

THE SOCIAL RESPONSIBILITY & CORPORATE GOVERNANCE

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Abstract: *The term of social responsibility is widely discussed in the international economy, besides that, corporations become concerning more on the economic performance and the social development. In the industrial countries appears a high collaboration among three important parties: state, corporations, and community; due to that, state and corporations are collaborating to serve community.*

The concept of social responsibility relates to corporate governance, which is considered a modern term discussed as a comprehensive solution after financial scandals. In the light of that, what is social responsibility and what is the relation with corporate governance.

Keywords: *corporate responsibility, corporate governance, shareholders, governance concept.*

JEL Classification: M4, M2, M11

1. Introduction

The corporations have been developed comprehensively and dynamically in their traditional perspectives to add social responsibility to their good-will, maximization profit, good financial situation and the interests of their shareholders. The community starts to have a different vision to be more complex in responding to the developed environment of international business

and the modern IT. The financial scandals forces concerned institutions and academicians to include other perspective to reflect their awareness toward their communities. Social responsibilities are highlighted during those asking corporations to share the responsibilities with the state regarding community and society. Even though, social responsibility is still weak due to the lack of acknowledgement about it, in addition, this responsibility is switched from the state to be shared with corporations. These corporations implement corporate governance that includes social responsibility.

Going back during the last century, social responsibility became an interesting topic to be discussed between academicians; Prof. Theodore Kerbs at Stand ford economic school issued a term called social audit (ISO Advisory 2004) and later during 1953, it was developed by Howard Bowen in his book; *Business social responsibility* and he defined social responsibility as the obligation that forces businessmen to respect social values in their strategic and policy (Bhattacharyya 2008).

2. Corporate governance

Corporate governance as a term is spotlighted in the recent decades, and many efforts of specialists exert to define this new term. Some of the experts describe it as good governance or prudent management, and others define it as institutional control. International Finance Corporation (IFC) defines corporate governance as that system used to manage corporations and control their activities. Besides that, the Organization for Economic Co-operation and Development (OCDE) defines it as the system to direct corporations and monitoring their activities through issuing management structure and determining responsibilities among directors and executives to enable corporations to achieve their objectives and auditing officials. Therefore, corporate governance includes comprehensive monitoring over financial and non financial activities. The governance mechanisms help corporations to find the possibilities to maximize profit and add value in the long term. Due to that, corporate governance sets certain regulations to organize the relationship among stakeholders; shareholders, state, employees, community, etc.

The principles of corporate governance were issued in 1999 by Organization for Economic Co-operation and Development (OCDE) and to be adapted in 2004. These principles concerns on ensuring an effective corporate governance framework; corporate governance should encourage transparency

and market efficiency in accordance with the local legalizations. In addition, assuring the rights of shareholders: their rights must be respected besides providing equality among shareholders to save their rights in corporations and to monitor the performance of directors and executives. Corporate governance secures the interests of stakeholders in order to bring sustainability and add value in the long term. Transparency and disclosures are also included in corporate governance concerning on financial activities to offer information used by different parties and here it appears the responsibilities of management council to monitor and audit the performance of executives and directors. In the light of that, the characters of corporate governance are discipline through following and implementing moral codes, transparency by reflecting the reality, also, independence is an important element assuring directors' and executives' independence from shareholders power. Responsibility and justice are essential elements in order to determine the responsibility and bring justice in public and in front of all stakeholders, in according with that, all these principles formulate as a result social responsibility.

3. Social responsibility and organizational models of corporate governance

Shareholder model and stakeholder model, due to the first model, the main objectives are to maximize the profit per share and to add value for shareholders invests. The second model has a comprehensive vision to include internal and external stakeholders. Therefore, the margin of responsibility becomes bigger with stakeholder model to include social responsibility instead of responsibility toward shareholders. Shareholder model concerns on the interests of shareholders even it can be on the account of community. In another side, stakeholders model concerns on the interests of shareholders besides the interests of employees, creditors, clients and communities besides other stakeholders.

Definitely, corporations adopt shareholder model during and after the industrial revolution, which leads to maximize the corporations' profit and human tragedies but that did not resist in front of the financial scandals which forced corporations to switch to stakeholders model. The first beneficiary is employees through issuing labor organizations which improves the working conditions ensuring security and health standards, also, many concerned entities do researches to propose the positive relationship between productivity

and the rights of employees, and that increases the profitability serving the interests of shareholders. The size of corporation becomes bigger and the production technology is developed on the account of environment, and the financial crisis becomes more seriously to threat the life of each body in a certain corporations; all stakeholders, due to that; environment responsibility and social responsibility. The social responsibility is a continued obligation for corporation toward shareholders, employees, communities, suppliers and other stakeholders.

