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THE RELATION BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY
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1. Introduction

At present the notions of Corporate Governance and Corporate Social Responsibility are being analysed by different trends. Some people suggest Corporate Social Responsibility is the gender and Corporate Governance, the species. On the other hand, some people believe that Corporate Social Responsibility is part of Good Governance performance pursued by companies and, therefore, for them Corporate Social Responsibility would be part of the Corporate Governance system of an organization. Regardless the theoretical discussion and the decision on which is the gender and which, the species, the close relation existing between Corporate Governance and Corporate Social Responsibility is indisputable, both being correlatively fundamental tools for achieving the objectives of a Company.

From a conceptual point of view, Corporate Governance represents the way in which companies are organized, directed and controlled[1] in order to achieve certain objectives. As to Corporate Social Responsibility it represents a way to understand the company from some specific values and purposes that aim at the generation of value, not only economic, but also social and environmental.

This analysis leads us to deduct that Corporate Governance, effectively practised, necessarily produces Social Responsibility provided the end intended acknowledges the interest of the society and is accountable before it. As to Social Responsibility, it produces a good Corporate Governance, when *"the capacity of acknowledging the consequences of a fact and be accountable for it before the society, relates to a concern for doing well with corporate governance. Therefore, a socially responsible good governance is so from the*

[1] Definition of the Organization for Economic Cooperation and Development - OECD in Principles of Corporate Governance of OECD - 2004.

action of guiding and ruling, from the option of doing good and with the purpose of reaching a social end, generator of value for all corporate stakeholders"[2].

Thus, practices of Corporate Governance and Corporate Social Responsibility have gained prominence and importance. But more important, this type of measures voluntarily adopted has been designed as an ideal mechanism to obtain a target that is common to all organizations: a sustainable development[3].

In recent years sustainable development has become a priority for Companies, governments and major national and international bodies. Sustainability encompasses the environmental, economic and social perspectives, in order to forge a concept of development understood as a process guided towards permanence of organizations. But also, and in order for these bases to be sound, Companies must promote global strategies that produce beneficial impacts in all spheres were they have influence and interact. Thus, business development is no longer seen as an isolated element, limited to the economic aspect, giving way to such aspects as social development and environmental protection.

Companies called to achieve a sustainable development have found in Corporate Governance and Social Responsibility, integrating tools of best practices before their Stakeholders[4], enabling them to achieve the objectives drawn, be better governed and in parallel, contribute to achieve their economic, social and environmental targets generating value for all.

2. Constitutional Framework

Article 1º of the Political Constitution of Colombia proclaims the Social Rule of Law as a core principle of the political organization, a form of state organization aimed at "*creating the corporate assumptions of equal freedom for all, i.e., to suppress social inequality*[5]*"*. Under this model *"the action of the State should be directed to ensure decent living conditions for the associates. That is, this concept emphasizes that the will of the Constituent around the State is not*

[2] Lizcano, José Luis. *"Buen Gobierno y Responsabilidad Social Corporativa" Partida Doble* magazine No. 182. Spain. 2006. Page 22.

[3] Sustainable Development is understood as "the development that satisfies the current needs of people without compromising the capacity of the future generations". Report on the World Commission on the Environment and Development (Commission Brundtland) 1987.

[4] The Superintendence of Companies defines Stakeholders as "a set of individuals or legal entities which common characteristics permit them to be considered affected by the development of the company's activities and the rules of its governance. The Stakeholders in a Company, besides shareholders are, among others, clients, suppliers, workers, surveillance authorities and the community", Glossary on Survey of Corporate Governance and Social Responsibility. 2008.

[5] Award SU-747 de 1998. M.P. Eduardo Cifuentes Muñoz.

limited to demand from the latter not to interfere or cut the freedom of people, but it also requires that the same is set in motion to counteract the existing social inequalities and offer to all, the opportunities as needed to develop their skills and overcome the material constraints."[6]

The Social Rule of Law is not limited only to ensure the life, property and liberty, but its purposes should include, among other things, promoting general prosperity, ensuring the effectiveness of the principles, rights and duties envisaged in the Constitution, facilitating participation by all in the economic, political, administrative and cultural decisions of the Nation.

The concepts comprising the structure of the Social Rule of Law develop the right to private property. The Political Constitution, in Article 58, states that the property right transcends the limits of the individual right as property, includes in a comprehensive and complementary way, the social and ecological functions in the general interest, which implies obligations for title-holders.

Likewise, private property is called to solidarity, defined as a constitutional purpose of the Colombian state, both with current generations, and in relation with those to come, as a consequence of its social and ecological function.

