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## RESEARCH ARTICLE

# AN OVERVIEW ON CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT IN INDIA

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### ABSTRACT

The issues associated with corporate responsibility as well as sustainability have increases day to day practices in India. Corporate governance and Sustainable development are essentials for any corporate organization and both have been widely recognized and providing strength to the foundation for the long-term economic performance of business entities as well as of countries. They are mainly focused traditionally on the problems of separation of the ownership by shareholders and control by the management. The legal environment encompasses two important aspects the protection offered in the laws and to what extent the laws are enforced in real life and plays important role in the determination of the nature of corporate governance. The conscious evolution of the Sustainable Development represents the diverse local to global efforts to imagine and enact a positive vision of a world in which basic human needs are met without destroying or irrevocably degrading the natural systems on which we all depend. In the present article the author has mainly focused on the role of corporate governance that can participates an important task in the promotion of the sustainable development of companies, society and the environment.

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## INTRODUCTION

Corporate Governance (CG) and Sustainable Development (SD) are basic elements for any corporate sector. The issues associated with corporate responsibility and sustainability has become increasingly relevant to hall deliberations ([www.corpgov.deloitte.com](http://www.corpgov.deloitte.com)). In calculation, the business ethics and corporate awareness of the environmental and societal awareness of the communities, within which they operate, can have an impact on the status and enduring performance of corporations (Ioannis I. and George S; 2014). In the long run or in other word we can say that every other organization will disappear gradually if they do not exercise sustainable practices and governance timely in the exact approach. It is more significant and applicable in India because it is on an expansion corridor towards becoming a world leader. Organizations desires to put emphasis on factual wealth creation by adapting to business loom that creates enduring shareholder value by espousal opportunities and managing risks deriving from economic, environmental and social development (CG & Sustainability Vision Awards 2013, February 2013).

In the present scenario companies have a tendency to focus on SD as well as sustainability, which brings with it, changes to

the corporate civilization as well as society. Sustainability has three essential dimensions for all the companies' i.e. economic growth, social responsibility and responsibility for the environment. The social and environmental responsibility, however, cannot become separated from economic growth. Profitability and growth create jobs and wealth; companies have to continue to provide products and service that people need (Alena K. et al. 2011).

CG is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for SD of all stakeholders (Ioannis I. and George S; 2014). In the present article the author has mainly focused on the role of CG that can play an important role in promoting SD of companies, society and the environment.

### Corporate Governance

CG has become an issue of global significance. It has been widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of business entities as well as of countries (Pan

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African Consultative Forum on CG). It is a system which governs activities of corporate and provides the framework by which a company can attain its objectives. Its essence resides in every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. CG is all about promoting fairness, transparency and accountability. Good governance practices provide enormous benefits to a business entity, like the availability of capital at low cost, ability to attract talented human resource, creating competitive edge and improving numbers, and finally a sustainable long-term growth ([www.corpgov.deloitte.com](http://www.corpgov.deloitte.com)).

CG can be defined as acceptance by management of the rights of the shareholders as true owners of the corporations and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate fund. A spate of scandals and financial collapses in the UK in the late 1980s and early 1990s made the shareholders and banks worry about their investments. This led the UK Government to recognize insufficiency of existing legislation and role of self-regulation as a measure of controlling scandals and financial collapses. Some of the corporate disasters took place primarily due to insufficiency of implementable governance practices. To prevent the recurrence of such business failures, the Cadbury Committee was set up by the London Stock Exchange in May 1991 inter-alia to help raise standards of CG (CG Modules of Best Practices).

Until the recent past the word CG was sparingly used and rare practiced by Indian corporate because of inspiration of management from control of enterprises and existence of highly regimented and regulated system without any aspect of assigning accountability of stakeholders ([Srivastava R.M. and Nigam D; 2002](#)). A major contribution to corporate excellence is good CG. In well developed, competitive and globalized economies, there is strong evidence to suggest that corporations are well known for their high standards of transparency, accountability, professionalism, social responsiveness, corporate citizenry, and ethical business practices (Report on Corporate Excellence on a Sustained Basis to Sharpen India's).

The CG has assumed a significant role in the enhancement of image of corporate sector. It is gaining momentum due to the globalization of business environment. The General Agreement on Tariffs and Trade, European Economic Community and World Trade Organization (WTO) regulations have contributed significantly to the rising awareness for more transparency in corporate performance and disclosures that is possible only by adhering to the good CG practices. In the present era of globalization, the CG has exploded around the globe due to replacement of command and control based economic system into market based economic system ([Kumar P. and Yadav S; 2008](#)).

