

Corporate Social Responsibility and Its Impact on Corporate Governance: Comparative Study between Listed Companies on Bucharest and Bombay Stock Exchange

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Abstract—This article is a research on corporate governance. The aim of the study is to focus a special attention on the importance of corporate social responsibility and corporate governance, which are relevant, indeed necessary, for organizations. In this regard, we analyzed the corporate social responsibility in the context of corporate governance for companies listed on Bucharest and Bombay Stock Exchange. Therefore, we bring into the spotlight some differences between India and Romania linked with the importance ascribed to corporate social responsibility of a company. We presented the results of the demarche and we concluded suggestions regarding further research in this area. The study increases the awareness, identifies and articulates desirable behaviors, which are not intended to be exhaustive.

Keywords—Corporate governance, corporate social responsibility, disclosure, listed companies.

I. INTRODUCTION

THE concept of corporate governance appeared originally in the 1970s, in the United States of America and it represents a set of rules under which organisations are directed and controlled [1]-[3]. The Organization for Economic Cooperation and Development approaches the corporate governance through the role it plays in the division of relations and obligations of the stakeholders. [38] Regarding the corporate social responsibility, the first definition was the one suggested by Carroll [4, p. 500], who argued that “the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time.” Frederick [5, p.4] later argued that “the fundamental idea of ‘corporate social responsibility’ is that business corporations have an obligation to work for social betterment.” Wood [6], [7] suggested that “the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for

appropriate business behavior and outcomes.” Bakker et al. [8] argue that CSR reflects “societal expectations of corporate behaviour... that is alleged by a stakeholder to be expected by society or morally required and is therefore justifiably demanded of a business.”

Corporate social responsibility practices in the UK promote activities that bring social, economic and environmental benefits, encourage innovation. In Canada, there is the Council for International Business (CCIB), Canadian Labour Congress (CLC) and the Confédération des Syndicats Nationaux (CSN), which have a remarkable contribution on corporate social responsibility issues. Unlike the UK, social responsibility in Romania is still in its infancy and we are unable to speak about a Ministry of Social Responsibility. [41]

The first initiatives regarding corporate governance in India are since 1990. In 1997 was recommended a voluntary code of best practices. Because of the Asian Crisis, caused by the lack of transparency and a poor corporate governance regulation, in April 1998 was launched “Desirable Corporate Governance: A Code” for listed companies. [42]

The corporate governance in India is influenced by the Anglo-American system (shareholder model), and also is influences by the German-Japanese system (stakeholder model).

In India there are different structures, and the impact of agency costs varies for each of them:

- Highly dispersed shareholding
- Concentrated ownership
- Public companies with government ownership
- Multinational companies
- Family ownership

Based on a documentation carried out on the listed companies from Bucharest Stock Exchange and from Bombay Stock Exchange, this article attempts to sketch out the relationship between the corporate social responsibility and corporate governance issues among the selected listed companies. The importance that organisations give to the environment, community and workplace is revealed by their actions, which are described in corporate social responsibility reports, which have become as important as the financial annual reports. They comprise all the actions and activities developed by organizations and also the way they intend to continue this activities in future. Our study analyses the reports of different companies from different industry sectors.

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Regarding the methodology, we used a content analysis in order to observe the corporate social responsibility disclosure from annual report and companies' web sites.

Results based on the context analysis and the findings are limited to the context of the: Romanian and Indian public listed companies. The sources of data in this study were companies' last reports and information disclosed on their web sites. The study is useful to researchers, organizations and statutory bodies to take into consideration how important it is for a company to be social responsibly.

II. LITERATURE REVIEW

The field of corporate governance and corporate social responsibility research is influenced by the lack of the corporate social responsibility definition, regulation and so on. There are many comparative studies, but they vary in matter of methodology: we can find comparative studies at country level or continent level:

- at one country level, such as [9], Malaysia [10], Portugal [11], Bangladesh [12], Spain [13], India [14],[15], Australia [16], Nigeria [17], Malaysia [18], Italy [19];
- for two countries, such as Australia and Slovenia [20], Mexico and France [21], US and UK [22] Mexico and South Africa [23];
- at multi level: [24], [25], [26], [27]

We have found also a study about the absence of corporate social responsibility in a developing country [28]. The reasons behind the unwillingness to address corporate social responsibility are: The lack of resources, the profit imperative, the lack of legal requirements, the lack of knowledge/awareness, poor performance and the fear of bad publicity.

