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Case Study

Case Studies on Corporate Governance and Corporate Social Responsibility

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Educators are incorporating case studies into the classroom in a response to employers’ demand that employees are in possession of high level of interpersonal, negotiating, management and communication skills. As an educational tool, the case study has been used for many years in management education to achieve these outcomes. This suggests that instructors may positively influence student skills acquisition and development by integrating appropriate case materials and examples in management and other accounting disciplines. This case study examines corporate governance and links it to ethical business processes, which in turn refers to corporate social responsibility. Corporate governance is required for ensuring a sensible use of corporate resources. Multi-dimensional cultural factors can influence a society’s corporate governance and corporate reporting processes. To examine corporate governance, three cases are discussed of which two are specific to Bangladesh, while one is related to an international company. It is observed that corporate governance has a multi-flow on impact on corporate social responsibility.

INTRODUCTION

Corporate governance depends on managerial performance as well as a consideration of social responsibility, the socio-cultural-environmental dimension of business procedure, and legal and ethical practices with a focus on stockholders, customers and other stakeholders of organizations. Understanding the implications of corporate governance is now gaining importance among policy makers, entrepreneurs, business personnel, stakeholders and related organizations. At the international level, globalization is providing momentum towards integrated business processes and a free economy. Under such conditions domestic firms have to compete with multinational firms. Corporate governance indicates the policies and procedures applied by the organizations to attain certain sets of objectives, corporate missions and visions with regard to stockholders, employees, customers, suppliers and different regulatory agencies.

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and the community at large. The role of corporate governance is to maximize stockholders' wealth along with efforts for achieving the appropriate returns for other stakeholders. As such, corporate governance has implications for the corporate social responsibility of organizations.

OBJECTIVES AND FORMAT
Three case studies have been undertaken in this study with the following learning objectives. The first objective is to understand the meaning and nature of corporate governance. The second is to consider the linkage between theoretical perspectives of corporate governance with corporate social responsibility in practice, and to assess the need to improve corporate social responsibility of firms (with special reference to Bangladesh). Finally, the third objective is to make recommendations as to how corporate governance and corporate social responsibility can work better for both the firm and its stakeholders. By adopting the case study approach to teaching and learning, the educational outcomes should be an enhancement of students' interpersonal, negotiating, management and communication skills.

The remaining part of this paper proceeds as follows. In section two, an explanation of the research design is provided. A discussion of the case study instruction method is also provided in section two. The three selected cases are outlined in section three and a discussion of the corporate governance issues and the corporate social responsibility reporting practices is provided. Lastly, in section four, a set of recommendations for improving corporate governance of organizations, specifically in Bangladesh, which is the theater of operations of two of the cases, is provided.

RESEARCH DESIGN
This study links theoretical perspectives of corporate governance with observed practices of corporate social responsibility reporting. Three cases are provided as examples of corporate conscience and corporate social responsibility disclosure. These three cases can also be used as a starting point for the development of best practice benchmarking for corporate social responsibility reporting in Bangladesh. The three cases include two Bangladesh firms and one international firm operating in Bangladesh.

Ethical practices such as the protection of consumers, protection of creditors, establishment of rights of stockholders, application of regulations, and enforcement of law and order are important indicators of corporate governance in any country. Researchers often use categories to understand and analyze corporate social responsibility reporting. Hackston and Milne (1996) used six categories: (1) environment, (2) energy, (3) human resources, (4) product and safety, (5) community involvement and (6) others. We examine the corporate social responsibility reporting practices of the three cases for examples that fall within these categories.

RELEVANT THEORETICAL IMPLICATIONS AND PERSPECTIVES
Kendall and Kendali (1998) suggested that characteristics of a good corporate governance incorporate: an ethical approach; culture; society; an
organizational paradigm; balanced objectives that is, congruence of goals of all interested parties; each party plays their appropriate part and the roles of key players such as owners and directors are clear. Also, that a decision making process is in place based on a model reflecting the above characteristics giving due weight to all stakeholders. Implicit in this view is that stakeholders are treated with equal concern, albeit some have greater influence than others, and that there must be accountability and transparency to all stakeholders.

