The Imperative Role of Corporate Governance in Building Sustainable Organizations

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Abstract: The issues associated with corporate governance and sustainability has become increasingly relevant to organizational strategies. Sometimes referred to as environment, social, and governance (ESG) issues, these topics run the gamut from corporate reporting and response, to global climate change and business sustainability, to the handling human values. Superior corporate governance connotes acting with responsibility, accountability, fairness and transparency. Now that sustainability has become the moral and economic imperative of the contemporary business practices, governance, strategy and sustainability have become indivisible. The optimum value for all stakeholders i.e. shareholder, investors, employees, customer, suppliers, environment and the community at large is the endeavor of corporate governance. For this purpose corporate should allocate resources in a sustainable manner to incorporate transparency, inclusivity and responsibility. Investors and consumers are placing strong demands on organizations to consider the consequence of environmental, social and economic performance across value chain. This paper focuses on accelerating demand for improved responsibility and disclosures of corporate towards structuring sustainable organizations. Stakeholders are concerned that possible violations of environmental standards may put corporate branding reputation at risk and ultimately economic hazard in future.

Keywords: corporate governance, sustainability, sustainable organizations, environment protection

I. Introduction

Sustainability issues have become very important in all fields of socio, political and economic life involving all stakeholders and requires new approaches and rethinking and bring a dynamic change in governance structures. Sustainability areas need to be identified for strengthening of governance policies to raise the standards which would include prioritizing critical areas, do away with outdated, incoherent regulations, develop code and regulations, and ensure code meets highest standards, extensive consultation to address challenges along with diffusion and action. Contemporarily, it is not enough for a company to merely be cost-effective it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior and sound corporate governance practice.

Globalization coupled with competence is significant factors influencing corporate governance to play a pivotal role in shaping organizations sustainable future. Corporate Governance and sustainable practices are essential to develop added value to the stakeholders.

It can act as a medium for change in addressing sustainability concerns for more well-organized uses of resources and leading to superior profitable growth. Organizations should keep in mind while analyzing their economic potential and financially viable growth, what would be the overall impact on governance issues such as climate change, water management, disclosure and transparency, and the impact business operations may have on local communities. Building sustainability comprises of three aspects economic, social and environmental. Sustainability can be focused as a corporate policy monitoring long-time corporate growth, efficiency, performance and competitiveness by incorporating economic, environmental and social aspects into corporate management. In connection with Corporate Governance and Sustainability relating to measurement of corporate conduct even the Corporate Sustainability Reporting gains a great importance.

The focus is on business approach which is long-time creation of the value for all stakeholders and organizational actions by incorporating the opportunities and risks subsequent from the sustainable development economic, environmental and social. The need is for policies that will reduce negative effects and strengthen positive impact in order to reach to a compliance with objectives of sustainability which is to be implemented in the business practices.
II. Research Methodology
This paper is based on investigative exploration on existing data from a diverse of sources, together with intergovernmental entities, governments, academics, and corporate has been reviewed and arranged contextually to put in a novel way towards sustainability issues.

III. Integration of sustainability with Corporate Governance
Corporate sustainability is a strategic advancement focusing apart from effectiveness and competence also on the company performance, on the creation of value for the organization, as they follow from the environmental, economic and social aspects. The defining of sustainability relates to the concept of strategy known as the strategy of sustainable development, according to the authors (Hart, 1995; Shrivastava, 1996; Stead & Stead, 1995) in relation to the company.

The central elements of sustainable development and governance, considering their interrelations as they have emerged from the core themes in sustainable development discourses over the past decade and a half (Kemp and Gibson, 2005) The argument is given that sustainability is best viewed as a socially instituted process of adaptive change in which innovation is a necessary element. They discussed four key elements of governance for sustainability, which are integrated into the concept of transition management. Their result is a conceptual framework for policy-making and action-taking aimed at progress towards sustainability.

Corporate governance in many companies is now built on sustainable development principles; it involves the recognition of corporate social responsibilities (CSR), and of stakeholders’ legitimate interests in corporate activities (Kelly and Alam, 2008). They also discussed that the nature of management decision-making and control has changed. In the new environment, the role of accountants must change as they strive to provide the most useful of information to managers. They also discussed that students can be best prepared for corporate world if academics respond to current developments.

