Corporate Social Responsibility

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Lecture - 33
What is Corporate Governance?

Welcome back to the MOOC course on Corporate Social Responsibility. My name is Aradhna Malik and I am helping you with this course and in this session or in this series of lectures in this module we are going to talk about corporate governance.

We will talk about what corporate governance is various theories, various models you know what it does in the organization and we will wind up with the discussion on how corporate governance and corporate social responsibility tie in with each other. There are different views on this, so we will discuss both sides and like I told you in the very beginning and I keep repeating this, this is not a prescriptive course I am not going to give you steps to do anything. My job is to open your minds to the ways a corporate social responsibility is being talked about to the discourse on corporate social responsibility, to the way this area is being dealt with in different parts of the world and different contexts and let you decide on your own how you want to see it, how you want to view it and develop your own strategies for dealing with this issue in your own specific environments for developing your own CSR programs in your own specific environments. The best part about this social science is and the applied social science is like this particular subject is that everything is right in its own context.

So, you know you can develop something that we cannot have you know there is no one single way of looking at things, we needs to look at things from various angles because peoples contexts are different and they are constantly changing and within those contexts how we develop things, how we understand things and how we apply our knowledge of solutions or possibilities to those contexts and generating solutions that may be relevant to specific contexts. So, that is a very nice aspect of applied social science is where we can bring in our uniqueness our unique skills and trades and knowledge to the specific situation.

So, that is what I will do in this module as well. I will introduce you to corporate governance and take the discussion from there and its very nice to see many of you participating on the forum and let us hope that continues even after the course is over. Let us see what corporate governance is.

So, in this lecture we will talk about what corporate governance is, corporate governance.

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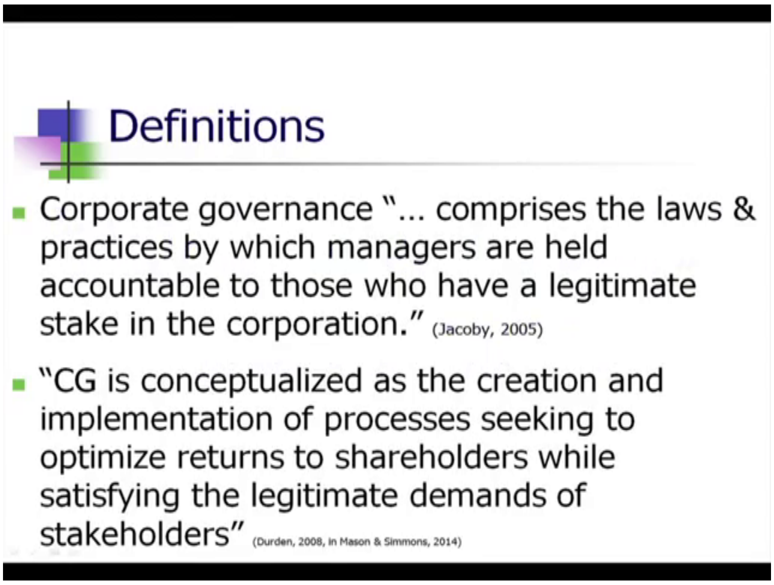

What is corporate governance alright? Some definitions corporate governance comprises the laws and practices by which managers are held accountable to those who have a legitimate stake in the corporation. This is a definition by Jacoby. Another definition according to, another definition corporate governance is conceptualized as the creation and implementation of processes seeking to optimize returns to shareholders while satisfying the legitimate demands of stakeholders.

So, it is all about accountability, it is all about giving back, it is all about keep putting processes in place that will help us understand the input into an organization in terms of resources and the output in terms of profits in terms of what it does for the environment for anyone who is connected with the organization.

