International Journal of Advanced Research in Management and Social Sciences ISSN: 2278-6236

CORPORATE GOVERNANCE FOR SUSTAINABLE ORGANIZATION DEVELOPMENT

Anubha Pundir Chauhan*

Abstract: *Although an extensive body of research treats the fields of corporate governance and sustainable development separately, less attention has been paid to the interaction between both fields. This paper attempts to bridge this gap by examining how corporate governance systems are evolving in order to integrate sustainable development thinking into them.*

Drawing from corporate governance, sustainable development, and stakeholder theory literature, an analysis is performed of the governance systems of the 10 corporations that are leading the market sectors considered by the Sustainability Index.

The results of our in-depth analysis of the 10 cases are presented and the sustainable corporate governance model that emerges from that analysis is proposed.

This model do not attempt to question or replace the previous recommendation and frameworks suggested in the literature on corporate governance and codes of governance. On the contrary, the model should be viewed as a way of integrating sustainable development/corporate responsibility into the fabric of already existing governance models suggested elsewhere.

The suggested model seems to be a good framework both for managers and for researchers because it can be used to improve the firm's governance systems as well as a guide for future research on sustainable corporate governance.

*Associate Professor and Head T & D Division, Cambridge institute of Technology, Karnataka and also President, Raghukul Aryawart NGO

INTRODUCTION

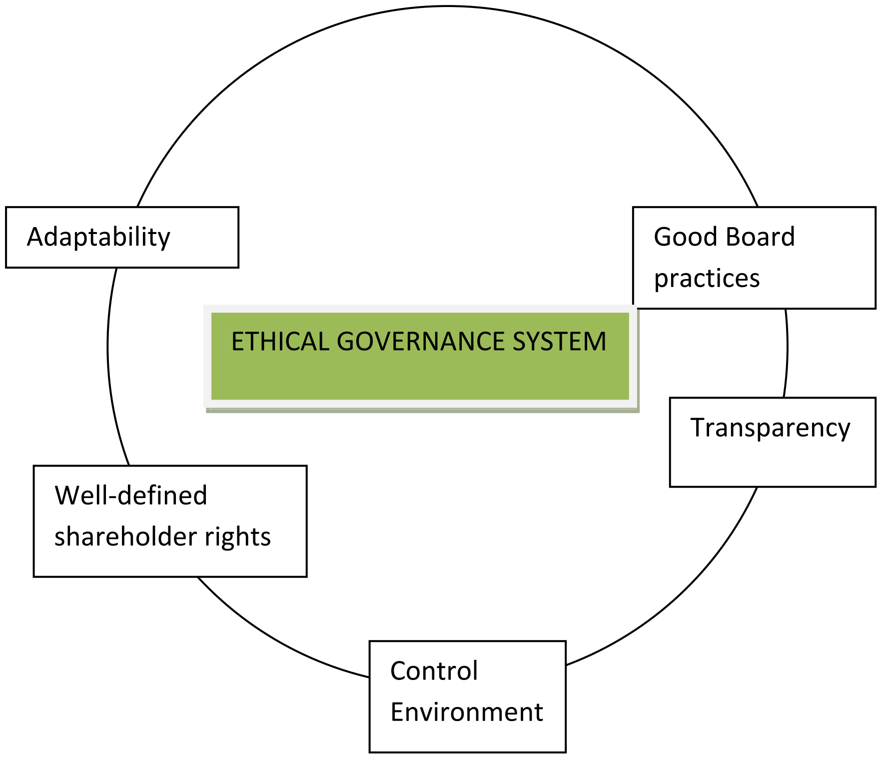
Today's world is going through rapid economic, social, technological and environmental change, across the horizon of government, business and economy. Be it the organizations with a social mission, or large MNC corporations everyone is going through a crunch period of recognizing ethical governance process as a significant source of competitive advantage for them. Those days are definitely gone where the organizations consider as ethical governance as simple liability and burden for the organization. The organizations are also coming out of the box where they would like to think ethical governance as mere legal compliance. The power of ethical governance is more and more understood by the organizations across the globe. The result is a variety of possible patterns - or pathways - of change.

Organizational sustainability has increasingly become an important, but vague, business concept. Customers, stockholders, legislative entities, and even employees are clamoring to develop baseline criteria for operations. Business leaders who successfully manage the complexities of sustainability are being rewarded for delivering intangible advantages that lead to tangible benefits: enhanced brand image, better balance sheets, and higher stock valuations.

