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# The Impact of Socio-Cultural Environment in Corporate Governance

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## ABSTRACT

*The importance of understanding the role of culture in corporate governance is increasing day by day on an exponential basis to say the least. Today, no structural study of corporate governance processes can be complete without taking into account the societal context in which they exist and operate in the business world which is consequently and intricately influenced by a variety of factors. Businesses do not live in a bubble, and even the most competitive must be mindful of shifts in the traditions and environments in which they operate. Businesses must grow to keep ahead of their rivals and still hold importance in the eyes of their customers as society and culture intertwine and evolve. This article offers an analysis of various perspectives on how society and culture interact with the law, particularly corporate law, to form corporate governance in alliance with socio-cultural factors, to help understand corporate governance in its diversity and persistence towards such factors. The fundamental principles of cultural interpretation are explained primarily, along with the fundamental principles of cultural analysis, as well as common ideas of cultural aspects and social networks as social capital.*

*The Corporate Governance legislation is nothing more than a collection of laws designed to regulate the behaviour of a company and the persons that hold managerial positions i.e. board members. In a hypothetical perfect world, corporate governance laws can be converged across nations, regardless of cultural variations. However, this does not work in practise. Since Corporate Governance laws are essentially rules of behaviour, they must balance the "legal" with the "socio-cultural profiles of the society in which the rules must work. Thus this article reviews current research on the effects of culture on corporate governance on issues such as legal transplants, corporate objectives (corporate social responsibility), relationships with investors and other stakeholders through disclosure and dividend distribution, executive compensation, and the operation, composition, and network structure.*

**Keywords:** *Culture, Corporate Governance, Traditions, Societal Capital, Corporate Social Responsibility.*

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## **I. INTRODUCTION**

The importance of understanding the role of culture in corporate governance is increasing day by day on an exponential basis to say the least. Today, no structural study of corporate governance processes can be complete without taking into account the societal context in which they exist and operate in the business world which is consequently and intricately influenced by a variety of factors. Businesses do not live in a bubble, and even the most competitive must be mindful of shifts in the traditions and environments in which they operate. Businesses must grow to keep ahead of their rivals and still hold importance in the eyes of their customers as society and culture intertwine and evolve. This article offers an analysis of various perspectives on how society and culture interact with the law, particularly corporate law, to form corporate governance in alliance with socio-cultural factors, to help understand corporate governance in its diversity and persistence towards such factors. The fundamental principles of cultural interpretation are explained primarily, along with the fundamental principles of cultural analysis, as well as common ideas of cultural aspects and social networks as social capital.

The Corporate Governance legislation is nothing more than a collection of laws designed to regulate the behaviour of a company and the persons that hold managerial positions i.e. board members. In a hypothetical perfect world, corporate governance laws can be converged across nations, regardless of cultural variations. However, this does not work in practise. Since Corporate Governance laws are essentially rules of behaviour, they must balance the "legal" with the "socio-cultural profiles of the society in which the rules must work. Thus this article reviews current research on the effects of culture on corporate governance on issues such as legal transplants, corporate objectives (corporate social responsibility), relationships with investors and other stakeholders through disclosure and dividend distribution, executive compensation, and the operation, composition, and network structure.

## **II. THE INTERPRETATION OF SOCIO-CULTURAL ENVIRONMENT**

Understanding the role of culture in corporate governance has become increasingly important since the latter term appeared in the late 1980s, and particularly since the emergence of comparative corporate governance research in the 1990s. When connections to culture were first made, they were mostly intuitive and impressionistic. Also those references, however, demonstrated a recently discovered understanding of the concept of corporate governance as a dynamic institution whose composition and operation are dependent on factors other than law and economics. The introduction of dimensional models of culture - a theoretical paradigm established mainly in social science - is partially responsible for this sea shift. Primarily, culture

interacts with the law (particularly corporate law) to form corporate governance, and this can assist in understanding diversity and persistence in corporate governance. Law and finance theory are sometimes used to describe differences in corporate governance regimes. It has been proposed that the basic concepts that underpin their respective legal structures define corporate rules and therefore corporate governance regimes (e.g., civil or common law). This so happens because of the strong connection between corporate governance and the legal system, law and finance theory has been used to describe numerous corporate governance systems around the world. The legal roots principle holds that common law countries and their corporate governance structures (i.e., minority investor rights, dispersed ownership, and takeover activity) are associated with stronger economic results than civil law countries. Higher investor security leads to more effective resource deployment.

