Corporate Sustainability through Social Responsibility and Governance - An Empirical Study

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***Abstract*: Corporate Governance is increasingly applied to an extended form of monitoring corporate activities that include the impact on society and the natural environment. This additional responsibility was taken by companies to shoulder addition responsibilities in new ways. A sustainable approach to corporate governance can be a source of competitive advantage and a long-term success factor for any firm. Sustainable governance requires that the board of directors consider economic, social and environmental expectations in an integrated way.**

The main aim of this article is to understand the process of convergence of corporate governance and social responsibility. The article describes the evolution of outsider and insider systems in the light of the increasing importance of sustainability in the board's decision- making and firm's operation to satisfy the needs of all the company's stakeholders. The article aims to be a theoretical starting point for future research, the findings of which could also have practical implications; the study encourages the policy makers to translate the sustainable business best practices into laws and recommendations, strengthening the mutual influence between formal and substantial convergence.

***Keywords*: Corporate Sustainability, Corporate Social Responsibility, Governance, Environment, Stakeholder's, Convergence.**

1. Introduction

'Together may we be protected? Together may we be nourished? Together may we work with great energy? May our journey be brilliant? May there be no bad feelings and effective between us May there be peace all round'… Katoupanished

The business of business is no longer just business. The theory behind the origin of Corporate Social Responsibility is growth oriented. It says that the income is earned only from the society and therefore it should be given back. Companies have to report non- financial performance to stakeholders.

CSR has been defined as companies integrated social and environmental concerns in their daily business operations and in their interaction with their stakeholders on a voluntary basis. The argument that CSR is not the area of concern of business corporations and that is only for individuals and governments reasoning that it is the returns to the shareholders that matters, does not stand in the modern world. There is a need to develop a synergy between company law and environmental law.

The first formal initiative from the Indian Government came in the form of the CSR voluntary guidelines 2009. The new National Voluntary Guidelines on social environmental and economic responsibilities and Business (ESG guidelines) which represents a significant and substantial effort in enhancing the protection of stakeholder interests in the corporate sector have been formed. The guidelines use the terms 'Responsible Business' instead of CSR. It has identified 9 core principles and emphasizes that responsible business alone will be able to help India to meet its ambitious goal of inclusive and sustainable all around development, while becoming powerful global economy by 2020.

The Companies Act 2013, introduced a provision for Corporate Social Responsibility. With this, India would become the first country to mandate CSR through statutory provisions. It will be mandatory for private sector companies to earmark 2% of their average net profit for CSR initiatives. However, the Government is going to mandate companies on what needs to be done as far as CSR activities are concerned. The aim of this clause is to encourage private sector companies to undertake social welfare initiatives voluntarily; the entities will have to make public disclosure of their spending on CSR activities. Business needs to contribute to communities around them in particular and to our country in general.

2. Evolution of corporate sustainability in India

India has the world's richest tradition of CORPORATE SOCIAL RESPONSIBILITY. The term CSR may be new, but the concept is being used from Chandragupta period when CHANAKYA introduced this system back, philosophers like Kautilya emphasized on ethical practices and principles while doing business. This system is being practiced in INDIA since ancient times in form of charity to the poor. Indian scriptures have also mentioned importance of sharing one is earning for the betterment of society. We have deep-rooted culture of sharing and caring. The evolution can be divided into four phases.

The first phase was driven by noble deeds of charity. Maharajas and royals started it; later it became family values, traditions, culture, and religion. Later wealthy businesspersons shared their riches by constructing temples and religious institutions, gradually in 1900s the industrialist like Tatas, Birlas, Modis, Godrej, Bajas, and Singhanias promoted this concept through charity, educational and healthcare instititions, and trust and for community development.

The second phase was during independence when Mahatma Gandhi asked industrialists to contribute and build trusts for colleges, research and training institutes. He gave this concept name of trusteeship, which helped in social reforms like rural development, women empowerment and education...

The third phase was influenced by the emergence of Public sector undertakings to ensure distribution of wealth because the policy of industrial licensing, high taxes lead to corporate malpractices, so then the national workshop was conducted which laid stress on social accountability and transparency.

