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Analytical Study of Corporate Social Responsibility in Reference to Gandhian Model in 21 Century

Abstract

This analysis tries to capture the broad impact that ethics has on business and how it can be incorporated in the policy guidelines of different stakeholder organizations to ensure more transparent and profitable operations. Business ethics is an area of growing concern across the world. Effective management of business and ensuring its steady growth across industries and economies needs to be given considerable thought. Corporate involvement in social obligations remained largely limited to allocate a part of the annual budget for philanthropic work. Corporate governance focuses on the ways in which suppliers, finance to corporations to insure themselves, a return on their investment. While the Gandhian model focuses on operating the business in a socially responsible way, by investing in communities for solid business reasons.

Keywords: Corporate Governance, Corporate Social Responsibility, Gandhian Model, Human Capital.

A.M. Tripathi
Associate Professor & Head,
Dept. of Defence Studies,
K.G.K College,
Moradabad, U.P., India

Introduction

Corporate governance has succeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general. The market capitalization of a company often far exceeds the "property" value of the company. Even the most private to private enterprise is an organ of society and serves a social function. Given the mutual relationship between the business and the society, business can not and should not be allowed to conduct itself in a manner that may be detrimental to the interest of the society. It is widely acknowledged today that Gandhian philosophy, particularly Gandhi's Doctrine of Trusteeship played a pivotal role in the shaping of the contours of modern corporate ethics. What is the contribution of Mahatma Gandhi to the evolution and growth of modern corporate ethics? How did Gandhiji look at the inter-se-relationship between the business and the society? What responsibilities did he assign to the business in relation to the cross section of the society? Does the Gandhian philosophy still hold?

Nowadays, there is a pressure on businesses to play a role in social issues and this will continue to grow. There is a growing interest, therefore, in businesses taking a lead in addressing those issues in which they have an interest where national government has failed to come up with a solution.

Characteristics of 21st Century Corporation

The characteristics of a company in the 21st century:

1. Business - the key generator of wealth rather than state.
2. The time-limited custodians of the company who represent a wide range of sections of the society will generate wealth.
3. Competitive Advantage retained by innovation, constant commitment to self renewal and consistent learning for self-improvement.
4. Clear understanding emerges where transparency and accountability will be the corner stones of success.
5. Restraint from greed, ethical compliance and dedicated team to succeed with knowledge management rather than intrigues and hypocritical work for beating the competition.
6. Personality cult of late 20th century, in the form of iconic leaders, will be replaced by distributed leadership of highly qualified technologists.
7. In addition to financial capital, human capital and natural capital would play more decisive role to create wealth.

8. Environmental protection to be one of the key priorities of the business.
9. Trade Barriers probably to be a part of the history.
10. Self-regulation, initiative and natural justice may replace box ticking.

However business process is too complicated even in the late 20th century to attribute success to only these cult figures. Warren Buffet had said correctly "People are voting for the artists rather than the painting"

Corporate Governance & Ethics in 21st Century

There is considerable difference of opinions on what corporate governance is all about. But one thing is very clear that corporate governance is nothing but a method of enhancing the corporate performance by monitoring and controlling the management performance through ensuring the accountability of the management to all stakeholders. Governance and accountability are two sides of the same coin and combination of these two factors should lead to both efficiency and marshalling of all the resources of the organization to increase not only shareholder value but the benefit of all stake holders.

Much has been written and talked about these basic issues, hence it is better not to elaborate again on these issues excepting that the controls are basically on the financial aspects of the corporate governance and it may lead to following aberrations namely

1. Compliance may become just a box ticking exercise
2. There may be a tendency to sacrifice entrepreneurial actions on part of the managers obsessed too much with compliance and accountability
3. There is over emphasis on role of independent directors (or non-executive director) which may lead to an imbalance of entrepreneurship and accountability. Too much interference by outside directors may lead to little initiatives by the management to create wealth for the shareholders
4. Finally there has to be proper understanding of different aspects of governance which may encourage the non-owner managers to deliver the goods i.e., creation of wealth.

21st century Corporations are changing dramatically where distributed leadership, wider stakeholder base, environment protection, self regulation, transparency and natural justice will dominate the scene rather than box ticking. In addition to financial capital, human capital and natural capital, cultural capital will finally take the due place in fulfilling corporate governance norms. Corporate governance will move from its base definition "Defining a relationship between those who own it and those who manage it" to a higher level of "stock holder" and "owning the future". Corporations will be transformed into a "corporate community" with self-regulation rather than internal control. Building an effective board attention requires structure, process, culture and remuneration of directors. Board culture has to be made intellectually stimulating rather than drab and dreary proceedings. Finally, ethical issues are to be tackled on war footing with the advent of new technology. Corporations must pledge to honor their obligation to the society by becoming cconomic, intellectual and social assets to each nation and community in which they operate.

Corporate Governance: Basic Issues

The business is to be conducted in the 21st century and how it is going to affect the governance of such businesses. Creation of wealth shall be made mostly by small to medium size companies that are technology driven. Key to success will be exploitation of newer and newer technology and the Board composition will change drastically from the present scenario of financial and management experts to technologists.

