International Journal of Research in Finance and Marketing (IJRFM)
Available online at : http://euroasiapub.org/current.php?title=IJRFM
Vol. 7 Issue 1, January - 2017, pp. 136~140
ISSN(o): 2231-5985 | Impact Factor: 6.397 | Thomson Reuters Researcher ID: L-5236-2015

Review of Corporate Governance and Sustainability in Business

Dr. Mita Mehta[1],

Mr. Abhishek Singh[2]

Symbiosis Institute of Management Studies (SIMS) Symbiosis International University (SIU), Range Hills Road, Khadki, Pune – 411 020, Maharashtra State, India

Abstract:

Every business is started with a view to sustain in the long run. No business is started for a limited period of time. For a business to sustain in the long run company has been following Corporate Governance Guidelines which is helping them to sustain and perform better. Earlier businesses used to think of stockholders interest but with change in time and to be able to sustain in the long run, businesses nowadays are focussing on stakeholder's interest. Businesses have changed their mind from 'profit maximising approach' to 'socially responsible approach'. In this research paper researchers have tried to find the impact of Corporate Governance and Sustainability Framework on businesses and how companies succeed by implementing the same.

Keywords: Corporate Governance, Sustainability, Disclosures

Introduction:

India was ranked 60th among 79 developing economies of the world in the inclusive development index (IDI) published by World Economic Forum. India's ranking was below its neighbouring countries like China (15th), Nepal 27th), Bangladesh (36th) and even Pakistan (52nd). IDI is based on 12 performance indicators in which sustainability is one of the key indicators for ranking. India's ranking was low despite the fact that India's GDP per capita and labour productivity growth has been strong. The report raises questions on sustainability of government spending as country's debt to GDP ratio is high. Threats to companies come in the form of environmental factors such as absence of water or key materials that affects production and social factors such as working conditions, human rights, wages, economic inequality and other issues.

This paper reviews various researches that have been done in the field of corporate governance and sustainability.

Review of Literature:

Corporate governance is the method or system of a set of rules, specifications, practices and processes which helps in controlling the companies. Main motive of corporate governance is to protect the interest of the stakeholder's which will ultimately help companies in the long run. Other terms that is used for corporate sustainability is 'corporate social responsibility (CSR)', 'corporate citizenship', 'responsible business' and 'triple bottom line' responsibility.

With the immense raise in the curiosity in corporate governance there has been parallel growth in the awareness in sustainability. Many researchers have found out that the actions of a firm have an impact upon outside environment and therefore the organisation should not only think of shareholders but be accountable to wider audience.

Sustainability, in a simple layman language can be understood as ability of the company to sustain itself in the long run or for a longer period of time. It helps in maintaining long term connection between the consumer and the employee. Every dimension of the business is considered. Sustainability can be achieved by following economic, social and government framework.

(Guler Aras and David Crowther, 2008) focussed on the importance of corporate governance and sustainability for continuing operation of any organisation in their research. The paper also investigated FTSE100 firms and their corporate policies to find out whether there is any relationship between the two fundamental concepts – corporate governance and sustainability or not. They identified four aspects of sustainability and analysis has been done on those aspects, namely – societal influence, environmental impact, organisational culture and finance. Based on these four aspects, hypothesis was framed by the researcher to find out whether "Good corporate governance will address the issue of sustainability or it will address the issue individually for societal, environmental, organisational culture and finance". Researchers found out that the hypotheses undertaken by them were qualitative and therefore they couldn't approve or disapprove the hypotheses. They stated that organisation with complete understanding and knowledge of both corporate governance and sustainability will be able to address these issues fully. The researcher concluded the paper stating that with the passage of time the quantum of information relating to the relationship between the two will increase as companies will recognize the profit of better revelation in this respect.

(Alena Kocmanova, Jiri Hrebicek and Marie Docekalova, 2011) carried out a similar research titled "Corporate Governance and Sustainability". This paper also tried to establish link between corporate governance and sustainability. Researchers were of the view that the integration of these two concepts can lead to permanent success of business. They also warned that ignoring these performance aspects may further lead to deeper problems. The paper also studied the significant initiatives within the Corporate Sustainability Reporting, i.e. Global Reporting Initiative (GRI) and World Intellectual Capital Initiative (WICI). In their conclusion, they stated that corporate sustainability focuses on long time formation of the value for the owners by incorporating sustainable development measures.

(Bryan Horrigan, 2007) in his research examined key aspects of the emergence of corporate law and rules relating to corporate social responsibility (CSR). Researcher studied the trends that are likely to become more noteworthy in the 21st century. Firstly, any CSR-related corporate rule alteration in the future must connect with relative models and authoritarian process. Secondly, other CSR associated lawful and regulatory measures have made their existence felt. Third major trend studied was the increasing indication to socially responsible investing (SRI) and environmental, social and governance (ESG) consideration and principles in the investment area worldwide.

