Impact of Corporate Governance on Corporate Social Responsibility - A Study with Reference to Software and Manufacturing Companies at Bengaluru

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Abstract

Corporate Social Responsibility (CSR) has increasingly focusing on corporate governance as a vehicle for incorporating social and environmental concerns. This increased awareness of corporates, as it is going to benefit not only investors but also employees, consumers and community. At present corporate governance is linked more and more with business practices and public policies that are stakeholder friendly. Traditionally corporate governance specified the rules of business pertaining to important decision making that is concerned with internal functioning of companies. In the beginning norms and laws at first served to shape the relations among board of directors, share holders, and manager as well to solve any internal conflicts. (Harald Demsetz et al. 1995).

After Enron, corporate governance focus to consider corporate ethics, accountability, disclosure and reporting. Furthermore, with increasing corporate scandals companies forced to give more attention to the significant impact of stakeholders on corporate development and corporate financial success. Empirical evidence show that weak corporate governance is associated with financial fraud reporting (Dechow et cl. 1996). But fraud detected corporations did not take to improve their weak governance. A strong corporate governance never encourages frauds and consider giving back to the society where they are highly benefited. The ethical side of corporate governance suggest that it has a responsibility towards society and to protect the society ensuring sustainability and a vibrant growth.

KEYWORDS : Corporate governance, Fraud, Responsibility, Protest, Practices, Transparency, Accountability.

Introduction

Corporate governances is the system by which organizations are directed and controlled. Hitherto historically corporations worked to protect the interest of share holders but in future it has to consider other stake holders in a more ethical way in order to keep the society to be happy which is best considered as “socially responsible”. Corporate governance through corporate social responsibility wanted to achieve inclusive growth, local area development, assisting the poor and deserved to continue education, creation of awareness, national heritage, assisting war widows and veterans etc. The concept corporate governance covers such as accountability, transparency, ethical approaches and stakeholders protection and growth implying that business need to focus on doing "what is right" and "what is expected by the society". The underlying principles of corporate governance imply that CSR has a direct linkage to a corporate having good governance procedure and is therefore an important issue that how a company frames norms tackling corporates governance and policies. Across the globe companies have started initiating CSR initiatives on account of enhanced pressure from consumers, stakeholders, and society. Business houses are part and parcel of society and companies in future has no alternative except acting as social institutions. In order to get competitive advantage in an highly globalised competitive scenario the companies have started creating value for the society. The corporate success is driven by continuous good relations with a wide range of individuals, groups and institutions. CSR plays an instrumental role in the process of gaining the confidence of customers confidence.

Corporations across the globe have grown in number because of their capacity to produce resources and create wealth. The resources belongs to the country as a whole and using these resources some corporates have sufficiently grown. There as a growing trend among such companies "to give back to the society".

Statement of the problem

A well disciplined corporate governance follows some ethical values and exhibits its responsibility to the society. Heavy corporate scandals do not have any responsibility to the society. Business can not be done excluding the society. They are interrelated and any change in the society also brings changes in the business. Corporate giants across the globe are performing well and also responsible to the societal growth. Some companies have taken up the job of educating the poor, providing drinking water employment, slum dwellers problems eradication of poverty etc. These initiatives helps them to face global competition. Abundant presence of literature suggests clearly the corporates through proper governance are expected to operate in the best interest of the society and its growth.

Bengaluru based software and manufacturing companies, in future should follow ethical standards, should aware of elements of driving capital attraction and high quality of corporate governance and its impact on the performances. Corporate social responsibility has created already a maximum awareness in the minds of different stakeholders. The future sustainability, brand image, sales, increase in the net profit etc. can be attained by better practicing of CSR initiatives. Against this background a study on corporate governance and CSR is taken up and studied in detail.

Objectives of the study

1) To analyse corporate governance and corporate ethical values.

2) To analyse factors of the effective elements of capital attraction.

3) To analyse the level of awareness of qualitative corporate governance impacting the performance.

4) To analyse the effective elements driving corporate governance.

5) To study the problems faced by corporate governance.

Hypotheses

1) There are no ethical values in corporate governance.
2) There are no factors of the effective elements of capital attractions.
3) There are no awareness about qualitative corporate governance impacting the performance.
4) There are no effective elements of driving corporate governance.
5) There are no problems to be faced by corporate governance.

Research Methodology

The present study aims at testing the multiple hypotheses and to understand hypothetical association among dependent and independent variables. Corporate governance and CSR are the dependent variables and the impacting factors are independent variables.

Sekaran and Bougie (2010) are of the opinion that an extremely thorough and careful methodology increases when a researcher moves towards a hypotheses testing study from an explorative research. The bi-polar opinions are presented using Likert different required point of scale. The present study is carried in a non-contrived settings of administrators and management top line employees, who are working in software and manufacturing industries.