The fourth phase was when Indian companies integrated CSR into a business strategy. With globalization, privatization, liberalization there was boom in the economic growth of the country. In the current scenario in INDIA, the new companies act amended in December 2012 says that companies with a turnover of 1000 cr/ PAT of 5 cr/ or net worth of 500 cr has to spend 2% of their average net profit towards CSR.

Business has the responsibility as well as the potentiality to lead humanity and earth towards a sustainable future. Sustainability is a long –term vision that characterizes socially responsible companies and that refers to a concept of global corporate responsibility including legal, economic, social and Environmental aspects. Companies in India have recently begun to focus on improving energy efficiency even though the motivating factor behind this effort is financial benefit because of cost savings. This approach implies the balance of interests of all those who contribute to the current and future company's success, by means of sustainable value creation that satisfies both shareholders and other stakeholders in the long term.

Several studies investigated the possible links between corporate governance structures and corporate sustainability, showing the importance of the board's approach to these matters. Furthermost, the board's commitment to sustainability is crucial for sharing the same culture throughout the entire organization. Therefore, the board's commitment and sustainable corporate engagement- reflected in goals, strategies, operational activities and accountability- can be a factor in overcoming the traditional differences in corporate governance structures.

3. Corporate governance distinguished from CSR

Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. CSR is concerned with holding a balance between economic and social goals and between individual and commercial goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a frame and outside, consequently behaving socially; responsibility will increase the human development of stakeholders both within and outside the corporations.

The fundamental principle of Sustainable Development agreed by the whole community are:

1. Principle of intergenerational equity: need to preserve natural resources for future generation.
2. Principle of sustainable use: use of natural resources in a prudent manner without or with minimum tolerable impact on nature.
3. Principle of equitable use: use of natural resources by any state/country must take into account the impact on other states.
4. Principle of integration: environmental aspects and impact of socio-economic activities should be integrated so that prudent use of natural resources is ensured.

4. Statement of the problem

- CSR practice has become trend rather than responsibility as companies want to gain name and more profit through CSR practice, this will turn into a problem in near future as not every companies follow CSR.
- Companies are by far the greatest offenders of environmental degradation not only because they are the largest consumers of natural resources but also because they are copious polluters of the environment for such a scenario.
- Companies in India have recently begun to focus on improving energy efficiency even though the motivating factor behind this effort is financial benefit because of cost savings.

5. Scope of the study

This study is based on top five Indian Companies reports based on their contribution towards Corporate Sustainability through Corporate Social Responsibility. Following are the Companies on which study is being conducted based on past 3 years – Tata Group, Reliance Industries, ITC Group, Mahindra and Mahindra, Ultratech Cement.

6. Objectives of the study

The objectives of the above stated topic are as follows:

1. To know concept of CSR and development phases.
2. To know mandatory CSR and procedure.
3. To know various programs through which company can discharge CSR and make best practice of CSR.
4. To know current scenario of listed companies.

7. Methodology

- The purpose of this study is to know the CSR practices in India, mandatory provisions under New Companies Act, and to analyses the voluntary guidelines of the Central Government.
- The empirical study included discussions with corporate personnel, academicians and others. The structured and semi structured interviews were held over phone from Bangalore. The secondary data was collected from Books, Journals, internet, Newspapers, and from other records such as Companies amendment Bill, Listing Agreement, Voluntary guidelines of the Central Government.
- The paper focuses on overall perception rather than assessing the practical application of social and environmental standards. It covers a limited geographical area. The responses are bias towards self- selection, is likely to lead to a general overestimation of companies CSR engagement and commitment.

8. Government initiatives

The first formal initiative from the government came in the form of the CSR voluntary guidelines 2009. The new national voluntary guidelines on Social, Environmental and Economic responsibilities of business, which represents a significant and substantial effort in enhancing the protection of stakeholder interests in the corporate sector, have been framed. The core principles are:

1. Businesses should conduct and govern themselves with ethics, transparency and accountability;
2. Business should provide goods and services that are safe and contribute to sustainability throughout their life cycle;
3. Business should promote the well- being of all employees;
4. Business should respect the interests of, and be responsive towards all stakeholders, especially those who are vulnerable;
5. Business should respect and promote human rights;
6. Business should respect, protect and make efforts to restore the environment;
7. Business when engaged in influencing public and regulatory policy should do so in a responsible manner;
8. Business should support inclusive growth and equitable development.