According to the Bangladesh Enterprise Institute (2004), the primary and most important benefit from implementing the (Bangladesh) code of corporate governance lies in attaining and sustaining development goals. Strengthening corporate governance at the national level could lead to a process of revitalization of the Bangladesh economy. If the code can be fully implemented in public corporations, joint stock companies, state-owned enterprises and non-governmental organizations, the reputation of Bangladesh as a destination for investment and aid would be greatly enhanced.

UNCTAD (2004) defined Corporate Social Responsibility (CSR) as constituting actions whereby organizations integrate societal concerns into their business policies and operations, including environmental, economic and social concerns. Compliance with the law is the minimum standard to be observed by organizations. The scope of corporate social responsibility encompasses the direct impact of organization’s actions as well as the spillover effects they may have on society. The extent to which enterprises can be held responsible for such externalities is still being debated.

Talukdar and Bakhtear (2007) observed that in the Bangladesh capital market, the banking industry is performing better than other industries. The banking sector comprised 54% of market capitalization and 57% of total turnover in the Dhaka Stock Exchange at December 2006. Yet observations of the reporting practices of banks in Bangladesh indicate a low incidence of corporate social responsibility reporting. If this is so, it has negative implications for the corporate governance of organizations in Bangladesh’s banking sector.

Chowdhury (2006) considered environmental perspectives and suggested that companies today need to incorporate environmental responsibility into their future strategies and should refrain from misrepresentations. In the long run, the choice of not being ‘green’ may have heavy consequences both environmentally and financially for companies. Chowdhury observed that corporate regulators are looking more closely at claims of companies with regards to ‘green marketing’.

Kabir (2007) assessed the environmental and social performance of Lever Brothers Bangladesh Limited (LBBL). LBBL is a multinational company, recently renamed as Unilever Bangladesh Ltd. Kabir suggested that to achieve business sustainability LBBL needs to employ sustainability tools as much as possible within its limited resources. This may require additional corporate resources in terms of time and money, however as a result LBBL would be likely to achieve long-term benefits
and become a model of 'greening' business in its own sector.

Friedman (1970) argued that a facet of the doctrine of corporate social responsibility is brought into sharp relief when the doctrine is used to justify wage restraint by trade unions. The conflict of interest is clear when union officials are asked to subordinate the interest of their members to some more general purposes. If the union officials try to enforce wage restraint, the consequence is likely to be wildcat strikes, rank-and-file revolts, and the emergence of strong competitors for their jobs.

THE CASES
CASE STUDY 1: ACI COMPANY OF BANGLADESH

Background
ICI Plc. of UK had a pharmaceutical business in Bangladesh which in 1992 was divested and the name of the company changed to Advanced Chemical Industries (ACI) Limited. ACI was the first company in Bangladesh to obtain certification of ISO 9001 Quality Governance System (1995). The ACI group has consistently demonstrated its commitment towards its employees and the environment over the years. It has been recognized as the practitioner and promoter of socially responsible business behavior. ACI has endorsed the Principles of Global Compact (August 18, 2003). The Global Compact is an initiative sponsored by the (then) United Nations Secretary-General, Kofi Annan. It is based on a very simple notion of corporate social responsibility, that:

Whether or not required by law, corporations should enforce basic human rights and accepted labor and environmental standards in all their business activities to counterbalance possible negative effects of globalization.

The compact calls on companies to embrace the 10 universal principles in the key areas of human rights, labor standards, the environment, and anticorruption. These four important principles included in the universal set are expanded upon as follows:

**Human Rights**
- To support and respect International Human Rights within the company's sphere of influence.
- To ensure that their corporations are not complicit with Human Rights violations.

**Labor**
- To end discrimination in the workplace.
- Abolition of child labor.
- The right to collective bargaining and recognition of freedom of association.
- To eliminate the use of forced and compulsory labor.