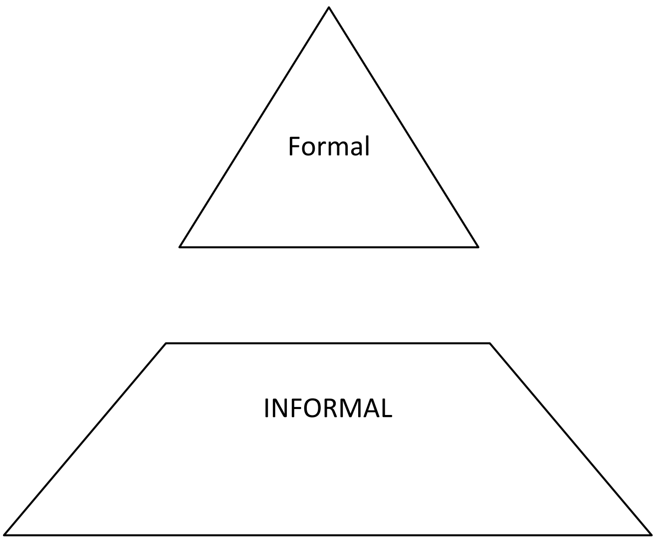
How does business approach sustainability when sustainability includes nearly every aspect of the business—from the supply chain to the customer? Where are the opportunities? Which internal departments need to participate? Proactive, profitable strategies and tactics are available to help managers mitigate risks and seize opportunities. *(Source ICF International).*

What is clear is that a great deal depends on 'governance', which we define here in a broad sense as political processes and institutions. In both intentional and less intended ways, governance shapes how organizational processes are directed, how sustainability and issues are defined and addressed.

ETHICAL GOVERNANCE: COMPONENTS OF ETHICAL ENVIRONMENT



Formal and Informal Enforcement



Informal: Everyday things people do – e.g. challenge.

Standards Committees

Lapdog

- Politicized or disengaged

Watch dog

- rules and enforcement – reactive

Guide dog

- rules and enforcement plus pre – emption, guidance,
  organizational processes – proactive

Leadership

- Seen as crucial
- Variation in what ethical leadership requires:
- mediation
- role modeling
- maintaining the profile of ethical framework in organization
- supporting the credibility of Standards Committee and Monitoring Officer

More conscious of role in authorities which had experienced problems in the past

Transparency and adaptability

Transparency:

- support 'after the event' examination
- deters misconduct if more likely to be identified

Adaptability:

- any rules, systems and culture that can adapt to changing the new localism circumstances eg – partnership working,

What will Ethical Framework Look Like?

- Use of Resources (Annually)
- Corporate Assessment Behaviors and impact on the performance
- CGIs

Ethical Governance key to success

- Good leadership and Ethical Governance key success factors for councils
- Failure in Ethical Governance impact on service performance and damages the Council's reputation (loss of time, key press coverage, members/officers not working well together)

Framework, arrangements and guidance values and behavior

Ethical Governance Diagnostic Toolkit

- Web based survey of members and officers
- Audit of arrangements
- Workshop focused on specific areas

Post 2008 – a new assessment framework for Councils

- Overall risk assessment – Potentially of an area and key partnerships
- Quality of Leadership and ethical governance will be key factor in assessing risk.

Barry Quirk

Conduct is the Conductor

- What acts as a compass for behavior – what leaders say or how they behave?
- Example and conduct speaks volumes but remember "out of the crooked timber of humanity no straight thing was ever made."
- Duty to promote civility and co-operate.
- Not abusing authority and power

Barriers to ethical framework

- Lack of clarity
- Poor conduct being permitted/rewarded

Benefits of positive ethical atmosphere

↓

Leadership Corporate Governance

Original Climate

↓

Original Performance - at least double!

(***Components of an Ethical Environment*** *Gerry Stoker)*

FACTORS OF ORGANIZATIONAL SUSTAINABILITY: IMPACT OF ETHICAL GOVERNANCE

There are seven components necessary to ensure a sustainable organization. This document provides guidance and direction on each of these components.

Organizational Identity Vision; Mission; Values; Branding; Messaging; Strong Leadership	**Financial and Other Systems Administration** Budget; Cash Flow Analysis; Audit; IRS Reporting
Long-Range Strategic Plan Goals; Objectives; Benchmarks	**Long-Range Fund-Raising Plan** Needs and Resource Assessment; Donor Cultivation; Grant Writing
Annual Operational Plan Objectives, Activities & Timelines; Staffing; Program Needs; Committed Resources	**Board Development Plan** Needs Assessment; Evaluation; Recruitment; Orientation; Maintenance/Team Building
Staff Development and Organizational Culture Needs Assessment; Evaluation & Review; Training; Team Building	

ORGANIZATIONAL IDENTITY

Every organization needs to distinguish and market its organizational identity. The organization's identity is made up of its vision, mission, and values. It tells the "story" of the organization and why it exists. Organizational identity can also be distinguished by the organization's look (branding) and message. Finally, an organization is often identified with its leadership. A charismatic, smart executive director or CEO can help distinguish an organization and set it apart. Following is a description of the components of organizational identity.

