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Corporate Governance and Its Social Accountability: A Perceptual Study

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Abstract

Today corporate Governance has become a sort of umbrella, which covers in its purview, various facets of corporate finance, law, economics, and the constitution of the corporate board. More fundamental focus of corporate governance should be on rational of the corporation, company ethics, value culture and social responsibilities. If corporations are to survive in the changing social-economic and political environment, it is necessary that they fulfill their social responsibilities and also report it in terms of social costs and benefits. However, before social responsibility becomes popular certain measures are to be undertaken. The present study is an attempt to analyze the underlying important factors of corporate governance and also to know the perception of chartered accountants towards social accountability. The study concluded the factors like social responsibility, legal system, economic conditions, competitive advantage, reliability and flexibility of corporate governance which may lead to transparent system of corporations by making the corporations socially accountable. The study further revealed that there is no significant difference in the perception of male and female chartered accountants towards corporate governance.

Keywords: *Corporate Governance, Social Responsibility, Social Information*

Introduction

Corporate governance is a multi-faceted subject. An important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. A related but separate thread of discussions focuses on the impact of a corporate governance system in economic efficiency, with a strong emphasis on shareholders welfare. There are yet other aspects to the corporate governance subject, such as the stakeholder view and the corporate governance models around the world.

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many players involved (the stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

Principles of Corporate Governance

Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Commonly accepted principles of corporate governance include:

- Rights and equitable treatment of shareholders
- Interests of other stakeholders
- Role and responsibilities of stakeholders
- Integrity and ethical behavior
- Disclosure and transparency

A company's corporate governance—whether good or bad—is established by its board of directors. Ideally, directors should be energetic, experienced people deeply concerned about the company's welfare. Because the board's most pivotal responsibilities are to hire and supervise the company's chief executive officer (CEO), these directors should not be company employees who work under the CEO's direction; instead, they should be independent of the company's management. When independent directors know how to work effectively with the company's senior management team, they are likely to produce a corporate climate that accelerates the growth of long-term shareholder value.

Review of Literature

The literature on the theory of the firm, corporate governance, and information theory attributes different meanings to a number of words in common usage. As words are the tools of thinking, they need to be clearly defined to provide a basis for clear communication and rigorous analysis. Demb & Neubauer (1992) state that 'Corporate Governance is the process by which corporations are made responsive to the rights and wishes of stakeholders'. Monks & Minow (1995) wrote that: 'It is the relationship among various participants in determining the direction and performance of corporations'. While Tricker (1994) stated that corporate governance addresses the issues such as the interaction with top management, and relationships with the owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators'.

Denis et al (2004) found important differences in corporate governance systems around the world. A country's legal system has a significant influence on various aspects of corporate governance, especially the extent to which it protects investor rights. Lei et al (2004) studied whether better corporate governance leads to higher valuation through lower expected rate of return. They used a time-varying scorecard developed by S&P's to assess the corporate governance of UK listed companies. This study includes a more complete set of governance mechanisms including the composite governance index as well as ownership and firm leverage. They investigate the interdependence of various governance practices, the change of governance structure and the impact on the firm value. Their findings revealed an interesting relationship between governance and performance. They found that an investment strategy that buys firms with greatest improvement in governance and sells firms with largest deterioration in governance yields 36.7 percent excess returns over the sample period.

Doidge et al (2004) studied the importance of particular country characteristics - such as legal protections for minority investors, and the level of economic and financial development - in creating and improving national measures for governance and transparency. They found that at a given level of country investor protection, better governance mechanisms are more likely to be accepted at the firm level as a country's financial and economic development improves.

Berglöf et al (2003) discussed the approaches and challenges faced in implementing effective corporate governance tools in areas, where private enforcement mechanisms are the most efficient but require public laws to function. Desai, Dyck and Zingales (2004) studied the relationship between corporate governance and taxation. The authors showed that tax enforcement is beneficial to valuation and that ownership concentration and corporate governance are important in determining how tax rate changes turn into revenue changes. Gillan et al (2003) argued that provisions in corporate charters and bylaws or amendments thereof should vary due to industry characteristics or because there is some industry commonality such as the use of same attorneys in constructing the corporate charter.

Objectives

1. To develop and standardized a measure to evaluate social accountability of corporate governance.
2. To analyze the underlying key factors of corporate governance.
3. To compare the perception of male and female chartered accountants towards corporate governance.

Research Methodology

The study was exploratory in nature and survey method is being used to analyze responses from chartered accountants. The sample size was 100 chartered accountants of Gwalior region. Out of which only 87 responses were received. Non-probability (Judgemental) technique was used to select chartered accountant for responses. Primary data was collected on 5 point likert type scale.

