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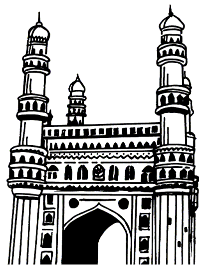

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BUSINESS ETHICS AND CORPORATE GOVERNANCE

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UNIT I	**Business Ethics The Changing Environment:** Business Ethics-why does it matter?; Levels of Business Ethics-Five Myths about Business Ethics-can Business Ethics be taught and Trained?; stages of Moral development Kohlberg's study-carol Gilligan's Theory-Principles of Ethics.

1.1 Business Ethics

Q1. Define the term ethics. Explain the characteristics of ethics.

Ans :

The word "ethics" is extracted from the Greek word "ethos", which refers to the nature, guiding values, principles or ideals that are spread through a group, community or people. Each and every individual is responsible to his community for his behaviour. The community can exist in various forms such as neighbourhood, profession, city, state, etc.

According to Webster, "Ethics is the discipline dealing with that which is good and bad and with moral duty and obligations".

Ethics is a set of standards, or a code, or value system, worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. Ethics may be defined as the science of the Highest Good. It is the science of the supreme ideal of human life. It is the science of the highest end or purpose of human life.

Characteristics of Ethics

Characteristics of ethics are as follows:

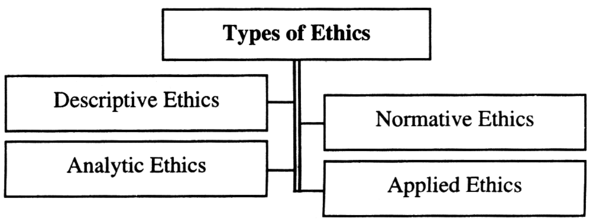
1. The concept of ethics is applicable only for the human beings because they have freedom to choose and means of free will. They can decide how they wish to pursue their goals and the means to achieve the ends.
2. There was a debate regarding the fact whether ethics is a science or an art. But the experts viewed ethics more as a science than an art. The reason behind this was that ethics is a systematic knowledge of moral activities and behaviour of human beings.
3. Ethics is concerned with voluntary human behaviour which is not forced by situations or by other human beings. It can be concluded, that at the basic level, ethics involves moral judgement about fixed human behaviour.
4. Ethics is considered as a normative science. It seeks perfect and absolute test of right behaviour. Normative science involves deciding of moral standards that govern the conduct of good and evil.

Q2. Explain the different types of ethics.

Ans :

Types of Ethics

Ethics are classified into four broad types:



1. Descriptive Ethics

Descriptive ethics, as the name suggests, observes and records in great detail the ethical behaviours in various cultures and societies, often over a period of time. The basic purpose of descriptive or comparative ethics is to enquire, observe and record. The focus of its study are beliefs, practices, social and cultural institutions, value systems, aberrations, deviations, etc., and how they have evolved over a period of time and/or how are they different from those of other societies or cultures. It has a close cross-functional relationship with the disciplines of History, Sociology, Psychology and Anthropology, with whose help it seeks to conduct its enquiry. It also seeks to answer the following questions:

i) What are the ethical norms or morals or values of different cultures and societies?

ii) Why do people accept and validate these?

iii) How they have evolved over time?

iv) Why do people follow or abide by them?

v) How do people resolve ethical dilemmas?

2. **Normative or Prescriptive Ethics:** Normative ethics focuses on norms or morals or accepted legitimized practices, as against behaviours. What is right and what is wrong? Why certain actions are deemed to be good and others as bad? What is the regime of morals of a society? It is also judgmental in as much as it evaluates all answers to the above questions. Just as social and religious leaders in a society, the Church in the West, e.g., determine and oversee moral behaviours, similarly, every organization also lays down acceptable behaviours through codes of conduct and rules, and also ensure internal adherence. Such legitimized behaviours in society are further authorized and enforced through laws. Normative ethics also seeks to do the following:

i) Establish and define what is good and what is bad, what is acceptable and what is not.

ii) Lays down the moral precepts or principles.

iii) Legitimizes certain behaviours as moral.

iv) Establishes the authority structure for enforcement of the accepted or moral behaviour.

It is a well known fact that every individual's decisions and acts can affect morally. If the individual is working in an organization, then his morality can affect the moral agency of the organization. Normative or prescriptive ethics is a way for recognizing all the moral issues and formulate guidelines for solving them. The organizational leaders perform a vital role in creating and maintaining congenial environment to effective moral agency.

3. **Analytic Ethics**

Analytic or Meta-ethics investigates and explores the status, foundations, and scope of moral values, properties, and words. It is essentially non-normative, and rather focuses on analyzing and understanding various facets of human acts, attitudes, prejudices, biases, judgements, etc. It does not focuses to assess particular choices like worse, better, bad or good instead it enquires into the nature of morality and related issues and concepts. It seeks to answer the following questions:

i) Is morality absolute or objective?

ii) What is the relevance and importance of morality?

iii) The religion-morality mystery.

iv) The foundations and rationale of moral issues.

4. **Applied Ethics**

Applied Ethics, as the name suggests, is application of various ethical theories and precepts to day-to-day situations. It draws heavily from discipline of sociology, philosophy, law, anthropology, history, etc., and seeks to provide solutions to real-life problems and dilemmas. It is often used by law makers to determine public policy. It finds wide usage in professions like medicine, law, business, environmental conservation and protection, etc. It also sometimes assumes the nature of social reform, e.g., the movement against sex determination tests.

Thus, applied ethics is a practicable branch of ethics, as distinct from normative ethics which focuses on what is right and wrong, and meta-ethics which confines itself to the intrinsic nature of morality. As an emerging field, it typically works on the following six areas to improve social and professional life:

i) **Decision-Making :** Decision ethics works on the ethics involved in decision-making processes.

ii) **Professional Life :** Professional ethics seeks to enhance the quality of professional life, by making it more fair, equitable and transparent.

iii) **Health Care :** Clinical or medical ethics seeks to improve the delivery and coverage of health care to all.

iv) **Business Culture:** Business ethics seeks to enhance the competitive space amongst organizations. It focuses on how businesses should deal with each other in a competitive environment.

v) **Organizational Culture :** Organizational ethics seeks to improve the internal cultures or environment within organizations.

vi) **Social and Global Life :** Social ethics works on how to make the world a better place to live in. It works on issues and conflicts affecting societies and nations.

Q3. Define business ethics.

Ans :

Ethics is a conception of right and wrong behaviour, defining for us when our actions are moral and when they are immoral. Business ethics, on the other hand, is the application of general ethical ideas to business behaviour.

