CORPORATE GOVERNANCE AND CSR PRACTICES IN INDIA AND ITS IMPACT ON THE SHAREHOLDERS AND STAKEHOLDERS (WITH SPECIAL REFERENCE TO PSU'S AND PRIVATE COMPANIES)

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Abstract: The concept of Corporate Governance is primarily based on complete transparency, integrity and accountability of the management with greater focus on investor's protection and public interest. It is the set of rules which are created for deciding the company's performance and direction. This study proposes to assess Corporate Governance and CSR Practices in India and its impact on shareholders and stakeholders of the company with special reference to Public and Private Sector Companies and also gives a summary of how Corporate Governance and CSR Practices influencing the present economic condition and its impact on the shareholders and stakeholders in India.

INTRODUCTION:

Corporate Social Responsibility, also known as Corporate Citizenship and Corporate Conscience is one of the most important issue and development in the 21th century. It is an extended from of CSR which covers company's contribution in terms of philanthropic activities (Khurana, Yadav & Rai, 2014). It involves management of business processes by the companies to create a voluminous impact on the society. Although, the concept of CSR has evolve and changed over a period of time, it pervades in all types of organizations, at all times, as societies always expect a good and socially responsible behaviour from the corporations. The term CSR was first mentioned and defined in the publication 'Social Responsibilities of the Businessman' by William J, Bowen in 1953. However, it started receiving attention of the researchers and policy makers in 1960's that the nature and scope of CSR was widened and the focus shifted from 'stockholders' to 'stakeholders' encompassing customers, suppliers, investors, political groups, trade associations, employees, communities and the government. Since then, CSR is perceived in the same context i.e. fulfilling responsibilities towards various stakeholders in the society.

CSR has gone through many phases in India. The ability to make a significant difference in the society and improve the overall quality of life has clearly been proven by the corporate. Not one but all corporate should try and bring about a change in the current social situation in India in order to have an effective and lasting solution to the social woes. Partnerships between companies, NGOs and the government should be facilitated so that a combination of their skills such as expertise, strategic thinking, manpower and money to initiate extensive social change will put the socio-economic development of India on a fast track.

In the context, the World Business Council for Sustainable Development (WBCSD) (1998) has defined CSR as, "the continuing commitment by business to behave of the workforce and their families as well as of the local community and society at large" (Holmes & Watts, 2000).

The above definition focuses on the workforce and local community and ignores the stakeholders' aspect. Taking a comprehensive view, the Commission of the European Communities (2002) has defined CSR as, "a concept whereby companies voluntarily imbibe social and environmental concerns in their business operations and their interactions with the stakeholders".

OBJECTIVES OF THE STUDY:

- To develop an understanding of concept of Corporate Governance and CSR
- To examine and analyze the standard of Corporate Governance and CSR Practices of PSU's and Private Sector Companies under study in India.
- To analysis the CSR landmark initiatives in India.
- To provide findings and suggestions

HYPOTHESIS OF THE STUDY:

- Corporates which are pioneer in adopting Corporate Governance and CSR Practices have created goodwill in the minds of shareholders and stakeholders.
- The companies in Private sector are more concerned about Corporate Governance and CSR Practices as compared to their counterparts in public sector.

- There has been a difference in the approach of PSU's and Private sector on the issue of adherence to the compliance of Corporate Governance and CSR Practices.

RESEARCH METHODOLOGY:

The present research work is a Descriptive and Empirical in nature and based on both Primary and Secondary data. The theoretical framework of the study is basically developed from Secondary sources of information such as: Journals, News Papers, Media Reports, and Magazines. The Sample Size for the study was 500 Companies (by gross revenues for FY17-18) listed companies. To examine the extent and type of Corporate Governance and CSR Practices adopted by the industries under study certain landmark initiatives have been studied through Annual Reports, Articles in Magazines, News Papers, and Websites of the company's other publications. The Research Design incorporated with Judgmental Sampling and Convenience Sampling. The respondents comprised of the top officials including managers and other concerned executives and the Investors who were present on those days the researcher visited the organization and were willing to co-operate with the researcher. The companies who had access to the privileged information on the Corporate Social Responsibility initiatives and Corporate Governance policies at the company. The data was collected through Personal Interviews and Visits but in case where personal visit was infeasible, the Questionnaires were floated either online or were sent through E-Mail.