- The *vision* is the overarching dream for which your organization aims – for example some organizations envision a time when "every child is healthy and wanted," while others look forward to "a world without HIV."

- The *mission* is the action statement that tells others how the organization works towards realizing its vision. For example, it might be "to help teens make safe and responsible decisions about their sexual and reproductive health."
- The *values* of the organization tell the world how the organization operates – its philosophy and the core principles that underpin its work. Organizational values might include the recognition that "all teens deserve respect and have the right to accurate sexual health information and confidential sexual health care."
- *Niche* identifies the organization's special value it adds to the field or community. For example, the organization is the only one in the community that provides low cost family planning services for teens.
- *Branding* is the organization's look. Every organization should become identifiable to the public through its logo and the look of its publications and other communications. Further, every organization should have a short tag line that describes something unique about the organization.
- *Messaging* is the way the organization shares its vision, mission, and values with the wider world.

Influence of Ethical Governance:

Ethics and Governance is in the core of organization mission, vision, goal, objectives and values. Ethical Governance set the direction for formulating the core of the organization. The organization should sound and act ethical. Governance works as a key in this direction. If organization at its core identity is not able to create an impact where it vows to be ethical, then there can be devastating effect on the organization's repute. This can lead to the extent of organization losing its position in the market and lose upon the competitive edge to a very significant extent.

Though all the organizations try to seem ethical on paper any lays a high degree of importance on corporate governance, the challenge is actually to bring the commitments in practice. Here comes the importance of recognizing values at the functional level. Implementation of commitments plays important role here, which need to be identified with ethical objectives and business strategy.

A LONG-RANGE STRATEGIC PLAN

For an organization to be sustainable it must have a strategic plan that speaks to the mission, vision, goals and niche of the organization. The organization uses this strategic plan to create an annual operational plan. Every organization should regularly (every four to five years) engage its Board of Directors and staff in a strategic planning process. The strategic plan that results from such a process will provide the organization with a four- to five-year road map, identifying the goals towards which the organization will work to meet its mission and realize its vision. The strategic plan should include the following steps:

- *An assessment of the external environment to answer*: What are the trends in the field? What are the opportunities and threats for the organization and its work? How can the organization situate itself to take advantage of the opportunities and avoid the threats? How can the organization be poised to respond to/benefit from trends in the field?
- *An assessment of the internal environment to analyze* the strengths and weaknesses of the organization itself, including staffing, budget, morale, management, perception of the organization from colleagues and funders and any other issues that may affect the organization's ability to take advantage of the opportunities or ward off the threats in the environment.
- *The revisiting of the organization's mission, vision and niche* to assess whether they are still relevant. If they are not still relevant, they should be revised. Well crafted mission, vision and niche statements will serve the organization well into the future.
- *The creation of long- term goals*. Goals should be far-reaching but attainable, and should help the organization explain how it will move towards fulfilling its mission in accordance with its values and vision. For example, one long-term goal might be to increase the use of evaluated sexuality education curricula in after-school programs throughout the state. Another might be to encourage greater investment in science-based strategies by educating funders about evaluated adolescent pregnancy programs.
- *The development of quantifiable, time-lined objectives* to reach each goal. For example, one objective under the first goal above might be to work with the school boards in three counties in order to promote science-based sex education programs. Another objective might be to sponsor a pilot of a promising program in one school.

- *The creation of benchmarks* to measure progress toward accomplishing an objective. Benchmarks identify by *when, how much, who, and where*.

Influence of Ethical Governance:

The ethical governance need to be carried out to the next level in forming the business strategy to ensure business sustainability. The governance principles need to be translated in functional, operational and quantifiable terms. Organization also needs to create ethical benchmark at this stage. These needs total involvement of the leadership group and good amount of effort in terms of translating those in functional terms.

ANNUAL OPERATIONAL PLAN

The annual operational plan identifies the work the organization will undertake in the coming year. An operational plan is a practical one-year plan of action that includes objectives, activities and timelines. It should be intimately tied to the strategic plan in that any activity the organization will undertake in the year ahead should move the organization towards meeting the goals and objectives identified in the strategic plan. To create an operational plan, start by identifying any work to which the organization is already obligated to conduct based on its current grants and contracts. Chart out the work, including what will need to be done to accomplish what was promised in the grant or contract, who will do the work, and by when will the work it get done. Then think through what new work the organization can take on, based on its niche, to move towards meeting the goals and objectives outlined in its strategic plan. Again identify the activities staff would undertake, who would conduct the work and by when would it be accomplished. Finally, try to identify where the organization might go for funding for these activities.