- Ethical business behaviour is expected by the public, it facilitates and promotes good to society, improves profitability, fosters business relations and employee productivity, reduces criminal penalties from public authorities and regulators, protects business against unscrupulous employees and competitors, protects employees from harmful actions by their employer, and allows people in business to act consistently with their personal ethical beliefs. Ethical problems occur in business for many reasons, including the selfishness of a few, competitive pressures on profits, the clash of personal values and business goals, and cross-cultural contradictions in global business operations.

- Ethical issues, such as bribery and corruption, are evident throughout the world, and many national governments and international agencies are actively attempting to minimize such actions through economic sanctions and international codes of ethical behaviour. Although laws and ethics are closely related, they are not the same: ethical principles tend to be broader than legal prin-ciples. Illegal behaviour by business and its employees imposes great costs on business itself and the society at large.

To be precise, "Business ethics is the art and discipline of applying ethical principles to examine and solve complex moral dilemmas." Business ethics proves that business has been and can be and ethical and still make profits. Until the last decade, business ethics was thought of as being a contradiction in terms. But things have changed; today more and more interest is being shown to the application of ethical practices in business dealings and the ethical implications of business. "Business ethics is that set of principles or reasons which should govern the conduct of business whether at the individual or collective level."

Ethical solutions to business problems may have more than one right answer or sometimes no right answer at all. Thus logical and ethical reasoning are tested in that particular business situation.

- A business or company is considered to be ethical only if it tries to reach a trade-off between its economic objectives and its social obligations, such as obligations to the society where it exists and operates; to its people for whom it pursues economic goals; to the environment, from where it takes its resources; and the like."

Business ethics is based on the principle of integrity and fairness and concentrates on the benefits to the stakeholders, both internal and external.

- Stakeholders include those individuals and groups without which the organization does not have an existence. It includes share-holders, creditors, employees, customers, dealers, vendors, government and the society.

Definitions :

According to Robert Kreitner, "Business ethics is the study of complex business practices and behaviours that "gives rise to ethical issues in organizations".

According to Raymond C. Baumhart, "The ethics of business is the ethics of responsibility. The businessman must promise that he will not harm knowingly".

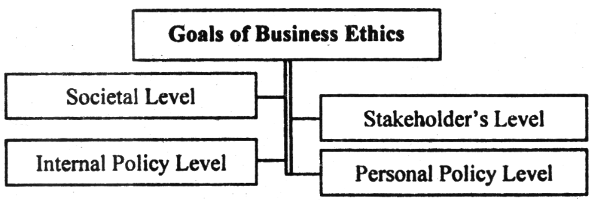
According to Andrew Crane, "Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed".

According to Manuel Velasquez, "Business ethics is applied ethics. It is the application of our understanding of right and good to institutions, transactions, activities, and pursuits called business".

Q4. Explain the objectives of business ethics.

Ans :

The goals/objectives of ethics are to evaluate the human behaviors and calling up on the moral standards. The ethical standards also prescribe how to act morally in specified situations. The goals/ purpose of business ethics are shown in figure aside:



1. Societal Level

i) Concern for poor and down-trodden,

ii) No discrimination against any particular section/group,

iii) Concern for clean environment,

iv) Preservation of scarce resources for prosperity,

v) Contributing to better quality of life.

2. Stakeholder's Level: The term stakeholder is a broad term which includes:

i) Employees

a) Security of job,

b) Better working conditions,

c) Better recommendations,

d) Participative management,

e) Welfare facilities.

ii) Customers

a) Better quality of goods,

b) Goods and services at reasonable price,

c) Not to comer stocks and create securities,

d) Not to practice discriminatory pricing,

e) Not to make false claims about products in advertisements.

iii) Shareholders

a) Ensure capital appreciation,

b Ensure steady and regular dividends,

c) Disclose all relevant information,

d) Protect minority shareholder's interests,

e) Protect interests in times of mergers, takeovers and amalgamations.

iv) Banks and Other Lending Institutions

a) Guarantee safety of borrowed funds,

b) Prompt repayment of loans.

v) Government

a) Complying with rules and regulations,

b) Honesty in paying taxes and other dues,

c) Activity as partner in the progress of the country.

3. Internal Policy Level

i) Fair practices relating to recruitment, compensation, lay-offs, perks, promotion, etc.

ii) Transformational leadership to motivate employees to aim at better and higher things in life.

iii Better communication at all level.

4. Personal Policy Level

i) Not to misuse other for personal ends,

ii) Not to indulge in politics to gain power,

iii) Not to spoil promotional chances of others,

iv) Not to use office car, stationary and other facilities in personal use,

v) Promise keeping,

vi) Mutual help,

vii) Not to adopt shortcuts for easy money making,

viii) No violence, i.e., preventing or not causing physical,

ix) Respect for persons and property.

Q5. Explain the Elements and features of Business Ethics.

Ans :

Elements of Business Ethics

1. Values

Values are the moral beliefs held by an individual, an organization and a society. Values represent moral convictions and are relatively permanent. For example, a company may charge reasonable prices due to its value systems inspite of its monopoly position in the industry.

2. Rights

Rights are the claims of the individual or organization. For example, every citizen of India enjoys certain rights under the country's constitution.

3. Duties

Duties are the obligations of a person or an organization. For example, every citizen has the duty to follow the country's law.

Features of Business Ethics

The characteristics or features of business ethics are :

1. Code of conduct

Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.

2. Based on moral and social values

Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.

3. Gives protection to social groups

Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, share-holders, creditors, etc.

4. Provides basic framework

Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.

5. Voluntary

Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

6. Requires education and guidance

Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.

7. Relative Term

Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

8. New concept

Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

Q6. Explain the Importance of Business Ethics.

Ans :

These twelve points below discuss the need, importance of business ethics.

1. Stop business malpractices

Some unscrupulous businessmen do business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, etc. These business malpractices are harmful to the consumers. Business ethics help to stop these business malpractices.

2. Improve customers' confidence

Business ethics are needed to improve the customers' confidence about the quality, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical rules. They feel that such businessmen will not cheat them.

3. Survival of business

Business ethics are mandatory for the survival of business. The businessmen who do not follow it will have short-term success, but they will fail in the long run. This is because they can cheat a consumer only once. After that, the consumer will not buy goods from that businessman. He will also tell others not to buy from that businessman. So this will defame his image and provoke a negative publicity. This will result in failure of the business. Therefore, if the businessmen do not follow ethical rules, he will fail in the market. So, it is always better to follow appropriate code of conduct to survive in the market.

4. Safeguarding consumers' rights

The consumer has many rights such as right to health and safety, right to be informed, right to choose, right to be heard, right to redress, etc. But many businessmen do not respect and protect these rights. Business ethics are must to safeguard these rights of the consumers.

5. Protecting employees and shareholders

Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers, etc. It protects them from exploitation through unfair trade practices.

