Corporate Social Responsibility
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Lecture – 37
Implementing 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 we were discussing in the previous lecture we were discussing different models of governance. Now and I had asked you to find out which of these models were suited or was being adopted by your organization or other organizations in your area of different industries, different context different cultures.

Now, in this class we are going to talk about how corporate governance is implemented. So, you decide the philosophy behind the model or you may come up with another model, you do not have to stick to one of these old models you may come up with another model of governance that works best for your organization why not why not you know that the it is wide open, but then some structure should be in place in order to help you run the organization so that your accountability is increased, it is enhanced and then you can only after people start trusting you can you actually tell them that you are being responsible for them we are talking about corporate social responsibility, which is what this course is all about.

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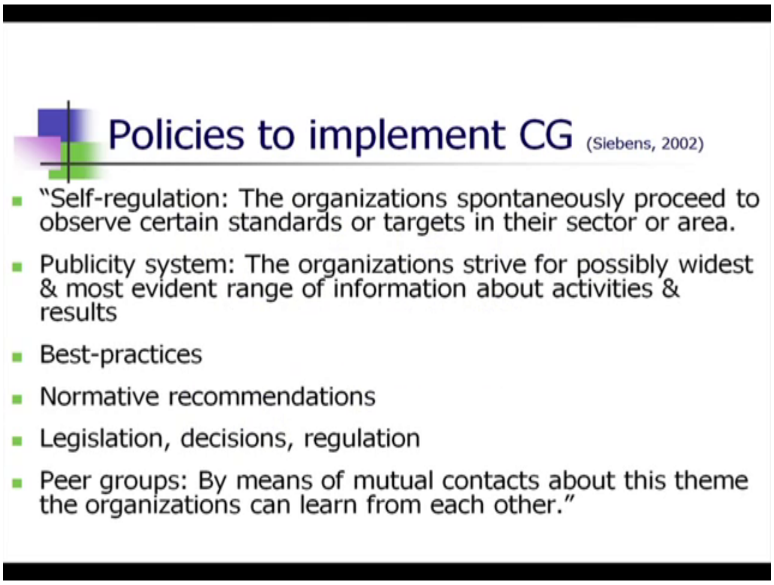

So, implementing corporate governance how do you do this? Some policies is to implement corporate governance are one is self regulation, you must observe certain standards or targets in their sector or sorry the organizations spontaneously proceed to observe certain standards or targets in their sector or area and what the self regulation mean that you set targets, you go back you revisit your targets and then you see what you have done and where you may have faltered.

Then publicity system: the organizations strive for possibly widest and most evident range of information about their activities and results. So, you need to have you have you let people know about your activities and their results, and that in turn helps you enhance accountability best practices. So, best practices you have benchmarks against which you monitor your own performance you have your own best practices or you emulate other best practices from other organizations, you know that you find to be useful for your organization. Then normative recommendations you have to have certain norms certain standards legislation decisions regulation.

So, you need to follow the law, you need to see how your work falls in line with or is connected or what is in line with the legal requirements for the kind of work you do the decisions need to have a basis they cannot be randomly, you know you cannot make decisions with the statement I think I will do this, No that is not proper governance you cannot start your decision making process with I think this should be done, there has to be a valid reason and that reason must be documented if you are if you want good corporate governance. Why because the next time a similar situation arises you have something to fall back on people were remember that you took certain decisions the basis for decision making must be documented at every stage .

If you want your organization to be effective and if you want to enhance accountability of your organization to it is stakeholders all right. So, that must be there. So, you must be able to defend every decision. So, the documentation must be there and decisions must be based on sound logic. Regulations: the rules and regulations must be put in place the rules for decision making must be put in place and those must be codified peer groups by means of mutual contacts about this theme the organizations can learn from each other. So, you are you have people who are observing you and you communicate with each other and you learn from each other.

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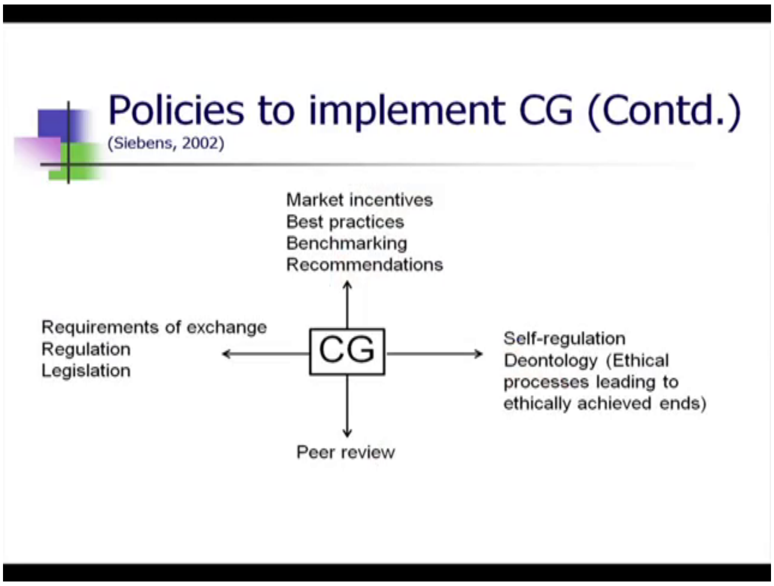

So, these are some of the policies that govern corporate governance. What happens is corporate governance is influenced by market incentives, best practices benchmarking and recommendations from the market, you find out what is being done, you find out how it is being done, you find out how decisions are being taken and you let that in turn influence or let that be a guiding principle for how you are going to run your business and when you run your and I am not saying that you only copy others, but then find out how they are influencing your organization and adapt your organization to the environment. Maybe you can be the influencer for your environment then requirements of exchange regulation, legislation another thing peer review.