Research instrument

A well drafted questionnaire was administered as schedule in order to avoid possible delays and non-responses. Uma Sekaran (2006) argued a questionnaire is a preformulated written set of questions to which respondents express their answers, generally within rather closely defined alternation. The present study considers both descriptive and analytical approaches. Descriptive study approach is employed with an intention of describing the state of affairs as it exists which is adopted in survey type of data collection. The researcher employed analytical approach to analyse the existing facts from the data collected from software and manufacturing concerns in Bengaluru.

Sample of the study Using the formula suggested by Bill Godden the sample of the study was decided.SS = infinite where population is > 50,000
SS = Z2 x (P) x (i-p)/c2
Z = Z value A (e.g. 1.96 for a confidence level)
P = Percentage of population picking a choice, expressed as decimal B.
C = Confidence interval, expressed as decimal.
(e.g. 0.04 = +/- 4 percentage points)
AZ values (Cumulative Normal Probability Table)
1.645 = 90% Confidence level
1.96 = 95% Confidence level
2.576 = 99% Confidence level
SS = 3.8416 x 0.5 x 0.5 / 0.0016 = 0.9604 / 0.0016

= 600.25 or 600.

Sample Table

Type of companies	No. of companies	No. of respondents	Total
Small	10	8	8 x 10 = 80
Medium	10	26	26 x 10 = 260
Large & MNCs	10	26	26 x 10 = 260
Total	30		600

Variable of the study

The study is confined to Bengaluru. There is heavy concentration of software and manufacturing companies in Bengaluru and hence Bengaluru is selected for the study. Equal number of companies from all companies is considered for the present study.

Sampling Technique

Convenient sampling technique was adopted and data has been collected using a structural questionnaire. 600 sample was fixed for the present study as suggested by Bill Godden.

Sources of data

The present study depends upon both primary and secondary data. Primary data has been collected from a well structured questionnaire administered as schedule. Before the questionnaire was administered as schedule a pilot study was conducted in order to check the relevancy of questions stated in the questionnaire. Pilot study was performed in selected 5 companies each covering 30 respondents. Finally 650 questionnaires were found to be screened for the validity, completeness and accuracy and 600 were at the end, found to be usable forming a better rate of response. Secondary data was compiled from different News papers, books, journals and websites.

Questionnaire design

The questionnaire prepared for the present study is a structured one and all the questions to be asked is known in advance. The scales used for the present study are:

(1) Descriptive scale (Yes or No)

(2) Likert 3, point of scale

Statistical tools and techniques

ANOVA statistical metric was performed to measure the variability in the data. ANOVA assist in testing the data scientifically.

Review of Literature

Hart (1995) believes that the subject of corporate governance arises when two conditions are combined. First, there is an agency problem, or conflict interest earning members of organizations. Secondly, transaction costs are such that this agency problems can not be dealt with thorough a contract.

Farina (2013) said about several reasons behind the development of corporate governance. Firstly, the efficiency of the prevailing governance mechanisms has been questioned. Secondly, the high profile financial scandals. Further the researcher has stated that the awareness of the significance of corporate governance is a key factor of success.

Rose (2007) have analysed corporate governance characteristics and tried to relate them to firm performance. The corporate governance characteristics included the women and foreign participation on supervisory board. The firms performance variable was calculated through corporations Tobin's Q, measured by the market value of equity plus book value of debt, all divided with book value of assets. The results suggest that women participation in board team does not influence firm performance.

Silva et al. (2006) consider that corporate governance comprise all the mechanisms which are related to the definition and fulfillment of corporate goals.

Anderson and Gupta (2009) have stated that higher corporate governance quotient implies better firm level corporate governance and corporate governance quotient was statistically significant and higher for corporations operating within a market orient financial structure than for firms operating within a bank based financial structure.

Arjoon (2005) expressed that effective corporate governance can be achieved by adopted a set of principles and best practices. Further, the author stated that firms should be profitable in order to survive even though the search for profits must remain within ethical limits.

Analysis & Interpretation of data:

Table 1 : Corporate governance and corporate ethical values

Factors of ethical values	HP	P	SWP	T
Avoid false advertisement	45	35	7	90
Preserve natural scarce resources	55	45	10	110
Comply with rules and regulations of government	40	38	6	84
Avoid deceptive weights & measures	50	35	4	89
No tax evasion	48	53	5	106
No supply of low quality products	62	52	10	121
Total	300	258	42	600

Source: Field Survey

Note: HA - Highly Perceived, P - Perceived, SWP - Some What Perceived

Hypotheses:

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F Limit

					(from F table)
Between the sample	6388.8002	(3-1)=2	6388.8002/2 =3194.4001	3194.4001/ 38.933 =82.04	
Within the sample	584.0000	(18-3)=15	584/15 =38.933		(2, 15) = 3.68
Total	6972.8002	(18-1)=17			

Source: Field Survey

ANOVA Analysis:

The calculated being 82.04 higher than the TV = 3.68 @ 5% level of significance with df = V1 = 2 and V2 = 15 fails to accept H0 and accepts H1. Therefore it is concluded here that there exist no significant variation in the data.