6. Develops good relations

Business ethics are important to develop good and friendly relations between business and society. This will result in a regular supply of good quality goods and services at low prices to the society. It will also result in profits for the businesses thereby resulting in growth of economy.

7. Creates good image

Business ethics create a good image for the business and businessmen. If the businessmen follow all ethical rules, then they will be fully accepted and not criticized by the society. The society will always support those businessmen who follow this necessary code of conduct.

8. Smooth functioning

If the business follows all the business ethics, then the employees, shareholders, consumers, dealers and suppliers will all be happy. So they will give full cooperation to the business. This will result in smooth functioning of the business. So, the business will grow, expand and diversify easily and quickly. It will have more sales and more profits.

9. Consumer movement

Business ethics are gaining importance because of the growth of the consumer movement. Today, the consumers are aware of their rights. Now they are more organized and hence cannot be cheated easily. They take actions against those businessmen who indulge in bad business practices. They boycott poor quality, harmful, high-priced and counterfeit (duplicate) goods. Therefore, the only way to survive in business is to be honest and fair.

10. Consumer satisfaction

Today, the consumer is the king of the market. Any business simply cannot survive without the consumers. Therefore, the main aim or objective of business is consumer satisfaction. If the consumer is not satisfied, then there will be no sales and thus no profits too. Consumer will be satisfied only if the business follows all the business ethics, and hence are highly needed.

11. Importance of labour

Labour, i.e. employees or workers play a very crucial role in the success of a business. Therefore, business must use business ethics while dealing with the employees. The business must give them proper wages and salaries and provide them with better working conditions. There must be good relations between employer and employees. The employees must also be given proper welfare facilities.

12. Healthy competition

The business must use business ethics while dealing with the competitors. They must have healthy competition with the competitors. They must not do cut-throat competition. Similarly, they must give equal opportunities to small-scale business. They must avoid monopoly. This is because a monopoly is harmful to the consumers.

Q7. Explain the scope of business ethics.

Ans :

The scope of business ethics can be explained in the following levels:

1. The Business Ethics at Societal Level:

i) Focus towards poor and exploited sectors of the society,

ii) Equal treatment for all sections and groups, i.e., following a non-discrimination policy,

iii) Ensure that business activities are not harmful for the environment,

iv) Conserve scarce and depleting resources,

v) Help in raising the standard of living of the society at large.

2. Business Ethics at Stakeholder's Level

Stakeholders includes five parties, i.e., employees, customers, shareholders, banks, government.

i) Employees

a) Conducive work environment,

b) Better recommendations,

c) Participative management,

d) Well being amenities.

e) Job security,

ii) Customers

a) Improvised quality of goods,

b) Availability of goods and services at reasonable cost,

c) Fair pricing,

d) Transparency about product information.

iii) Shareholders

a) Surety of raise in capital,

b) Regular dividends to the investors,

c) Transparency between organization and shareholders,

d) Safeguard shareholder's interest while merging, takeovers, and amalgamations.

iv) Banks and other Lending Institution

a) Ensuring security of borrowed funds,

b) Quick settlement of loans.

v) Government

a) Following instructions and protocols,

b) Payment of taxes and duties timely.

c) Proper involvement in the growth of country.

3. Business Ethics at Internal Policy Level

i) Impartial policies related to recruitment and employee appraisal.

ii) Motivation to employees for achieving higher objectives in life,

iii) Proper communication in organization.

4. Business Ethics at Personal Policy Level

i) Not to mistreat others for personal benefits,

ii) Non-involvement in politics for individual growth,

iii) Increased chance of promotion,

iv) No personal usage of office resources and amenities.

v) Encouraging mutual trust,

vi) Cooperation among employees,

vii) Fair practice for personal gain,

viii) Promotion of non-violence,

ix) Value of assets and resources

Q8. Explain the various approaches of business ethics.

Ans :

When business people speak about "business ethics" they usually mean one of three things:

1. Avoid breaking the law,
2. Avoid action, and
3. Avoid actions that are bad for one's image.

Businesses are especially concerned with these three factors since they involve loss of money and reputation. There are four different ways of deriving standards of business ethics:

1. Profit Motive Approach

Some business people argue that there is a symbiotic relation between ethics and business for a profit-oriented business feels adopting food ethical policies will naturally lead of food business. In other words, good ethics results in good business. Moral business practices are profitable.

This has also disadvantages which are given as follows:

i) Many moral business practices will have an economic advantage only in the long-run. In other words, this may not suit the short-term businesses and may provide little incentive for businesses that are designed exclusively to seek short-term profits. When competition grows, survival would be a serious problem.

ii) Some moral business practices may not be economically viable even in the long-run. For example, this might be the case with retaining older workers who are inefficient, as opposed to replacing them with younger and more efficient workers.

iii) Moral business practices that are good for business depend upon what produces profit. In different segments, the same practices might not be economically viable. Thus, any overlap that exists between morality and profit is both limited and incidental.

2. Legal Approach

This approach assumes that moral obligations in business are restricted to what the law requires. Moral principles are beyond the requirement of law. The unreasonableness of such a moral requirement is all the more evident in societies that do have a strong external source of morality.

3. Moral Obligations Approach

The third approach to business ethics is that morality must be introduced as a factor that is external to both profit motive and law. This is the view of most philosophers of business ethics. It is expressed most clearly in a well-known business ethics essay as "Proper ethical behaviour exists on a plane above the law. The law merely specifies the lowest common denominator of acceptable behaviour. The most convenient way to explore this approach is to consider, among other. The five supra- legal moral principles suggested by philosophers are as follows:

i) **Harm Principle:** Businesses should avoid causing unwarranted harm.

ii) **Fairness Principle:** All business practices should be fair.

iii) **Human Rights Principle:** Businesses should respect human rights.

iv) **Autonomy Principle:** Businesses should not infringe on the rationally reflective choices of people.

v) **Veracity Principle:** Businesses should not be deceptive in their practices.

4. Social Approach

This approach enables the company in to operate such a way that it actively recognizes the central role that business plays an the structure of society by initiating innovative ways to improve the quality of life of a broad community.

Q9. Explain the benefits of managing ethics in workplace.

Ans : **(Imp.)**

1. Attention to Business Ethics Improves Society

A matter of decades ago, children in the country worked 16-hours a day. Workers' limbs were torn-off and disabled workers were condemned to poverty and often to starvation. Trusts controlled some markets to the extent that prices were fixed and small businesses choked-out. Price fixing crippled normal market forces. Employees were terminated based on personalities. Influence was applied through intimidation and harassment. Then society reacted and demanded that businesses place high value on fairness and equal rights. Therefore anti-trust laws were instituted, government agencies were established, unions were organized, and laws and regulations were established.