And self regulation you must be willing to go back and say this is what you know this is what we started with, this is where we are, this is the basis for our decisions it cannot be random. You know some organizations you find some leaders are in the habit of whimsical decisions and then when the time for audit comes when somebody questions those decisions they do not know what to say or what to do. So, they come up with all kinds of responses that must not be the case here. So, there must be some self regulation, there must be a logical basis for the decision making then ethical processes beyond to logical. There must be ethical processes you must focus on ethical processes is that lead to ethical decision making you know the end result should not be the only goal.

The process the actions taken towards that end result must also be taken into account and ethical methods should be used to arrive at certain at the decisions that you take, and all of this then influences how you govern your organization ok.

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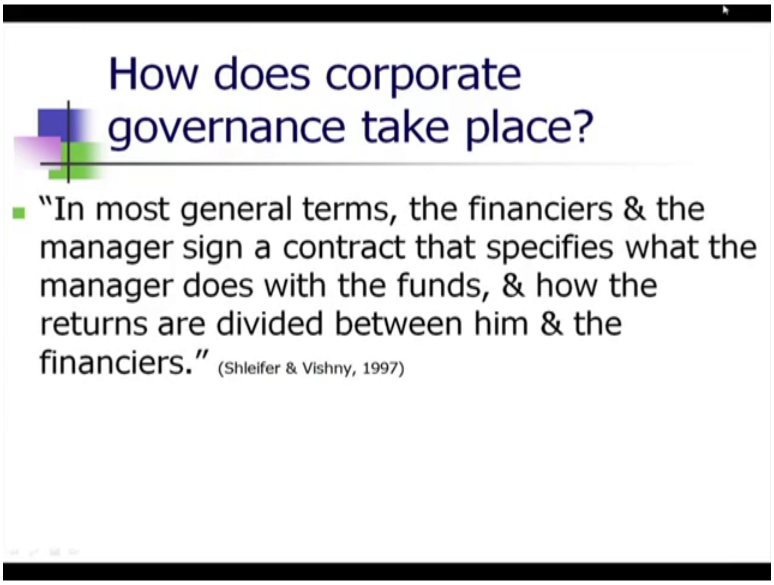

How does corporate governance take place? In most general terms the finance years and the manager sign a contract that specifies what the manager does with the funds and how returns are divided between him and the financiers. So, the financial part is taken care of through a contract. So, the first thing that happens is that there is a contract between the people who are investing their money, they could be the owners, there could be the shareholders, they could be the financiers, they could be people who hold the profits that determine how much salary the manager gets or how much money is invested into the keeping the management in place and a contract is signed between them and outlining you know how and the money is actually the money that is being given by the financiers, is being given to the managers to deal with that money.

So, it is about using that money effectively in a contract needs to be signed to use that money effectively and. So, the you know this is to ensure accountability of the people using the money that is being given to them by the people who have the money for to run the organization. It is not only about use it is also about how the output is going to be divided between the people who are investing the money, and the people who are using that money to get some returns.

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So, there must be a very clear statement describing these things then effective corporate governance uses mechanisms to ensure that executives respect the rights and interests of company stakeholders, and that of and that those stakeholders are held accountable for acting responsibly regarding the protection generation and distribution of wealth invested in the firm. So, it uses mechanisms, it uses procedures to ensure that executives that the people running the organization, respect the rights and interests of the company stakeholders we talked about the agency problem in the previous in one of the previous lectures, the problem agency problem is that the people who own the company and people who run the company are in most cases not the same people, and both try to maximize their returns and that is where the conflict arises or the problem the tension arises.

So, in order to do this a governance mechanism needs to be put in place, to make sure that the people using the money that is given to them by the people who have the money for the organization respect the rights of the stakeholders, respect the interests of the stakeholders, and that those stakeholders are held accountable for acting responsibly regarding the protection generation and distribution of wealth invested in the firm, they have hired people to do the work. So, they also need to maintain a constant supply of money into the firm.

So, both responsibility lies both with the people who own the firm and the people who run the firm. People who own the form are responsible for constant generation of wealth to run the firm. People who are running the firm are accountable are responsible to the people who own the firm in terms of using the money effectively wherever you know this responsibility breaks a problem creeps up sorry and that is all we have time for this is a very small lecture, but I just wanted to get you started on how funds are managed or sorry on how governance is supposed to start taking place.

Now, this is a very brief lecture, but this is an introduction and in the next class we will talk about the board of directors now I did not want to club the two initially I thought I would club the two, but if I had club the two the next lecture would have been very long. So, the next lecture is exclusively devoted to the board of directors, their responsibilities their duties and what they can really do.

So, thank you very much for listening and I hope you enjoyed the class and we will talk more about corporate governance in the next class.

Thank you.