REVIEW OF LITERATURE:

- **CORPORATE SOCIAL RESPONSIBILITY:-**

The Use of social networks as a CSR communication tool by **Francisco-Javier Cortado & Ricardo Chalmeta** (Cortado & Chalmeta, 2016). The aim of the research was to obtain the efficiency of social media by analyzing companies handles and analyzing the effect that the posts has on the consumer's mindset. Instead of one-way communication which is still preferred by most of the companies, companies should focus on two-way communication with their stakeholders. The paper successfully analyzed and demonstrated that 1. Companies prefer Twitter to Facebook 2. Consumer interaction is higher on Facebook than Twitter. The paper concluded that the companies were not using the full potential of their social media connectivity and proper management of the social media model is needed.

The paper written by **Deepa Aravind** is to examine how corporations in India interpret Corporate Social Responsibility (CSR). Focusing on four commonly known approaches: the ethical, the statist, the liberal, and the stakeholder approach, the paper seeks to investigate the reported drivers and barriers to implementing CSR practices. Corporate social responsibility is emerging as a new field in the management research. It encompasses not only what companies do with their profits, but also how they make them. It is not just for large scale companies but also used by small scale and non-profit organizations. In India many firms have taken the initiatives of CSR practices which have met with different needs of the society as a whole. Data has been collected from number of articles, books, periodicals and websites. The study by **Yogita Sharma** has been an attempt to generate awareness and to understand meaning, significance, dimensional aspect of CSR and how to manage it. An extensive literature review is done on CSR. At the end some forces at work, some issues related to CSR in India and some recommendations are given. Business organizations have waked up to the need for being committed towards Corporate Social Responsibility. But still majority have just been taking up some form of philanthropic activities for its stakeholders. Nurturing a strong corporate culture which emphasizes Corporate Social Responsibility (CSR) values and competencies is required to achieve the synergistic benefits.

The employees of an organization occupy a central place in developing such a culture which underlines CSR values and competencies. The present study of **Sharma et al.** is an attempt to explore the engagement of human resource management professionals in undertaking Corporate Social Responsibility. It also suggests Human Resource Management to take a leading role in encouraging CSR activities at all levels. The combined impact of CSR and human resource activities, which reinforce desirable behavior, can make a major contribution in creating long term success in organizations.

Corporate social responsibility (CSR) is increasingly being adopted on a global scale. However, it is evident that the utilization and implementation of CSR varies in differing contextual M settings. The purpose of the chapter by Nitha Palakshappa (6) is to explore the concept of CSR in the Indian context.

- **CORPORATE GOVERNANCE:-**

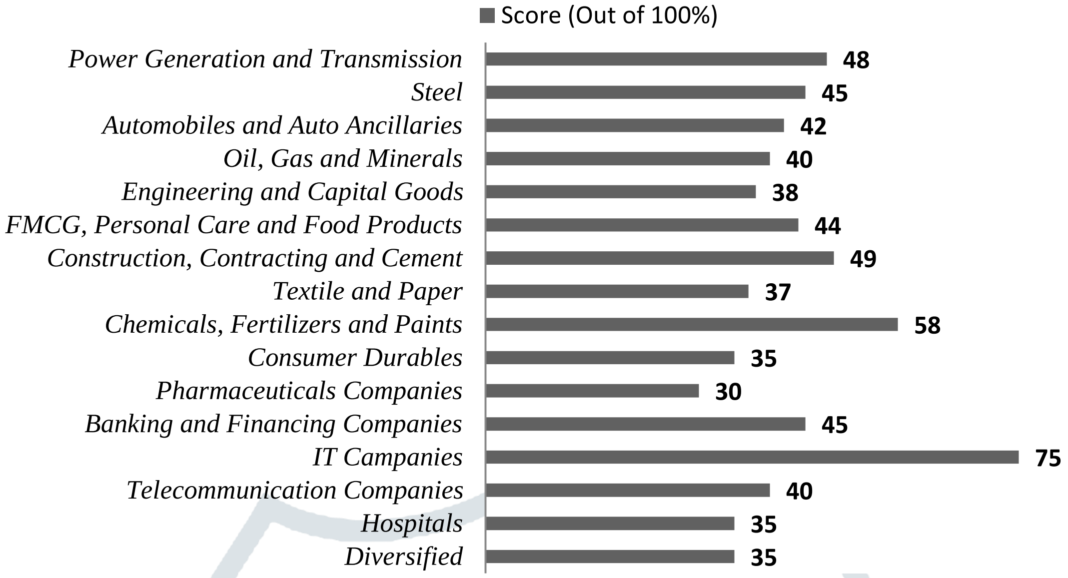
Hermalin and Weisbach (1991) and Bhagat and Black (2000) used the approach of Tobin's q as a performance measure, on the ground that it reflects the "value-added" of intangible factors such as governance, and found that there is no noticeable relation between the proportion of outside directors.