The development of the Social Rule of Law, and particularly the social function of the property, becomes concrete in the commitments assumed by the private enterprise to serve the less favoured groups, promote actions that contribute to improve the level of development of a society, the quality of life of people and help in achieving the goals of the Stakeholders with whom it interacts, commitments where Corporate Governance practices and of Corporate Social Responsibility appear as optimum tools to channel the initiatives.

In this way the well governed and socially responsible private firm is called, from the constitutional principles, to actively participate and play a preponderant role in social welfare, aiming at the formation and strengthening of the State and its citizens, having as parameter the attention of social inequalities and the development for all its participants.

3. Acknowledging the interests of the various Stakeholders.

At first, the Corporate Governance, as a management tool, focused on obtaining a maximum benefit in the financial markets, centring its attention in covering the needs of the companies' shareholders or owners. However, the evolution of the Corporate Governance has recognized that the ultimate end of the company is not solely fixed in achieving benefits for shareholders, expanding the range of beneficiaries of the action of the company to the needs

[6] Award C-080, 1996 M.P. Fabio Morón Díaz.

of the different Stakeholders of the Company. It is understood that, through a proper articulation of the requirements of the latter, the companies maximise their economic-financial results and, therefore, the value created for its shareholders. On the contrary, behaviours that ignore the interests of the Stakeholders end up, ultimately also affecting shareholders.

Thus, the Corporate Governance is called to conceive the lawfulness of the company from a perspective of creating wealth for the society as a whole and for welfare for the various Stakeholders, thereby interacting with the Corporate Social Responsibility, a model where efficiency and equity are combined in order to favour the long term creation of value, and on a sustainable basis, to preserve the capital, the environment and the social scope of the organization[7].

This close relation between the Corporate Governance and the Corporate Social Responsibility has been identified in the Principles of the Organisation for Economic Cooperation and Development - OECD on Corporate governance issued in 2004, by saying indicating that *"The framework for the governance of companies must acknowledge the rights of social stakeholders established by law and encourage active cooperation with these so as to ensure the creation of wealth and employment and succeed in having financially sound companies"*. *"Companies should acknowledge that contributions of social stakeholders constitute a valuable resource at the time of creating profitable and competitive companies"*[8].

The fourth principle of the six issued by OECD, specifically refers to the role played by Corporate Governance in relation with Stakeholders in a Company: *"Corporate Governance is also responsible for finding formulas for the effective involvement of stakeholders in achieving the optimal economic value of the investment in human and physical capital of the company. Competitiveness and success of a company is a result of teamwork and resources from various stakeholders: investors, employees, credit institutions and suppliers. Companies must acknowledge that contributions of the various stakeholders constitute a core value to be competitive and profitable. For this reason in the long term interest of companies it is very important to establish good relations with stakeholders in order to generate wealth. The framework of corporate governance must acknowledge that the company's interests undergo recognition of stakeholders' interests and their contribution to the success of the company in the long term"*[9].

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[7] Rodríguez Fernández, J.M. *"Responsabilidad social corporativa: ¿filantropía estratégica u otro modelo de empresa?"*, Magazine AECA, Nº 74, January-April, 2006: page. 11.
[8] OECD. Op.cit. In the same regard the codes or reports on good governance published in recent years need to be mentioned, for example, Belgium, Holland or Switzerland. In all of them larger and more precise references are introduced to Stakeholders within the good corporate governance.
[9] Ibidem.

Thanks to the acknowledgement of Corporate Governance as a tool for the channelling of the various requirements of Stakeholders that relate to a company, the term of Socially Responsible Corporate Governance has been coined, where it has been defined that *"socially responsible corporate governance aims at the satisfaction not only of shareholders, but of stakeholders, ensuring dialogue and building of relations with all parties. Its objective is to associate the creation of economic value to social commitment of business activity"*[10].

The significant relationship kept between Corporate Governance and Corporate Social Responsibility before Stakeholders is then clear, as tools through which the survival of the company in the long term is ensured, depend on the incorporation of voluntary rules that acknowledge the needs of the various actors interacting with the company

4. Formalisation of practices and measures

The acknowledgment of the interests of the various groups involved or participating in a company necessarily entails formalisation, i.e., the definition and documentation by the responsible levels at the interior of a company, of the policies and performance systems in different fields such as relations with shareholders, the administration, employees, clients, suppliers and the environment.

It should be noted that this work must depart from the formalisation of policies that govern decision-making in the above fields, an element that entails the establishment of a set of principles relative to Good Governance.

