CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

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Introduction

According to SEC (2003) an effective system of corporate governance provides the framework within which board, management, stakeholders and other stakeholders address their respective responsibilities (Oghojafor et al., 2010). It implies mechanisms to ensure executives respect the rights and interests of company stakeholders, as well as guarantee that stakeholders act responsibly with regard to the generation, protection and distribution of wealth invested in the film (Auyilera et al., 2008). The impacts of an Effective Corporate Governance on a firm as below:

1. Effective Corporate Governance imposes a discipline on firm managers to maximize return to the firm. With the movement throughout the world toward the expansion of private sectors and the creation of more competitive market economies, effective systems of CG are seen as key variables enabling countries to derive real economic benefits from these fundamental economic changes (Salacuse, 2002).

2. It reduces the "centrally right" conferred on managers and increases the chances that managers' investment decisions enhance the maximization of shareholders' wealth (Shleifer and Vishny, 1997). This, however, suggests that better corporate governance firms have better operating performance (Obiyo, Lenee, 2011).

3. An effective system of governance should help ensure compliance with applicable laws and regulations and further, allow companies to avoid costly litigation (Evans et al., 2004).

4. From a market liquidity, enhanced corporate governance generates an environment characterized by transparency and fair rules of play that motivates stakeholders to continue providing funds since they perceive an adequate level of compensation for the risk they bear. Thus, enhanced CG standards should facilitate market liquidity (Brockman and Chung, 2003).

5. Corporate governance quality may affect aggregate economic activity through several channels, for example, improvements in corporate governance quality may impact positively on growth by lowering firms' cost of funds and possibly increasing the supply of credit, thereby encouraging investment. Moreover, better governed firms may align managers to achieve high firms productivity and improve it through the adoption of frontier technologies. As a result in the corporate sector may be allocated more efficiently, and economy-wide productivity and productivity growth may increase.

A desired governance system of a company can lead to improved company performance and consequently more access to outside capitals of company, thus it can provide sustainable economic growth. When companies design and implement these systems desirably, they increase financial system in society that consequently investment amount in companies will be increased, investment increase also in turn improve economic growth. On the other hand, effective implementation of governance system lead to resources allocation in the best way.
and this will be associated with more growth and productivity that eventually, they will lead to economic stability growth. A governance system with high quality includes tools and mechanisms that ensure followings:

- Target management follows to maximize investors' wealth and prosperity.
- Company legislation protects rights of minority shareholders and limits controlling shareholders.
- Most board members are non-binding members (Fox and Heller, 2000).

Effectiveness of governance system depends on application principles and guidance standards in companies in a way that using these principles may have benefits such as solving issues related to conflict of interest, control and transparency increase for shareholders (Hinty Gala, 2011). Appropriate establishment of company governance mechanisms is a basic action for optimum use of resources, improving accountability, transparency, observing fairness and rights of all shareholders of company.

**Corporate Governance and Corporate Social Responsibility**

Company governance system could be effective on a lot of financial and operational activities and financial and non-financial variables of companies. Previous studies have shown that there is a significant relationship between company governance system and company social responsibility (Wilfred, 2007, Ryan, 2005, Rousseau, 2005; Kymber and leptons 2005) it means that company governance system establishment and its optimum implementation can be effective on company social responsibility. Griffin and Barney define social responsibility as: social responsibility is a set of duties and obligations that an organization must conduct in order to maintain and help to the community in which it works. Generally, companies’ social relationship deals with relationships between companies and society and it reviews company activity effects on people and society.

Institutional investors that are one of the most effective mechanisms of company governance system can affect on corporate social responsibility. Presence of institutional investors can lead to providing appropriate opportunities for investors and it will have expansion of market liquidity and prices transparency and ultimately lead to increasing productivity and improving social welfare level (Bohel et al 2006). According to business for social responsibility (BSR), CSR is defined as achieving commercial success in ways that honor ethical values and respect people, communities and the natural environment (Tsoutsoura, 2004). European union presented a green paper promoting a European framework for CSR; in it CSR was defined as a concept whereby companies integrate social and environmental concerns in interaction with their stakeholders on a voluntary basis. (Sweeney, 2009)

Institutional investors can have a significant influence on decisions of company board and if it is necessary they can make them to conduct social and environmental guidelines in their company's goals (Sparks and Kuton, 2004). They can affect on the amount of corporate social responsibility in another way. They can only invest in those companies that have more social responsibility in their operation. In another hand, the board is one of key mechanisms of the corporate governance system. Independence of the board of directors improves corporate social responsibility and also improves its quality. (Andini et al, 2008). Fulfilling corporate social responsibility requires special abilities and capabilities of company's board members.

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References