**Environment**
- To support a precautionary approach to environmental challenges.
- To undertake initiatives to promote greater environmental responsibility.
- To encourage the diffusion of environmentally-friendly technology.
Anti-Corruption

- To work against all forms of corruption, including extortion and bribery.

ACI pledges to keep all its employees, customers, shareholders and suppliers regularly informed about the compact and the company's initiatives to uphold the principles.

Societal Development Through Educational Programs

ACI's guiding principle in all its operations is to be a 'responsible corporate citizen'. Thus, social responsibility is a top priority for every individual at ACI. Our endeavors toward discharging our social responsibilities have become more focused since our adoption of the principles of the Global Compact.

Initiatives that have shown significant contribution to societal development are the Continued Medical Education (CME) for medical professionals and Children's Education programs.

A dedicated team of medical graduates makes up the Medical Services Department (MSD) in ACI, which carries out CME programs termed 'Clinical Meetings' all across Bangladesh. These are essentially non-advertised meets of medical professionals that serve as a training and knowledge-sharing forum often conducted by experts on the subject. Our partners in development for these programs are doctors, medical associations and/or departments, and various study groups. The level of involvement of ACI in these programs may range from only sponsoring the entire program to provide all types of services and technical support to the presenter to even conducting the program by an MSD doctor. Support from MSD include research support for deliberations at the meet, literature and multimedia presentation for the program, updates on new technology and thoughts in medical fields, and even educational support to any participant in their area of interest.

The Bangladesh Today, a media unit of ACI, started a Children's Club two years ago. The Children's Club holds many cultural events and competitions all year round. The Children's Carnival is a major annual event that draws a huge number of participants. ACI has also undertaken an English Education program in Faridpur, one of the remotest districts of Bangladesh. This provides support to teach English language to school going children.

Doctors in Bangladesh, who are not living in the metropolitan cities have very limited access to the Internet or any other sources of information. In order to keep them updated on the developments in the medical practices regularly, the CME program has proven highly effective. During 2004 alone, the number of such meetings held was 342, participated by approximately 18,000 (eighteen thousand) doctors. When compared to the 2003 figures of 100 meetings with 5,000 participants, the impact of our efforts can be seen reflected in the tremendous rate of growth.

The Children's Club now has over 1,000 members who are actively engaged in pursuits of creative learning. They are grooming themselves to be well-rounded individuals with skills in foreign languages, arts, crafts and music. ACI believes that by promoting education of children, we are contributing to societal
development by shaping the minds of our future leaders. (Source: http://www.aci-bd.com/corporate1.html). Disclosures are drawn directly from this website.

**Discussion**

An analysis of the information provided by ACI in relation to its corporate conscience and corporate social responsibility shows that an historical synopsis of the entry of the firm to Bangladesh and the nature of its operations in that country is provided. Once the background to the firm’s operations in the country is established, various projects and programs demonstrating the firm’s commitment to ethical practices and social responsibility are provided. The projects and programs are not necessarily restricted to the industry in which the company operates. For example, ACI discloses that it supports cultural programs and the arts and education.

In terms of the six categories identified by Hackston and Milne (1996) the ACI’s corporate social responsibility disclosures are focussed around community involvement and others. The disclosures are essentially qualitative in nature although some numbers are provided to demonstrate the rate in growth of certain initiatives such as the CNE and Childrens’ Club programs.

**CASE STUDY 2: FORD MOTOR COMPANY OF SOUTHERN AFRICA**

**Background**

**SOS Children’s Village:** SOS is a welfare organization that provides a home, mother and family to destitute children. The mother, paid by the SOS, provides seven days, 24 hours care exactly like any parent would. Ford Motor Company of Southern Africa and Ford Credit contribute towards the living expenses of one of 15 houses at the Mamelodi SOS Village. The money is used to augment expenses of the ten children’s school, medical, food, clothing and other costs. Several members of staff have made donations of valuables like cash and home implements, clothing and books.