Aggarwal and Samwick (1999) have found strong empirical confirmation that executive pay performance. Sensitivity decreases in the variances of the firm's performance. They found that the pay performance sensitivity for executives at Banks with the least volatile stock prices is of greater magnitude vis-s-vis for executives at firms with most volatile stocks suggesting that executive contracts incorporate risk bearing. They have not studied the role or effect of performance evaluation while incorporating risk.

Weirner and Pape (1999) have shown that the system of corporate governance in a particular country is context specific and is a framework of legal, institutional and cultural factors shaping the patterns of influence that stakeholders exert on managerial decision making. No study has been done in the Indian context and hence there is a need for one. Even within a country different studies have produced conflicting results. The question how are board characteristics such as composition or size or duality related to profitability still remains unresolved. There is need for stronger tests to discern whether board composition has an effect on firm's performance.

KEY HIGHLIGHTS OF CORPORATE SOCIAL RESPONSIBILITY IN INDIA:

For the purpose of the present study, the population has been accessed through Economic Times (ET) top 500 Companies have been selected 2016, Database. Primary data taken for this study was gathered through Structured Questionnaire. The survey covering top 500 (by gross revenues for FY17-18) listed companies, shows that CSR reporting in India largely assumes the form of limited discussion on community development and/or environmental protection initiatives as disclosed by companies in their annual reports and websites rather than Corporates comprehensively.



It is found that IT companies serving the best quality reports in India with an average score of 75% while in comparison the Pharmaceuticals companies serving in a less platform as the lowest average score of 30%. The IT companies separately preparing the reports on company's initiatives on community development and environmental protection to promote energy efficiency as a solution, 74% of CSR reports on Climate Change and Green Marketing as a key sustainability that will impact on businesses, while Energy and Fuel, Water scarcity, Material Resources scarcity, minerals are other key issues discussed, which significantly affect corporate growth. 50% CSR reports mentioned innovation as key opportunities for Manufacturing as well as Service companies to provide sustainability to their products and services. If we discussed about the outcome of stakeholders engagement and actions taken is low only 35% reports clearly identified that action has been taken in the response to feedback from all the stakeholders. Even none of the CSR reports have given comments in a formal manner from the side of stakeholder's panel. So, a formal stakeholder's groups will be formed and representation will be must from their side. More than 29% reports have no disclosure and these reports only highlighted the positive achievements, not discussed about the dilemmas and challenges. Only 38% reports discusses about the key challenges and dilemmas in detail and overall ethical framework still uncovered.

Lastly 75% of Indian reports on CSR activities discussed about social and environmental and ethical impacts of their products and services but out of them only 20% reports discussed these impacts in detail and the discussion also have limitations. 45 % CSR reports mentioned that the Banking and Financing companies also playing a good role in maintaining CSR practices specially taking initiatives and education and livelihood training programmes and community serving such as organizing Blood Donation Campaign and also serving the areas on pertinent social and environmental issues.

RECENT CSR TRENDS IN INDIA:

In the FY 2017 – 18, according to Economics Times, CSR Projects increased 11% more in comparison to the previous years. The education projects received the maximum funding for CSR in this year. Narendra Modi's government spends 674 crores in Hospital under CSR Projects. Reliance Industries spend 4% in Armed Forces, 1% in Sports and 2% in Prime Minister Relief Fund in this year. FY 2015-16 witnessed a 28 percent growth in CSR spending in comparison to the previous year.

