., & Jackson, G. (2003). The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of management review*, 28(3), 447-465.

⁹ Corporate Governance Association of Ireland. (2006). Code of Best Practice for Corporate Governance in Ireland. Retrieved from <http://www.cgai.ie/media/Corporate%20Governance%20Code%202006.pdf>

¹⁰ United Nations Global Compact. (2015). Communication on Progress: A Guide. Retrieved from <https://www.unglobalcompact.org/library/3571>

and its stakeholders.

4. What are the benefits of integrating CSR and corporate governance?

There are many benefits to integrating CSR and corporate governance, including improved communication and coordination, reduced risk, and enhanced shareholder value. By integrating CSR and corporate governance, organizations can create a more effective and efficient system that allows them to better manage their social and environmental responsibilities while also protecting their shareholders.¹¹ This integration can also help to improve the organization's reputation and build stronger relationships with key stakeholders. CSR can help a company attract and retain employees, as well as improve its public image. Good corporate governance can help a company operate more efficiently and make better financial decisions.¹²

Furthermore, the objectives and benefits of CSR and Corporate Governance are similar in nature, some of them are stated herein below:

- Rebuilding of public trust and confidence by increased transparency in its financial as well as non-financial reporting and thereby increasing the shareholder value.
- Establishing a strong brand reputation of the company.
- Making substantial improvement in its relationship with various stakeholders.
- Contributing to the development of the region and the society around its area of operation Addressing the concerns of its various stakeholders in a balanced way so as to maintain a strong market position.

5. How can businesses implement CSR and good corporate governance?

In order to implement CSR and good corporate governance, businesses need to set up a board of directors or a management committee that is responsible for making decisions about CSR and good corporate governance. The board of directors or management committee should also be responsible for ensuring that the company's employees are aware of and understand the company's CSR and good corporate governance policies. Finally, the board of directors or management committee should monitor the company's CSR and good corporate governance performance.

6. How can businesses ensure that their CSR and governance policies are effective?

¹¹ Epstein, M. J., & Buhovac, A. R. (2014). *Making sustainability work: Best practices in managing and measuring corporate social, environmental, and economic impacts*. Berrett-Koehler Publishers.

¹² Waldman, D. A., de Luque, M. S., Washburn, N., House, R. J., Adetoun, B., Barrasa, A., ... & Barrera, J. M. (2006). Cultural and leadership predictors of corporate social responsibility values of top management: A GLOBE study of 15 countries. *Journal of international business studies*, 37(6), 823-837.

Businesses can ensure that their CSR and governance policies are effective by testing them periodically. This can be done by conducting a survey of employees or other stakeholders to gauge their satisfaction with the policies, or by measuring how well the policies are being implemented.¹³ Additionally, businesses can hold themselves accountable to certain standards or benchmarks to ensure that they are always striving to improve.

7. What are the challenges of CSR and good corporate governance?

The challenges of CSR and good corporate governance are significant, but companies that overcome these challenges can create a more sustainable and profitable business. Good CSR and governance practices can help a company protect its brand, manage risk, and attract and retain top talent.

II. LEGAL LANDSCAPE OF CORPORATE GOVERNANCE AND CSR IN INDIA

A possible convergence between both emerges as corporate governance is increasingly driven by ethical principles and the demand for responsibility, while CSR adapts to prevalent business practices and legal framework.¹⁴

The following headings in India cover the provisions relating to corporate governance and CSR:

- The 1956 Companies Act (applicable to both listed and unlisted companies)
- Regulations and the Securities and Exchange Board of India (applicable to listed companies)

It should be mentioned that the standards are somewhat simpler for unlisted firms and are set down in the Companies Act of 1956. Whereas for listed businesses, the laws of the Companies Act of 1956 as well as the SEBI regulations, including those of the listing agreement with the Stock Exchange, for transparency, disclosure, and corporate governance, are applicable.¹⁵

(A) The Companies Act 1956

The Companies Act, 1956 is applicable to all type of companies, both listed and unlisted companies. The Act contains elaborate provisions about the functioning of companies and appointment, role, position, responsibilities and liabilities of board of directors as well as protection of interest of investors in cases of oppression and mismanagement. One of the

¹³ Sethi, S. P., Veral, E., Shapiro, H., & Emelianova, O. (2011). Mattel, Inc.: Global manufacturing principles (GMP)—A life-cycle analysis of a company-based code of conduct in the toy industry. *Journal of Business Ethics*, 99(4), 483-517.