If an organization has more than one department or program/project, then an annual operational plan should be created for each. Senior staff should then work to join the individual plans in an overall organizational operational plan. It is this organizational plan that is then used to create an organizational budget and funding proposals.

Influence of Ethical Governance:

Ethical governance is a top down approach but need to be well reflected and well implemented at the functional level. To translate the governance code to the functional levels clear understanding of the organizational system need to be recognized. Annual report should consist of the functional elements of the governance code.

THE ANNUAL FINANCIAL PLAN

The annual financial plan is the organization's fiscal plan of action. It includes the creation of an organizational budget as well the conduct of a number of processes to monitor the financial health and well-being of the organization.

The Annual Budget

To create the annual budget, staff should sit down with the organization's financial manager to create an activity budget for each department's/project's operational plan. To create the activity budget consider the work outlined in each operational plan. What activities will it take to complete this work? What resources will be needed to conduct these activities? Include travel, supplies, consultants, postage, telephone, etc. What staff will work on the program and for what percentage of their time? Include salaries and benefits.

Once each department/project has an activity budget, the financial manager can collapse these into an organizational or line item budget. Like activities across projects (such as staff travel) are collapsed into one line item. Line items might include staff, fringe, travel, supplies, meetings, consultants, telephone, postage, etc.

Now "burden" the activity budget with the non-program – or general and administrative – costs of running the organization, such as utilities, the receptionist's and other support staff's salaries and benefits, the cost of an annual audit, rent, web site hosting fees, etc. These general and administrative costs should be spread to the programs and should not equal more that 25 percent of the total program costs of each project or of the organization. That is, a sustainable organization spends more than 75 percent of its revenue on program activities and less than 25 percent on administration.

Once the budget is created, management should identify sources of revenue to meet the budgetary needs. Some funds may already be in hand from existing grants or contracts. Additional funds will probably need to be raised. Identify where the organization will go for these additional funds. Identify if these are "good bets" or if there is a low probability that the funding source will pan out. Do not spend above the organization's means. Cut back on operational plans or put "holds" on activities that do not have a source of funding. The funding gap (the amount needed to fully fund the operational budget) drives the fund-raising plan described further below.

The Cash Flow Analysis

Another financial tool every organization should employ to be sustainable is the cash flow analysis. It is not enough to know that the organization will raise the funds it needs to meet its budget. It is essential to know if the funds will come into the organization in a timely manner to pay the bills and to meet the payroll as it comes due. Financial managers should create a spread sheet that identifies what funds are expected to come in each month and measure that by the anticipated expenditures for each month. The spreadsheet should anticipate the cash flow for at least a year, should be updated every month to reflect at least a year from that time point, and should be used to identify if a cash flow shortage will arise and when. Only through this process will management be able to anticipate a cash flow problem and take steps to fix it in time.

Annual Audit

The annual audit is another important part of the annual financial plan and should be conducted by an independent certified public accountant (CPA). An annual audit will test for the accuracy and completeness of an organization's financial statements and accounting practices and controls. The CPA will examine the organization's financial records and statements and will issue an opinion stating whether or not these records accurately reflect the organization's financial position. Further the audit will state whether or not the organization complies with generally accepted accounting principles. An audit can help the organization to find and repair important record-keeping errors and can help build confidence among funders of the organization's financial health.

IRS reporting

All charitable, non-profit organizations have to file certain forms with the Internal Revenue Service and, usually, with their state government as well. The annual financial plan identifies the officer responsible for filing these reports and helps to ensure that filing occurs correctly and on time.

Influence of Ethical Governance:

Audit is one of the major aspects of the Good Governance, because it is present transparency level of the company, therefore it is very important for all banking operations. In this connection Saidrasul Bakiev, Audit Director in the Assurance and Advisory Business Service Department of Ernst & Young, spoke to the audience about the relevance of audit to banking and finance sector. Bakiev shared his experience in bank auditing, explained main aspects of the Good Governance that influence on audit in the banks.

Good Governance issue is very important to all enterprises, especially in banking and finance because companies work with and trust them. All respected companies and corporations create their Codes of Conduct that is main point of Good Governance. According to this, Dr. Tatiana Okunskaya, AmCham Executive Director spoke on the topic: "Codes of Conducts, The Experience of International companies". Okunskaya presented different types of Code of Conducts, explaining their importance and utility.

