An Empirical Investigation of Corporate Governance with Respect to Corporate Social Responsibility in India & USA

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Abstract

Corporate Governance (CG) is a system of managing a company in the best interest of all its stakeholders through in the context of state administration. It is a primary responsibility for running a business with integrity and honesty lies with the managers who are accountable to the shareholders. But a vast majority of Indian Corporate is misgoverned by promoter families, which own a negligible proportion of share capital, hence the need for Corporate Governance (CG) is not just Corporate Management, it is something much wider and encompasses within its fold a fair, efficient and transparent administration to meet certain well defined objectives. CG practices in global and in India has been passed through various stages of development. With global aspect the pioneer steps of appointment of Sir Adrin Cadbury Committee by stock exchange of London in 1991, then many countries have presented the guidelines for Corporate Governance. With Indian aspect initially CII recommendations were given critically reviewed the concept. This followed by Naresh Chandra Committee and Narayan Murthy Committee have reviewed this concept with operational effectiveness and efficiency. The researcher has made an attempt to evaluate the CG practices with respect to Corporate Social Responsibility (CSR) in India & USA, for that researcher has taken Infosys & Spirax Sarco (USA).

Keywords:

Corporate Governance, CSR, India, USA, Comparative Study.

Introduction

With a separation of ownership from management the primary responsibility for running a business with integrity & honesty lies with the managers who are accountable to the shareholders. But the track record of quite a number of companies is not good in the world including India. So the need for Corporate Governance (CG) is important tool for disclosure. But CG is not just corporate management it is something much wider & encompasses within its fold a fair, efficient & transparent administration to meet certain well defined objectives. The word Corporate Governance is attached with two words, the term "Corporate" & "Governance". Term Corporate means the company which is registered under the Companies Act 1956 & the word Governance means to control, to regulate, to govern & to direct the managing & controlling the business affairs. It is a system of managing a company in the best interest of all its stakeholders through in the context of state administration. CG has been applied in many countries like in UK pioneer steps of appointment of Sir Adrin Cadbury Committee by stock exchange of London in 1991. Then Greenbury

Committee in 1995 & Hampel Committee in 1998 appointed by the same agency. in Malaysia under the inspiring & dynamic leadership of Dr. Mohammed Manatier reported CG codes. The institute of Directors in South Africa released, The Kings Committee on CG on Nov. 19, 1994. In Canada, Toronto Stock Exchange Committee was appointed in 1994 to suggest guidelines for CG. In Japan, Tokyo Stock Exchange Committee was appointed for CG practice. Thus such countries have formulated code of CG. India has also formulated its own code of conduct. In India, the history of CG dates back to the year 1998. The Confederation of Indian Industry formed a committee under the Chairmanship of Rahul Bajaj & Co-Chairmanship of Omkar Goswami with leading 19 industrialists, which was named as Rahul Bajaj Committee. This was followed by the recommendations of the Kumar Mangalam Birla Committee set up by SEBI. Then came the Companies (Amendment) Act 2000, which introduced many provisions relating to CG. In the year 2002, the Naresh Chandra Committee was appointed. In 2002, SEBI constituted a committee under the Chairmanship of N. R. Narayan Murthy, Chairman & Mentor of Infosys Technologies Ltd.

The researcher has made an attempt to evaluate the CG practices in India & USA, for that researcher has taken Infosys & Spirax Sarco (USA).

Objectives

1. To Compare CG practices in best award winner in CG – Infosys Technologies Ltd. & Spirax Sarco (USA).

2. To evaluate the Corporate Social Responsibility (CSR) of both the units.

3. To evaluate the implementation practices of CSR in both the units.

Research Methodology

➢ **Sample Profile** – Infosys Technologies Ltd. Along with its subsidiaries is a leading global information technology or IT, services company. The company provides end-to-end business solutions that leverage technology, thus enabling its clients to enhance business performance company offers software products for the banking industry & business process management services.

