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CORPORATE SOCIAL RESPONSIBILITY AND ROLE OF INDEPENDENT DIRECTORS IN GOOD GOVERNANCE

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Abstract:

An organization is a shared forum for different stakeholders, such as clients, staff, investors, shareholders, etc. It is a tool that can attract huge business capital. Every transaction in a company should be fair to its stakeholders and transparent. A company with good corporate governance and an efficient Management Board attracts investors and guarantees investment. The Board's independence is critical to ensure that the Board objectively fulfils its role and holds the management of the company accountable. Practice across jurisdictions shows that the independent director presence is the answer. The current report explores the current scenario in the Indian corporate sector and examines the role of the Independent Manager for Corporate Governance and particularly the role of the investigator as an independent director.

Keywords: *Corporate Governance, Board of Directors, Independent Director, CSR*

I. INTRODUCTION

Corporate governance is a process and system through which businesses are run. Conglomerates and listed companies have different set of stake holders like shareholders, lenders, suppliers, bankers, customers, employees, government and society at large. As the businesses grow, the complexities of managing a business also increase. This will lead to various governance issues like providing justice to all the stakeholders of the business, maintaining high ethical standards and most importantly running a sustainable business in the long run. To achieve these objectives, a strong system and process needs to be in place which is termed as corporate governance.

The significance and development of corporate governance in India is profoundly affected by the essence of the relationship between, on the one hand, the business worlds and, on the other, Indian state policies. Twin pressures are exerting themselves on this relationship. Between the post-independence period [post-1947] and the pre-liberalization period, the relationship between industry and the state

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was especially vulnerable to a lack of transparency for certain corporate governance norms. This time can be understood to a large degree in terms of the relationship-oriented governance models that have been widely adopted in Japan and India. The relationship structure between the industry and the state did exist, but was rather flawed from the point of view of corporate governance norms. In the post-liberalization phase [post-1991], market openness brought its own collection of challenges and opportunities. Although the relationship between the state and industry has not fully dissolved, it appears that market-oriented governance models are capable of providing important insights into the workings of companies. The understanding of corporate governance in India therefore demands that lessons be drawn from both insider-oriented models and market-oriented models. Both of these models give us a good view of their respective strengths and limitations. India is at a particular crossroads to map a new path towards the implementation of a corporate governance model. It needs to take due account of the perspectives of both schools of thought and maybe create a new integrated model for other emerging economies. The Indian model of corporate governance, at least for the time being, has shown no signs of convergence towards a single form of governance. More so, given its political pre-conditions and path-dependent circumstances, Indian corporate governance, which is now a good mix of the strengths of the two famous versions, would do well in its present state as it is.

II. THE ROLE OF THE INDEPENDENT DIRECTORS

With the proliferation of corporate scandals due to mismanagement and bribery in recent years, regulators around the world have been introducing a range of policies aimed at strengthening corporate governance and ensuring that businesses obey ethical and normative business laws. Part of this programme was to allow businesses to appoint a certain percentage of their board of directors to individuals who are not affiliated with the organization. These are the so-called independent directors who sit on the board of directors of companies in a strictly professional way without having a hand in the day-to-day operation or other activities of the company.

The argument about the independent directors is that they are selected from a group of experts who have had broad business experience and are eligible to sit on the boards of the companies. What makes this mechanism desirable to regulators is that these independent directors will carry with them the much-needed viewpoint that is impartial and fair, because they are not related to or controlled by the company and thus do not have secret agendas.

In India, SEBI and the Ministry of Corporate Affairs have agreed that between 10% and 15% of the membership of the Board must be made up of independent directors. The goal of this move is to add more objectivity to the art of corporate governance and to implement openness and accountability on the part of directors drawn from the management ranks. This law has been applied in the face of corporate scandals such as Satyam, where the top management itself has indulged in bribery and unethical business practices. The line of thought, therefore, is that bringing in independent directors will lead to greater control of the operations of these businesses. Since the Satyam Scandal was because the board looked the other way when its founder was indulging in defrauding the firm, this rule is being enforced by the Ministry of Corporate Affairs in order to enforce greater oversight.

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In the US, independent directors have been known to bring new insights to bear, as well as to monitor the runaway market actions driven by income and personal benefits. In many US corporations, independent directors are often the ones that prohibit management from taking decisions based on personal gain rather than on the interests of the shareholders. In addition, independent directors are charged with reviewing cases of corporate malfeasance and unethical conduct due to their perceived objectivity. However, there have been times where the independent directors themselves have admitted to misconduct by the companies and their boards of directors. The response to this has been the effort to make the independent directors responsible for the Board's decisions so that they have an interest in ensuring that the Board does not stand on the wrong side.