2. Ethics Programs Help to Maintain a Moral Course in Turbulent Times

The attention to business ethics is critical during times of fundamental change - times much like those faced now by businesses, both non-profit and for-profit. During times of change, there is often no clear moral compass to guide leaders through complex conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff to how they want to act-consistently.

3. Ethics Programs Cultivate Strong Teamwork and Productivity

Ethics programs align employee behaviors with those top priority ethical values preferred by leaders of the organization. Usually, an organization finds surprising disparity between its preferred values and the values actually reflected by behaviors in the workplace. Ongoing attention and dialogue regarding values in the workplace builds openness, integrity and community - critical ingredients of strong teams in the workplace. Employees feel strong alignment between their values and those of the organization. They react with strong motivation and performance.

4. **Ethics Programs Support Employee Growth and Meaning**

   Attention to ethics in the workplace helps employees to face reality, both good and bad - in the organization and themselves. Employees feel full confidence they can admit and deal with whatever comes their way.

5. **Ethics Programs are an Insurance Policy - They Help to Ensure that Policies are Legal**

   There are an increasing number of lawsuits in regard to personnel matters and to effects of an organization's services or products on stakeholders. Ethical principles are often state-of-the-art legal matters. These principles are often applied to current, major ethical issues to become legislation. Attention to ethics ensures highly ethical policies and procedures in the workplace.

6. **Ethics Programs Help to Avoid Criminal Acts "Of Omission" and can Lower Fines**

   Ethics programs tend to detect ethical issues and violations early on so they can be reported or addressed. In some cases, when an organization is aware of an actual or potential violation and does not report it to the appropriate authorities, this can be considered a criminal act.

7. **Ethics Programs Help to Manage Values Associated with Quality Management, Strategic Planning, and Diversity Management**

   This benefit needs far more attention. Ethics programs identify preferred values and ensuring organizational behaviors are aligned with those values. This effort includes recording the values, developing policies and procedures to align behaviors with preferred values, and then training all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviors to be aligned with values, including quality management, strategic planning, and diversity management. McDonnell Douglas integrates their ethics programs into their strategic planning process.

8. **Ethics Programs Promote a Strong Public Image**

   Attention to ethics is also strong public relations - admittedly, managing ethics should not be done primarily for reasons of public relations. But, frankly, the fact that an organization regularly gives attention to its ethics can portray a strong positive to the public. People see those organizations as valuing people more than profit, as striving to operate with the utmost of integrity and honor. Aligning behavior with values is critical to effective marketing and public relations programs.

9. **Managing Ethical Values**

   Managing ethical values in the workplace legitimizes managerial actions, strengthens the coherence and balance of the organization's culture, improves trust in relationships between individuals and groups, supports greater consistency in standards and qualities of products, and cultivates greater sensitivity to the impact of the enterprise's values and messages.

1.2 Business Ethics - Why does it matter?

Q10. Discuss the role of business ethics in an organization.

Ans :

Business ethicists ask, "What is right and wrong, good and bad, harmful and beneficial regarding decisions and actions in organizational transactions?" Ethical "solutions" to business and organizational problems may have more than one alternative, and sometimes no right soludon may seem available.

Learning to think, reason, and act ethically can enable us to first be aware of and recognize a potential ethical problem. Then we can evaluate values, assumptions, and judgments regarding the problem before we act. Ultimately, ethical principles alone cannot answer what the noted theologian Paul Tillich called "the courage to be" in serious ethical dilemmas or crises. We can also learn from business case studies, role playing, and discussions how our actions affect others in different situations. Acting accountably and respon-sibly is still a choice.

Laura Nash defined business ethics as "the study of how personal moral norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system." Nash stated that business ethics deals with three basic areas of managerial decision making:

1. Choices about what the laws should be and whether to follow them;
2. Choices about economic and social issues outside the domain of law;
3. Choices about the priority of self-interest over the company's interests.

1. Unethical Business Practices and Employees

Surveys identify prominent everyday ethical issues facing businesses and their stakeholders. Recurring themes include managers lying to employees, office nepotism and favoritism, taking credit for others' work, receiving or offering kickbacks, stealing from the company, firing an employee for whistle-blowing, padding expense accounts to obtain reimbursements for questionable business expenses, divulging confidential information or trade secrets, terminating employment without giving sufficient notice, and using company property and materials for personal use. One study of 148 secretaries who worked for Fortune 1000 chief executives found that 47% had been asked at some time by their bosses to lie.

The most unethical behavior, one survey showed, happens in the following areas (listed in rank order, starting with the organization that has the most instances of unethical behaviour

1. Government
2. Sales
3. Law
4. Media
5. Finance
6. Medicine
7. Banking
8. Manufacturing

The sales profession, in particular, is under significant pressure to meet quotas. A survey by Sales & Marketing Management of 200 sales managers showed that 49% reported that their representatives lied on a sales call; 34% said that they heard representatives make unrealistic promises on sales calls; 22% said that their representatives sold products that customers did not need; 30% said that customers demanded a kickback for buying their product; and 54% said that the drive to meet sales goals does a disservice to customers.

These ethical issues in business suggest that any useful definition of busi-ness ethics must address a range of social, economic, and organizational problems and pressures in the workplace, including goals, policies, procedures, and relationships among professionals at all organizational levels and between corporate executives and external groups.

Other unethical, illegal, and questionable issues discussed in this book include the effects of information technology on the economy, workplace, and work force (e.g., the "digital divide," rights and justice during transformations); sexual harassment (e.g., events at Mitsubishi, Astra USA, and Texaco); invasion of privacy on the Internet (e.g., workplace surveillance, individual identity theft, unauthorized use of personal information); limits of a company's competitiveness (e.g., the case of Microsoft); the glass ceiling (e.g., women's lack of promotion beyond a certain unspoken barrier and lack of comparable pay for work done in professions and corporations); international human rights and sweatshop labor (e.g., Nike and other large retail firms); the ethics of diversity (e.g., the fair and equitable treatment of minorities in the international work force, the myth and reality of a "level playing field" in businesses); and the future of capitalism (e.g., the effects of changes on the so-called "new" and "old" economies and on individuals and groups globally).

2. Why Does Ethics Matter in Business

Doing the right thing" matters to employers, employees, stakeholders, and the public. To companies and employers, acting legally and ethically means saving billions of dollars each year in lawsuits, settlements, and theft. Studies have shown that corporations also have paid significant financial penalties for acting unethically. The tobacco industry discovered that lying about nicotine can be costly to their business. Down Corning paid heavy penalties for manufacturing and selling unsafe products. It has been estimated that workplace theft costs U.S. businesses $40 billion each year.

Costs to businesses also include deterioration of relationships; damage to reputation; declining employee productivity, creativity, and loyalty; ineffective information flow throughout the organization; and absenteeism. Companies that have a reputation of unethical and uncaring behavior toward employees also have a difficult time recruiting and retaining valued professionals.