### ***Sustainable Development***

In today's era of globalization, the corporate world requires a world-class governance system. CG is about promoting corporate ethics, fairness, transparency and accountability ([Kneale CD, 2002](#)). Today adoption of good CG practices has emerged as an integral element for doing business. It is not

only a pre-requisite for facing intense competition for sustainable growth in the emerging global market scenario but is also an embodiment of the parameters of fairness, accountability, disclosures and transparency to maximize value for the stakeholders ([Ioannis I. and George S; 2014](#)).

Sustainability is therefore a strategy of the process of SD. It acquires special importance when the process helps people progress toward sustainability or may, on the contrary, dissuade them from engaging in the process. Sustainability is the ability to sustain the quality of life or the ability to maintain quality, which means that each generation has a responsibility for the quality of life and needs to ([Kumar P. and Yadav S; 2008](#)). Each enterprise must balance the need for long-term viability and prosperity of the enterprise itself and the societies and environment upon which it relies for its ability to generate economic value with the requirement for short-term competitiveness and financial gain". Traditionally sustainability is defined as the capacity of an eco-system to endure. The capacity depends on the degree of human ingenuity and innovation. This is what has enabled Homo sapiens to thrive on this planet and take gigantic leaps despite monumental natural handicaps. SD is a broad, concept that balances the need for economic Growth with environmental protection and social equity. SD is the development "which meets the needs of the present generation without compromising the ability for the future generations to meet their needs" ([Ilbury, C and Sunter, C. 2001](#)). A report entitled 'World Commission on Environment and Development' also known as Brundtland Report, has been published by UN in year 1987 which includes that "SD is development that meets the needs of the present without compromising the ability of future generations to meet their own needs and it contains within it two key concepts (Pan African Consultative Forum on CG):

- The concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- The idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs.

### ***Elementary Principle Associated With Sustainable Development***

According to the World Business Council for SD, 1999 "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of the work force and their families as well as of the local community and the society at large ([World Business Council for Sustainable Development, 1999](#))." There are four basic principles of SD agreed by the world community which are as follows:

#### ***Principle of Intergenerational Equity***

There is need to preserve natural resources for future generation.

#### ***Principle of Sustainable Use***

Mainly covers the use of natural resources in a prudent manner without or with minimum tolerable impact on nature

**Principle of Equitable Use or Intergenerational Equity**

Principally denotes the use of natural resources by any state or country must take into account its impact on other states.

**Principle of Integration**

According to this principle the environmental aspects and impacts of socio-economic activities should be integrated so that prudent use of natural resources is ensured.

**Table 1** Definitions of Sustainable Development

What is to be Sustained	What is to be Developed
<b>Nature</b>	<b>People</b>
Earth	Child survival
Biodiversity	Life expectancy
Ecosystems	Education
	Equity
	Equal opportunity
<b>Life Support</b>	<b>Economy</b>
Ecosystem services	Wealth
Resources	Productive sectors
Environment	Consumption
<b>Community</b>	<b>Society</b>
Cultures	Institutions
Groups	Social
Places	capital States
	Regions

Source: U.S. National Research Council, Policy Division, Board on SD, Our Common Journey: A Transition toward Sustainability (Washington, DC: National Academy Press, 1999).

**Table 2** Icsi Principles of Cg and Their Pinpoint Observations

Sl. No.	ICSI Principles of CG	Explanation
1.	SD of all stakeholders	Make sure the growth of all individuals associated with or effected by the enterprise on sustainable basis.
2.	Effective management and distribution of wealth	Make sure that enterprise creates maximum wealth and judiciously uses the wealth so created for providing maximum benefits to all stakeholders and enhancing its wealth creation capabilities to maintain sustainability.
3.	Discharge of social responsibility	Make sure that enterprise is acceptable to the society in which it is functioning.
4.	Application of best management practices	Make sure the excellence in functioning of enterprise and optimum creation of wealth on sustainable basis.
5.	Compliance of law in letter and spirit	Make sure the value enhancement for all stakeholders guaranteed by the law for maintaining socio-economic balance.
6.	Adherence to ethical standards	Make sure the integrity, the transparency, the independency and the accountability in dealings with all stakeholders.