A Strategic Approach to Corporate Governance has to ensure strict accountability, decisions have to be made by the Board alone, but the views of all key shareholders have to be sought on the resolutions to be brought to the board and some may be contacted during the Board meeting to provide specific inputs to the Board members to facilitate decision-making. There could be different shareholding pattern and some companies may be based on the cooperative models and ownership could be dispersed over all the stakeholders of the company. We have to foresee that companies may cement stakeholder relationships through loyalty bonuses to customer, increased payments to employees for better results, quality bonus to suppliers, and many such benefits to other stake holders. Shareholdings will be widely spread due to participation by pension funds and other mutual funds. This will enable the management to increase shareholder value without prejudicing other holders who will be bound to the value chain of the corporation by sharing profits with them. Profits may be shared by issuing equity to all key stakeholders excepting probably the Independent Director, who may be paid fees for his services to maintain his total independence and neutrality. There could be various models for rewarding various sections of the stakeholders such as employees, suppliers, customers and investor. The board meetings may continue across time zones, mixing and merging cultures of the global village. With the restraints of the world powers on nuclear options, chemical or biological warfare may be perfected to have selective and decisive result.

Redefining Corporate Governance

There are many ways of looking at the definition or rather meaning of the word corporate governance; one of them is "the main purpose of it is to define a relationship between those who own it and those who manage it". This was probably adequate in 20th century but no more in the current century. The main purpose of it must be to maximize stakeholder value that is more diffused in the current century than the one gone by. For far too long this value has been determined by only financial value. Now it has been realized that financial value may be a part of the total value chain. In the last century following values were completely ignored, they are: natural capital, human capital & cultural capital.

It is very difficult to quantify these three values but it is certain that financial capital is a fraction of these values, which are going to play a very crucial role in this century. Progress in this century will be determined by how we utilize these resources for the benefit of the mankind; society and the planet we live in so that the corporations we preside over have long-term future. It has been realized that our progress will be defined more by Human, Natural and finally Cultural Capital rather than Financial Capital.

Some companies have already put a value to their human capital and some more are in the process of doing so. Least a company can do is to value human beings in the right perspective and encourage them to add value to the organization. In this knowledge era, human capital is one, which will make the difference to the bottom as well as top line. Hence this resource has to be nurtured carefully to get the best return out of it. According to the World Bank's 1995 Wealth Index, the total value of the human capital would be three times greater than all financial and manufactured capital reflected in the global balance sheet. Considering the growth of output of knowledge industry in the intervening period, the value may be four times in 2002

The cultural capital, which is the most important part of governance issues, is the core subject in this paper. Any amount of legislation will not be able to bring in the desired effect unless thereis a cultural change in the minds of the people who manage the business on behalf of the share/stakeholders. Good corporate governance is a source of competitive advantage and very critical to socioeconomic progress of the society. Sharing of knowledge rather than sharing of physical or financial capital adds value to the society. Capital or physical assets can be used only in a particular way whereas knowledge can be used in many ways, as it is an intangible and fluid by nature; it can be transferred in a cost effective way and used in many ways depending on the type and nature of it. The best part of knowledge is, as Vishnu Sharma said in the Panchatantra, that which does not diminish even if it is given away. Many applications of the same knowledge can generate wealth unlike financial and/or physical assets. Hence knowledge management is one of the major areas where govemance and business ethics are going to be very critical.

Corporate Governance and Entrepreneurial Community

In the 21st century the enormity of corporate governance problem suggests a fundamentally different approach to harness the latent creative talents lying within the average people. It is further suggested that a corporation should consider itself as a community of innovative entrepreneurs who collaborate with employees, customers, business partners, and other stakeholders like vendors, suppliers and research associates rather than as a system to make money. Profit becomes a means to service a wide agenda rather than an end in itself. "People look through the wrong end of the telescope, as if profit drives business. Employee morale and consumer satisfaction drive business".

The entrepreneurial half of this concept means shifting of emphasis from top to the grass root level where innovation takes place. This revolutionary method is what is needed in this century and this revolution may be as dramatic as Industrial Revolution that swept. Some of the creative firms are encouraging small self managed units that are accountable for results but free to choose their workers, technology, leaders, work methods and even strategies for growth. Line and support units are being converted into profit centers that buy and sell from each other. Corporations should be imaginative enough to encourage logic of internal market to blossom rather than the logic of internal controls and hierarchy. Further, a call to democratize Corporate Governance by inviting well informed, responsible employees, clients and business partners to sit on the board of the company Financial and Social Performance should be evaluated.

Four critical areas where the company needed fresh inputs from independent directors and these are strategy for his products, technology, entrepreneurial wisdom and finance. Having identified these, he started his search for getting suitable persons who can not only meet the requirement of corporate governance but also contribute towards furthering his own needs for input to the business Strategy, Entrepreneurial wisdom and Technology, for the fourth one that is finance he was still looking out for some one with sound knowledge.