**MEDICOS Special School:** MEDICOS, situated in Soshanguve, north of Pretoria, is a special day school for mentally handicapped children. Most of the children come from the surrounding areas of Soshanguve, Mabopane and Garankuwa. One of the major challenges faced by that community was that children often get lost coming to school or going back home, and some even got abused en route. To stop this problem, Ford Motor Company of Southern Africa provided transport in the form of a bus; the bus has also been serviced free of charge by Ford Motor Company of Southern Africa. The company and employees often make cash and donations of valuable items such as freezers to this school.

**FMCSA Employee Community Action Program:** At the Ford Motor Company of Southern Africa, each employee is encouraged to donate 16 hours of Community Service in Tshwane and Port Elizabeth. Over the past two years FMCSA employees have involved themselves in community projects. Through involvement in these projects FMCSA intends to create a broader awareness and understanding of Ford as a caring company, which accepts its corporate citizenship responsibilities. This supports the company’s declared vision and values.
It is planned to involve increasing numbers of employees in the projects; thus developing improved team spirit and a caring attitude amongst employees, true to the company's vision. Furthermore, these activities provide an opportunity for employees to demonstrate one of the key leadership behaviors, i.e., community commitment.

A-Ford-Able Bike Program: Ford Motor Company, Japan and Ford Motor Company of Southern Africa (FMCSA) have joined forces to provide bicycles to underprivileged communities in South Africa. “A-Ford-Able Bikes” is a community service project being undertaken by Ford volunteer employees with the cooperation from the City of Hiroshima, Safmarine, Mazda, and the SOS Children’s Villages operation in South Africa, and Nittsu. Volunteer employees from Ford Motor Company Hiroshima Operations gather at the City of Hiroshima Bicycle impound lot in Nishi-ku Nicho-me to select abandoned bikes provided by the City of Hiroshima, prepare them for shipment, and then load over a hundred bikes into a 20 foot shipping container which is currently sent to South Africa. The first two shipments of bicycles were given free of charge to orphans who live in the six SOS Children’s Villages located around South Africa. The orphans use them to transport themselves to school and for other pressing needs, like having fun.

Mazda Wildlife Fund: The conservation and preservation of the environment has become a major worldwide issue, dramatically changing the attitudes of consumers and the way large corporations do business. Against this background, the Mazda Wildlife Fund was formed in April 1990, funded by the Ford Motor Company of Southern Africa (FMCSA) and its nation wide network of Mazda Dealers. The Fund has currently committed to an amount of approximately Rand 1.5 mn per annum for investment in nature conservation. The Fund currently supports 32 projects with 34 vehicles, covering every aspect of conservation and the preservation of the environment. These are situated throughout Southern Africa and include educational projects, research projects and projects involved in the direct preservation of endangered species and habitats. To date over 100 projects have received support from the Fund.

HIV/AIDS Awareness: Ford Motor Company has an active aids awareness program, with warnings about the risks of HIV infection regularly communicated to company staff in an informative, yet easy-to-understand and non-discriminatory manner. Confidential voluntary counseling and testing is also conducted on site. During 2002, the FMCSA was awarded the US Secretary of State’s Award for Corporate Excellence for our HIV/AIDS program. It is only through the dedication of FMCSA employees, peer group educators, the HIV/AIDS Steering Committee and others that the Company was nominated for this prestigious award. Of the over 60 nominations received in 2001, Ford was selected as the winner in the multinational category.

Community Upliftment Projects: Ford Motor Company prides itself in its community involvement, contributing not only to its employees and their families, but also to its immediate communities and the South African public at large.
Educational Plant Tours: Informative guided tours through the manufacturing plant are regularly presented to school and student groups, groups from less privileged communities and groups of disabled or handicapped people. These visits are not only viewed as a leisure time activity for the groups concerned, they also play an important educational role at grass roots level, and stimulate the future career choices of visitors in their formative years.