LONG-RANGE FUND-RAISING PLAN

Every organization needs a long-range fund-raising plan to maintain its sustainability. The long-range fund-raising plan helps the staff and board to ensure that the organization will have the funding necessary to conduct its annual operational plan and to fulfill its long-range strategic plan. A long-range fund-raising plan includes steps to identify the funding needs of the organization (often assessed through the creation of the annual budget and the growth trajectory of the organization) and the organization's potential sources of income or support. Staff must then identify and cultivate potential donors, apply/ask for funding (write grants and/or solicit individual donors) and report the organization's accomplishments on an on-going basis.

Identifying Potential Source of Support

To be sustainable, organizations need to identify and then cultivate a diverse pool of support. Sources of support might include:

- *Government funding*, including city, county, state and federal grants
- *Foundation support*, be it general funds or project support
- *Corporations*, both financial support or in-kind contributions, from local or national corporations,
- *Individual donors*, including volunteers and/or financial contributions

Staff should assess the organization's current sources of support as well as its strengths to create a long-range fund-raising plan that will leverage the organization's current assets. To create the long-range plan, staff should ask itself the following questions:

Regarding foundations:

- Do we have an existing network of foundations that might put us in contact with other foundations?
- Do we have foundation supporters that might be willing to increase our grant level or provide multi-year funding?
- Do we have a list of foundations that provide support in our area of work, but we have not yet approached them or have been unsuccessful in our approach?
- Do we have the staff capacity to write effective grants and if not, who will be responsible and what training might be needed?

Regarding Government Funding:

- Are we aware of potential government funding sources?
- How well does our work lend itself to government contracts/grants?
- Do we have the staff expertise to write government grant applications? If not, what training will we need?
- What are the pros and cons of pursuing government funding?

Regarding Corporations:

- Does our cause lend itself naturally to corporate funding? In other words, is there a natural partnership between the business goals of a local or national corporation and our work?
- Do we have any contacts with local or national corporations, either through staff or the board of directors, that might provide us support?

Regarding Individual Donors:

- Do we already have a list of individuals who support our work either through financial contributions or volunteer hours? If so, what do we need to increase these individuals' annual contributions? If not, do we have a board of directors that is willing to help develop a list of potential donors?
- What staff capacity do we have for individual fund-raising and what training or resources are needed?

Finally, staff should think about what type of funding is needed – project support, general funds, in-kind contributions – and which sources naturally lend themselves to this type of funding.

Answering these questions will help the organization determine its fund-raising focus. A plan should be created to allocate staff time and resources to each possible funding source based on its potential return.

Cultivating Supporters

Any sustainable organization knows that the secret of fund-raising is not in getting that donor's first contribution; it is in getting second and third renewals from that donor. Developing a steady group of supportive donors is essential. Staff must pay as much attention to donors after they have given as before. Correspond regularly with donors, update them on the progress and achievements of the organization, and keep them aware of how much their support is helping the organization to accomplish. Find creative ways to say 'thank you' and to say it often!

Influence of Ethical Governance:

Organizations need to remain entirely ethical in terms of raising fund and dealing with long term capital investments. Stakeholders of the business need to be taken in confidence and strict code of conduct and ethical norms to be established in this direction. Diversion from strict ethical norms of the business can result in large calamities for the organization. Enron and Satyam are classic examples.

ANNUAL BOARD DEVELOPMENT PLAN

A strong and sustainable organization has a Board of Directors that is engaged in the organization's strategic vision and whose members are willing to help the organization meet its programmatic and fund-raising goals. Nurturing a board of directors is hard work and needs thought and intention. The creation of an annual board development plan can help the organization keep its current board members engaged while cultivating new board members to fit the ever-changing needs of the organization. Steps in board development follow:

Needs assessment

Once a year, the executive director and a sub-committee of the board of directors should compare the strategic needs and objectives of the organization with the expertise and engagement of its current board members. This comparison allows the committee to create a plan to engage each current member to assist the organization in ways that will benefit both the board member and the organization. It will also help the committee begin to identify gaps in expertise – for example, do we have enough physicians on the board? Do we have enough fund-raisers?—and aid in the development of a recruitment plan.

Evaluation

Each year the board of directors should assess its own effectiveness to fulfill its responsibilities to the organization. Has the board helped with fund-raising? Has it monitored the financial health of the organization? Has it assisted the organization in creating a broad base of support? If so, how can it do even more in the year ahead? If not, what can it do to strengthen its effectiveness?