Stern (2008) considers the challenges of building and sustaining frameworks for international collective action on climate changes with important initiative coming from both national government and corporations. The various dimensions of action required to reduce the risks of climate change are considered. These dimensions of remedial action are interdependent: a carbon price is essential to provide incentives for investment in low-carbon technology around the world, and can be strongly complemented by international co-operation to bring down the cost of new low carbon technologies. The success of international co-operation on mitigation will determine the scale of action required for adaptation that is how we learn to cope with climate change. An overview of existing international co-operation on climate change indicates the immense scale of the problem, and the huge global effort that will be required to resolve this. Responsible corporate governance will be essential to securing a sustainable balance between business, society and the environment.

Sustainable development is commonly defined as development that meets the needs of current generations without compromising the ability of future generations to meet their needs and aspirations (Steurer, 2009). He addressed the concept not with regard to economic, social or environmental policy challenges, but regarding its key implications for public governance. It shows that in terms of governance, sustainable development requires horizontal integration of sectoral policies, closer co-operation between different tiers of government, integrating different stakeholders in decision-making, considering different types of knowledge throughout the policymaking process, and balancing short- and long-term time scales. His paper contributed to the sustainable development as well as the governance discourse in basic ways by aggregating these widely accepted normative sustainable development principles to a comprehensive governance reform agenda. By doing so, it also highlights the considerable yet rarely noticed overlap between the discourses on sustainable development and governance.

The quality of a firm’s corporate governance practices and its sustainability disclosures are inversely related to its assessed default risk (James and Cotter, 2010). It is expected that high reported standards of corporate governance will reduce the assessment of a company’s default risk by lenders, underwriters and ratings agencies, and therefore reduce the cost of debt for such companies. They also discussed that a corporate governance index based on annual report disclosures was developed to rate each company’s corporate governance quality. Derivation of this index was centered on corporate governance indicators suggested by prior research and best practice; particularly the Australian Stock Exchange “Principles of Good Corporate Governance and Best Practice Recommendations”. It is similarly expected that the voluntary disclosure of
sustainability information (Corporate Social Reporting or CSR) will enhance a firm’s management reputation. The assessment of default risk is captured by a firm’s individual credit rating supplied by Standard and Poor’s. Their results indicated that neither annual report disclosures about corporate governance practices nor sustainability disclosures are significantly related to assessed default risk when firm size is controlled. Corporate governance have been adopted by developing countries since the 1980s (Mulili and Wong ,2011) and they differ from developed countries in a wide variety of ways. Therefore, there is need for developing countries to develop their own corporate governance models that consider the cultural, political and technological conditions found in each country. Their paper explores the challenges encountered by developing countries in the process of adopting the corporate governance ideals.

IV. Corporate Governance and sustainable practices in India
Corporate governance in India is old as the inception of industries in India. Companies are investing for the sustainable development of the country. Few case examples are mentioned below.

A. Green IT at Wipro
Wipro had been taking steps since 2006 in the larger context of climate change. Some of them were in the only measures of its kind in India. The company has articulated a goal of becoming carbon neutral by 2014. It had set up a governance council, called EcoEye, comprising seven senior managers three of whom were reporting directly to the company’s chairman in their functional roles. The council had endorsed 120 projects aimed at carbon neutrality. Wipro had also diversified into manufacturing and marketing computer hardware it called Greenware. Green IT was thus not about IT industry alone. It was a lot about non-IT industries discovering better ways of doing business. Green IT was also not about reducing the overall carbon footprint alone. It was about a world of opportunities for IT companies to generate new streams of what was being called Green revenue. It was by addressing its own energy requirements first that Wipro had sharpened its learning’s with Green IT. The company had turned its 50-acre campus at Electronic City in Bangalore into a ―test bed, as Forbes India magazine called it. While its software engineers, numbering 25,000 at the location, wrote codes for Fortune 500 corporations, waste food from the cafeteria was being turned into methane for lighting burners, rainwater was being harvested to be used to cool air-conditioning towers, waste paper was being converted and recycled into writing pads at a paper pulping plant and bulbs along the perimeter of the campus were being lit by a micro windmill. The company’s second campus in Bangalore, at Sarjapur, a few kilometers away, had the largest LED installations in the country. All compact fluorescent lamps had been replaced with LED lights, saving 75 per cent in electricity consumption.