Source: <https://www.globalreporting.org>

**Governance versus Sustainability**

Global opportunities and growth mean global CG responsibilities. CG is beyond the area of law. It cannot be regulated by legislation alone. Legislation can only lay down a common framework the form to ensure standards. The substance will ultimately determine the credibility and integrity of the process. Substance is inexorably linked to the mindset and ethical standards of management. Irrespective of that

model, there are three diverse forms of corporate responsibilities which all models do respect:

**Political Responsibilities**

Includes basic political obligations are abiding by legitimate law; respect for the system of rights and the principles of constitutional state.

**Social Responsibilities**

Includes corporate ethical responsibilities, which the company understands and promotes either as a community with shared values or as a part of larger community with shared values.

**Economic Responsibilities**

Acting in accordance with the logic of competitive markets to earn profits on the basis of innovation and respect for the rights/democracy of the shareholders which can be expressed in terms of managements' obligation as 'maximizing shareholders value'.

**The Necessitates For Sustainable Development**

The need for development is as great as ever, but future development cannot simply follow the model of the past. This is true for the world as a whole, and for every community in this country. The global picture is alarming. It may seem that world's population is increasing and will increase by half again, (another three billion people), by 2050 so that it is big challenge for us and therefore, we need to focus on what? Although the idea is simple, the task is substantial. It means meeting four objectives at the same time:

- Social progress which recognizes the needs of everyone
- Effective protection of the environment; (After all we still need to breathe fresh air and drink clean fresh water)
- Prudent use of natural resources;
- Maintenance of high and stable levels of economic Growth and employment

**Legislations Regarding Sustainable Development**

**Worldwide Legislations Related To Sustainable Development**

The Global Reporting Initiative (GRI) is an independent and most widely used sustainability reporting framework institution and its mission is to develop and disseminate globally applicable sustainability reporting guidelines that help organizations to report on the economic, environmental, and social dimensions of their activities, products, and services. The main objective of the GRI Guidelines is to assist reporting organizations and their stakeholders in articulating and understanding contributions of the organization to SD through their reports. It covers four key elements in its framework:

- Sustainability reporting guidelines are the cornerstone of the framework. These consist of Principles for defining report content and ensuring the quality of reported information. They also include Standard Disclosures made up of performance indicators and other disclosure items, as well as guidance on specific technical topics in



reporting. The third edition of the Guidelines the G3 were published in 2006

- Indicator protocols exist for each of the performance indicators contained in the Guidelines. These protocols provide definitions, compilation guidance, and other information to assist report preparers and to ensure consistency in the interpretation of the performance indicators. Users of the Guidelines should also use the Indicator Protocols.
- Sector supplements complement the Guidelines with interpretations and guidance on how to apply them in a given sector, and include sector specific performance indicators. Applicable sector supplements should be used in addition to rather than in place of the Guidelines.
- Technical protocols are created to provide guidance on issues in reporting, such as setting the report boundary. They are designed to be used in conjunction with the Guidelines and sector supplements and cover issues that face most organizations during the reporting process (<http://www.proveandimprove.org>)

**Table 3** Briefings of Some Important Legislation in India

Dates	Legislations and their Brief Explanations
June 2007	The Department of Public Enterprises launched a Guideline on CG for Central Public Sector Enterprises (CPSEs) that was voluntarily utilized for reporting under a pilot programme in the year 2008-09. Subsequent to a progress review of the pilot, reporting against the guidelines was made mandatory.
2009	The Ministry of Corporate Affairs launched the 2009 Voluntary Guidelines on Corporate Social Responsibility.
July 2011	The above guidelines were revised to launch the National Voluntary Guidelines on Social, Environmental and Economic responsibilities of business (NVGs). The guidelines are based on 9 principles around environmental and social sustainability.
February 2012	Launch of S&P BSE Greenex, an Index that includes the top 25 companies according to their performance against carbon emission offset/ footprint and financials.
August 2012	SEBI mandated the Top 100 listed companies in BSE/NSE as per market cap to include a Business Responsibility (BR) Report in their Annual Reports. The report was to be made on the basis of NVGs in the format prescribed by SEBI.
November 2012	Launch of S&P BSE Carbonex that lists companies based on their ESG performance. The BSE Carbonex can be considered a tilted version of the S&P BSE-100 index.
September 2013	The Companies Act, 2013 mandates companies to spend 2 per cent of their annual profit on CSR activities. A progress report on the activities undertaken is to be included in the Annual Report and signed by a Director of the company.