9. Companies act and provisions in the listing agreement

Every Company having net worth of Rupees 5000 crores or more, or turnover of rupees 1000 crores or more or a net profit of rupees five crores or more during any financial year shall constitute a CSR Committee of the Board. The CSR Committee shall formulate and recommend CSR policy, which shall indicate the activity or activities to be undertaken by the company as specified in schedule VII and shall recommend the amount of expenditure to be incurred on the CSR activities. The Board of every company shall ensure that the company spends in every financial year at least 2% of the average net profits of the company made during the three immediately preceding financial years in pursuance of its CSR Policy. The Listing Agreement\ LODR provides that the Audit Committee, Independent Directors of the company and other directors are responsible for compliance of the provisions of the law.

10. Observations and findings

CSR OF TATA GROUP

TATA GROUP is an Indian multinational conglomerate holding company headquartered in Mumbai. It is one of the largest conglomerates and its products are airlines, automotive, consumer goods, financial services, healthcare, real states, steel, telecommunication.

Activity 1- They have spent in excess of Rs 1,000 crore on CSR activities over past 3 years.

Activity 2- The TATA GROUP also runs a group CSR programmer called TATA STRIVE that equips communities with in formation, technology and the capacity to achieve improved health, education and livelihood outcomes.

Activity 3- TATA GROUP CSR spend crosses Rs 660 Crore in 2013-14. Over the decade, their spending has been in excess of Rs 8,000 crore.

ULTRATECH CEMENT

Ultratech Cement, India’s biggest cement company and India’s largest exporter of cement and manufacturing which is based in MUMBIA.

Activity 1- The group spends in excess of Rs. 250 crores annually. Inclusive of all running of 20 hospitals and 56 schools.

Activity 2- They run pulse polio programmer, healthcare centers, reproduction and child health care.

Activity 3- They also run widow re-marriage / dowry-less mass marriage, women empowerment, skill development training, integrated agriculture development.

MAHINDRA & MAHINDRA

Mahindra and Mahindra Limited is an Indian multinational car-manufacturing corporation headquartered in Mumbai.

Activity 1- They have spent around 300 crore in past three years.

Activity 2-Mahindra’s product innovation mantra is to achieve organizational profitability, environmental responsibility, and social accountability. Mahindra’s mobility products necessarily have to pass the 5c test; clean, convenient, connected, clever, and cost- effective. Examples include Reva, the electrical scooter, which offers better fuel efficiency.

Activity 3-Project Hariyali- Under this initiative, Mahindra commits to planting a million trees every year.

ITC GROUP

ITC Group, a Conglomerate based in Kolkata. Its diversified business includes five segments: Fast Moving Consumer Goods, Hotels, Paperboards, and Packaging, Agri Business and Information Technology.

Activity 1- They have spent 250 crores in past three years.

Activity 2-They include areas such as eradication of hunger and poverty, promotion of education, promoting gender equality, improving maternal health, promotion of arts and culture.

CSR OF RELIANCE

Reliance Industries Limited is an Indian conglomerate holding company headquartered in Mumbai. Reliance owns businesses across India engaged in energy, petrochemicals, textiles, natural resources, retail, and telecommunications.

Activity 1-Reliance Industries shelled out Rs. 1500 crore on past three years.

Activity 2- The efforts of the group have already touched the lives of more than 12 million people across India in more than 10,500 villages and 50 urban locations.

Activity 3- Urban renewal, 528 students were given scholarships to pursue higher studies, over 5-lakh health consultations provide to patients.

11. Limitations

- Any research study suffers from certain limitations. This study is no exception to this, it suffers from limitations such as that, the information was not forth coming readily, as the respondents; himself or herself have no experience on the subject.
- The CSR policy and CSR guidelines have yet to be practiced, and has its own ramifications.
- The tax implications, the impact on price structure have yet to be analyzed and detailed guidelines are yet to come from the Government.
- The accounting implications and the impact on the CSR activities on the society have to be experienced.
- It is premature to arrive at the proper research findings. The data was collected from the respondents by Delphi method. The responses may be biased and may be based on the theoretical knowledge.