Spirax Sarco (MNCs) & its subsidiaries provide knowledge, service & products for the control & efficient use of Steam & other industrial fluids worldwide. Means the manufacturing of Steam engines & providing Steam system services around the world.

➢ **Data Collection** – The study is based on secondary data. Annual Reports of one year of both the units have been analyzed, to evaluate the performance of CG practices in Social Responsibility.

➢ **Significance** – CSR, which embraces a wider range of issues & in particular focuses on social, ethical & environmental matters. CSR focuses on what an organization does that affects the society in which it exists. Detail study of the CSR of both the units gives us information regarding implementation practices of both the units.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) means the obligation to persue those policies to make those lives of action which are desirable in items of objectives & values of our society as well as stakeholders. Both the Spirax Sarco & Infosys have been reporting on CSR which embraces a wider range of issues & in particular focuses on social, ethical & environmental matters. Both the units have different areas for classification & implementation of CSR practices CSR is one of the important criteria which has been covered under the CG codes by the various authorities. The CII recommendations has clearly mentioned the CSR as one the code of conduct while Kumar Mangalam Birla Committee has CSR one of the aspect. In the report of Narayan Murthy Committee this aspect have been taken as a non mendatory recommendation. In addition to this confederation of European shareholders association has given CG guidelines 2000 (which is not force in India) will apply on in American market has focused this responsibility as a prime disclosure in the CG report of the company UN Global Compact Programme calls on companies to implement nine principles in the areas of Human Rights, Labor Standard & Environment. So this concept has been widely recognized as important component of CG report. In this background this aspects have been evaluated by the researcher in their selected samples.

Corporate Governance Philosophy

➢ **Spirax Sarco** – The Spirax Sarco's operations are carried out under the standing business code. The main areas are as under.

▪ Compliance with all applicable laws & regulations.

▪ Operations of the internal controls established by the group.

▪ Having proper regard for all stakeholders in the business.

▪ Outlawing of bribes.

▪ Commitment to fair treatment of all employees.

▪ Recognition of all health, safety & environmental matters.

➢ **Infosys** – Infosys Technology's philosophy about CG is based on the following principles.

▪ Satisfy the spirit of the law & not just the letter of the law.

▪ Be transparent & maintain high degree of disclosure levels.

▪ Make a clear distinction between personal conveniences & corporate resources.

▪ Communicate externally in a truthful manner about how the company is run internally.

▪ Comply with the laws in all the countries in which it operates.

▪ Have a simple & transparent corporate structure driven solely by the business needs.

▪ Management is the trustee of the shareholder's

capital & not the owner.

Company complies with the Euro shareholders CG guidelines 2000. Company also adheres to the UN Global Compact Programme. Company also complies with the CG code by NareshChandra Committee, Kumar Mangalam Birla Committee, Narayan Murthy Committee, and Organization for Economic Co-operation & Development (OECD) principles.

Findings

Thus compliance with all the guidelines & principles both the units have set out specific standards in a separate management code, related to Corporate Social Responsibility (CSR), which has following areas for disclosure.

➢ **Major parameters of CSR in CG**

Spirax Sarco	Infosys
1. Employee Rights	1. Human Rights
2. Community Development	2. Elimination of all forms of forced & Compulsory labor.
3. Supplier Relations	3. Abolition of Child Labor.
4. Product Stewardship	4. Elimination of discrimination with respect to employment & occupation
5. Corruption	5. Precautionary approach to environment Challenges
6. Health & Safety	6. Promote greater environmental Responsibility
7. Environmental (a) Implementation (b) Review (c) Audi process (d) Result (e) Environmental Benefits	7. Environmental Policy (a) Environmental Emergencies (b) Environmental Management System (EMS) & ISO 14001 (c) Environmental, Health & Safety (EHS) (d) Health Clubs (e) Environmental best practices in campus (f) Environmental excellence in Communities

Source: Compiled from Secondary Data (Annual Reports)

Above table indicates the major areas of CSR in CG report.