Source: Corporate Governance for Sustainable Development: Implications for Non-Executive Directors and the Management Accounting Function. By Thembinkosi Anthony Vincent Jodwana,

### **National Legislations Related To Sustainable Development**

SD therefore, should be among the items placed at the top of the agenda for board consideration. First, there must be commitment to SD at board level. Then, this commitment should filter down through all the levels of the organization. Commitment does not occur through law enforcement but happens as a result of an inner conviction or belief. Although environmental legislation exists in many countries, there are still companies whose operations result in pollution and degradation of the environment (Corporate Governance for

Sustainable Development: Implications for Non-Executive Directors and the Management Accounting Function. By Thembinkosi Anthony Vincent Jodwana).

### **Recent Trends towards Sustainable Development**

Regulator and consumer perspectives on the role of Indian businesses in SD are changing. The Government of India has launched an array of regulations around business responsibility and community development. The first non-financial reporting requirement for business entities was introduced by the Ministry of Environment and Forests in 1993, with the launch of the Air, Environment, Waste and Water Acts that aim at prevention and control of pollution of natural resources. Since then, the regulatory scenario has been evolving, with much of activity being witnessed in the past few years (<https://www.globalreporting.org>).

### **Merits of Sustainable Development**

Sustainability is a strategy of the process of SD and acquires special significance (Delivering Global Environmental Benefits for SD Report to the 5<sup>th</sup> GEF Assembly, México, and May 2014).

The various points of its utility are noteworthy here under:

- Convey global environmental benefits within the context of environmentally SD
- Improve technical and scientific support for collective action to sustain the Earth's life support systems through targeted investments
- Facilitate improved human well-being, health, security, livelihoods and social equity at the same time as environmental benefits
- Maintain innovation and transformational change to tackle the root causes of inter-connected environmental problems; and
- Concurrently meet multiple environmental and developmental objectives to ensure sustainable futures.

### **Demerits of Sustainable Development**

Sustainability is a topical issue that receives plenty of attention from the media and from different governmental departments. There are some disadvantages of sustainable development which are as follows ([Admin; Sustainable development info; Retrieved 2012 and Brussels. 2007](#)):

- Air pollution, water pollution and spreading diseases among people are main effect of the environmental insustainability. Different businesses are discharged the several different nitrates and sulphates, organic chemicals, metals, and dust and/or particles of soil. This matter leads air can direct to health problems in humans such as chronic and asthma.
- The areas are generally sparsely populated resulting in interventions being generally more expensive.
- There is security problems in many districts, so if the situation deteriorates, project achievements could be lost and plans abandoned. It can be difficult to get well-

qualified outside people to work in these areas. This disadvantage of choosing not to take the journey can be substantial opportunity losses and the risk of being left behind by more competitors.

- The complexity of having a number of different interrelated project components can result in slow progress.
- Requires development of markets or infrastructure. The investments in market infrastructure that will directly by increasing productivity and improving incomes and profitability through diversification to high-value.
- Requires compromise and communication. When dealing with sustainability, clients have previously included a general requirement for projects to be sustainable to their consultant teams. This provides an ill-defined requirement which is frequently interpreted by different team members in divergent ways to deliver value.
- Risks of over-exploitation

### **Sustainability Reporting**

Sustainability reporting is the practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of SD. It provides a balanced and reasonable representation of the sustainability performance of the reporting organization, including both positive and negative contributions. It mainly focuses on the following four activities (RG, Sustainability Reporting Guidelines, and 2000-2006 GRI):

- Reporting and communication planning and strategy
- Review and improvement of governance, systems and reporting processes in the field of sustainability reporting
- Assurance of non-financial information
- Reporting analysis and feedback

### **CONCLUSION**

Corporate Governance and Sustainable Development are essentials for any corporate organization. The issues associated with corporate responsibility as well as sustainability have increases now a days. The corporate governance has been widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of business entities as well as of countries. It focused traditionally on the problems of separation of the ownership by shareholders and control by the management. Good corporate governance is a key driver of sustainable corporate growth and long-term value creation and can improve social and labor relationships and external economies like environmental protection. Sustainable development requires the participation of diverse stakeholders and perspectives, with the ideal of reconciling different and sometimes opposing values and goals toward a new synthesis and subsequent coordination of mutual action to achieve multiple values simultaneously and even synergistically.

The legal environment encompasses two important aspects the protection offered in the laws and to what extent the laws are enforced in real life. Both these aspects play important role in determining the nature of corporate governance in the country.

Critique is nonetheless a vital part of the conscious evolution of Sustainable Development a concept that, in the end, represents diverse local to global efforts to imagine and enact a positive vision of a world in which basic human needs are met without destroying or irrevocably degrading the natural systems on which we all depend.

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