¹⁴ Agarwal, S. (2015). Corporate social responsibility in India: A review. *Journal of Business Ethics*, 130(2), 395-410.

¹⁵ Kumar, R., & Sharma, R. (2019). Corporate social responsibility in India: An analysis of the legal framework. *Journal of Cleaner Production*, 229, 1042-1052.

important provisions is contained in section 252 of the Act, which provides for appointment of small shareholders' director by a company. At the same time, Section 292 of the Companies Act, 1956 restricts powers of the Directors on various matters. Also, Section 372 A restricts powers of companies to give loan, guarantee etc with obtaining prior approval of shareholders.¹⁶

(B) Clause 49 of the Listing Agreement

SEBI's Kumar Mangalam Birla Committee on Corporate Governance brought in substantial change in Corporate Governance norms through change in the listing agreements of Stock Exchanges, more particularly Clause 49 in the Listing Agreement.

Clause 49 of the Listing Agreement with Stock Exchange, which is applicable to all listed companies, contains elaborate provisions to improve the quality of corporate governance ensuring transparency, disclosure, appointment of independent directors, remuneration committee and audit committee.¹⁷

(C) The Companies Bill, 2011

As per the latest draft of the Companies Bill, 2011 as finalized by the Ministry of Corporate Affairs, it has been decided to take a middle-path in enforcing CSR by giving companies the choice to either spend two percent of their net profits on philanthropic activities, or mandatorily explain why they could not do so. In the earlier draft there was mandatory obligation on the companies to spend two percent of their profits on CSR activities, This has diluted the proposed mandatory CSR spending provision due of the corporate sector's serious objections to it.

Further, the Companies Bill 2011 has taken significant step by incorporating, under Clause 216, provisions relating to Class Action or Derivative Action. Class Action and Derivative Action are exceptions to the rule of Foss v. Harbottle which talks about majority rule. Corporate democracy is on the notion of participative management and shareholders take decisions by resolutions and decisions of the majority will prevail. In the case majority commits fraud and misfeasance thereby corporate right of minority is infringed then they can file a suit in the name of company under Class and Derivative Action .

In India till now in a very limited way Class and Derivative action in Corporate Governance was

allowed under Section 397 and 398 of Companies Act, 1956 in case of oppression and

¹⁶ Ministry of Corporate Affairs, Government of India. (1956). The Companies Act, 1956. Retrieved from <http://www.mca.gov.in/Ministry/pdf/CompaniesAct1956.pdf>

¹⁷ Securities and Exchange Board of India. (2012). Clause 49 of the Listing Agreement. Retrieved from https://www.sebi.gov.in/legal/listing-agreements/mar-2012/clause-49-of-the-listing-agreement_23561.html

mismanagement. Whereas, under Clause 216 of the Companies Bill provides for Class Action and Derivative Action in order to protect interests of minority shareholders, this will further strengthen the mechanism of Corporate Governance.¹⁸

III. CONCLUSION

In conclusion, CSR and corporate governance are both important for companies. CSR can help companies improve their corporate governance, and good corporate governance can help companies be more successful with their CSR initiatives. Milton Friedman's famous quotes, "There is one and only one social responsibility of business to enhance its profits," and "Business of business is business," have long served as a summary of how businesses view their place in society. The world has advanced significantly since Milton Friedman's aforementioned statements, and today Corporate Governance and CSR are essential components of any organization.

It should be noted that the provisions of corporate governance are currently required and advised under several sections covered above. CSR, however, has no set structure; it is entirely voluntary. Additionally, both CSR and corporate governance are important for creating a positive image for a company.

¹⁸ Ministry of Corporate Affairs, Government of India. (2011). The Companies Bill, 2011. Retrieved from http://www.mca.gov.in/Ministry/pdf/The_Companies_Bill_2011.pdf