The **Spirax Sarco** has covered this aspect as follows.

➢ **Employee Rights** – Management supports & applies the principles of Human Rights in its operations including equal opportunities for employees regardless of sex, race, religion, age or disability. They have policy of non-discrimination & does not tolerate harassment in any form. Care has been taken to provide for a culture of openness & honesty. Encourages development of employees skills through a policy of reward & recognition. Management philosophy recognizes employees as its most important asset.

➢ **Community Involvement** – Management has a charitable Trust which donates to registered charities & additional donations are made to appropriate requests, particularly for women.

➢ **Supplier Relations** – The company policy is to use suppliers of goods & services which maintain appropriate standards in their operations. Many subsidiaries are in the process of implementing SA 8000 Standards on Social Accountability.

➢ **Product Stewardship** – Information & support is given through appropriate technical advice to provide a solution to customer's need with installation & after sales service.

➢ **Corruption** – The Company's policy outlaws corruption or anti-competitive practices. In addition General Managers are required to certify personally that all laws & regulations have been met in their territory.

➢ **Health & Safety** – The Company has a clear attitude to health & safety, which is that each operation will maintain a healthy & safe environment. Each operation will maintain a healthy & safe environment. Each major manufacturing site has its own Health & Safety Committee. The management ensures that the necessary resources are available for health & safety training. They established training programme to new shop floor employees every 3 years. Regular reviews are conducted to ensure that employee's knowledge of health & safety matters relevant to them is up to date. During the course of 2003-2004 the company has carried out various reviews & have extended the measures for the welfare of employees by

▪ The introduction of Automatic External Defibrillators for use in heart attack situation.

▪ Introducing & commencing the training of all managers in the preventation of work related stress.

▪ The introduction of a policy with regard to the abuse of alcohol & drugs & trained managers in the recognition of the symptoms of abuse.

> **Environmental** – The group regularly reviews its written policy statement & performance with regard to environmental matters.

  ▪ **Implementation** – The group's objective is to comply with environmental laws & good practices & where non-compliance is identified to have management systems in place to ensure that this is rectified within an appropriate time frame.

  ▪ **Review** – Following a review the implementation of recommendations, if any, is monitored at group level, the General Manager will report & has the responsibility for ensuring that they are effectively considered.

  ▪ **Audit Process** – The group utilized external environmental consultants to audit a number of manufacturing facilities & established an internal environmental audit process.

  ▪ **Result** – As a result there have been improvements in the use of solvents, chemicals & fluxes all of which have contributed to a cleaner operating environment. The implementation of a new automated finishing process which has led to greater efficiency including an increase in productivity by 50% a major reduction in water consumption & an overall improvement in working conditions.

  ▪ **Environmental Benefits** – The use by customers the products has a significant environmental benefits & a numerous other examples of benefits enjoyed by customers which include improved overall boiler efficiency, improved energy efficiency of process plant & reduced consumption of water, water treatment chemicals & lower production of effluent.

The **Infosys** has covered this aspect as follows.

> **Human Rights** – Infosys adopted the UN Global Compact Programme & became a partner with the UN in this initiatives. To support & respect the protection of human rights is good for community & for business. Uphold the freedom of association & the effective recognition of the right of collective bargaining.

> **Support the elimination of all forms of forced & compulsory labour** – UN Global Compact Programme suggested that to eliminate forced & compulsory labor & develop the skills in education of children for the labor markets of tomorrow.

> **Support the effective abolition of child labor** – Child labor results in scores of under skilled, unqualified workers & jeopardizes future skills improvements in the workforce.

> **Elimination discrimination with respect to employment & occupation**- Discrimination in employment & occupation restricts the available pool of workers & skills, & isolates an employer from the wider community.

