Study of Relationship Corporate Governance and Corporate Sustainability: A Case of Listed Tourism and Hospitality Firms in India

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Abstract: *After the market crash of 2001-2002, Corporate Governance (CG) become an issue of discussion and forced the governments to seriously come up with the regulation to put surveillance and control on the affairs of the management. It was felt necessary to have certain international codes and standards which can govern the conduct and the behavior of financial markets. Tourism organizations have responsibility and control with very limited number of people and fewer hierarchies which are more or less decentralized. This poses difficulties for effective performance monitoring in the context of CG. The impact of social, environmental and economic issues of the firms and sharing of such information with all stakeholders, including regulators and wider community can be done with sustainability reporting and management services. With the increase in interest and concern for, CG, there been a similar rise in interest in sustainability. Our investigation is based on exploring CG in all the 60 Tourism and Hospitality companies listed in India which comply with Clause 49 of Listing Agreement of Security Exchange Board of India (SEBI) and sustainability reporting. Our methodology is based on investigating the information about the various aspects of CG and sustainability available in the Annual Reports and CG reports of the companies. Analysis is primarily qualitative with some descriptive statistics.*

Keywords: *Clause 49, Corporate Governance, Listing Agreement, Tourism and Hospitality*

1 Introduction

Corporate Governance (CG) is a framework that establishes balance between accomplishment of goals of corporate and its stakeholders by providing management with a set of principles, ethics, values, morals, rules, regulations, and procedures to govern the corporate.

For effective CG, policies need to be such that directors should not misuse the power and funds and should understand the responsibilities and fulfill its duties towards growth for longer run.

Need for CG arises due to separation of management from ownership thus distributing powers, authority and increases individual power to govern. Management has various responsibilities towards employees, customers, communities and towards governance in order to serve its responsibilities at the best in all aspects. CG requires

the establishment of a control mechanism within the organization whereby the directors are entrusted with responsibilities and duties in relation to the management and direction of corporate affairs. It ensures the accountability of the management of the company.

The main objective of such a system of governance is enhancing the value of the firm, protecting the interest, wellbeing and the prosperity while taking care of the interest of all stakeholders. (Bino, Adel & Tomar, Shorouq.2012, Ehikioya, Benjamin I. (2007), Keasey et al., 1997, Dar,Laib, A., Naseem,Muhammad, Akram., Rehman, Ramiz Ur. and. Niazi,G. S. K. 2011).

A number of corporate scandals and the market crash of 2001-2002, highlighted urgent need for protecting and safeguarding the interests of stakeholders. Globally it become an issue and forced the governments to seriously come up with the regulation to put surveillance and control. These scandals has created awareness among the shareholders to ask for good governance practices in the management process (Ertugrul Mine and Hedge Shantaram 2009). A huge structure of 'norms', 'guidelines', 'codes, 'law', 'best practices,' and standards' were structure all over the world. The Cadbury Committee (1992) was the first formal disclosure mechanism and the systematic presentation of ' *A Code of Best Practices*' of CG for business to improve transparency. This report was subsequently used by many committees and regulatory bodies world over as the foundation of their reports. The Cadbury Committee (1992) recognizes CG as "the system by which companies are directed and controlled". The Sarbanes-Oxley legislation in the USA (2002) was the formal act with mandatory norms for complying with the CG. Organization for Economic Cooperation and Development (OECD) in the year 1998 produced a set of principles to ensure good CG.

According to the OECD Principles of CG, "CG involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. CG also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined." According to OECD's Guidelines on Good Practices in CG Disclosure, '—All material information relating to CG of the firm should be disclosed in a timely very clearly, concisely, precisely. In the year 2003 EU Commission presented 'Action Plan on Modernizing Company Law and Enhancing CG in the European Union' which was somewhat similar to Sarbanes- Oxley Legislation of USA.

Institute of Company Secretaries of India says:
"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 sustainable development of all stakeholders".

Cadbury Committee (U.K.), 1992 defined: "CG is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditor and the management."

These standard international codes can have various kinds of risks depending on the difference in business customs and the legal framework of the country in which the organization is working. Because of such reasons every country must have its own specific rules for CG.

1.1 Corporate Governance in India

The need of sound corporate governance mechanisms in India and its regulation cannot be neglected, after knowing the fact that investors and shareholders lost billion dollars in the country's largest accounting scandal at Satyam Computers Limited. The basis of Indian corporate governance is very much Anglo and Saxon based that is prevalent in U.S. and U.K. The most important feature of Indian corporate is too much dependence on the external sources of finance. In India the lenders are Banks, Financial Institutions and the shareholders of the equity market. As highlighted by Goswami in 2000 that the Indian equity market is not so developed and the debt market is also not having much existence. The major portions of equity are blocked by the large business houses and the Institutional Investors.