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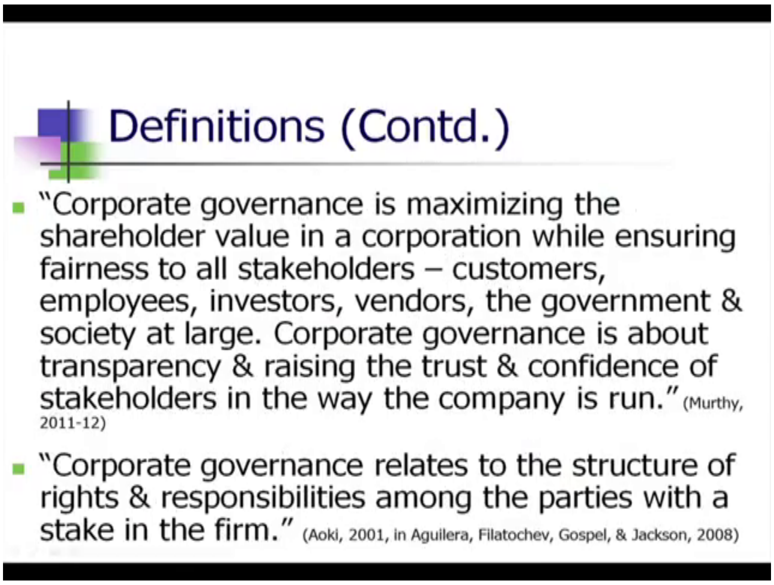

Another definition here, corporate governance is maximizing shareholder value in a corporation while ensuring fairness to all stakeholders that include customers, employees, investors, vendors, the government and society at large. Corporate governance is about transparency and raising the trust and confidence of stakeholders in the way the company is run.

So, it is about giving back its about putting in the resources that we have it is about its about maximizing the output with the input that goes into the organization and maximizing the output for anyone who may be connected to the organization and that ultimately leads to enhancement of trust and confidence of the people who are connected with the organization in the way the company is run.

So, the next one is a corporate governance relates to the structure of rights and responsibilities among the parties with a stake in the firms. So, what it talks about, what are the stakes, what are the rights, what do people who are connected to the firm, what are the rights of the people connected to the firm and what are their responsibilities by virtue of being connected to the firm.

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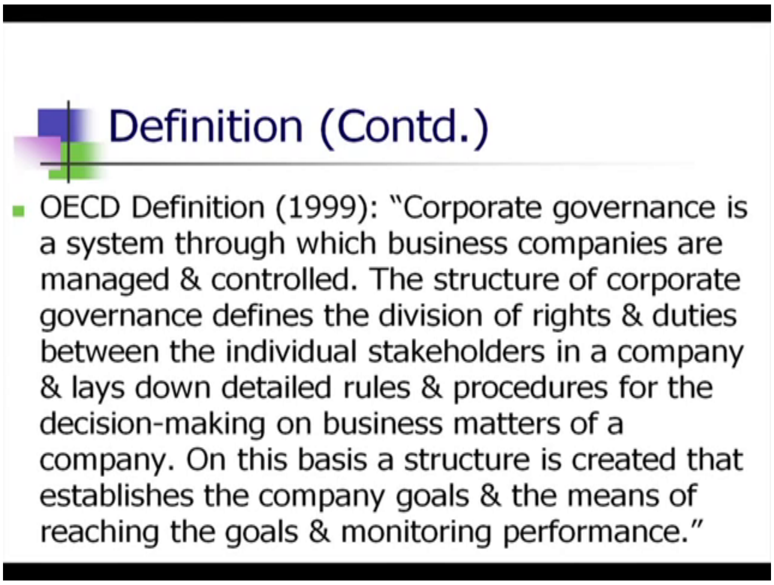

Then the definition given by organization for economic cooperation and development in 1999 was corporate governance is a system through which business companies are managed and controlled.

So, it is a system, it is a structure, it is a process, this structure of corporate governance defines the division of rights and duties between the individuals stakeholders in a company and lays down detailed rules and procedures for the decision making on business matters of a company. On this basis a structure is created where establishes the company goals and the means of reaching the company goals and monitoring performance.