Especially the fund generated for CSR activities such as educational programs, skill development, social welfare, healthcare, and environment conservation this year. In terms of absolute spending, Reliance Industries spent the most followed by the government-owned National Thermal Power Corporation (NTPC) and Oil & Natural Gas (ONGC). Projects implemented through foundations have gone up from 99 in FY15 to 153 in FY16 with an increasing number of companies setting up their own foundations rather than working with existing non-profits to have more control over their CSR spending. 2018 CSR spends are predicted to further rise with Corporates aligning their initiatives with government programs such as Swachh Bharat (Clean India) and Digital India. In this regard the ICICI Bank also pleased to transform 100 villages into ICICI Digital Villages across the country within 100 days. On May 2, 2017, ICICI Bank dedicated the 100 villages to the Nation in the presence of Shri Arun Jaitly, the Honorable Finance Minister, Minister of Defence and Minister of Corporate Affairs in the Cabinet of India. The bank has extended the initiative to 500 more villages. In 2016, ICICI Bank won the best CSR Activities and Sustainable Practices Award at the 4th Asian Business Responsibility Summit. It is found that CSR Practices are prevalent more in companies operating on a large scale. Small companies do not exhibit much interest in adopting such practices due to the cost involve. The government should take necessary steps in this regard and should provide adequate finances and subsidies to the Small Scale and Medium units so as to widen the scope of implementation of practices across the industries.

CONCEPT AND IMPORTANCE OF CORPORATE GOVERNANCE IN INDIA:

The Corporate Governance concerned with effective management of relationships in the corporations keeping in view the interest of the various shareholder and stakeholders. Companies who have good Corporate Governance practices have a much higher level of confidence among the shareholders associated with that company. The Indian Companies Act of 2013 introduced innovative measures to appropriately balance legislative and regulatory reforms for the growth of the enterprise and to increase foreign investment, keeping in mind international practices. The rules and regulations are measures that increase the involvement of the shareholders in decision making and introduce transparency in Corporate Governance, which ultimately safeguards the interest of the society and shareholders. Corporate Governance safeguards not only the management but the interests of the stakeholders as well and fosters the economic progress of India in the roaring economies of the world.

FACTORS INFLUENCING QUALITY OF CORPORATE GOVERNANCE:

Quality of governance primarily depends on following factors:

- Integrity of the management
- Ability of the Board
- Adequacy of the processes
- Commitment level of individual Board members
- Quality of corporate reporting
- Participation of stakeholders in the management

While Corporate Governance is an important element affecting the long-term financial health of companies, it is only part of the larger economic context in which companies operate. The Corporate Governance framework depends on the legal, regulatory and institutional environment, business ethics and awareness of the environmental and societal interests of the constituencies in which it operates. The degree to which corporations observe basic principles of good Corporate Governance is an increasingly important factor for taking key investment decisions. International flow of capital enables companies to seek financing from a larger pool of invertors. If companies are to reap the full benefits of the global capital market, capture efficiency gains, benefit by the economies of scale and attract long term capital, adoption of Corporate Governance standards must be credible, consistent, coherent and inspiring.

KEY ISSUES IN CORPORATE GOVERNANCE IN INDIA:

There has been significant difference sector and public sector companies PSU's have prominently covered the characteristics in their Governance philosophy. The average size of the boar4d for public sector enterprises is somewhat bigger as compared with the average size of the board in respect of private sector enterprises. In PSUs, members of the board and the Chairman are usually appointed by the concerned ministry and very often PSUs are led by bureaucrats rather than professional managers. The main decisions are taken at a ministerial level which may include political considerations of business decisions as well. Therefore, PSU boards can rarely act in the manner of an empowered board as envisaged in Corporate Governance codes. This fulfills only several provisions of Corporate Governance codes merely as a compliance exercise.