The Role of Governments & Corporates

The role of governments is most crucial as they are expected to be the starting block in an issue like business ethics and corporate governance. Governments need to play the role of legislator and as promoter of human rights to start with. Improvements in business practices in the areas of environmental management, human resource management and labor rights in most developed countries originally came through legislation and later on followed through by the corporate sector. This is more important in the developing countries where due to a weak governmental structure, businesses often manage to manipulate their ways through. For example, take the recent controversy regarding the quality of water used in bottled drinking water and soft drinks in India. The whole issue -has highlighted that India does not have a proper guideline for the business usage of its groundwater resource. But can multinationals can go ahead and take advantage of the legal lacuna or do they have a moral responsibility to adhere to the best standard available globally for example, the European Union standards in the case of groundwater usage? Interestingly, the soft drinks samples drawn in US have been found to be safe as per the existing US standards. So, tomorrow, can an MNC provide non-standard products and services because the concerned government does not have any guidelines? Governments need to look at these issues more closely.

Secondly, governments have a crucial role to play in creating and managing forums for dialogue among business, its stakeholders and the society at large. For example, the United Nations Global compact is an international initiative to address issues like corporate governance, corporate Social responsibility and environmental issues in business etc. In India, the National Human Rights (NHRC) along with chambers of commerce can take a leading role in this initiative. Governments should strive to be a role model in terms of human resource management and sound environmental policies and in fighting corruption and fraud. Overall it should transparency. Inclusion of private sector, local people and vulnerable to responsibility programs can create an ideal environment for the people and the corporate to take things seriously.

Corporates need to take a clear and proactive role to chart-out the guidelines for transparent operations. After all, legislatures provide a "moral minimum", beyond which corporates need to act. Many of the recent financial scams have been the results of greed taking advantage of the loopholes in legislature and accounting practices.

First is transparency. Second, companies must adhere to human rights and understand that the ripple effect of their businesses on millions of people. Fair protection of workers and a responsibility towards the supply chain is equally important. Companies should not down the prices paid to the actual growers and suppliers. Absolute honesty is needed with the customers and fair returns for financial investors. Corporations are virtually stealing from the capital of the company when they offer huge compensation packages and big bonuses. Companies with criminal practices should be de-listed. For instance, Union Carbide after the Bhopal tragedy should have been de-listed and asked to clean up its mess. However, business ethics and social responsibility should not be mixed up with corporate philanthropy or charity. Both can be mutually exclusive. Philanthropy is often misleading and serves as a cover-up of other not so charitable actions by the corporate management Business ethics is about respecting people's right for dignity, human rights, labor standards and safeguarding the environment.

The Role of the People

Today, in the global village, it will be reassuring and important to know that all families share a common set of values and act on them. Transparency, responsibility towards the community and a sense of caring for the less privileged will go a long way to build a better future for this global society. As Nobel laureate Amartya Sen said "The success of an economy depends not only on general production and aggregated wealth, but also on equity and justice .The success of society depends in large measure on what people do spontaneously to help others."

Corporate Ethics in the New Century

Business and ethics have always generated a lot of ethical question. Corporate employees and managers are also citizens and stewardship. Corporations can no longer see themselves as self-centered concerns; they should look into their higher self and make positive commitments to larger issues that confront the mankind. All corporations should be morally bound to maintain sustainable growth. Serious environmental problem should be foreseen and steps taken to ensure that our next generation inherits planet earth in the same condition (if not better) as we did.

It must be borne in mind that almost all organizations have a written code of conduct. Together with the vision and mission statements they create a grand facade of legal and ethical framework on which their operations are to be built. Ethics officers are supposed to be the moral policeman of the company. However, in practice we find greed and ambition creating loopholes (creative accounting in Enron's case) around the fence erected by the legal and ethical codes. The question is, whether organizations can carry on exploiting the resources for their own good or do they have a social responsibility to give back to the society and community they work in (Corporate Social Responsibility)? However, corporate social responsibility should not be equated with corporate philanthropy. The relationship between an organization and society has to be based on a sustainable partnership approach rather than a charity oriented approach. After all, an organization is not the purpose but a tool to achieve a purpose i.e., of economic prosperity leading to social equity and development. So, organizations are a part of social ecology and its imperative on their part to maintain this ecological balance. However, the role of government cannot be over emphasized in this regard particularly in developing countries

Conclusion

Having traveled thus far, let us come to the conclusion of these various complicated issues on the all important Corporate Governance and Ethical issues, in the 21st century. Business Model has changed a lot and keeping with this composition of Board should change by inducting technologists who are again time limited by the relevance of their technology. Key innovators should be on the Board.

Leadership should be distributed to provide ownership to the innovators. Boards should be formed on the basis of structure, process, culture and remuneration. Corporate Entrepreneurship or Community should be formed to encourage self governance. Ethical issues will dominate with more technological development, hence ethical codes have to be formulated in all corporate entities.Environment management will hold the key for future, hence corporate social responsibility will be crucial. Ethics will be redefined as goodness advances with a mix of altruism and self-interest. Corporations can no longer see themselves as self-centered concerns, and so they should look into their higher self and make positive commitments to larger issues that confront the mankind. Corporations should pledge to follow Gandhi’s Doctorine of Trusteeship and honor their obligation to the society by becoming an economic, intellectual and social asset to each nation and each community in which they operate.

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