Table 2 : Corporate governance and effective elements of capital

Effective elements of capital mobilisation	SA	A	SWA	T
Fairness: Ensuring the protection of share holder rights	80	60	10	150
Transparency: Timely disclosure of adequate information	92	55	9	156
Accountability: Clarifying governance & responsibilities	90	51	9	150
Responsibility: Ensuring corporate compliance	78	58	8	144
Total	340	224	36	600

Source: Field Survey
Note: SA - Strongly Agree, A - Agree, SWA - Some What Agree

Hypotheses:

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F Limit (from F table)
Between the sample	11768	(3-1)=2	11768/2 =5884	5884/27.78 =270	
Within the sample	196	(12-3)=9	196/9 =21.78		(2, 9) = 4.26
Total	11964	(12-1)=11			

Source: Field Survey

ANOVA Analysis:

The calculated being 270 higher than the TV = 4.26 @ 5% level of significance with df = V1 = 2 and V2 = 9 fails to accept H0 and accepts H1. Therefore it is concluded here that there exist no significant variation in the data.

Table 3 : Awareness of quality of corporate governance which impacts the performance

Level of awareness of quality of CG impacting the performance	HA	A	SWA	T
Efficient employment of corporate assets	93	60	17	170
Ability to attract low cost capital	85	55	10	150
Ability to meet expectation of society	100	45	15	160
Overall performance	70	42	8	120
Total	348	202	50	600

Source: Field Survey

Note: HA - Highly Agree, A - Agree, SWA - Some What Agree

Hypotheses:

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F Limit (from F table)
Between the sample	11103	(3-1)=2	11103/2 =5551.5	5551.5/84.89 =65.39	
Within the sample	764	(12-3)=9	764/9 =84.89		(2, 9) = 4.26
Total	11867	(12-1)=11			

Source: Field Survey

ANOVA Analysis:

The calculated being 65.39 higher than the TV = 4.26 @ 5% level of significance with df = V1 = 2 and V2 = 9 fails to accept H0 and accepts H1. Therefore it is concluded here that there exist no significant variation in the data.

Table 4 : Effective elements of corporate governance

Elements of driving corporate governance	SA	A	SWA	T
Improvement in audit & accounting standards	68	55	10	133
Paradigm shift in mindset against widespread tolerance of bribery and corruption as can unavailable cost of doing business in some countries	72	60	11	143
Empowerment of vigilant financial press	60	45	5	110
Enactment of laws pertaining to minority interest	62	40	10	112
Development of stock exchange	58	40	4	102
Total	320	240	40	600

Source: Field Survey

Note: SA - Strongly Agree, A - Agree, SWA - Some What Agree

Hypotheses:

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F Limit (from F table)
Between the sample	8320	(2-1)=2	8320/2 =4160	4160/41.83 =99.45	
Within the sample	502	(15-3)=12	502/12 =41.83		(2, 12) = 3.88
Total	11964	(15-1)=14			

Source: Field Survey

ANOVA Analysis:

The calculated being 99.45 higher than the TV = 3.88 @ 5% level of significance with df = V1 = 2 and V2 = 12 fails to accept H0 and accepts H1. Therefore it is concluded here that there exist no significant variation in the data.

Table 5 : Corporate governance and problems faced

Types of problems faced	SA	A	SWA	T
Inadequate resources	80	65	12	157
Non cooperation by the employees	70	55	08	133
Inadequate response from local authority	85	60	15	160
Overcautious approach of management	75	70	05	150
Total	340	250	40	600

Source: Field Survey

Note: SA - Strongly Agree, A - Agree, SWA - Some What Agree

Hypotheses:

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F Limit (from F table)
Between the sample	10050	(3-1)=2	10050/2 =5025	5025/34.33 =146.37	
Within the sample	309	(12-3)=9	309/9 =34.33		(2, 9) = 4.26
Total	10359	(12-1)=11			

Source: Field Survey

ANOVA Analysis:

The calculated being 146.37 higher than the TV = 4.26 @ 5% level of significance with df = V1 = 2 and V2 = 9 fails to accept H0 and accepts H1. Therefore it is concluded here that there exist no significant variation in the data.

Survey findings& suggestions.