B. Sustainable practices@ ITC
ITC e-Choupal is an innovative market-led business model designed to enhance the competitiveness of Indian agriculture. e-Choupal leverages the power of Information and Digital Technology and the internet to empower small and marginal farmers with a host of services related to know how, best practices, timely and relevant weather information, transparent discovery of prices and much more. e-Choupals not only connect farmers with markets but also allow for a virtual integration of the supply chain and create significant efficiencies in the traditional system. A business concept embedded with social goals, e-Choupal was designed to empower farmers and triggers a virtuous cycle of higher productivity, higher incomes, enlarged capacity for farmer risk management, and thereby larger investments to enable higher quality and productivity. These interventions have helped transform village communities into vibrant economic organizations, by enhancing incomes and co-creating markets. ITC’s e-Choupals serve 40,000 villages and 4 million farmers, making it the world’s largest rural digital infrastructure created by a private enterprise. ITC has spearheaded a large scale social investments programme christened Mission Sunehra Kal. This programme aims at building rural capacity in partnership with local communities to develop water and forest resources, open up new non-farm livelihoods, empower women economically and expand primary education. The Mission now embraces a community of thousands of villages that are influential nuclei of change in rural localities spread over 10 States. A clearly focused self-help movement has gained ground in village after village in these areas, with farmers co-operating to create much needed economic, environmental and social assets out of their own resources. By linking knowledge and technology transfer to the creation of economic and social capacity, ITC has brought a new dynamic to rural development.

C. Initiatives of Raymond Ltd to Train Underprivileged Youth, Women in Tailoring in Bihar
Raymond Ltd, India’s leading textile brand and world leader in Worsted Fabric and Garments, on 15 May, 2012 announced the launch of India’s first training centre to impart tailoring skills to underprivileged youth and tailors. Launched in Patna, Bihar by the State’s Chief Minister, Mr Nitish Kumar, this Centre is geared to train 250 candidates in suit, shirt and trouser making in the first academic year.
Raymond through this initiative aims to create a network of skilled stylist tailors across India for sharing of knowledge and ideas, while providing customers with quality tailored garments. The Raymond Tailoring Centre shall train over 10000 students in various aspects of tailoring including suit, shirt and trouser making over the next five years. The minimum qualification for admission to the Raymond Tailoring Centre is 8th standard pass. The Raymond Tailoring Centre has been established to help its candidates acquire these special tailoring skills and bring in a sense of empowerment. Special focus shall be given to encourage women to pursue our programmes, through special reservation for them. We are proud to have the support of the Govt of Bihar in our first step in this direction.”

Raymond will assist the trained students in placements in the 680 The Raymond Shops and other multi-brand outlets. Raymond will also provide them career opportunities in around 100 Raymond workshops which will be setup during this period. The trained tailors will be encouraged to set-up tailor shops and Raymond shall support them in their endeavour in becoming trained stylist tailors.

D. CSR Vision at Aditya Birla Group

The CSR projects are carried out under the aegis of the "Aditya Birla Centre for Community Initiatives and Rural Development", led by Mrs. Rajashree Birla. The Centre provides the strategic direction, and the thrust areas for our work ensuring performance management as well. The focus is on the all-round development of the communities around our plants located mostly in distant rural areas and tribal belts. All the Group companies — Grasim, Hindalco, Aditya Birla Nuvo and UltraTech have Rural Development Cells, which are the implementation bodies. Their partners in development are government bodies, district authorities, village panchayats and the end beneficiaries — the villagers. The Government has, in their 5-year plans, special funds earmarked for human development and we recourse to many of these.