The need for formalisation is the point of departure to easily recognise the culture that leads a company and have clarity on the elements that guide its participants, thereby leading to documents, adopted and approved by the competent corporate bodies the rules regulating the acting of the company as support to fulfil the commitment of being sustainable. From this perspective, it is then required:

1. Clear and documented practices of management and administration within the Company that produce trust and transparency in the way decisions are made and implemented.

2. Defined policies that allow an organization to clearly identify the needs of its Stakeholders, and therefore, strategies to respond to them consistently.

[10] Conceptual Framework of the Corporate Social Responsibility, Corporate Social Responsibility Commission of the Spanish Association of Accounting and Business Administration (AECA). 2004.

In this regard, the commitment to an inclusive corporate governance model with Stakeholders and the achievement of public trust rests on some values and a culture of organization, duly acknowledged, approved and documented by the corporate bodies.

5. Coherence in the Development of Practices

Another point in common between the development of practices of Corporate Governance and Corporate Social Responsibility is the fact that both concepts must be coherently addressed at the interior of the Company. The generation of practices in either direction should have, as basic element and point of departure, a careful analysis of the cultural reality of the business organization, thereby seeking the identification, formalisation and implementation process of the practices to be a result of the way relationships develop with its various Stakeholders.

Thus, coherence appears as a critical element and means that the formal conditioning and the development of Corporate Governance and Corporate Social Responsibility practices must be the result of an expression of the positive or negative actions of a Company. A description of merely formal Corporate Governance measures or the philanthropic adoption of the Corporate Social Responsibility would be of little use, if these do not respond to the way the Company does things, as a consequence of its organizational culture.

If, as mentioned above, the two concepts require a formalisation process of policies at the interior of an organization, the nature of these measures is intrinsically tied to the way the organization develops its activities, its success depending on the coherence between the way things are done, and how they are recognised by the mechanisms used for its formalisation, i.e., coherence between what is said and what is done.

Therefore, at all levels of an organization it must be remembered that practices of Corporate Governance and Corporate Social Responsibility require not only well-structured and formal codes and commitments, but they also require concrete, feasible and tangible actions by companies, shareholders, administrators and officers, as well as materialised plans, practical and effective activities, new skills at an operational level, the fulfilment of corporate objectives and, as a result of all the above, the direction of the organization towards transparency and accountability as elements constituting sustainable development.

6. Reputational impact of best practices

Corporate Social Responsibility and Good Governance not only add value in economic terms, but also does so in intangible terms (image, brand, reputation), aspects which are increasingly valued in the financial markets. Their presence in the companies facilitates access to specific market segments and tends to improve the stock exchange value of the shares. Organisations such as the European Union, UN and OECD, and large institutional investors share the opinion that Corporate Governance and Corporate Social Responsibility constitute a good indicator of the quality of the performance and business administration practices with a positive or negative impact, depending on whether these practices are done or not.

In recent years, a growing number of companies, established at a national and world levels have acknowledged and incorporated in its Corporate Governance management, lines of Corporate Social Responsibility, which has provided them with a greater organizational prestige, trust in clients and suppliers, loyalty of personnel, support by the community, among others; this allowing their permanence in the market in the medium and long term, obtaining a reputation abroad, and ultimately, social legitimacy of decisions made by their government bodies.

Likewise, the communication media and the marketing, communication, public relations and image strategies perform an important role, which Companies have adopted when dealing with their Stakeholders. Demands by the latter reflect the needs and values prevailing in the social context, today the symbolic or effective conformity with these values being progressively more relevant for business. The use of terms such as transparency, commitment or sustainable development, and, certainly, the spreading of the very expression “social responsibility” may be interpreted as the issuance of positive signals by the Company. Such signals, when channelled through the communication media, contribute to the formation of the public opinion and, particularly, may affect the behaviour of clients and investors and generally, the market where companies participate.

Therefore, Corporate Governance and Corporate Social Responsibility is a good way to create value for the same Company. Having the interests of Stakeholders in mind and getting involved in social activities within a well established, professional and pro-active Board of Directors can contribute to such end, which will be reflected in the perception that these Stakeholders have of the Company.

7. Investing in well governed and socially responsible companies

Corporate Governance and Corporate Social Responsibility not only keep concordances and interrelations from a business organization perspective, but they have begun to play a major role for investors in their investment analysis.

As mentioned earlier, sustainable development has become a constant concern of the various market actors, changing the investment approaches[11] to situations in which, besides analysing the traditional risk, profitability and liquidity variables, such elements are envisaged as the way companies are governed, in addition to the criteria of social and/or environmental nature at the time of selecting the final destination of an investment.