Lastly, independent directors often have the much-needed technical skills, as they are individuals with considerable experience in the management of businesses as well as the fact that they sit on the boards of other firms, which ensures that they are up to date with the latest innovations. Regulators have worked in many countries to ensure that independent directors do not have conflicts of interest, and these have been codified into rules governing how many firms they can work with, and the sectors and industries they serve.

III. STATEMENT OF THE PROBLEM

Milton Friedman, Nobel Prize winner in Economics, has once argued that the primary purpose of a company is and should be to maximize shareholder value. According to him, the social missions are the responsibility of people, social organizations and the government. However, people's modern thought is different from that of Milton Friedman. Only the largest of the big modern companies has achieved the present scale, thanks to the full support of shareholders, suppliers of long-term and short-term properties, lenders, suppliers of raw materials, workers, the government, the local community and society at large, including both existing and future customers. Every firm is so dependent on its social environment that it can neither thrive nor develop without the complete social acceptance and approval of all environmental stakeholders in particular, society as a whole and the government as a whole. Here comes an illustration of the idea of business ethics. The concept of ethical philosophy is both old and new.

According to Dr. Subhash Sharma, we can see the change in history from an organisational point of view. Three distinct historical transformations can be observed from the point of view of the Kingdom State, the Nation State and the Corporate State. The Emergency of Corporate as a State is a new phenomenon. They have to adapt increasingly to people's new expectations. In the new age of corporate governance, the emphasis is on corporate governance. As corporates play a major role in people's lives and affairs, high expectations in terms of business ethics, social responsibility and corporate governance are natural.But the existing corporate governance models measure the transparency and disclosure norms to a large extent and corporate social responsibility to some extent. The ethical dimension in corporate governance is very essential for the sustainable growth of the organizations. Hence, the researcher proposes to undertake this study on corporate governance from a holistic perspective which includes **Social Responsibility and Role of Independent directors in good governance.**

Process and ensuring compliance with various rules, regulations. Clause 49 of the listing agreement with stock exchanges

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provides the code of corporate governance prescribed by SEBI for listed Indian companies. With the introduction of clause 49, compliance with its requirements is mandatory for such companies.

IV. OBJECTIVES OF THE STUDY

To analyze dependency between Explicit Social Responsibility and Role of Institutional investors in good governance

HYPOTHESIS

Null Hypothesis (Ho): Explicit Social Responsibility and role of independent directors in good governance are independent
Alternate Hypothesis (H1): Explicit Social Responsibility and role of independent directors in Good governance are NOT independent

V. SCOPE OF THE STUDY

This study is conducted both on conceptual and empirical basis. Firstly, by conducting a thorough literature review and by reviewing the existing models of corporate governance, a new model of corporate governance is conceptualized and it is called SREE model (Social, regulatory, ecological and ethical). The four parameters mentioned are considered for measuring the corporate governance of an organization. This model is then tested on 74 companies. The companies are listed on the BSE and are publicly traded. All the companies are Indian companies. Firstly by using the SREE model corporate governance score for each company will be arrived. Later this score will be linked to study the importance and implications of corporate governance scores on the market performance and accounting performance indicators.

VI. TYPE OF THE STUDY

The study is conceptual, qualitative and quantitative.

A. *Conceptual*

The study is conceptual as a new model of corporate governance called SREE model is developed by the researcher.

B. *Quantitative*

The study is quantitative as it is analyzing the relationship between corporate governance scores and market performance and accounting performance through various statistical tools. The study is also analytical and empirical in nature. The researcher is also administering a questionnaire on which various statistical tools and techniques will be used for interpreting the results.

C. *Qualitative*

The study is qualitative as the researcher is also conducting a content analysis by administering a questionnaire.

VII. METHOD OF SAMPLING

Random sampling method is adopted for this study. Out of BSE 500 (Bombay Stock Exchange top performing 500 companies) 74 companies are chosen randomly. After a random selection, for further analysis a post stratification method of the sample selected is done. The sample is classified based as service companies and manufacturing companies for certain analysis.

VIII. TOOLS FOR DATA COLLECTION

2 questionnaires were used to collect the data. The first questionnaire was used to collect the data to develop a corporate governance score and the second questionnaire was used to interpret the present state of corporate governance in

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India and the road ahead. The respondents for the survey are chartered accountants, company secretaries, directors and executives representing the management.