For business leaders and managers, managing ethically also means — anage with integrity. Integrity cascades throughout an organization. It – apes and influences the values, tone, and culture of the organization; the communications among all members; and the realism, commitment, and imagination of everyone in a company.

3. Working for the Best Companies

Employees care about ethics because they are attracted to ethically and socially responsible companies. *Fortune* magazine regularly publishes the 100 best companies for which to work (http://www.fortune.com). Although the list continues to change, it is instructive to observe some of the characteristics of good employers that employees repeatedly cite. The most frequently mentioned characteristics include profit sharing, bonuses, and monetary awards. However, the list also contains policies and benefits that balance work and personal life and those that encourage social responsibility. Consider these policies described by employees:

- When it comes to flex time requests, managers are encouraged to "do what is right and human"
- An employee hot line to report violations of company values
- Will fire clients who don't respect its security officers
- Employees donated more than 28,000 hours of volunteer labor last year

The public and consumers benefit from organizations acting in an ethically and socially responsible manner. Ethics matters in business because all stakeholders stand to gain when organizations, groups, and individuals seek to do the right thing, as well as to do things the right way. Ethical companies create investor loyalty, customer satisfaction, and business performance and profits.

1.3 Levels of Business Ethics

Q11. What are the various levels of Business Ethics?

Ans : **(Oct.-21)**

The ethical standards of an organization have a major influence on how it conducts its business. Business ethics are defined by the behavior standards of management and personnel, and the way in which business is carried out at both a strategic and operational level. A positive approach to maintaining ethical standards can lead to competitive market advantage and an enhanced reputation. Ethical standards are classified at three levels.

1. Macro Level

At a macro level, sometimes called the systemic level, ethics are defined and influenced by the wider operating environment in which the company exists. Factors such as political pressures, economic conditions, societal attitudes to certain businesses, and even business regulation can influence a company's operating standards and policies. Business owners and managers must be aware of how these pressures affect operations and relationships, and how they may impact on markets locally, nationally and internationally.

2. **Company Level**

At a company or corporate level, ethical standards are embedded in the policies and procedures of the organization, and form an important foundation on which business strategy is built. These policies derive from the influences felt at macro level and therefore help a business to respond to changing pressures in the most effective way. There can be a gap between the company policy on ethical standards and the conduct of those in charge of running the business, especially if they are not the direct owners, which can present an ethical challenge for some employees.

4. **Individual Level**

Since businesses are run by people, the ethical standards of individuals in the business are an important consideration. Individuals may well have a very different set of ethical standards from their employer and this can lead to tensions. Factors such as peer pressure, personal financial position, and socio-economic status all may influence individual ethical standards. Managers and business owners should be aware of this to manage potential conflicts.

4. **Integrated Approach**

Ethical standards flow through the entire structure of a business organization, shaping how it plans its strategy, deals with customers, and manages its work force. The standards have a reach far beyond day-to-day operations, and should be considered in all aspects of a business, from the boardroom to the shop floor and across all functional areas. Supporting this effort, businesses that genuinely understand the value and importance of ethics have appropriate metrics in place to measure achievement and identify problems before they become major issues.

1.4 Five Myths about Business Ethics

Q12. Explain briefly about five myths about business ethics.

Ans : **(Imp.)**

Myth 1: Ethics Is a Personal, Individual Affair, Not a Public or Debatable Matter

This myth holds that individual ethics is based on personal or religious beliefs, and that one decides what is right and wrong in the privacy of one's conscience. This myth is supported in part by Milton Friedman, a well- known economist, who views "social responsibility," as an expression of business ethics, to be unsuitable for business professionals to address seriously or professionally because they are not equipped or trained to do so.

Although it is true that individuals must make moral choices in life, including business affairs, it is also true that individuals do not operate in a vacuum. Individual ethical choices are most often influenced by discussions, conversations, and debates, and made in group contexts. Individuals often rely on organizations and groups for meaning, direction, and purpose. Moreover, individuals are integral parts of organizational cultures, which have standards to govern what is acceptable. Therefore, to argue that ethics related to business issues is mainly a matter of personal or individual choice is to underestimate the role organizations play in shaping and influencing members' attitudes and behaviors. Studies indicate that organizations that act in socially irresponsible ways often pay penalties for unethical behavior.

In fact, the results of the studies advocate integrating ethics into the strategic management process because it is both the right and the profitable thing to do. Corporate social performance has been found to increase financial performance. One study notes that "analysis of corporate failures and disasters strongly suggests that incorporating ethics in before profit to decision making can improve strategy development and implementation and ultimately maximize corporate profits.

Moreover, the popularity of books, training, and articles on learning organizations and the habits of highly effective people among Fortune 500 and 1000 companies suggests that organizational leaders and professionals have a need for purposeful, socially responsible management training and practices

Myth 2: Business and Ethics Do Not Mix

This myth holds that business practices are basically amoral (not necessarily immoral) because businesses operate in a free market. This myth also asserts that management is based on scientific c, rather than religious or ethical, principles

Although this myth may have thrived in an earlier industrializing U.S. society and even during the 1960s, it has eroded over the past two decades. The widespread consequences of computer hacking on individual, commercial, and government systems that affect the public's welfare, like identity theft on the Internet (stealing others' Social Security numbers and using their bank accounts and credit cards), and kickbacks, unsafe products, oil spills, toxic dumping, air and water pollution, and improper use of public funds have contributed to the erosion.

The international and national infatuation with a purely scientific understanding of U.S. business practices, in particular , and of a value- free marketing system, has been undermined by these events. As one saying goes, "A little experience can inform a lot of theory."

The ethicist Richard DeGeorge has noted that the belief that business is amoral is a myth because it ignores the business involvement of all of us. Business is a human activity, not simply a scientific c one, and, as such, can be evaluated from a moral perspective.