12. Analysis

Majority of the respondents have expressed that 2% of the net profits for CSR was not sufficient. It must be enhanced to take up activities that are beneficial to the society in the end. They are of view that depending upon the profits earned a slab rate to be fixed so that will be sustained corporate social activities. Tata Company exist because of society. They spend huge amounts on activities voluntarily, which are beneficial to the Society. As regards constitution of CSR Committee at the Board level, it was opined that there are already 12 committees of the Board and it enhances the responsibilities of directors in particular the responsibilities of independent directors, leading more legal compliance and governance.

Banks and financial Institution may consider offering its clients a whole range of products and services related to sustainability. An overview for sustainability products that can be offered are:

- Environment risk assessment
- Environment loans
- Micro credit
- Environment funds
- Environment leasing
- Environment insurance
- Environment advice services

The CSR policy of the business entity must include vision defining the purpose of the company, initiatives, and its goal. CSR is no more an expenditure but an investment for longevity and sustainability of the enterprise. Companies may collaborate with local authorities, business association and society, NGOs etc. Many top companies have channelized their CSR by establishing foundations. (Canara bank, Reddy's laboratories limited, Tata group companies etc.). The guidelines on CSR, for Central Public Sector Enterprises (March 2010) have made CSR allocation of funds mandatory. A PSU with a net profit of less than RS. 100 crores are required to allocate 3%-5% of its net profit on CSR. Companies with RS. 100 crores to RS. 500 crores, a year are required to earmark 2%-3% and those companies with an n net profit of Rs. 500 crores and above is required to set aside 0.5%-2% on CSR. It was noticed that majority of the companies have a policy for prevention of sexual harassment and protection of women rights. It was also found that m any public and private sector enterprises, banks have the practice for employee welfare and care for differently abled people. It is noted that the board of directors is the real promoter of both corporate sustainability and substantial convergence between insider and outsider of stakeholders.

13. Conclusion

A concern for social and environmental development should be made a part of every corporate entity though its inclusion in the annual agenda backed by strong and genuine programme. It is up to the lobbying groups and government agencies to convince the corporate power houses to come forward and take up the challenge by making them aware of the associated advantages that these companies stand to gain from CSR

The policies formulated as per ESG guidelines must be displayed at prominent places, so that the stakeholders are aware of company's policies and different levels of management participate in framing and implementing the policies. Majority of public sector companies have formulated CSR policies. Whereas only a few companies like Infosys, Mahindra and Mahindra limited, Maruthi Suzuki limited have CSR policies. The Companies must ensure that CSR policies must synchronize with its business objectives mission and vision.

Business should take measures to conserve natural resources and prevent pollution. Business should utilize the trade and industry chambers and Association to advocate the policy and ESG guidelines. Business must take measures to promote wellbeing of the customers. Business advertisement should not mislead or confuse the consumers. They should not violate any of the principles, guidelines of the Government.

The argument that CSR is not the area of concern of business corporations and that is only for individuals and government reasoning that it is the returns to the stakeholders that matter, does not stand in the modern world. The theory behind the origin of CSR is growth oriented. It says that the income is earned only from the society and therefore it would be given back. Self and public mean the wealth for use. To become good corporate citizen companies, have to take care of the concerns of stakeholders who have a direct or in direct impact on company's practices and performances. Corporate citizenship is about companies taking into account their complete impact on society.

The business will change faster; the issues will become more complex and CSR will continue to be one of the most challenging aspects of business activities. Sustainability, efficiency and inclusive growth are today corner stone of policy process particularly in the context of growing range of economic, social , environmental and governance issues in the main stream of business and professional thinking .The corporate boards are being sensitized to sustainability and in that context the need to ensure a high degree of sustainability in earnings, values, human and other resources and the environment in which the companies operate is gaining prominence

T0 quote Mr. Azim Premix, chairman, Wipro Limited 'He strongly believed that those of us who are privileged to have wealth should contribute significantly to try and create a better world for the millions who are for less privileged'.

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