> **Support a precautionary approach to environmental challenges** – It is more cost effective to take early actions to ensure that irreversible environmental damage does not occur. This requires developing a life cycle approach to

business activities to manage the uncertainty & ensure transparency.

> **Undertake initiatives to promote greater environmental responsibility** – Now days the public is demanding that business manage its operations in a manner that will enhance economic prosperity, ensure environmental protection & promote social justice & encourage the development & diffusion of environmentally friendly technologies which helps a company reduce the use of raw materials leading to increased efficiency & increased competitiveness of the company.

> **Environmental Policy** – Infosys wishes to be recognized by all stakeholders as a world class company that is committed to high standards of environmental management & to providing its employees, consultants & contractors with a safe & healthy environment, free of occupational injury & illness.

  ▪ **Environmental Emergencies** – Being a software company they do not generally perceive any environmental emergencies within campus. However, adequate measures have been taken to mitigate any such emergencies in case of occurrence. Fire is the only major aspect identified, for that installation of fire alarm systems in all buildings & Mock fire & evacuation drills are conducted at regular intervals.

  ▪ **Environmental Management System (EMS) & ISO 14001** – Infosys operates an EMS at various locations that will meet the ISO 14001 standards. EMS is designed around managing the significant aspects related to the company's activities, regulatory compliance & emergency preparedness. The company obtained certification under the ISO 14001 standard. Auditing is a systemic & independent examination of various activities, intended to determine compliance with the ISO 14001 standard & the EMS.

  They trained 42 employees of the company as EMS auditors. The EMS of Infosys has been subject to 25 days of audits during the year to check compliance.

  ▪ **Environment, Health & Safety (EHS)** – Employees are expected to report workplace hazards & incidents to the concerned officials & to contribute to finding & implementing solutions. Employees are prohibited from reporting to work under the influence of any illegal drugs & other substances. The work environment is monitored & measured on a continual basis to check chemical content & pollution levels.

  667 laboratory tests were conducted on drinking water across Campuses during the year.

  108 tests were conducted to determine the quality of the recycled water.

  62 tests were conducted to test the air quality.

  ▪ **Health Clubs at all campuses** – Infosys has made extensive use of the world class facilities. Some of these facilities include fully equipped gymnasiums, aerobics, yoga meditation & swimming. Tests conducted by medical experts who manage the health clubs prove that

usage of these facilities result in good health & wellness.

- **Environmental best practices in campuses** – Environmental best practices are reported & shared within the company on a quarterly basis. These are,

  - Building environmental awareness

  - Campaigns for recycling of toner cartridges, e-wastes & non-biodegradable solids

  - Donation of computers to schools

  - Tree planting

  - Conservation & reuse of water

  - Smoking cessation in the workplace in staggered manner

  - Waste reduction

  - ISO 14001 Audit

- **Environmental Excellence in Communities** – Infosys is actively involved in improving the environment, health & safety of local communities such involvement include following activities.

  - Donation of waste paper to social welfare organizations

  - Donation of ambulances, traffic control vehicles, traffic lights, road signs, timer etc. for traffic management

  - Donation of used PCs to schools

- Sponsorship for community improvement initiatives

- Road improvement initiatives

Conclusion

In both the companies the CSR have been taken properly & considering the Indian Environment the Infosys report on CG is more informative to the stakeholders. Spirax Sarco has covered major 7 components like Employees Rights, Community Development, Supplier Relationship, Product Stewardship, Corruption, Environment, Health & safety. Where as Infosys report has covered Employees Rights with a wider perspective as a Human Rights. It also includes Abolition of Child Labor & Information about Compulsory Labor which was not included by Spirax Sarco. Environmental Policy, action programmes are much better than Spirax. Spirax is manufacturing unit running across the Globe & even though there is little attention on these aspects. Promotion for the environmental challenges has been taken by the Infosys. However the Corruption, Product Stewardship & Supplier Relations have been covered by the Spirax Sarco where it is not covered by the Infosys.

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