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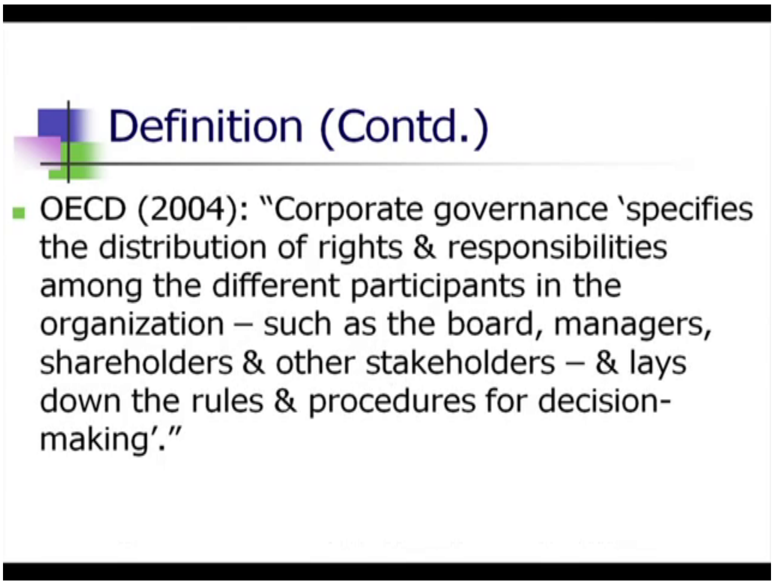

So, this was the definition given by organization for economic corporation and development in 1999, the definition was revised in 2004 and this is the latest definition that many people go by. So, this is something that would like you to remember corporate governance specifies the distribution of rights and responsibilities among the different participants in the organizations such as the board managers shareholders and other stakeholders and lays down the risk rules and procedures for decision making and it lays down the process it lays down some rules for how decisions should be made.

Now, having heard all of these definitions what do you think corporate governance is, what do you think? We are talking about here we are talking about a governing structure, we are talking about the people we are talking about comities we are talking about birds we are talking about the layers of administration in an organization. So, corporate governance is deals with how those layers of administration are created. What is a administration? It is a process for ensuring that rules and policies are a followed. So, governance includes the making of those rules and policies and ensuring that rules and policies are followed and what affect these rules and policies, it is the these the people who have a stake in the organization it is the siding what effects what could affect these rules and policies and the way their implementation is done.

So, you know, so we will come to that, but all of this is what corporate governance is finding out what can affect the way decisions are taken in an organization and then getting down to the nuts and bolts and the siding what who is where, who is responsible to whom, who has what kinds of rights, who gets what share of the pi you know how the resources are put into the organization, who decides where to get the resources from, maximize and taking decision in such a way that the resources that are coming into the firm result in maximum profits in the firm, maximum output, not even profits but maximum output in the firm is you know that whole process of this is of decision making is called corporate governance.

So, laying down these rules and policies and understanding lay in down some guidelines for taking those decisions is called as corporate governance.

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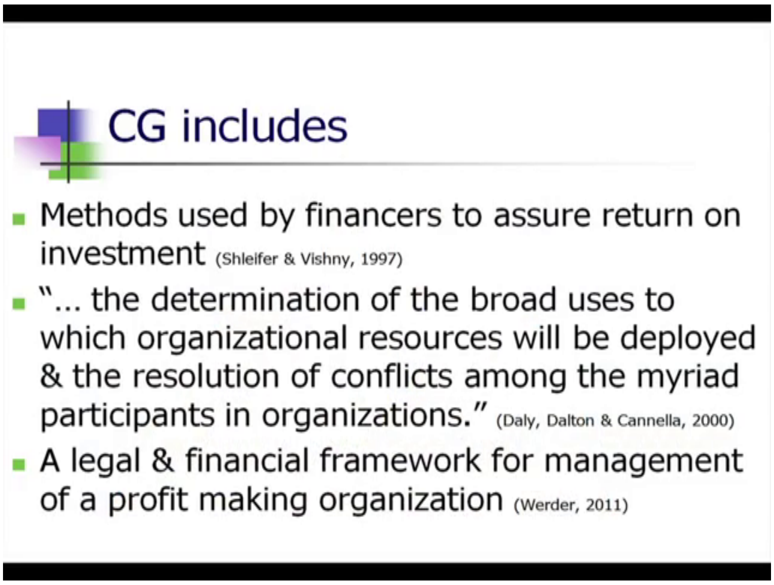