Table - 1 highlights data factors driving ethical values. These factors varies from avoid false advertisement to no supply of low quality products. 300 respondents out of 600 are highly perceived about the drivers of ethical values, followed by 258 perceived and 42 some what perceived. Out of 300 who said highly perceived, 62 said about no supply of low quality products, 55 felt about preserves natural resources, 50 expressed about avoiding deceptive weights and measures, 48 stated no tax evasion, 45 viewed about avoid false advertisement and 40 said about comply with rules and regulations of government. Out of 258 respondents, 53 expressed about no tax evasion, 49 about no supply of low quality products, 45 stated preserves natural resources, 38 each about avoid false advertisement and comply with rules and regulations of government, 35 expressed about avoid deceptive weights and measures. Out of 42 who said some what perceive, 10 each said about preserve natural scarce resources and no supply of low quality products. 7 said about avoid false advertisement, 6 felt about comply with rules and regulations of government, 5 about no tax evasion and 4 felt to avoid deceptive weights and measures. ANOVA fails to accept H0 and accepts H1 and therefore it is concluded here that there exist significant variation in the data.

Table-2 reveals data about effective elements of capital attraction and these elements vary from fairness to responsibilities. 340 responds forming 57% said strongly agree over the effective elements of capital mobilization, followed by 224 stated agree and 36 said some what agree. Out of 340 who said strongly agree, 92 said about transparency, 90 about accountability, 80 about fairness and 78 regarding responsibility. Out of 224 who said agree, 60 felt about fairness, 58 expressed about responsibility, 55 transparency and 51 accountability. Further, out of 36 who said some what agree 10 said about fairness, 9 each said about transparency and accountability and finally 8 expressed about responsibility. ANOVA fails to accepts H0 and accepts H1 and hence its is concluded here that there exist significant variation in the data.

Table - 3 speaks about awareness of quality of corporate governance which impacts performance. Theses factors of awareness of quality of corporate governance varies from efficient employment of corporate assets to overall performance. 348 respondents or 58% out of 600, said highly agree followed by 202 agree and 50 some what agree. Out of 348 respondents who said highly agree, 100 said about ability to meet expectation of society, 93 about efficient employment of corporate assets, 85 regarding ability to attract low cost capital and 70 about overall performance. Out of 202 who said agree 60 felt about efficient employment corporate assets, 55 about ability to attract low cost capital, 45 about ability to meet expectation of society and 42 about overall performance. Out of 50 respondents who said some what agree, 17 said about efficient employment of corporate assets, 15 felt about ability to meet expectation of society, 10 said about ability to attract low cost of capital and 8 said about overall performance. ANOVA fails to accept H0 and accepts alternative. Therefore it is concluded here that there exist significant variations in the data.

Table-4 reveals information about elements of driving corporate governance. 320 respondents out of 600, said strongly agree over the elements of driving corporate governance followed by 240 agree and 40 some what agree. Out of 320 who said strongly agree, 72 said about paradigm shift, 68 about improvement in audit and accounting standards, 62 about enactment of laws pertaining to minority interest, 60 said about empowerment of vigilant financial press and 58 felt about development of stock exchange. Out of 240 respondents 60 said about paradigm shift, 55 about improvement in audit and accounting standards 45 about empowerment of vigilant financial press, 40 each said about enactment of laws pertaining to minority interest and development of stock exchange. Out of 40 who said some what agree, 11 said about paradigm shift, 10 each about improvement in audit and accounting standards and enactment of laws pertaining to minority interest, 5 said about empowerment of vigilant financial press and 4 said about development of stock exchange. ANOVA fails to accept H0 and accepts H1 and therefore it is concluded here that there exist significant variation in the data.

Table-5 reveals information about corporate governance and problems faced. 310 respondents out of 600, said strongly agree followed by 250 agree & 40 some what agree. Out of 310 who said strongly agree, 85 said about inadequate response from local authority, 80 said about inadequate resources, 75 viewed about overcautious approach of management and 70 said non-cooperation by the employees. Out of 250 respondents who said aware, 70 said about overcautious approach of management. 65 said about inadequate resources, 60 regarding inadequate response from local authority, and 55 felt about non cooperation by the employees. Out of 40 respondents who said some what agree, 15 said about inadequate resources. 8 felt about non-cooperation from the employees, and finally 5 felt about overcautious approach of management. ANOVA test fails to accept H0 and accept the alternative and hence it is concluded here that there exist significant variation in the data.

Conclusion:

Corporate governance come into existence following the Asian Economic crisis in July 1997 and now quite frequently bandied in the business press (Shafi Mohammed 2004). Effective and better administered corporate governance can take up CSR initiatives. By executing CSR initiatives global popular giants and others are building brand image and popularity. CSR in a positive way brings socio-economic changes through implementation of needy activities as explained in the Companies Act. 2013. The strong presence of corporate governance makes easy to implement better CSR initiatives.

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