4. Social responsibility dimensions

Until nowadays, the social responsibility does not have clear dimensions to explain the possibilities that enable corporations to achieve this responsibility but there are certain sets that clarify this responsibility issued by Business foundations and institutions such as Organization for Economic Co-operation and Development (OCDE). In generally and due to social responsibility, corporations should concern on the following points:

- a. Enhancing environment protection and reducing pollution besides wisely using the natural resources.
- b. Safety production place and offering healthy production .
- c. Enriching environment and community.
- d. Respecting human rights in working place and respecting related international regulations.
- e. Assuring moral management codes.
- f. Integrating in communities through adopting local developing program and communicating with different groups of stakeholders.
- g. Joining the environmental international standards ISO 1400 besides social international standards.

Even though, until now there is not a common understanding to determine the measurements for social responsibility but some researchers try to set certain measurements after doing specialized analyses. These measurements are:

- The conditions of working place.
- Studying markets to determine customers' behaviors, and to measure the loyalty and the satisfaction of customers.

- Integration degree in the community, and contributing in the domestic economic development.
- Respecting human rights.
- Concerning on moral rules.

Besides that, the activities of corporations affect the dimensions of corporate governance and the role of shareholders has an important influence over it. Due to Carroll, the social responsibility includes four core elements: economic, ethical, legal and philanthropy. Therefore, the understanding of these elements enables to determine a right channel between corporations' performance and stakeholders' interests. In the light of that, the following diagram explains the dimensions of social responsibility:

Fig. 1. Dimensions of social responsibility



Accordingly, social responsibility is important for the corporation and for the community as well. For corporations: social responsibility improves the image of corporations in front of communities where they are performing. That reflects positively on suppliers and clients besides other stakeholders in the community. Enhancing philanthropy activities affects on the working environment and it strengthens the collaboration among internal stakeholders and establishes a good relationship with external stakeholders.

For community: social responsibility brings the social solidarity to a higher level through gaining the loyalty of certain category of citizens with special needs. In addition, it brings social stability through providing social

justice and improving the quality of life, also, political development will be accomplished since politicians will be aware about the needs of different stakeholders including corporations and citizens, and that will open the door for a new responsibility called environment responsibility.

5. Corporate governance and social responsibility

This relationship will be formulated due the governance theory; due to stakeholder theory, corporations are obligated to include in their concerns the interests of stakeholders' groups besides the interests of shareholders. That leads to a big discussion to determine which groups of stakeholders should be concerned.

Both corporate governance and social responsibility have economic features besides legal regulations, which is related to socio-economic processes to bring the competition to another level. Besides that, both are strongly related to the market force but the frame work of social responsibility bases on free-form manner whereas the frame work of corporate governance bases on well-defined structures. The roles, rights and responsibility of directors and executives are vital. Particularly, the board of directors is the most appropriate body that sets policies enabling the management to fulfill its responsibility in front the society and from this point corporate governance is born, accordingly, in the marketplace, corporate governance is an old factor comparing with social responsibility which is considered a really new factor.

Due to the stakeholder theory, corporate governance entails mechanisms to enable directors and executives to accomplish their responsibilities in front of stakeholders. In this turn, social responsibility is presented in corporations, which are the core element in this complex structure of stakeholders' relationship. The internal dimension of corporate social responsibility forces companies to work hard to fulfill their responsibilities to the internal stakeholders addressing certain issues such as workplace safety, working conditions, equal rights, human rights and so on, in the light of that, corporations assure accountability, transparency and compliance. Therefore, social responsibility affects the regulations of corporate governance, and these regulations are public codes, self-regulations and co-regulations. The most affected one is self-regulation, since it depends on the feedback of corporate social responsibility toward internal stakeholders. Also, this relationship is

closely because the objectives of corporate governance and corporate social responsibility are similar due to their nature.

6. Conclusion

Due to business approach, corporations have several roles in society and that can be summarized by the word of Friedman; “there is one and only one social responsibility of business to increase the profits and business of business is business. Moreover, social responsibility is widely adopted by corporations nowadays since its objectives are similar to corporate governance and which are important to increase profitability and add value to shareholders. In addition, stakeholder theory of corporate governance paves the way of corporate social responsibility, which has different dimensions serving the interests of internal and external stakeholders.

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