Mamelodi College for Further Education and Training: The college is a close associate of Ford Motor Company of Southern Africa; Ford Motor Company of Southern Africa is also represented on its governing body. Together with the college, Ford Motor Company of Southern Africa has developed a panel-beating and spray-painting facility at the college, and has also donated equipment to this facility. An automotive workshop has been developed at the college—Ford Motor Company of Southern Africa has donated mounted engines, gearboxes and rear axles and a brake training simulator for the workshop. Students from the college undergo experiential training at Ford Motor Company of Southern Africa. Five staff members of the college have been trained as Safety Representatives and the College has established a Safety, Health and Environment Committee. Mamelodi lecturers spend four evenings a week at Ford Motor Company of Southern Africa teaching our employees maths, science, industrial technology, technical drawing and communication subjects. Ex-employees undergo ABE training at the college. This is sponsored by Ford Motor Company of Southern Africa.

The College has been given the use of the old Education and Training facility, which is sponsored on Ford Motor Company of Southern Africa premises. It is used for business study courses as well.

Rally-to-Read Project: The Ford Motor Company of Southern Africa participates annually in the Rally-to-Read activities in South Africa. Since 1998 this joint venture between the Financial Mail, McCarthy Motor Holdings and the Read Educational Trust has identified schools in rural areas in desperate need of books. Unfortunately, with education authorities struggling to match budgets to needs, these schools lose out because of their location. Being far removed from the major centers lamentably means being far from the top of the priority list. The program gives both companies and individuals an opportunity to make a difference. Every year the Rally-to-Read delivers box libraries containing English books to these schools by means of 4 x 4 vehicles. Sponsors are invited to come along and see how their money is being spent. It also instructs the Teachers in how to use the books and conducts on-site training and monitoring. (Source: http://www.fordmotorcompany.co.za/corporatesocial/community.asp). Disclosures are drawn directly from this website.

DISCUSSION

An analysis of the information provided by the Ford Motor Company demonstrates the focus on providing details of the various projects and programs the firm supports. Again, these projects and programs are
wide-ranging. They focus on educational, economic and medical support. Ford also includes environmental support within its portfolio of corporate social responsibility activities.

In terms of the theoretical framework provided by Hackston and Milne (1996) used for the purposes of corporate social responsibility analysis in this study, Ford Motor Company's disclosures fit the categories of environment, human resources, (possibly) product and safety (Educational plant tours and Mamelodi College for Further Education and Training), community involvement, and others.

**CASE STUDY 3: BGMEA, BKMEA TO IMPLEMENT PROJECT TO ELIMINATE CHILD LABOR**  

**Background**

BGMEA and BKMEA with the support of the International Labour Organisation (ILO) and South Asian Enterprise Development Fund (SEDF) would implement a five-year program to address the child labor, mid-governance development and productivity improvement issues in the garments and knitwear sectors, industry source said. Sources said a Memorandum of Understanding (MOU) would be signed next month among the four stakeholders in this connection, reports BDNEWS.

The Bangladesh Garments Manufacturers and Exporters Association (BGMEA), ILO and the United Nations Children's Emergency Fund (UNICEF) already implemented a three-year project from 1996 to phase out child labor progressively in the more than 2,500 factories.

Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) president Fazlul Hoq said, "We received the BGMEA's final proposal Thursday. The social compliance committee of BKMEA would critically review the project".

Sources at BKMEA said the five-year project would be implemented in two phases during 2006-2011. Elimination of child labor, fire security and mid-governance development issues would be addressed in the first phase in the three years. Workers' education and training, productivity improvement, and workers' and employees' responsibility would be addressed during the last two years in the second phase.

Sources at BGMEA said BGMEA and BKMEA would finance 10 to 15% of the project while SEDF will finance rest of the cost of the project. ILO would be an implementing agency of the project.

BGMEA Vice President Shahadat Hossain Chowdhury Arun said child labor in the garment factories increased in last two years after completion of the earlier project and also due to lack of monitoring.

"Within a relatively short period after starting of the earlier project, we were able to bring down child labor in the Bangladeshi garment industry to 4.5% from 42.8% in the inspected factories, while at the same time the percentage of child labor of the total labor force declined to 0.26% from 3.56%" he said.

Referring to the project cost, BGMEA legal consultant Janifer K Jabber said the project cost would be finalized after final consultation with the ILO.
Sources at the BGMEA labor cell said generally the mid-level managers employ garment workers. “We saw many problems happened in the recent garment incidents due to the weaknesses in the mid-level governance”, he said.