(Nigel Finch, 2005) in his research paper titled "The motivators for adopting sustainability disclosure" studied the literature relating to sustainability and comprehensive reporting frameworks. It was found through research that the inspiration for adopting sustainability reporting frameworks is an effort to be in touch with their stakeholders and discuss the performance of organization in achieving long run corporate benefits, which include enhanced financial performance, profit maximisation, enlarged competitive advantage and long - term achievement of the organization. Researcher has studied six sections. In section 1 researcher stated that corporate social responsibility (CSR) and sustainability have same meanings and are used interchangeably. In section 2, researcher has analyzed five major frameworks of sustainability:- agency view, corporate social performance view, resource-based view, supply & demand view and the last and the most important of all is the stakeholder view. In section 3, researcher has said that it is important to understand stakeholders and their significance in sustainability. In section 4, researcher has covered sustainability disclosure that needs to be reported. In section 5, researcher has focussed on the development of the Global Reporting Initiative (GRI) and in section 6; the researcher has covered the Australian companies that have adopted GRI framework. Researcher has concluded his research stating that some companies have discarded the agency view and has adopted stakeholders and sustainability concepts in their business tradition. Researcher observed that due to the absence of legislative direction, organisations tend to adopt these new disclosure frameworks to help them to be in contact with their stakeholders. He also stated that Global Reporting Initiative (GRI) is the framework that has been accepted globally. He found through his research that the 38 Australian companies which adopted GRI have met or exceeded their stakeholders' expectations of performance in the area of sustainability.

(Ioannis Ioannou and George Serafeim, 2016) in their research paper examined the outcome of sustainability disclosure policies on firms' disclosure practices and valuations. Their study was based on four countries – China, Malaysia, Denmark and South Africa regarding disclosure of environmental, social and government information. The researcher also mentioned in his report that apart from these four countries that they are researching upon, Hong Kong, Brazil and India have also made sustainability reporting compulsory starting from 2012 and later. Researcher's hypothesis was "Sustainability disclosure regulations are likely to increase the level of ESG disclosure". Data regarding ESG was collected mainly from the Bloomberg terminal and analysis was done. Other sources include annual reports, sustainability reports, and other corporate presentations. Researcher used differences-in-differences approach to identify the effects of the disclosure. Researcher concluded his study by stating that by issuing sustainability report, organisations aim to notify a wider and new diverse set of non-shareholding stakeholders (accumulating their shareholders) about a variety of environmental, social and governance (i.e. typically nonfinancial) objectives, issues and metrics.

Conclusion:

All the researchers were of the view that there is a significant relationship between corporate governance and sustainability and the integration of both is necessary for long term sustainability of the business. Researchers also focussed on mandating ESG disclosures for better future of the organizations. They also focussed on Global Reporting Initiative (GRI) which focussed on standardisation of a report on sustainable development. Also, the researchers were of the view that if these frameworks of corporate governance and sustainability are not followed by companies then they can fall into deeper problems in the long run. They also found in their research that adoption of these frameworks will help stakeholders and raise their interest in the company rather than just the shareholders.

References:

1) Aras, G., & Crowther, D. (2008). Governance and Sustainability: An Investigation into the Relationship between Corporate Governance and Corporate Sustainability. Management Decision, Vol. 46 No.3, 2008, pp. 433-448

2) Kocmanova, A., Hrebicek, J., & Docekalova, M. (2011). Corporate Governance and Sustainability. Economics and Management, 2011.16.

3) Finch, N. (2005). The Motivations for Adopting Sustainability Disclosure. SSRN Electronic Journal. August 2005.

4) Ioannis, I. and George S., (2016). The Consequences of Mandatory Corporate Sustainability Reporting: Evidence from Four Countries (February 4, 2016). Harvard Business School Research Working paper No.11-100.

5) Horrigan, B.T. (2007). 21st Century Corporate Social Responsibility Trends – An Emerging Comparative Body of Law and Regulation on Corporate Responsibility, Governance and Sustainability. Macquarie Journal of Business Law, Vol. 4, pp. 85-122, 2007.

6) http://www.business-standard.com/article/current-affairs/india-ranks-60-on-inclusive-development-even-below-pakistan-117011600836_1.html accessed on 22nd Jan 2017.

7) http://blogs.economictimes.indiatimes.com/ResponsibleFuture/sustainability-and-csr-trends-for-india-in-2017/ accessed on 22nd Jan 2017.

8) https://en.wikipedia.org/wiki/Corporate_sustainability accessed on 10th Jan 2017.

9) http://www.investopedia.com/terms/c/corporategovernance.asp accessed on 13th Jan 2017.