What does corporate governance include? It includes the methods used by financers to assure return on investment the biggest, the biggest risk is taken in a in a profit making organization the biggest risk is taken by people who are putting money into that organization who are financing the organization. So, it will leads to the methods used by financers to assure a return on the investment the procedures that they or they the activities that they carryout to ensure that whatever they have put in comes back with interest or with a premium.

So, they may; why should anyone pump money into an organization. You put money in an organization, so you can get profits right. So, they put in processes in place to ensure the methods they use to ensure that they get the maximum benefit out of their investments. CG or corporate governance also includes the determination of the broad users to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations. Now then resources are used in an organization they are pumped into an organization they are used by a number of people whose interests could be conflicting and when that happens at that point it is very very important to understand how these conflicts occur, why these conflicts occur and to put processes in place that can help with the or that can resolve the conflicts that occur especially due to a conflict of interests.

So, number of people are there in an organization and the conflicts that occur between these people because of various reasons need to be resolved and corporate governance includes the determination of the broad uses to which organizational resources will be deployed. So, the way these resources will be used and the resolution of conflicts among the people who are involved in using these resources. Another thing that corporate governance includes is a legal and financial framework for management of a profit making organization. One is we need to abide by the laws of the land, and two we need to make sure that we manage the finances of the organization properly.

So, a framework has to be put in place so that you know we need to be with the law we need to make sure our you know the resources are accounted for. So, all that has to be put in place and it has to be clear and corporate governance includes the framework that is put in place to make sure that this happens.

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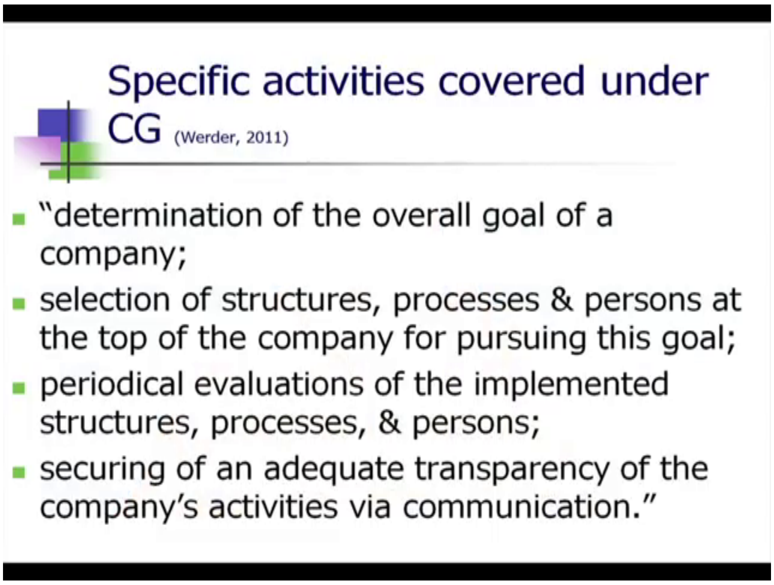

Specific activities that are covered under corporate governance it is determination of the overall goal of the company. What does the company want to make money out of? Why should the company be doing what it is doing? Selection of structures, processes and persons at the top of the company for pursuing this goal. Periodical evaluations of the implemented structures processes and persons securing of an adequate transparency of the company's activities via communication.

So, determining what the overall goal of the company is, what is the company trying to do. Then selecting structures, selecting processes, selecting people who will be responsible for pursuing this goal at the top of the company selecting the people who will be responsible for or who will take the initiative who will push this goal forward periodical evaluations of the implemented structures processes and persons.