E. Core CSR values at Glaxo SmithKline India

Being a premier pharmaceutical company in the country, GSK’s core value is to be a good corporate citizen. It is committed to the communities in which it works. Support to the community through various social development initiatives is the way through which it invests in society. This is done by supporting social projects in partnership with not for profit organizations both in rural and urban areas. The initiatives are primarily focused towards women, children and the aged and are directed in the areas of Health, Education and Livelihood. They believe that these areas are related and of direct concern to GSK. If there is proper education, one will eventually learn to be hygienic, and if one is hygienic, will one remain healthy. The organization facilitates in educating masses on good practices of healthy living. At GlaxoSmithKline India, the activities towards community development are taken care by Corporate Social Responsibility Cell attached to the Corporate Communications Department. Since 1970, the Company has been implementing various social activities in the field apart from statutory ones. The initiatives are being carried through the company’s Corporate Social Responsibility cell situated at its Head Office in Mumbai.

V. Sustainability Reporting in India

The development of corporate governance standards is taking shape. India's corporate houses and investment communities are beginning to recognize the benefits of sustainability coverage and transparent reporting. Securities and Exchange Board of India (SEBI) mandate from November 2011 shows that the 100 largest listed entities must submit Business Responsibility Reports, as a part of their annual reports. This happened as a surging effect of the launch of the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business on 8 July 2011 by the Ministry of Corporate Affairs, Government of India. Sustainability reporting is therefore an important stride for initiating change towards a sustainable global business practices which combines future productivity with societal justice and ecological care.

The GRI Sustainability Reporting Framework provides guidance on how organizations can disclose their sustainability performance. The Reporting Framework sets out principles and standard disclosure items, including performance indicators that organizations can use to measure and report their economic, environmental, and social performance. All corporate entities are moving forward in designing a mechanism of sustainability reporting system.

VI. Implications –Progressing towards Sustainability through Corporate Governance

The focal point of sustainable governance is creating and administering stronger corporate alignment with the market and society’s expectations, creating organizational worth in the process not only for the individual organization but economy as a whole. Consequently it is important that excellence in governance should be achieved and promoted. Hence the measurement of quality of governance becomes imperative. Measurement should not essentially focus on financial performance but also on dimensions like customer, employee, or other stakeholder satisfaction and achieving environmental stability.
Sustainability should be incorporated in day to day operations of the organization, it begins with a corporate commitment and moves through all management processes achieving truly sustainable business performances while focusing on value creation. Corporate with sustainable behavior will be more likely to move in synchronization with the societies in which they operate, create and sustain their market presence and help maintain and raise prosperity levels and also will be able to adapt to changing economic, social, environmental, and political conditions. Therefore it is essential to create a structure comprising of community, policies and processes incorporating a positive reaction to the organization’s social, monetary and environmental initiatives that have the potential to influence the performance of the organization.

VII. Concluding remarks
Sustainable business practices are imperative not only for at present but also for securing profits in future. Hence this issue is going to be the top concern for the corporate houses. It is observed that organizations of repute operating in India have become very responsive to global sustainability issues. Success of companies thus will depend on how they gear up for modifying their existing products and reposition themselves to ensure to ensure a more sustainable future.

There is a wave of change in India’s Corporate Governance scenario. Indian corporates are adopting more sustainable reporting guidelines protecting the interest of all stakeholders and balance the conflicting interest of all stakeholders involved. There are two aspects of sustainability issues one is to consider it as a constraint within which to create stakeholder value and the other aspect is to consider participation in improving the living of this and future generations as a corporate responsibility and to adopt more sustainable decision making process. In today’s ever changing environment most Indian companies are embracing the second approach. Corporates as participants in accelerating national and global economies organizations enjoy and capitalize on natural, human and economic resources hence an imperative responsibility to embed sustainability a nucleus driver of their strategy and use resources judiciously for keeping the prospects of future generations bright. Sustainability of the environment, climate, social development and corporate economy all depend upon good corporate governance with cooperation of all involved. Corporates with enormous economic and social power should work in synchronization for economic stability and expansion linking environmental and social sustainability as a core part of their policy guidelines. Corporate can take measures in strengthening its corporate governance policies to address sustainability issues by defining the obstacles preventing sustainable progress; develop programs with many stages and achieve success. Building awareness with all stakeholders like government decision makers, business, and academia, media and opinion leaders is another important step that can be taken by corporate to meet the sustainability challenges and achievable goal. Indian corporates have taken this prospect to take leadership role in showing to the world that India’s business houses can administer and manage for sustainability and can create a scenario for greener technologies and products for better society and create wealth in a constructive and commendable manner.

References
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