If everyone in business acted amorally or immorally, as a pseudoscientific c notion of business would suggest, businesses would collapse. Employees would openly steal from employers; employers would recklessly fire employees at will; contractors would arrogantly violate obligations; and chaos would prevail. In the United States, business and society often share the same values: rugged individualism in a free- enterprise system, pragmatism over abstraction, freedom, and in dependence. When business practices violate these American values, society and the public are threatened

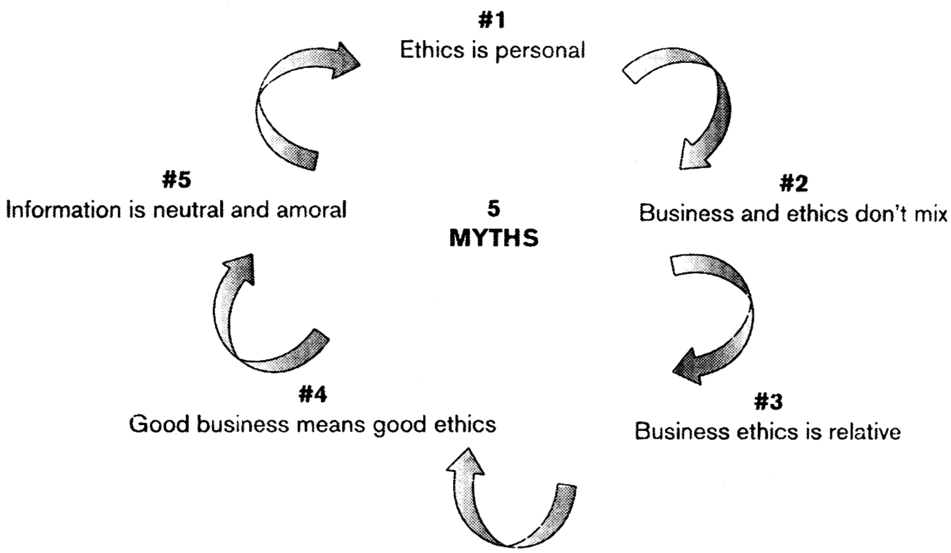


Fig. Five Business Ethics Myths

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Myth 3: Ethics in Business Is Relative

In this myth, no right or wrong way of believing or acting exists. Right and wrong are in the eyes of the beholder.

The claim that ethics is not based solely on absolutes has some truth to it. However, to argue that all ethics is relative contradicts everyday experience. For example, the view that because a person or society believes something to be right makes it right is problematic when examined. Many societies believed in and practiced slavery; however, in contemporary individuals' experiences, slavery is morally wrong. When individuals and firms do business in societies that promote slavery, does that mean that the individuals and firms must also condone and practice slavery

Myth 4: Good Business Means Good Ethics

This myth can translate to "Executives and firms that maintain a good corporate image, practice fair and equitable dealings with customers and employees, and earn profits by legitimate, legal means are de facto ethical." Such firms, therefore, would not have to be concerned explicitly with ethics in the workplace. Just do a hard, fair day's work, and that has its own moral goodness and rewards

The faulty reasoning underlying this logic obscures the fact that ethics does not always provide solutions to technical business problems. Moreover, as Buchholz argued, no correlation exists between "goodness" and material success.

It also argued that "excellent" companies and corporate cultures have created concern for people in the workplace that exceeds the profit motive. In these cases, excellence seems to be related more to customer service, to maintenance of meaningful public and employee relationships, and to corporate integrity than to profit motive

The point is that ethics is not something added to business operations; ethics is a necessary part of operations. A more accurate, logical statement from business experience would suggest that "good ethics means good business." This is more in line with observations from successful companies that are ethical first and also profitable.

Myth 5: Information and Computing Are Amoral

This myth holds that information and computing are neither moral nor immoral - they are amoral. They are in a "gray zone," a questionable area regarding ethics. Information and computing have positive dimensions, such as empowerment and enlightenment through the ubiquitous exposure to information, increased efficiency, and quick access to online global communities. It is also true that information and computing have a dark side: information about individuals can be used as "a form of control, power, and manipulation

The point here is to beware the dark side: the misuse of information, social media, and computing. Ethical implications are present but veiled. Truth, accuracy, and privacy must be protected and guarded: "Falsehood, inaccuracy, lying, deception, dis-information, misleading information are all vices and enemies of the Information Age, for they undermine it. Fraud, misrepresent, and falsehood are inimical to all of them

Logical problems occur in all five of the above myths. In many instances, the myths hold simplistic and even unrealistic notions about ethics in business dealings. In the following sections, the discussion about the nature of business ethics continues by exploring two questions:

- Why use ethical reasoning in business?
- What is the nature of ethical reasoning?

1.5 Can Business Ethics be Taught and Trained?

Q13. How business ethics can be taught and trained?

Ans :

Because laws and legal enforcement are not always sufficient to help guide or solve complex human problems relating to business situations, some questions arise: Can ethics help? If so, how? And can business ethics be taught? This ongoing debate has no final answer, and studies continue to address the issue. One study, for example, that surveyed 125 graduate and undergraduate students in a business ethics course at the beginning of a semester showed that students did not reorder their priorities on the importance of ten social issues at the end of the semester, but they did change the degree of importance they placed on the majority of the issues surveyed. What, if any, value can be gained from teaching ethical principles and training people to use them in business?

This discussion begins with "what business ethics courses cannot or should not, in my judgment, do." Ethics courses should not advocate a set of rules from a single perspective or offer only one best solution to a specific ethical problem. Given the circumstances of situations, more desirable and less desirable courses of action may exist. Decisions depend on facts, inferences, and rigorous, ethical reasoning. Neither should ethics courses or training sessions promise superior or absolute ways of thinking and behaving in situations. Informed and conscientious ethical analysis is not the only way to reason through moral problems.

Ethics courses and training can do the following:

- Provide people with rationales, ideas, and vocabulary to help them participate effectively in ethical decision making processes
- Help people "make sense" of their environments by abstracting and selecting ethical priorities
- Provide intellectual weapons to do batde with advocates of economic fundamentalism and those who violate ethical standards
- Enable employees to act as alarm systems for company practices that do not meet society's ethical standards
- Enhance conscientiousness and sensitivity to moral issues, and commitment to finding moral solutions
- Enhance moral reflectiveness and strengthen moral courage
- Increase people's ability to become morally autonomous, ethical dissenters, and the conscience of a group
- Improve the moral climate of firms by providing ethical concepts and tools for creating ethical codes and social audits 'her scholars argue that ethical training can add value to the moral environment of a firm and to relation ship in the workplace in the following ways:
- Finding a match between an employee's and employer's values
- Managing the push-back point, where an employee's values are tested by peers, employees, and supervisors
- Handling an unethical directive from a boss
- Coping with a performance system that encourages cutting ethical corners

Teaching business ethics and training people to use them does not promise to provide answers to complex moral dilemmas. However, thoughtful and resourceful business ethics educators can facilitate the development of awareness of what is ethical, help individuals and groups realize that their ethical tolerance and decision-making styles decrease unethical blind spots, and enhance discussion of moral problems openly in the workplace.

Finally, a useful framework for evaluating ethics training is Lawrence Kohlberg's study of the stages of moral development, as well as studies on the relevance of Kohlberg's study for managers and professionals.

1.6 Stages of Moral Development

Q14. Outline the stages of moral development.

Ans : **(Oct.-21, Imp.)**

Kohlberg identified three levels of moral reasoning: pre-conventional, conventional, and post-conventional. Each level is associated with increasingly complex stages of moral development.