He said the new project is important not only for child labor and fire security but also for productivity improvement.

Discussion

It is clear from this newspaper report that the elimination of child labor is an important objective of the garment and knitwear industry in Bangladesh. We would expect to see organizations operating within this industry and organizations supporting this program to be reporting appropriate social responsibility activities. For example, good corporate governance practices within organizations such as banks and other lenders to the garment and knitwear industries should be reporting their corporate social responsibility actions. However, currently banks in Bangladesh make very limited disclosures in this regard.

SUMMARY AND RECOMMENDATIONS

SUMMARY

From the analysis of the three cases included in this study, it can be observed that organizational behavior largely depends on the state of social welfare of the society within which it is operating. Although profit maximization is the main objective of a company’s operations, sustainability in the long run depends also on attaining stakeholder support. This implies that a portion of profits should be utilized for the sake of sustainability and stakeholder support. This in turn, is likely to legitimize the company’s operations and to create trust and enhance confidence in the company. Legal obligations as well as cultural and societal imperatives should be considered as an integral part of business at the global level. Transnational companies must consider the background, values and resources of the nations in which they operate. Further, if a nation’s infrastructure is not well-developed then foreign direct investment in that nation should include strategies to add value to that infrastructure.

Corporate governance procedures, including corporate social responsibility, set a strong base to help organizations attract foreign and local investors. Corporate governance promotes transparency in transactions between investors and creditors, accountability, and promotes the organization and development of the capital market. The capital market of Bangladesh is still underdeveloped: it is in Rostow’s ‘pre take off’ stage of development. Tough rules and policies as well as the implementation of a code of corporate governance conduct is a prerequisite to the successful implementation of good corporate governance in organizations. Organizational leadership is required to take tough measures to install and operationalize corporate governance processes. If good corporate governance can be achieved then domestic as well foreign investors will be attracted which will ultimately create and enhance employment opportunities, a more equitable redistribution of wealth, and promote sustainable organizational development.
RECOMMENDATIONS

As a result of reviewing the corporate social responsibility disclosures of the three cases, a number of recommendations have been proposed. The aim in making these recommendations is to encourage good corporate governance principles and processes within organizations.

General

- The enforcement of proper corporate governance practices is likely to attract foreign investment and support the development of the capital market. Triple bottom line accounting is a practice that has the potential to assist ethical business decisions, which in turn address social obligations and leads to improvements in the quality of corporate governance.

- Good corporate governance should ensure fair treatment to all stakeholders. Dealings with the organization and disclosure processes should be transparent. Investors and lenders to the organization should be able to commit their capital confident of fair and equitable treatment.

- Good corporate governance occurs in a de-politicized and honest decision making environment and establishes corporate social responsibility for the betterment of all stakeholders of the organization. Organizations must act firmly to eliminate corrupt practices.

- Corporate governance and social responsibility disclosures made by companies should be obligatory and they should follow international best practices.

Specific to Bangladesh

- Bangladesh needs to promote a good corporate governance culture and values. Creation of wealth should be accompanied by proper attention to the welfare of its society. A regulatory framework must be enforced in the corporate sector. Methods of trading, symmetry of information flows, financial reporting, conduct of corporate members, systematic enforcement of laws and regulations, and a culture of compliance, are all matters that need to be covered under a good corporate governance framework in Bangladesh. Improved corporate culture and values can be achieved through better transparency and managerial accountability.

- Organizations in Bangladesh should make a larger contribution to the achievement of sustainable economic development. They should also introduce initiatives to support disadvantaged groups through programs aimed at reducing the ‘dependency’ syndrome. Enabling disadvantaged groups by providing easier access to capital assists in the creation and redistribution of wealth.

- Organizations in Bangladesh should become more welfare orientated and work towards redistribution of the countries wealth to better include the poor people of the country. At least Pareto optimality should be achieved by organizations, which should also be the guiding principle to the earning of profit.
REFERENCES