Though it is difficult to describe 'socio-cultural profile' in its entirety, it should be described as the sum of all factors that affect human behaviour, such as level of honesty (including intellectual honesty) and dignity, freedom of thinking and forthrightness, economic considerations, social welfare, family responsibilities, prevalent social hierarchy, and so on. A company's sociocultural context consists of traditions and values that guide business activities. It is shaped by the ethnic patterns of its leaders, as well as those of their leaders. This is clear from the company's strategy and mission statement. The Socio-cultural climate policies of an organisation represent its importance. An organisation with a strong family-focused community, for example, can have more employment incentives that reflect this importance. This company will provide flex-time, maternity leave, and day-care programmes or discounts to all its staff, both father and mother.

Perhaps the most challenging aspect of incorporating culture into institutional study is its sophistication, which makes it difficult to develop tractable, testable theories about its function. Cultures are complex, multi-dimensional structures with long histories. On the one hand, this diversity allows everyone to see something appealing about a different community and say a compelling tale about it. The complexities of culture, on the other hand, can cause an outsider to ignore the facts and consider culture as a "black box," but this approach is essentially the same as the former. A framework for operationalizing culture, that is, defining variables with which cultures can be interpreted and compared, is needed for a substantive, systematic analysis of informal institutions. Cross-cultural psychology has come a long way in terms of establishing a system for comparing societies. When it comes to regulating human behaviour, all cultures face related basic issues or challenges, according to a popular postulate in cross-cultural psychology. Individuals' importance emphases are expressed, among other factors, in

cultural reactions to basic challenges that societies face. Since values vary in significance, dimensional models may be used to classify cultures based on the relative importance assigned to these values in the community. As a result, cultures or nations develop distinct cultural profiles.

### **III. SOCIO-CULTURAL FACTORS AFFECTING CORPORATE GOVERNANCE**

The social system and history of a society have a significant impact on how its corporate practises operate. Each society has its own culture, which is comprised of its members' traditions, ideals, behaviours, interests, practises, languages, and other ways of contact. Any company wishing to access the market for its goods and services must be highly sensitive to the cultural sensitivities of the people concerned. The way businesses operate will also have an effect on the social system. Business technologies, knowledge sharing, and dissemination of information about new ideas, among other things, can result in major socio-cultural changes in society. However, changing different aspects of the social atmosphere in the short term is very complex, if not impossible. A society's culture evolves over time, and businesses cannot continue to disregard this reality; otherwise, they risk receiving a cold response from their target customers. As a result, the company must respond to a socio-cultural world that is increasingly uncontrollable. Even the most profitable companies must be mindful of developments in the traditions and economies in which they intend and continue to operate. Businesses must grow to keep ahead of their rivals and at the same time hold dignified care to these factors in the eyes of their customers as society and culture evolve together. Some crucial and common factors which exude societal and cultural change in the era of corporate governance are listed and elaborated as follows:

#### **(A) Changing Preferences of the Customers**

Public tastes and Preferences are a significant socio-cultural force affecting companies and corporate decisions. Commodities and services which were common, fashionable or in demand even 5 years ago may no longer be popular today or in the next year. Different demand and styles which have a tendency to change rapidly may jeopardise the long-term success of products and services. An apparel manufacturer, for example, must be actively mindful of shifting tastes when developing new designs, or it can soon become obsolete. A telecom service provider must be mindful of the data and calling services to be offered which will have to be in accordance of the preferences of the customers as well as the profit mechanism of the telecom company.