So, corporate governance also includes the evaluation of whatever has been put in place to pursued a goal and securing of an adequate transparency of the company's activities via communication making sure. But anyone who has a stake in the organization knows what is going on, making sure that the people who have a stake in the organization the records are crystal clear to the people in the organization, making sure that the you know there is enough transparency in the way the resources come in and the way they are processed and the output that is generated for anyone who has invested in the organization. Whoever is invested in an organization will want to know how their resources are being used and whether there is a possibility of the kinds of returns they had hoped for to come.

So, transparency is absolutely essential, and corporate governance - governance make sure or this is a process or corporate governance helps secure the necessary transparency of the activities of the company in and through communication with the required people.

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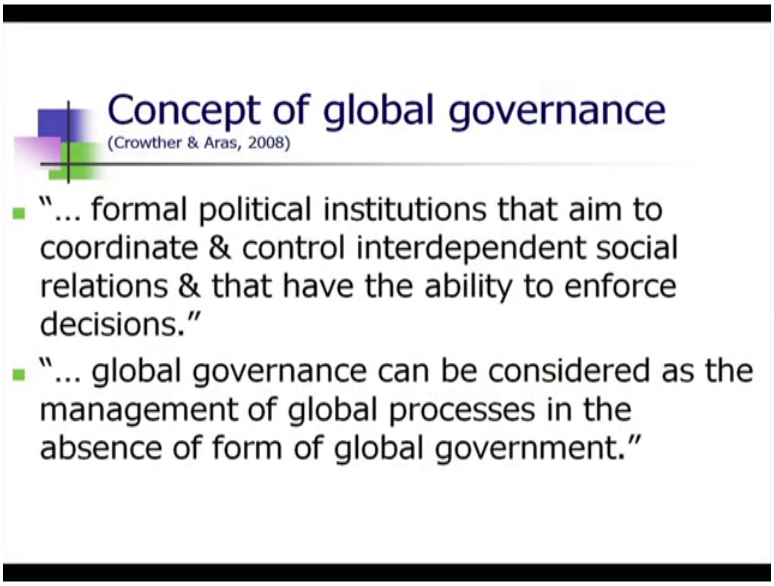

Concept of global governance - formal political institutions that aim to coordinate and control independent social relations and that have the ability to enforce decisions. So, these global governance can be considered as the management of global processes in the absence of form of global government.

So, you know you we do not have, I mean we do not have a global government countries are different, but when we talk about global governance in organizations this is specifically true for multinational companies global governance refers to the processes that are put in place to coordinate and control inter dependent social relations and that have the ability to enforce decisions all right, so that is global governance.

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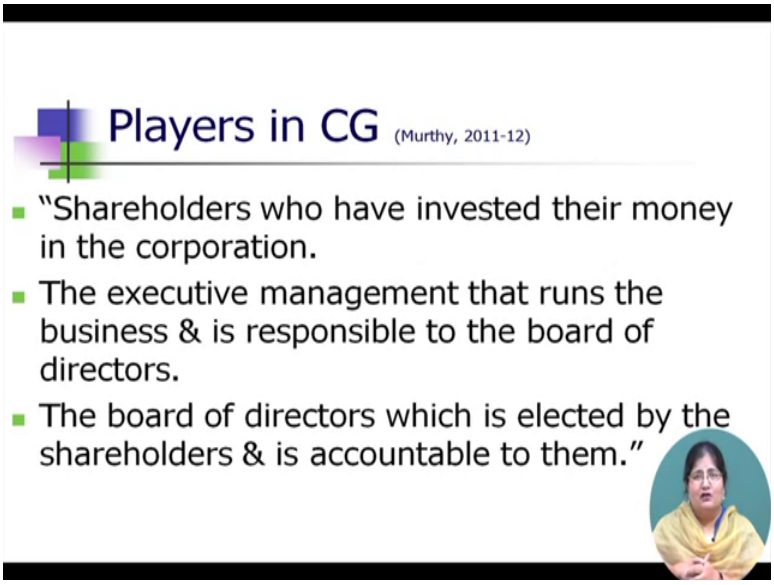

Who are the players in corporate governance? The players in corporate governance are shareholders who have invested their money in the corporation, they are the executive management that runs the business and is responsible to the board of directors and the board of directors which is elected by the shareholders and is accountable to them.