Analysis was done through various methods. Firstly internal consistency of each item was checked through item to total correlation and to ensure reliability alpha method was used. Exploratory Factor analysis was used to identify the underlying key factors of corporate governance. Since the data collected on demographic information from the respondents and gender differences was considered as important one, hence Z-test was applied to identify the difference of opinion between male and female chartered accountants.

Results and Discussion

Standardization of Measure

In order to check validity and reliability of the measure the data was put to item to total correlation (See annexure Table 1) and none of the item was dropped as all the variables were found to be contributing towards the measure. Alpha value was found to be 0.719.

Factor Analysis (See annexure Table 2)

The data obtained for the study was analyzed by through Exploratory Factor Analysis using varimax rotation with Principal component analysis. EFA identifies common dimensions from the observed variables that have a high correlation with the observed and seemingly unrelated variance but no correlation among the factors. Principal component analysis is the commonly used method for grouping the variable under the few unrelated factor. A factor loading is the correlation between the original variable with specified factor and is the key to understanding the nature of a particular factor. In this study, principal component has been used since the objective is to summarize most of the original information in a minimum number of factors for prediction. The study concluded nine important factors.

Discussion of Factors

1. **Accountability**: Accountability scoring highest loading as 11.59. Including the sub factors i.e. social information .809, measuring social responsibility .778. Corporate governance should follow the above-mentioned factor for showing fair accountability towards corporate social performance. Riyanto et al (2007) described the same factor in his working paper. They argued that corporate social responsibility may affect the agency relationship inside a firm.
2. **Legal System**: Legal system scoring second highest loading as 7.24, including the sub factors i.e. audit of account .501, legal system .093, and legitimate individual aspiration .093.
3. **Competitive Edge**: Competitive advantage scoring third highest loading as 6.76 including the sub factors i.e. competitive advantage .571, strong corporate governance .480.
4. **Possession**: This factor had the loading of 5.79 including the sub factors like long-term goal .348, interest of the shareholder .8, high productivity .494, and raise capital .456. This factor was similar to the study of Jiraporn et al (2006) in which they investigated that the strength of shareholders right influences the extent of firm's diversification.
5. **Transparency:** Transparency scoring was the fifth factor had loading of 5.46. Including the sub factors i.e. over regulation .749, transparent system .618. The factor is streamlined with the factor of Hermalin et al (2007) in which they found that reforms in corporate governance should always be to increase the transparency of the system.
6. **Reliability**: It is the sixth important factor includes the sub factors i.e. goals towards society .147, gain the confidence .03, adopt healthier governance .789, tax rates change into revenue change .628.
7. **Independency**: Independent system scoring seventh highest loading as 5.04 with the sub factors like separate important system .761, in respect of employees .55.
8. **Economic conditions**: Economic conditions scoring eighth highest loading as 4.41 with the sub factors i.e. credit rating standards .65, leading firms .65.
9. **Flexibility**: Flexibility scoring ninth highest loading as 4.22. It included the sub factors like efficient supervision .725, flexible and adapting .595.

Hypothesis

Ho = There is no significant difference between the perception of male and female towards corporate governance

Z-Test

Z-test was applied in order to compare significant difference between male and female attitude towards corporate governance.

Type	*Mean*	*Standard Deviation (S.D)*
Male	0.25	3.34
Female	0.31	3.71

Standard Error	0.056
Z Value	-6.6071

Since the Z-Value is –6.6071 is significant 5% level of significance. Therefore there is a significant difference between perception of male and female chartered accountants towards corporate governance as our null hypothesis is not accepted. The mean values further denote that the female chartered accountants were dominant on male chartered accountants

Suggestions

1. It is being suggested to corporations to make social reporting compulsory just like financial reporting. Corporate governors are both potential agents for change and also guardians of existing ways of working. So disclosure to the society may promise the more transparency in the system.
2. A two way communication system and co-operation between researchers and professional accountants needs to be developed
3. The Institute of Chartered Accountants and other professional bodies must give enough coverage to Social Responsibility in their syllabus and conduct seminars, workshops and conferences regularly to create awareness among the corporate, employees and general public.
4. Social Responsibility should be flexible and adoptable to changes in environment.

Conclusion

The change in outlook of management would facilitate extensive use of social responsibility. To what extent society at large is able to change can also be a deciding factor in adopting of social responsibility. Accountants have to device appropriate methods of recording, measuring reporting and auditing of the effectiveness of the social obligations discharged by the enterprise. The government also needs to initiate appropriate measures through legislation. The present study came to the conclusion that perception of male and female chartered accountant towards corporate governance is different. The study also revealed that corporations, while framing corporate governance should consider above mentioned factors.

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