Level 1: Preconventional

Throughout the preconventional level, a child's sense of morality is externally controlled. Children accept and believe the rules of authority figures, such as parents and teachers. A child with pre-conventional morality has not yet adopted or internalized society's conventions regarding what is right or wrong, but instead focuses largely on external consequences that certain actions may bring.

Stage 1: Obedience-and-Punishment Orientation

Stage 1 focuses on the child's desire to obey rules and avoid being punished. For example, an action is perceived as morally wrong because the perpetrator is punished; the worse the punishment for the act is, the more "bad" the act is perceived to be.

Stage 2: Instrumental Orientation

Stage 2 expresses the "what's in it for me?" position, in which right behavior is defined by whatever the individual believes to be in their best interest. Stage two reasoning shows a limited interest in the needs of others, only to the point where it might further the individual's own interests. As a result, concern for others is not based on loyalty or intrinsic respect, but rather a "you scratch my back, and I'll scratch yours" mentality. An example would be when a child is asked by his parents to do a chore. The child asks "what's in it for me?" and the parents offer the child an incentive by giving him an allowance.

Level 2: Conventional

Throughout the conventional level, a child's sense of morality is tied to personal and societal relationships. Children continue to accept the rules of authority figures, but this is now due to their belief that this is necessary to ensure positive relationships and societal order. Adherence to rules and conventions is somewhat rigid during these stages, and a rule's appropriateness or fairness is seldom questioned.

Stage 3: Good Boy, Nice Girl Orientation

In stage 3, children want the approval of others and act in ways to avoid disapproval. Emphasis is placed on good behavior and people being "nice" to others.

Stage 4: Law-and-Order Orientation

In stage 4, the child blindly accepts rules and convention because of their importance in maintaining a functioning society. Rules are seen as being the same for everyone, and obeying rules by doing what one is "supposed" to do is seen as valuable and important. Moral reasoning in stage four is beyond the need for individual approval exhibited in stage three. If one person violates a law, perhaps everyone would—thus there is an obligation and a duty to uphold laws and rules. Most active members of society remain at stage four, where morality is still predominantly dictated by an outside force.

Level 3: Postconventional

Throughout the postconventional level, a person's sense of morality is defined in terms of more abstract principles and values. People now believe that some laws are unjust and should be changed or eliminated. This level is marked by a growing realization that individuals are separate entities from society and that individuals may disobey rules inconsistent with their own principles. Post-conventional moralists live by their own ethical principles—principles that typically include such basic human rights as life, liberty, and justice—and view rules as useful but changeable mechanisms, rather than absolute dictates that must be obeyed without question. Because post-conventional individuals elevate their own moral evaluation of a situation over social conventions, their behavior, especially at stage six, can sometimes be confused with that of those at the pre-conventional level. Some theorists have speculated that many people may never reach this level of abstract moral reasoning.

Stage 5: Social-Contract Orientation

In stage 5, the world is viewed as holding different opinions, rights, and values. Such perspectives should be mutually respected as unique to each person or community. Laws are regarded as social contracts rather than rigid edicts. Those that do not promote the general welfare should be changed when necessary to meet the greatest good for the greatest number of people. This is achieved through majority decision and inevitable compromise. Democratic government is theoretically based on stage five reasoning.

Stage 6: Universal-Ethical-Principal Orientation

In stage 6, moral reasoning is based on abstract reasoning using universal ethical principles. Generally, the chosen principles are abstract rather than concrete and focus on ideas such as equality, dignity, or respect. Laws are valid only insofar as they are grounded in justice, and a commitment to justice carries with it an obligation to disobey unjust laws. People choose the ethical principles they want to follow, and if they violate those principles, they feel guilty. In this way, the individual acts because it is morally right to do so (and not because he or she wants to avoid punishment), it is in their best interest, it is expected, it is legal, or it is previously agreed upon. Although Kohlberg insisted that stage six exists, he found it difficult to identify individuals who consistently operated at that level.

1.7 Kohlberg's Study

Q15. Explain Kohlberg's theory of model regarding ethical judgement.

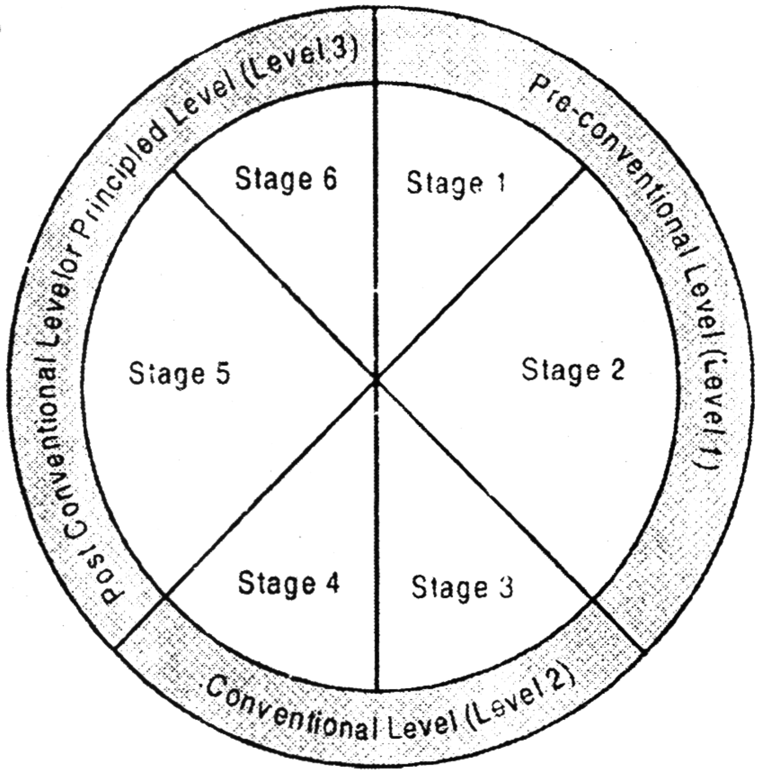
Ans :

Psychologist Lawrence Cohlenberg has his own views. He feels that some individuals are simply better prepared to make ethical judgements than others. He has built a comprehensive theory of moral development in which he claimed that moral judgement evolves and improves primarily as a function of:

- Age and
- Education

He found out with children as they aged, was able to identify moral development as movement through distinct stages.

- In this model, the later stages (Levels 2 and 3) are being viewed as more advanced than the earlier ones.
- At the last stage, the individual is able to reach independent moral judgements that may or may not be in conformity with conventional societal wisdom.
- At Level 2, managers might refrain from sexual harassment because it constitutes a violation of company policy and the law.
- At Level 3, manager might reach the same conclusion; But his decision would have been based on independently defined, universal principles of justice.