In India the main problem is of majority and minority shareholders, the structures of Public Sector Undertakings, the dummy role of the board in the selection of CEO, and the interference of Auditor General in the audit procedures. In India the boards are mostly engaged in managing the affairs instead of directing. Dragmore (2009) stated the fact that in order to follow the best practices of corporate governance requires the companies to follow new regulations, recent trends in reporting and disclosure. They should comply with the recent developments in the ways of reporting, management reports, reporting for corporate governance and social responsibility.

The Asian crisis of 1997, forced the companies to improve their Corporate Governance practices and reporting. It was the time for more transparency, external monitoring, increased investor protecting (Nowland, 2008). As compared to U.S. and U.K. where regulations were made and corporate governance was made mandatory, the voluntary disclosure approach was chosen by the Asian countries. Various codes were formulated advising the companies on the governance and disclosure practices. Last two decades for India were very important as this was the time when the thinking for corporate governance was matured and was converted into development of norms for the listed companies.

With the liberalization process which started in India in 1990s the issue of monitoring the corporations became important. The start of reforms in India was very late as it started in 1990's. From the early 1990s till date several initiatives are taken in India. After Confederation of Indian Industry (CII), there was a series of such Codes and Clauses. Securities Exchange Board of India (SEBI, www.sebi.gov.in), added Clause 49 in listing agreement to be compiled by the listed companies. Later on various committees were formed starting from Naresh Chandra Committee, in 2002. SEBI constituted the Narayana Murthy Committee and the revision was made in the Clause 49 of Listing Agreement on the basis of the reports submitted by these committees in 2003. But the major share of Indian companies is in the private hands and they were still out of the boundaries of corporate governance. Now more and more companies are realizing the importance of transparency and accountability as it helps in attracting more foreign investments. Most of the CEOs are also realizing that now the corporate management is very complex.

1.2 CG in Tourism Organizations

The CG is mainly associated with corporations listed on the stock exchange, as they have governing boards and shareholders. But tourism organizations require certain modifications (Bieger, 2002). In tourism organizations

responsibility and control are with very limited number of people and more or less is decentralized have fewer hierarchies. Big corporations have clear and measurable goals, but tourism organizations are expected to achieve the highest benefit for them and for other stakeholders too; Therefore, CG in such organizations should focus more on the effectiveness of the organization (Siebart, 2006). This poses difficulties for formalizing effective performance monitoring in the context of CG. Other stakeholders, such as members or the local population, rarely represent homogeneous claims, which limits the tourism organizations' entrepreneurial freedom of action. Therefore, the coordination of these claims requires a high degree of communication and intention to cooperate. The implementation of certain elements of CG gives tourism organizations the opportunity to practice transparency in its dealing not only with its members, but also with guests and other stakeholders, in order to foster and present the values of the destination, and stakeholders' trust. Thus the future role of tourism organizations as partners of destination management is again emphasized.

1.3 Sustainability

The sustainability creates a balance in terms of environmental and social responsibilities to the community. Firm sustainability measures the effect of economic growth, compliance with environmental regulations, ownership, and judging from the society's point of view (KPMG, 2013). GRI is the world's most popular sustainable development reporting guideline audit, and is accepted approach to define sustainability for any organization (GRI, 2002). The main Principles are:

(1) Materiality: Long term and short term impact to society, environment, and financial position

(2) Stakeholder inclusiveness: response to expectations and interests,

(3) Sustainability context: measures to improve social, environmental, and other conditions in long-term, and

(4) Completeness: should reflect impacts of the business and enable stakeholder to assess its performance (Ernst & Young, 2010).

The GRI guidelines for reporting are divided into 3 parts:

Part 1- Profile disclosure.

Part 2- Disclosures on management approach (DMAs).

Part 3- Performance indicators including the three key performance indicators:

(1) Economic

(2) Environmental

(3) Social including the four key performance indicators: Labor Practices and Decent Work, Human Rights, Society, Product Responsibility.

2. Literature Review

Tourism governance is an emerging area and any studies have used theories of CG to explain the governance structures. Disclosure behavior can be enhanced by providing information. CG is the foremost important responsibility of top management to which enhances corporate sustainable reporting and corporate performance (Srichanpetch, 2009).