#### **(B) Change in Demographics**

Demographic characteristics refer to the population's scale and composition. In certain cases, the absolute population size of a nation is a significant factor in deciding the size of the domestic industry. However, the true scale of every demand is dictated by the essence of the population composition. As a result, demographic indicators such as population size and growth rate, life expectancy, age ratio, sex composition, ethnic composition, rural-urban population spread, income differentiation levels, educational levels, family size, family life cycle, profession, religion, nationality, and so on are all important to industries. Demographic shifts are still a major influence in the corporate world. Markets for mainstream music and apparel, for example, may diminish as income demographics mature, whereas markets for luxury goods and health items may grow. Changes in the number of men and women, as well as various cultural, social, and ethnic communities within a community, will all have an effect on how an organisation operates.

### **(C) Advertising Techniques**

Advertising is a form of commercial communication in which a product, service, or concept is promoted or sold through the use of a publicly endorsed, non-personal message. Advertising differs from public relations in that the advertiser pays for the message and retains power of it. Advertising is probably the market sector that is most sensitive to socio-cultural shifts. Advertisement always aspires to be 'hip' and trendsetting, and in order to achieve so, advertising companies and departments must have an eye on the pace of the communities in which they operate. When designing outward-facing ads, changes in morals, ideals, and fashions must all be taken into account. Changes in advertising have a significant effect on a company's viability, continuity, and development. Any shift in advertising and how it is done will almost certainly impact the market for the company's goods and services, and therefore its profitability.

### **(D) Internal Environment**

A business' investment decisions are influenced by a variety of internal environmental considerations. The organization's mission and priorities, ethical principles, organisational structure, physical assets, and other considerations are among them. Socio-cultural considerations influence a company's internal decision-making mechanism in addition to its relationships with the industry and its clients. Changes in gender roles and a greater focus on family life, for example, have resulted in an uptick in organisational respect for maternity and even paternity leave. As a result of socio-cultural shifts, attitudes toward racial inequality and sexual harassment have shifted significantly over time.

### **(E) Ecological and Physical Environment**

The climate and ecology play a significant role in the success of every company. This is particularly true for engineering and development firms. Let's take global warming as an example. In certain places, this shift in our physical climate has begun to affect rainfall. This, in fact, will damage crops, resulting in a scarcity of raw materials such as jute, cotton, and rubber. Weather patterns, topographical features, geographic location, climate change, and other environmental factors all play a significant role in a company's macro world.

Since the essence of the business world is dynamic, nuanced, and multifaceted, and since it has a far-reaching effect on the organization's sustainability, continuity, and development, it is critical for any business entity to consider and continuously track its social and cultural variables in the pre-existing environment. This would enable the business strategists to adjust to developments and make the most of their internal capital at any given time. These real or future shifts in the environment provide the requisite insights for strategic choices that promote socio-cultural bonds in the right direction.

## **IV. CONCLUSION**

To summarise the entire concept of influence which socio-cultural factors hold over business entities, it can be aptly deduced that the value of recognising the role of culture in business management is growing dramatically every day, to say the least. Nowadays no systemic analysis of corporate governance systems can be completed without taking into consideration the social context in which they occur and function within the industry, which is consequentially and closely affected by a number of factors. A company's sociocultural context is inclusive of the norms and values that govern corporate activities. It is formed by its founders and their leaders' demographical characteristics. This can be evidently seen and felt in the vision and mission statement of the organisation. It is in its socio-cultural policy that the ethical values and the thinking structure of a business organisation, as a whole, is mirrored. In the workings of its corporate practises, the social system and tradition of a company have a strong impact. The traditions, values, attitudes, beliefs, practises, languages and other interactions among members of society are a part of every society. Any company that wishes to penetrate markets with its goods and services must take the cultural sensitivities of the culture concerned with incredible caution. Social movements, fashion and entertainment, both of which we would term "social and cultural influences," are examples. These influence our behaviours, views, vision, awareness and interest and affect how we see a good or service. In essence, this will affect the revenue and strategies of a company. The socio-cultural factors can significantly

affect a company's potential to compete in any selected area and identifying and understanding these factors and their critical impact on the business world is the duty of every organisation.

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