Recruitment

Board recruitment is an essential component of organizational sustainability. Board members should have limited terms and no more than one-quarter of the board should cycle off in any given year. This ensures that the board always consists of experienced as well as new members. A sub-committee of the board should be responsible for board recruitment. Board recruitment is an ongoing process and includes the identification of gaps in the board's expertise based on the changing needs of the organization or on who is rotating off of the board. The committee must then identify a list of potential board members that can fill these gaps, assess their interest in and fit with the organization, and request their participation on the board of directors.

Orientation

Every new board member needs an organizational orientation to be effective. The orientation is a way to bring new board members "up to speed" on the organization, its mission, its goals and objectives. It should also address the role and the responsibilities of the board as a whole and of the new member individually.

Maintenance and team building

Finally, for a board to be effective, it needs to be nurtured and cultivated. The board chair should work with the executive director to identify ways of ensuring that each board member is engaged in the work of the organization and that he/she feels needed and appreciated. It is also essential to plan board meetings that build the cohesion of the board (the feeling that they are part of a team) and that include training on issues of importance to the organization and to fulfilling the responsibilities of the board.

Influence of Ethical Governance:

The Board of Directors, acting on the recommendation of its Corporate Responsibility and Governance Committee, has developed and adopted these Governance Guidelines. They establish a common set of expectations to assist the Board and its committees in fulfilling their responsibilities to the Company's shareowners. In recognition of the continuing evolution of corporate governance best practices, this is a working document that will be periodically reviewed and, if appropriate, revised by the Board.

STAFF DEVELOPMENT AND ORGANIZATIONAL CULTURE

An organization's staff is its bread and butter. If the staff is competent and well respected in the field, then the organization is more likely to be sustainable. Staff development is an on-going process of investing in the individuals that make up the organization and ensuring that each individual has the confidence and skills necessary to excel at his/her work. Staff development also means building an organizational culture that values each staff member and creates cohesion and a feeling of team among staff members. Sustainable organizations invest in their employees, reward initiative and competence, and provide transparency and flexibility. The components of good staff development include the conduct of a needs assessment, an annual employee evaluation and review, staff training, and team-building. Staff development costs money and should be included in the annual organizational budget.

Needs and assets assessment

Every organization should engage in a periodic needs and assets assessment. This includes a number of steps:

- Annually, management should compare current staff skills to the skills needed to complete the activities outlined in the operational plan. For example, if the operational plan for the coming year will require that a particular staff person upgrade and then maintain the Web site, she/he may also need additional and substantive Web development training. Plans, including the allocation of resources, must be made to acquire this training.
- Periodically, management should also take the "pulse" of the organization. This can be done by sitting down with each staff member to assess their perception of the health of the organizational culture (is the organization flexible, does it promote

creativity, does it respect and foster diversity and professionalism, is the decision making process transparent?), the external reputation of the organization (what does staff think the reputation of the organization is and what components lend to that reputation?); and the satisfaction of each staff member (does his/her role within the organization advance his/her own career goals?). An organization can always improve on its culture. However, organizations in which employees feel valued and respected and part of something bigger than themselves are better situated to become sustainable than are other organizations.

Evaluation and review

Every staff member needs feedback about his/her performance. This feedback should be on-going and not saved only for the employee's annual evaluation and review. If the employee isn't meeting his/her responsibilities, sit down and discuss it in a timely manner. Make a plan to help the employee improve his/her work. If the employee is doing well, let him/her know this.

Even if managers provide on-going feedback, every member of the staff – from the executive director to the part-time administrative assistant should also have an annual performance evaluation and review. Supervisors should take the time to acknowledge work done well, discuss skills that could be improved, reflect upon successes as well as mistakes, assess the employee's job satisfaction and make a plan that meets the goals of the organization and the employee for the year to come.

Training and continuing education

Staff training is integral to the work of an effective non-profit organization. Because non-profits usually pay less than the corporate or governmental sectors, they must find other ways to encourage, reward, and value staff. Training and continuing education not only helps the organization to acquire and hold highly qualified staff, but also rewards and encourages professional growth and development.

Team building

No organization is sustainable if the staff is not cohesive. Respect and appreciation for each other make the whole stronger than its individual parts. It is essential that management invest time in building a sense of team among the staff. This can be accomplished in many different ways. Each individual staff person should be encouraged to understand how he/she contributes to the whole. Further, each staff person should be encouraged to learn how the others contribute. Attend each other's events. Shadow each other at trainings or in the clinic to gain a healthy respect for each other's expertise. Finally, plan a few events/parties each year that build cohesion and team among the whole group. Shut the office and go bowling together, have dinner and plan to talk about cutting-edge issues. These are healthy investments in building a strong and sustainable organization.