All studies reveal differences between countries. Such differences have some reasons behind them, from all the most important being the national culture. [29].

There are studies that reflect that legal contexts in Britain concerning corporate social responsibility show important similarities with Europe, and contrasts with the United States, the "Anglo-American" system of corporate governance. Authors such as Matten and Moon [30] have realized a comparative study in both Europe and the United States. The objective of their research was to develop a conceptual framework of corporate social responsibility and they conclude that in the United States we can observe an explicit csr, through the volunteer reporting, while in Europe is an implicit one, because it is undertaken like a legal issue of that company.

III. RESEARCH METHODOLOGY AND RESULTS

The research methodology takes into account a sample composed by companies listed on Bucharest Stock Exchange and Bombay Stock Exchange (Fig. 1). The paper investigated issues related to Corporate Social Responsibility (CSR) and Corporate Governance (CG) reporting.

We conducted a qualitative research, based on observation of some aspects. Information was extracted on the basis of reports, such as: Annual Report/ Manager's Report, Corporate

Governance Code, "Comply or Explain" Statement, and other (non)financial reports (Corporate Social Responsibility Report, Sustainability Report etc.). In order to achieve homogeneity of the selected sample, we excluded financial institutions like SIFs (financial investment companies) and banks.



Fig. 1 Listed Companies

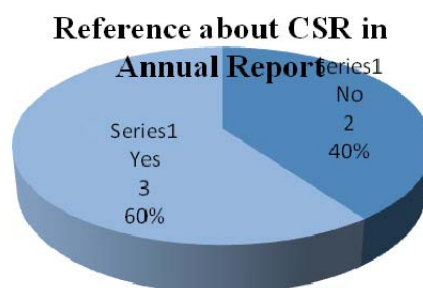


Fig. 2 Reference about CSR in Annual Report for Bucharest Stock Exchange Listed Companies

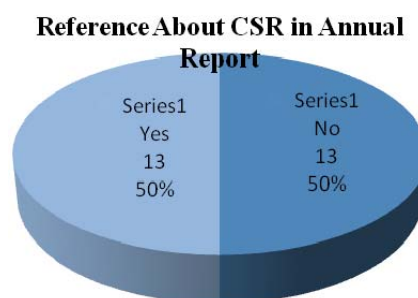


Fig. 3 Reference about CSR in Annual Report for Bombay Stock Exchange Listed Companies

The study samples (Tables I, II) comprise the listed companies from both The Bucharest Stock Exchange (BVB) and from Bombay Stock Exchange (BSE). We selected only those companies that are part of Bucharest Exchange Trading Index, respectively Bombay Stock Exchange Sensitive Index.

Bucharest Exchange Trading Index is the first one developed, comprises the most liquid companies from the Bucharest Stock Exchange and was launched in September 1997 [39].

Bombay Stock Exchange Sensitive Index is also the first index developed, comprises the largest companies across key sectors and was launched in 1986 [40]. Therefore, we selected 5 companies from Bucharest Stock Exchange and 26 companies

from Bombay Stock Exchange, because we eliminated the financial institutions from our sample (Table II).

We observed that there are companies that have separate reports for disclosure of corporate social responsible actions and activities (Figs. 4 and 5). There are also other ones that comprise these information in their Annual Reports. Regarding the entities listed on Bucharest Stock Exchange 60% of companies make references about corporate social responsibility in Annual Reports (Fig. 2), while for entities listed on Bombay Stock Exchange 50% of companies make references about corporate social responsibility in Annual Report (Fig. 3).

The main advantages of corporate social responsibility are the economic and financial performance. Here, we can mention about an analysis, consisting of 52 studies, which includes 30,000 observations and which have concluded that there is a positive link between economic and social performance of organizations [31]. More recent studies have revealed the same positive relationship and the authors have demonstrated mathematically that the corporate social responsibility initiatives increase the market value of the company [32], [33]. Other advantages are that it requires low costs, contributes to sustainability on long-term, increases employee suppliers, customers loyalty, etc., increases reputation.