Sustainability focuses on meeting current needs without compromising future generations' ability to meet their own needs (WCED, 1987). At the firm level, sustainability consists of three interlocking principles:

1) Economic performance;

2) Social responsiveness; and

3) Environmental quality (Elkinton, 1997; Bansal, 2001; Wilson and Lombardi, 2001; Steurer et al., 2005).

Private business is the vehicle for economic performance (Henderson, 2005) by value creation, competitive and market-based activities (Mizik and Jacobson, 2003). Value can be created by innovation in products and services, reducing the costs, or economies in scale and scope (Porter 1985; Conner 1991). Customers get benefited by product and services, increase in the value of equity and dividends, salaries for employees, and higher living standards for society (Holliday et al., 2002). But value creation by firms can led to natural resource depletion, disturbance in communities, environmental degradation, and negative impact on health therefore, economic performance should be tried to environmental quality and social responsiveness (Schmidheiny, 1992). Social responsiveness of firms responds to social issues (Augilera et al., 2007) that are problematic to society (Mahon and Waddock, 1992). Donaldson and Dunfee (1994, 1995, and 1999) argued that firms should demonstrate responsible behavior, making social responsiveness an important dimension of sustainability (cf. Elkinton, 1997).

All economic activity impacts the natural environment by affecting biodiversity, waste by-products, ozone depletion, greenhouse gas emissions, and deforestation (Doering et al., 2002). All firms have environmental impacts; scholars have identified three main areas in which firms can address environmental quality.

First, proper waste disposal can control pollution (Hart, 1995; Russo and Fouts, 1997). Second, Innovative processes and technologies (Klassen and Whybark 1999) and recycling and reuse can help firms in product stewardship (Hart, 1995).

Sustainability is the responsibility not only for economic prosperity, but to show social and environmental sensitivities (Elkington, 1997; Bansal, 2001; Wilson and Lombardi, 2001; Bansal and Clelland, 2004; Steurer et al., 2005).

It is important to understand the link between CG and sustainability. The structure of the firms to provide governance and oversight (i.e., board structure) is critical to understand the roles of boards and impact on organizational performance (Daily et al., 2003; Finegold et al., 2007). Board's adequate information processing and effective execution is critical to organizational functioning and performance (Henderson and Fredrickson

1996). Sustainability is a complex, asking information-processing demands on firms. Sustainability has three obligations in society. Firms are expected to produce economic returns along with environmental and social obligations (Elkington, 1997; Steurer et al., 2005). These obligations ask for decisions with complex social, economic, and environmental consequences.

2.1 Good governance and sustainability

Sharing social, environmental and economic issues with all stakeholders, including regulators and the wider community can be done with sustainability reporting and management services. With the increase in interest and concern for, CG, there is similar rise in interest in sustainability. A number of studies have recognized the impact of organization on the external environment and suggested that they should be accountable to it than simply to its shareholders. Big businesses are recognizing to adapt to the community accountability, but that the orientation of business to economic and financial results was inhibiting social responsiveness (Ackerman 1975).

McDonald and Puxty (1979) argued that firms are not the accountable to the shareholders alone but have responsibilities to the society, and therefore there is a shift towards the greater accountability of companies to all stakeholders who have a concern, and are affected by organizations activities. Gray et al. (1987) argued the change in the traditional role of accounting in reporting results to accountability to a stakeholder approach, realizing stakeholder community. Rubenstein (1992) also argues for need for a new social contract between a business and its stakeholders which has become manifest through the term sustainability. Sustainability therefore implies that society must use no more of a resource than can be regenerated and can be defined in terms of the carrying capacity of the ecosystem (Hawken, 1993).

Sustainability means different things to different people. Nevertheless there is a growing awareness of the need to discuss what sustainability means and the extent it can be delivered by organizations (United Nations Commission on Environment and Development (Schmidheiny, 1992).

3. Problem and Objective of the Study

Various studies have been conducted investigating the relationship between the characteristics of a firm and its disclosure (e.g. Cowen et al., 1987; Gray et al., 2001) showing the benefits of CSR (Burke and Longsdon, 1996). Therefore there is a need that sustainability should be within the CG of a corporation. It becomes important to conduct an investigation as to what is mentioned about sustainability within the concept and understanding CG in a firm. It is to be expected that good CG will nurture sustainability.

This paper analyzes whether selected elements sustainability are incorporated in the Philosophy of corporate governance and how good governance is being viewed as essential for the sustainability of tourism and hospitality firms in India.