So, who are the players here? Again shareholders people who have invested in the organization people who have put money in the organization are the players, people who run the company will have three groups of people - one which is the people who have invested the money and shareholders could be large numbers of people then there are people who have large number of shares. So, they have a monitory stake in the organization.

And out of that pool of people who have large number shares and the company the board of directors is elected by these people by that group, by that pool of people who have the maximum stake in the company, maximum financial investment in the company and then you know they elect a group of people to run the company from the top. So, they have a financial stakes. So, they are involved in the company and then there is the management, they are the people who are hired on a salary to run the company. The management is people who are hired on a salary to run the company on behalf of the board and so they are responsible to the board. The board of directors does not actually run the company they employ people to do so and that is the management.

So, there are three layers shareholders are on a global level which means not global in terms of international, but global in terms of they are spread all over you know you could any one of you could be a shareholder in the company. But in order to be on the board of directors you would one need to have invested a lot of money in the company and to you may I mean you may have invested you may not have invested sometimes on the board of directors one could have other stake holders also. But this is a group of people that is elected by the you know from the pool of people who have maximum stake in the organization to help the management understand what needs to be done with the organization. We will talk more about executive boards in another lecture, but I mean this is just a brief overview.

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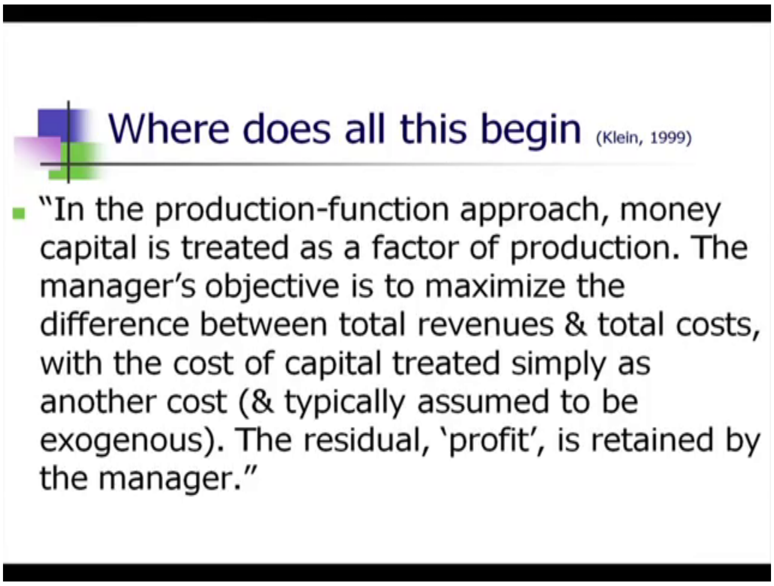

So, there are three broad layers in corporate governance. Why does all these begin? In the production function approach money capital is treated as a factor of production, the managers objective is to maximize the difference between total revenues and total costs with the cost of capital treated simply as another cost and typically assumed to be exogenous which is a outside the residual profit is retained by the manager. So, we will talk about different approaches to corporate governance. All this begins you know at the very basic level the company is meant for production and so in this approach the capital is treated as a factor of production capital is what goes into production. The manager's objective is to maximize the difference between total revenues and total costs.

So, how much goes in verses how much comes out, it is the manager's job to make sure that the difference between what goes in and what comes out is maximum, with the cost of capital treated simply as another cost and the residual profit is retained by the manager. So, whatever goes out you know the difference comes in and the difference of course, is then shared by the management in terms of salaries, alright. So, I mean, so that is what that is where all of this begins and that is all we have time for in this lecture we will continue we will talk about the theories of corporate governance in the next class. So, I hope I have given you a brief overview I have given you an insight into what corporate governance is and we will take the discussion from here in the next class.

Thank you very much for listening.