The benefits of corporate social responsibility [34], [35]:

- operational cost savings through environmental efficiency measures (for example waste reduction, energy efficiency, etc.);
- positive responses to stakeholders' requests;
- better ability to recruit and retain employees;
- better anticipation and risk management;
- improved ability to learn and innovate (for example: identifying new ways of working, developing new skills);
- new business opportunities and access to new markets (for example new contracts, export, new consumers, for example through eco-labels);
- greater customer satisfaction through quality improvements;
- ability to access certain types of financing;
- and greater exposure to the public.

Through our research we found out that 60% of companies listed on Bucharest Stock Exchange have a CSR Report (Fig. 4) and 58% of companies listed on Bombay Stock Exchange have a CSR Report (Fig. 5).

Regarding the CSR Disclosure on websites, all companies listed on Bucharest Stock Exchange have such information and 12% of companies from Bombay Stock Exchange do not disclose such information (Fig. 6).

Regarding the Corporate Governance Statute/Code/Regulation, 50% of companies listed on Bucharest Stock Exchange have such a regulation (Fig. 7), while on Bombay Stock Exchange we can observe that only a percent of 35% of companies have such a statute (Fig. 8).

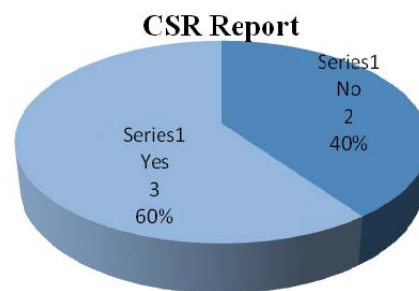


Fig. 4 Does the Companies Listed on Bucharest Stock Exchange have a CSR Report?

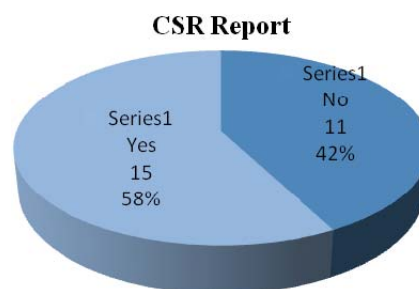


Fig. 5 Does the Companies Listed on Bombay Stock Exchange have a CSR Report?

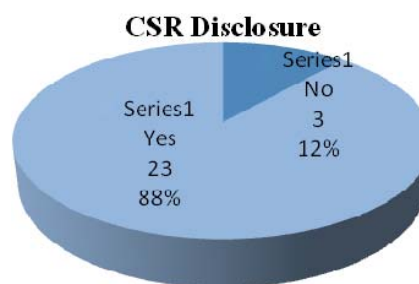


Fig. 6 CSR Disclosure on websites for Companies Listed on Bombay Stock Exchange

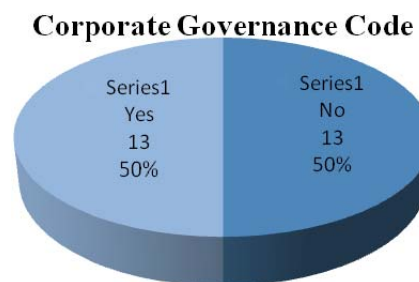


Fig. 7 Do the Companies Listed on Bucharest Stock Exchange have a CGC?

The Code of Corporate Governance issued by the Bucharest Stock Exchange stipulates that companies must have their own Corporate Governance Code in which they must describe the main aspects regarding corporate governance. The Annual Report will include also special chapters on Corporate Governance and also on Corporate Social Responsibility aspects. In the Comply or Explain Statement there is

information regarding both Corporate Governance and Corporate Social Responsibility (for example, the point R37/R38 of the Comply or Explain Statement: "The issuer conducts environmental and social responsibility activities?" From Fig. 9 we can observe that only 60% of companies listed on Bucharest Stock Exchange comply with this recommendation). If the companies comply with the principles and recommendations of Corporate Governance Code they report on them. If they apply only partial or did not apply those recommendations, they will include all the necessary information with the reasons why they actually did not implement or why they are not prepare yet to do so.

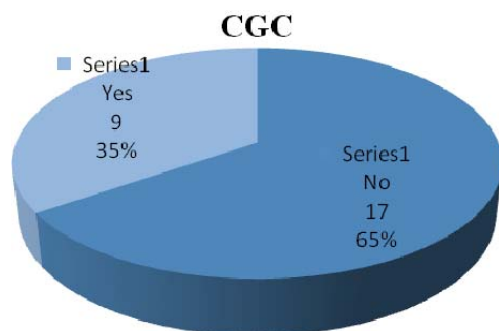


Fig. 8 Does the Companies Listed on Bombay Stock Exchange have a CGC?