The evolution of this type of investment criteria have led to the idea not only of excluding certain activities, products or even companies, but also including companies that serve as model. This idea, based on the concept of positive discrimination, has profound implications on the extent to which companies are encouraged to adopt Good Corporate Governance and Social Responsibility practices, given that they are perceived as less risky investments.

Thus, Corporate Social Responsibility and Corporate Governance progressively play a stronger role and become, over time, a risk variable to consider when making investment decisions.

8. Commitment to the environment

Having a strategy of environmental performance is an essential element for sustainability in a Company. Thus, in developing its activities, the business sector is called to establish a strategy to identify the environmental costs and impacts generated by its activities and implement mechanisms to minimise them, as well as to assist with actions to improve the environmental conditions in the communities where it interacts.

Likewise, the effort of minimizing environmental costs triggers profound modifications in the industry that not only affect the ways of producing, but impact the selection of economic and social objectives, the research and development process of new products, the business strategy, the organizational schemes and the systems of performance and control.

The environmental performance is part of Corporate Social Responsibility and is directly related to Corporate Governance, as through the measures to protect the environment, in furtherance of principles of Good Governance, we are interacting with all our Stakeholders, even beyond the particular relation with the community, safeguarding the natural resources for future generations.

[11] Some of these have been materialized through what is known as socially responsible investment (*Inversión Socialmente Responsable, ISR*). This type of investment has been leveraged by markets in the United States, United Kingdom and Nordic countries. Unfortunately, there is no strong evidence of its development in Latin American countries. To date, no organization has assumed the role of promoter or supporter of the ISR.

The formalization of policies in the environmental field should follow the same criteria that meet the definition of internal policies of a Company: existence of a policy regarding the environment established by the administration bodies of the company and management system supporting such policy. The above aspects should be based on "*best international sectorial practices and refer to, among others, the establishment of specific objectives, quantitative and qualitative, the conduction of internal and external audits, establishment of environmental criteria in connection with suppliers and programs for the minimisation of impacts in areas considered key*"[12].

9. Conflicts of Interest

Conflict of interest is understood as a situation under which an individual because of his/her activity faces different alternatives of conduct with regard to conflicting interests, none of which can be privileged in response to his/her legal or contractual obligations[13].

One of the main Corporate Governance objectives is to prevent and manage conflicts of interest of the Companies. Of special importance among such conflicts is the handling of those cases that produce a negative impact on to Society (e.g.: participating in a construction project that affects the environment and the community).

In this line, Corporate Social Responsibility fulfils an important role, since the existing criteria in this field that determine the handling of relations with Stakeholders, allow for any conflicts of interest that appear to be appropriately administered and resolved. Similarly, from the standpoint of Corporate Governance, the need to establish and disseminate the principles and criteria is deemed crucial, as from which the Company's interests are adequately reconciled and managed, as well as those of the various Stakeholders, minimizing possible conflicts that may arise.

Thus, decisions of a Company must be made so as to properly manage the conflicts of interest to which its administration is exposed, as otherwise adverse results may be produced from a point of view, both financial and reputational, that lead to a loss in the positioning as an institution that aims at a sustainable development.

10. Conclusions

[12] Alberto Lafuente,Víctor Viñuales, Ramón Pueyo and Jesús Llaría. *"Responsabilidad Social Corporativa y Políticas Públicas"*. *Fundación Alternativas*. 2003 page. 11.
[13] Definition of Article 7.6.1.1.2 , Decree 2555, 2010.

Corporate Governance and Corporate Social Responsibility practises arise as management models that permit directing a Company through the path of Sustainable Development. If however, it is possible to delve into the difference between either concept, as well as in the components comprising them, this document has shown how there are multiple points of contact interacting to achieve greater impact and benefits for companies and with the related Stakeholders.

As it turns out, beyond a conceptual development that may be structured in any given time, from a practical point of view companies have identified and adopted measures of Corporate Governance and Corporate Social Responsibility as tools through which to serve and complement the various aspects implied in the development of their corporate purpose.

Thus, the conception of a company framed within the development of purely financial objectives has been over passed. Companies adding economic, social and environmental value lead the way in a new stage of business development, for which the existing tools and mechanisms to build and consolidate the confidence of market agents are progressively valued.

Accordingly, working on the development of best practices of Corporate Governance and Corporate Social Responsibility should be framed in parallel and complementary efforts aimed at realising the idea of a responsible, transparent and sustainable company.