Private Sector and MNC's Companies in India are perceived to have a better record of Corporate Governance compliance in its prescribed form. However, in the ultimate analysis, it is the writ of the large shareholder (the parent company) which runs the Indian unit that holds sway, even if it is at variance with the wishes of the minority shareholders. Moreover, the compliance and other functions in a Private sector are always geared towards laws applicable to the parent company and compliance with local laws is usually left to the managers of the subsidiary who may not be empowered for such a role. Private Companies majority of the Directors in an average board of Private sector enterprises are independent directors. However, it would be premature to suggest that the boards of the private enterprises one more independent. This is so, because of the vagueness associated with describing independent directors.

SCOPE, LIMITATIONS AND IMPLICATION FOR THE FUTURE:

The main focus area of the study has been to examine the implications of Corporate Governance and CSR Practices and its effect on the overall performance of the organizations in India. The study also evaluates the various approaches of the Public sector and Private sector companies on the issues of Corporate Governance and CSR Practices. The study covers 500 Top Listed Companies (by Gross Revenue F.Y 2017 – 18). These Companies listed in NSE, SNPCNX, and NIFTY. The study covers the period from 2016 – 2017 and 2017 – 2018. This study was limited to India only; it discusses only the perspective of Corporate Governance and CSR Practices in Indian concern. In this study, a few influencing factors of Corporate Governance and CSR activities can be analyzed and other factors that influences Corporate Governance can be also analyzed and added in this study too. For future research, more developing and developed countries can be compared to see the affects of reforms of Corporate Governance practices.

SUMMARY AND RECOMMENDATIONS:

The concept of Corporate Governance is an important factor which helps the stakeholders and shareholders in formation of opinion about a Company. The investor is very much concerned about the practices adopted by companies for investment purposes. It is basically the image of the company which influences the thinking of the stakeholders. In this research study, we have seen that how important it is for a company to follow good Corporate Governance practices. If we looked at the brief history of Corporate Governance in India and its present economic situation then the paper started going deep into the root cause of factors that affect Corporate Governance such as ethics, internal governance, and choice of auditors and audit committee. India being an emerging economy needs to work more on regulating the Corporate Governance policies. Indian companies still have the scope to paint a brighter future for them. They need to acknowledge and continue with the Corporate Governance reform, and always keep in mind that this brighter future will have its own set of challenges. The contents should be more focused to build a good image of the Company are as follows:

- The composition of board plays an important role and the shareholders/stakeholders consider it as a criterion for evaluation a company. The term "Independent Director" in the board should be defined and their duties and responsibilities should be clearly prescribed because it is an important criterion in formation of image of the company. Secondly, the constitution of the committees should be made mandatory and penalty provisions may be provided for non-compliance. There should be a statement in the Corporate Governance Report stating therein how performance evaluation of the board, its committees and its individual directors has had been conducted. Every company should establish a formal director orientation programme to familiarize incoming directors with the company's operations, senior management and its business environment their duties and responsibilities. Report on impact analysis on shareholders should be made mandatory. The future of Corporate Governance is becoming a little clear now, as in the future the investors would be promoted to behave like owners rather than just traders. The investors also look forward for the separation of CEO and Chairman Position.

- In the matter of transparency and disclosure the websites of the companies are most sought after source for shareholders/stakeholders looking for information about the companies. More the information is available to the shareholder more is their comfort information label and knowledge about the company.
- Corporate Social Responsibility was also found as strong enabler in creating visibility and a building of image of company. The stakeholders/ shareholders over and above the financials of the company also look for the other activities of the companies and in particular the practices adopted towards its socials responsibility. The CSR activities should have some linkage with the business of the company. The word Corporate Social Responsibility should be clearly defined and 2% of the profit after tax amount should be allocated by the Companies for CSR. There should be proper disclosure of fund. Sustainability Report indicating the company's economic, environmental and social impacts should be made part of the Corporate Governance Report.
- The standardization of Corporate Governance Practices is also a major issue now a days because there is a strong feeling amongst the stakeholder/shareholders for this issue. They want setting of compliance of norms set by the regulatory authorities. Now, the shareholders/stakeholders want to evaluate the functioning of the company and decisions governance of a company in formation of opinion. Corporate Governance Standards on similar lines of the prevailing accounting standards should be set up so that an 'Investor' likes you can compare the compliance level of such standards across all the companies. Secretarial Audit for Governance Practices should be made mandatory.

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