There has been much work undertaken which investigates the failures of CG and the ensuing problems which arise and this could be adapted to a consideration of our concern with the relationship between CG and sustainability.

4. Methodology

Our investigation is based on exploring the Philosophy of CG of 60 Tourism and Hospitality firms listed in India which comply with Clause 49 of Listing Agreement of Security Exchange Board of India (SEBI). Our methodology therefore is based on investigating the information about the Philosophy of CG available in the Annual Reports and CG reports of the companies. Analysis is primarily qualitative with some simple descriptive statistics.

The analysis is done by studying the Philosophy of Corporate Governance which is a part of Corporate Governance Report as per Clause 49 of SEBI's Listing Agreement. Corporate Governance is looked upon as an ethical conduct of the affairs of the company. The analysis has been made to understand the concept of CG as understood by firms and whether the companies incorporate the concept of sustainability for the welfare of the society, environment and organization in its Philosophy of Corporate Governance.

5. Results and Findings

5.1 Relating sustainability with governance

It is a well established that there is relationship between good CG and various aspects of a firm's performance. The study accepted the firms' own Statement of Company's Philosophy on Code of Governance (as per clause 49) and have focused on what they say about governance and its relations to sustainability. Our research shows that this relationship is not clearly understood by most of the firms.

From the study, it is clear that a majority does not understand the relationship between CG and Sustainability or maybe they think that it is not important. 53.33% per cent of the firms consider that their governance is adequate as they comply with SEBI Clause 49 of the Listing Agreement. All the firms listed in the Stock Exchanges are required to comply with Clause 49; most of the firms are meeting regulatory obligations, as 90 per cent also do in complying with the Clause 49. A further 48.33% per cent regard CG as simply a part of investor relationships and do nothing more regarding such governance except to identify that it is important investors/potential investors and disclose that they have such governance policies. In effect therefore 53.33% per cent of these firms merely consider governance in terms of issues mentioned within the Clause 49.

Only 46 per cent who recognize a relationship between governance and other aspects of corporate activity. Most of the firms mention about their social responsibility in Corporate Social Responsibility Report as it is mandatory to spent 2% of the net profits on CSR activities but only 3.33 per cent mention CSR as a part of their Corporate Governance Philosophy. Often firms claim that good governance is a part of their CSR policy and of their relationship with shareholders. 1.66 per cent relate financial sustainability and through an understanding of the relationship between governance and risk. Similarly 40 per cent relate governance to community relations; 33.33 per cent to ethical behavior; 5 per cent to environmental policy and behaviour; and 1.66 per cent to their commitment to sustainable growth. Despite these seemingly dispiritingly small numbers though it is encouraging that 8.33 per cent of firms recognize the relationship to all the aspects of sustainability and clearly spell out this relationship in their corporate activity.

This can all be summarized in TABLE 1

Types of Relationship	**No. of firms recognizing the relationship**	**% of firms recognizing the relationship**
Comply with code only	32	53.33%
Related to investor relations only	29	48.33%
Related to CSR policy	02	03.33%
Community relations	24	40%
Ethics	20	33.33%
Environmental policy	03	05%
Sustainable growth	01	01.66%
Risk	01	01.66%
Full connection to sustainability	05	08.33%

The studies should be undertaken to analysis of sectoral differences in the approaches concerning governance practice, and from the research there certainly are some differences. But we need to be realistic as we have only looked at the Listed Tourism and Hospitality our sample is too small to undertake some reliable analysis of this nature. Therefore further analysis should be undertaken.

6. Conclusions

With respect to the objectives proposed, study is qualitative. The following conclusions can be drawn:

1. There is a need to understand that Corporate Governance and Sustainability are related to each other. It is not a matter of regulatory compliance but is a need for long term survival of the firm. A firm with complete understanding of both sustainability and of CG will address these issues more completely.

2. Understanding by the management of the inter-relationships will lead to better CG.

3. The extent of disclosure through the reporting as CG and sustainability, and is more in the nature of a progression. Crowther (2000) traces trend of corporate reporting and the amount of information provided to shareholders, to potential investors (Gilmore and Willmott, 1992), to other stakeholders increased as firms are recognizing the benefits of increased disclosure. Disclosure of CSR activity has also increased as firms have recognized the commercial benefits of transparency. As the amount of information regarding the relationship between governance and sustainability will increase, firms will gain understanding of relationship and the benefits of greater disclosure. Thus the validity of purpose of the study will become more apparent over time.

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