HYPOTHESIS TESTING

Analysis of the dependency between Explicit Social Responsibility and Role of Independent directors

Null Hypothesis (Ho): Explicit Social Responsibility and role of independent directors in good governance are independent

Alternate Hypothesis (H1): Explicit Social Responsibility and role of independent directors in Good governance are NOT independent

Table showing the chi-square analysis between explicit social responsibility and role of independent directors in good governance

Observed Values	Role of Independent Directors					
Explicit Social Responsibility	Strongly Disagree*	Disagree*	Can't say	Agree	Strongly Agree	Grand Total
Can't Say	0	0	0	1	2	3
No	0	0	1	3	6	10
Yes	0	0	0	26	28	54
Grand Total			1	30	36	67

	Role of Independent Directors					
Explicit Social Responsibility	Strongly*	Disagree	Can't say	Agree	Strongly agree	Grand total
Can't say	0	0	0.04	1.34	1.61	3
No	0	0	0.14	4.47	5.37	10
Yes	0	0	0.80	24.17	29.01	54
Grand Total	0	0	1	30	36	67

Chi square Value	**6.61**
Degrees of Freedom (df)	(3-1) x (3-1) = 4 (* columns not considered in degrees of freedom as there are null values)
Alpha Value	0.05 or 5% (95% confidence Level)
(α) Critical	9.49
Value Result	Accept Null Hypothesis – H0 as Chi Square Value < Critical Value

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IX. Interpretation

Table describes the opinion statistics of people for importance of explicit social responsibility and role of Independent directors in good governance. It is evident from observed values that 98.5% people strongly agreed and agreed that that explicit social responsibility and role of independent directors are important in good governance. Chi square value for the hypothesis is 6.61 with 4 degree of freedom. Critical value is 9.48 with 95% confidence level (alpha=0.05). Since Chi Square Value < Critical Value Accept Null hypothesis i.e. Explicit Social Responsibility and role of independent directors in Good governance are independent.

X. Conclusions

The role of the Board of Directors has been the subject of public discussion in recent years as a result of their Failure to uphold corporate governance. The research evaluated that the more autonomous the board is the easier it is to add productivity to the business. They help in the right way the functioning of the organization, due to the fact that they do not have a material interest,
Business and they are really going to represent interest.

India has an important domestic institutional shareholder base as well as a significant presence of foreign institutions, especially in large companies. Domestic fund managers tend to have been much more involved at least in terms of voting at shareholder meetings during the last decade. The transition to a new eligibility date in 2005 definitely underpinned this growth and also attracted international investors. There have also been a number of times when domestic institutional investors have expressed their disappointment at the company's conduct. In the past, such investors may have been more passive, but now they have expanded to the first proxy war over the Supervisory Board, defeated agenda items and counter-motions carried out by some companies (e.g. Heidelberg Cement, Infineon and Siemens).

However, it is difficult to draw conclusions about the efficacy and scope of this agreement, since little information is available from fund management firms about compliance with the governance voluntary code of conduct. The code is limited in terms of corporate governance structures for investment firms, but it is now obligatory in other fields, such as accountability, openness and preventing overcrowding of shares.

More focus also needs to be given to the governance of fund management firms. The recommendation of the Code that there should be only one member of the supervisory board independent of controlling shareholders is not adequate in India, given the substantial ownership of institutional investors by banks and insurance companies. The improvement of the supervisory board may also include an independent audit committee.

The most significant weakness in the institutional framework is the openness to international investment. There are two sides of it. Indian funds may have substantial international investments, but their voting activity is marginal and other participation behaviors could be much less likely. There are, of course, complicated problems surrounding cross-border voting and the costs that still need to be addressed, including record dates so far in advance of the shareholders ' meeting. However, other steps may also be required, such as an updated code of conduct requiring them to vote on their major foreign investments. On the other hand, foreign investors are now a major force in India, but all evidence suggests reduced voting conduct and commitment compared to domestic investors, except for one or two exceptions.

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Although this is a more general problem in the global economy, the German authorities should consider what possible domestic policy options are open. Among others, it will be necessary to step towards a further simplification of the voting chain, even though a great deal has already been accomplished (e.g. electronic voting, proxies).

In view of India's institutional framework, proxy advisors are thought to have a major role to play. It is suspected that some investors are asking proxy advisors to follow the principles of corporate governance of the investor rather than their own. Whether conflicts of interest have been resolved remains uncertain.

The rules regulating collaboration between investors have been clarified since 2009 but remain potentially restrictive. This is because they aim to prevent investors from "influencing the strategic course of an organization in a permanent and strategic manner." This is understandable in India, because company law assigns management responsibility for the plan with a substantial input from the Works Councils in a cooperative process. It does, however, mean that investors must express their views in a highly customized manner in order to avoid debating a policy that is genuinely their concern. This tends to minimize market transparency.

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