HR Governance:

Introduction

A wide-ranging set of influences has propelled corporate governance issues out of the boardroom and onto the desktops of business executives throughout the organization. HR executives face significant challenges, including managing a global function, realizing returns on technology, accelerating the pace of organizational change, leveraging human capital strategically, and reforming management practices in response to proliferating regulation. Historically, most HR leaders have not been challenged to think formally about functional governance issues, so they operate with an implicit model. In those few instances where governance is made explicit, it is usually synonymous with compliance and does not address the central issue – improving leadership and management of a function that invests an average of 36 percent of operating revenue in compensation, health care, retirement, training, and other human capital investments. With over a third of revenue at stake, it's time for HR leaders to develop an explicit model for functional governance – and to communicate the model proactively to involved stakeholders. This paper suggests how to formalize HR governance and shows how explicit governance can help HR executives uncover significant opportunities to improve functional performance and contribution.

2. The short history of HR governance

The concept of corporate governance arose from a confluence of legal, political, and economic ideas. Generally speaking, formal debates of the past 50 years have centered on the question of whether an organization can manage itself without regulation – and if not, who should do the regulating.

Until recently, US regulation of corporate governance has come from state statutes and stock exchange rules. But in 2002, federal lawmakers usurped the field when they passed the Sarbanes-Oxley Act. For HR executives, Sarbanes-Oxley has many implications, including personal, legal accountability for the reliability of reporting and decision making for benefits plans and programs. But it may be shortsighted to limit the scope of this far-reaching regulation to the single activity of effective plan governance.

The term "HR governance" may have been conceived in the mid-'90s along with HR's widespread efforts to transform the function from an administrator into a business partner. Sarbanes-Oxley is another important motivation for HR executives to examine functional operating models with the goal of improving business contribution. Sarbanes-Oxley is now being considered as a model for corporate governance in Canada and the EU. So the most interesting chapter in the history of HR governance is just now being written.

HR Governance: A Definition and Key Elements

Because "HR governance" is an emerging organizational practice, there is currently no commonly acknowledged definition. HR governance is the act of leading the HR function and managing related investments to:

optimizes performance of the organization's human capital assets;

fulfills fiduciary and financial responsibilities;

mitigates enterprise HR risk;

align the function's priorities with those of the business; and

enables HR executive decision making.

Governance is not a strategic objective. It is a systematic approach to management that enables the function to achieve strategic and operational objectives.

The elements of HR governance

There are five core elements in an HR function's system of governance. These elements enable functional leaders to manage areas of focus and accountability effectively. While distinct from each other, these elements are interdependent, meaning that each one must be individually articulated and developed to govern explicitly and effectively.

It illustrates the relationship among business, human capital, and HR functional strategies that influence HR's operating model and inform its governance system.

Structure and accountability outline the design of the guiding group (the council) itself as well as its relationships with involved stakeholders. A charter document usually articulates the council's areas of focus based on strategic, operational, and functional accountabilities. The charter may also address roles, meeting structures, and protocols.

Effective councils link strongly to structure and refer to the personal, interpersonal, and group effectiveness of the council and other involved stakeholders.

Philosophy and operating principles describe, at a minimum, the function's risk tolerance, approach to delegating authority, and expected level of management autonomy at business unit or geographic levels.

Core management activities include HR strategy development, business planning, oversight of rewards plans and programs, HR resource allocation, and HR staff development/leadership succession. Through these core management activities, the council sets direction and priorities, ensures effective execution over time, and enforces internal controls.

Performance monitoring refers to the framework and metrics used to evaluate and communicate the function's operational effectiveness, compliance, and contribution to business success. *(Source: Mercer)*

MODEL FOR SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH ETHICAL GOVERNANCE

THE STUDY

Drawing from corporate governance, sustainable development, and stakeholder theory literature, an analysis is performed of the governance systems of the 10 corporations that are leading the market sectors considered by the Sustainability Index.

The results of our in-depth analysis of the 10 cases are presented and the sustainable corporate governance model that emerges from that analysis is proposed.

The companies studied are –

1. Tata Motors
2. Tata Power
3. TCS
4. Reliance Infocom
5. Reliance Retail Limited
6. ITC Infotech

7. ITC
8. Ultratech Cement
9. Idea Cellular\
10. Airtel

The study focuses on the following areas:

- Values (3 items)
- Standards of Conduct (8 items)
- Codes of Conduct (3 items)
- Constitutional Framework (5 items)
- Member and Officer Roles (5 items)
- Corporate Governance Arrangements (3 items)
- Decision-making (3 items)
- Information (2 items)
- Ethical Framework (3 items)

A questionnaire is being used to find out the efficiency of the ethical governance for the organizational sustainability. It has total 35 items apart from the Employee personal information. Each item was considered in a 4 point scale, forming 140 points scale total.