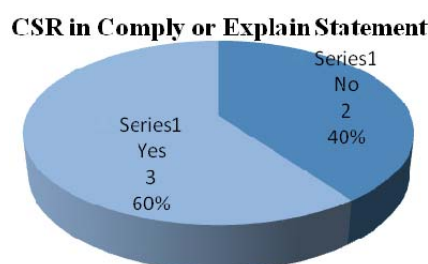


Fig. 9 References about CSR in Comply or Explain Statement for Companies Listed on Bucharest Stock Exchange

IV. CONCLUSIONS AND FURTHER RESEARCH

The results of the study present the existing situation in Romania and in India, in terms of corporate governance and social responsibility, results, which allow us to draw some preliminary conclusions. In the study we undertook, we found that there are companies that are part of our sample and are not transparent or does not accord too much importance to corporate social responsibility issues.

As Rivoli and Waddock [36] noted, the definition and importance of corporate social responsibility evolves over time and, given our previous discussion, it is likely that corporate social responsibility issues will become increasingly important to companies [37]. The cultural attitudes from different countries represent a reason for non-disclosure. Obstacles in applying corporate social responsibility practices:

- the lack of a culture of social responsibility;
- the lack of tools in terms of social responsibility;
- the lack of awareness of the importance of social

responsibility.

The disadvantages regarding the decision of involvement in socially responsible actions are related to the budget and resources which are allocated for this purpose and which used on medium and long term, can turn into advantages. Using the principles of corporate social responsibility encourages, on long term: competition, innovation, creation of new jobs and efficient use of resources.

The approached subject is vast and therefore there are some limitations, since it cannot be covered in exhaustively. This leaves open questions that can be improved and disseminated in future research. Lack of corporate governance makes companies vulnerable to a number of risks, from which we can mention an important one, fraud, because is having a significant impact on company and on economy also. We find interesting to study the application and the practical implementation of this information through a questionnaire. Results based on the context analysis and the findings are limited to the context of Romanian and Indian public listed companies. The sources of data in this study were companies' last reports and information disclosed on their web sites. The study is useful to researchers, organizations and statutory bodies to take into consideration how important it is for a company to be social responsibly.

APPENDIX

The BET currently consists of the 10 companies, from which we eliminated the financial institutions.

TABLE I
THE STUDY SAMPLE FOR COMPANIES LISTED ON BUCHAREST STOCK EXCHANGE

No	Selected Companies Listed on Bucharest Stock Exchange	Sector
1	CNTEE Transelectrica SA	Transmission of electricity
2	SC OMV Petrom SA	Extraction of crude petroleum
3	SN Nuclearelectrica SA	Production of electricity
4	SNGN Romgaz SA	Extraction of natural gas
5	SNTGN Transgaz SA	Transport via pipelines

The BSE Sensex currently consists of the 30 major Indian companies, from which we eliminated the financial institutions.

TABLE II
THE STUDY SAMPLE FOR COMPANIES LISTED ON BOMBAY STOCK EXCHANGE

No	Selected Companies Listed on Bucharest Stock Exchange	Industry
1	Cipla	Pharmaceuticals
2	Bharat Heavy Electricals	Electrical equipment
3	Hero Motocorp	Automotive
4	Infosys	Information Technology
5	Oil and Natural Gas Corporation	Oil and gas
6	Reliance Industries	Oil and gas
7	Tata Power	Power
8	Hindalco Industries	Metals and Mining
9	Tata Steel	Steel
10	Larsen & Toubro	Conglomerate
11	Mahindra & Mahindra	Automotive
12	Tata Motors	Automotive
13	Hindustan Unilever	Consumer goods
14	ITC	Conglomerate
15	Sterlite Industries	Metals and Mining
16	Wipro	Information Technology
17	Sun Pharmaceutical	Pharmaceuticals
18	GAIL	Oil and gas
19	Jindal Steel & Power	Steel and power
20	Bharti Airtel	Telecommunication
21	Maruti Suzuki	Automotive
22	Tata Consultancy Services	Information Technology
23	NTPC	Power
24	DLF	Real estate
25	Bajaj Auto	Automotive
26	Coal India	Metals and Mining

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