SAMPLE:

10 Middle Level and Senior Level Managers from each organization, Total sample size is 100

FINDINGS:

- The items found to have a strong correlation with each other

	Values	Standards of Conduct	Codes of Conduct	Constitutional Framework	Member and Officer Roles	Corporate Governance Arrangements	Decision-making	Information	Ethical Framework
Values		.8	.75	.65	.7	.65	.9	.8	.7

Standards of Conduct			**.95**	**.9**	**.8**	**.8**	**.8**	**.7**	**.8**
Codes of Conduct				**.9**	**.85**	**.8**	**.85**	**.65**	**.85**
Constitutional Framework					**.75**	**.7**	**.7**	**.7**	**.8**
Member and Officer Roles						**.65**	**.9**	**.8**	**.75**
Corporate Governance Arrangements							**.8**	**.65**	**.7**
Decision-making								**.7**	**.8**
Information									**.7**
Ethical Framework									

- Average of the total score is 110
- Average score for each items

  Values (10) – 80%

  Standards of Conduct (25) – 75%

  Codes of Conduct (10) – 80%

  Constitutional Framework (18) – 90%

  Member and Officer Roles (14) – 70%

  Corporate Governance Arrangements (10) – 80%

  Decision-making (7) – 56%

  Information (6) – 72%

  Ethical Framework (10) – 80%

  During the interviews managers mentioned the following challenges in ethical governance

- **Good Business Sense?**

  Good corporate governance makes for good business sense. It increases the confidence of shareholders in your company. This leads to better stock prices. Research has shown that good corporate governance brings down the cost of capital for the company. Good disclosure practices lead to a more liquid market for the company. This lowers cost of debt for the company. Thus for CEOs of today, there is a clear business case for complying with principles of good corporate governance.

- **Challenges of Transparency - the potential costs as well as business benefits?**

  Transparency is critical for good governance. Without transparency, new laws and governance codes can do little to boost investor confidence. Various steps like use of standardized accounting practices, free flow of information and clear policies are needed. Transparency has its costs and benefits. The benefits include increased shareholder confidence, reduced cost of capital. The main benefit is however seen in times when company is not doing well. Companies with strong corporate governance records have found it easier to sail through bad times and secure support of all stakeholders even in the companies' bad times. In addition to administrative costs of transparency, the major cost is proprietary cost. i.e. cost of competitive disadvantage. Being transparent runs the risk of competitor knowing about your policies, styles of functioning and get useful competitive information. However in the long run, the benefits of transparency far outweigh its costs.

CONCLUSION:

Our survey and feedback from various experts indicates that a majority of Indian companies are perceived to be above average in terms of ethical governance practices. While some also believe that corporate governance norms must be redefined in light of the Satyam episode.

While the corporate governance framework in the country is seen at par with other developed markets, the same has to be implemented in 'letter as well as spirit'.

Additionally, shareholders should ensure that the composition of Board of Directors is a balanced mix of independent directors and management appointees. This would help keep a check on the internal processes of the company. With shareholder activism on the rise, the proactive role of institutional investors will also make the company management more accountable.

While things have improved substantially over the last five years, experts believe that more needs to be done, which will further improve disclosure levels and make managements accountable.

At the retail shareholder level, one could look at a company's past track record (including significant events that reflect management excesses), qualitative and quantitative disclosures (vis-a-vis peers) and consistency in delivering on promises. Experts believe that more rigorous vetting is needed when small and medium companies are considered for investment.

For now, the key concern for investors, says a fund manager is, "I will be worried if no action is taken against the culprits. While our compliance norms are the best in the world, we fail miserably on prosecution whereas in markets such as the US, action is swift and the penalties severe."

REFERENCES:

1. *Sustainable Development – Corporate Sustainability*: Guide for taking into account the stakes of sustainable development in enterprise management and strategies. Saint-Denis La Plaine Cedex: Association Française de Normalisation.
2. Bovespa (2005). ISE – *The Bovespa Corporate Sustainability Index.*
3. Brundtland, G. (ed.) (1987). *Our Common Future:* The World Commission on Environment and Development. Oxford: Oxford University Press.
4. Campos, E.A.S. (coord.) et al. (2005). *Corporate Governance Model of Brazilian Companies.* (Model under development at the CCR Center of Corporate Governance, Fundação Dom Cabral).
5. Tata.com
6. Mercer review articles
7. Hindu Business Line