- **Stage 1 :** Obey rule to avoid punishment
- **Stage 2 :** Follow rules only if it is in own interest. Let others do the same conform to secure rewards
- **Stage 3 :** Conform to meet the expectation of others; please others; adhere to stereotypical images
- **Stage 4:** Doing right is one's duty; obey the law; uphold the social contract and order
- **Stage 5:** Current laws and values are relative laws and duty are obeyed on rational calculations to serve the greatest number
- **Stage 6:** Follows self chosen universal ethical principles. In the event of conflicts, principles override laws

1.8 Carol Gilligan's Theory

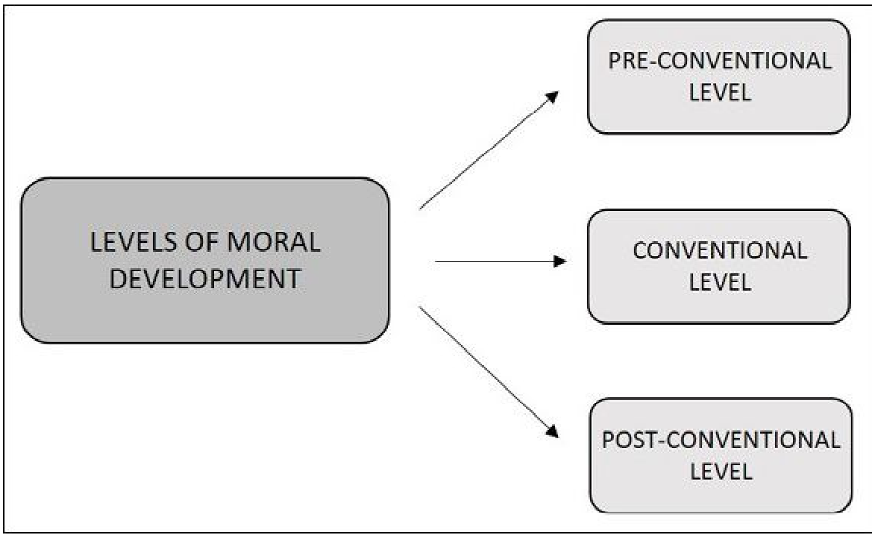
Q16. Explain briefly about Gilligan's theory.

Ans : **(Imp.)**

Gilligan's Theory

Carol Gilligan opines that Kohlberg's theories are biased upon the male thinking process. According to Gilligan, Kohlberg seemed to have studied only privileged men and boys. She believed that women face a lot of psychological challenges and they are not moral widgets. The women's point of view on moral development involves caring which shows its effect on human relationships.

Hence she proposed a theory which has the same three stages of Kohlberg but with different.



Though the names of the stages are the same, the stages differ in this method. The moral development in Gilligan's theory are based on pro-social behaviors such as Altruism, caring and helping and the traits such as honesty, fairness and respect.

Pre-conventional Level

- A person in this stage cares for oneself to ensure survival.
- Though the person's attitude is selfish, this is the transition phase, where the person finds the connection between oneself and others.

Conventional Level

- In this stage, the person feels responsible and shows care towards other people.
- Carol Gilligan believes that this moral thinking can be identified in the role of a mother and a wife. This sometimes leads to the ignorance of the self.

Post-conventional Level

- This is the stage, where the principle of care for self as well as others, is accepted.
- However, a section of people may never reach this level.

According to the Carol Gilligan's theory of moral development, changes occur due to the change of self rather than the critical thinking. It was stated that the post-conventional level of Kohlberg is not attained by women. But Carol Gilligan researched and found that the post-conventional level of thinking is not being easy for women to go through because they care for the relationships.

Example of Gilligan's Theory

In order to understand Gilligan's theory, a popular example is usually considered. A group of moles give shelter to a porcupine. But they are being continuously stabbed by the porcupine's quills. Now, what should they do?

The Pre-conventional level of thinking states that to think for the good of oneself, either the moles or the porcupine only can live there. The other has to leave the place.

According to the Conventional level of thinking, which brings a transition, from self to the good of others and which might even lead to sacrifice, either the moles or the porcupine has to sacrifice and again this leads to a stage where only moles or the porcupine can live in the burrow.

According to the Post-conventional level of thinking, which states that the good of both the parties has to be considered, both the moles and the porcupine come to an agreement that both will have separate places in the same burrow, where they limit to behave themselves and will not cause any trouble to other. This helps both of them to live in the same place with peace.

The researchers found that the solution to this scenario is different with different individuals; gender also plays an important role. The thinkers were observed viewing the problem in two different perspectives, the care-based and the justice-based.

In a Justice-based perspective, the solution to the problem is viewed as a conflict between two individual groups. Only one of them can have the property. Either moles or the porcupine will get the place in the burrow. Hence the solution to the dilemma, is not a resolution of the conflict, it is a verdict.

In a Care-based perspective, the approach differs. The problem is viewed as a difficult situation faced by both the parties together, rather than a fight between both of them. Hence the solution is sought in a way around the problem or to remove the problem completely. The solution may sound compromising but not damaging. The relationship will still be the same, after the resolution.

Researchers found that Justice-based perspective is pre-dominant among males while Care-based prospective is among females.

1.9 Principles of Ethics

Q17. What are the various Principles of Ethics?

Ans : **(Imp.)**

As technical communicators, we observe the following ethical principles in our professional activities.

1. Legality

We observe the laws and regulations governing our profession. We meet the terms of contracts we undertake. We ensure that all terms are consistent with laws and regulations locally and globally, as applicable, and with STC ethical principles.

2. Honesty

We seek to promote the public good in our activities. To the best of our ability, we provide truthful and accurate communications. We also dedicate ourselves to conciseness, clarity, coherence, and creativity, striving to meet the needs of those who use our products and services. We alert our clients and employers when we believe that material is ambiguous. Before using another person's work, we obtain permission. We attribute authorship of material and ideas only to those who make an original and substantive contribution. We do not perform work outside our job scope during hours compensated by clients or employers, except with their permission; nor do we use their facilities, equipment, or supplies without their approval. When we advertise our services, we do so truthfully.

3. Confidentiality

We respect the confidentiality of our clients, employers, and professional organizations. We disclose business-sensitive information only with their consent or when legally required to do so. We obtain releases from clients and employers before including any business-sensitive materials in our portfolios or commercial demonstrations or before using such materials for another client or employer.

4. Quality

We endeavor to produce excellence in our communication products. We negotiate realistic agreements with clients and employers on schedules, budgets, and deliverables during project planning. Then we strive to fulfill our obligations in a timely, responsible manner.

5. Fairness

We respect cultural variety and other aspects of diversity in our clients, employers, development teams, and audiences. We serve the business interests of our clients and employers as long as they are consistent with the public good. Whenever possible, we avoid conflicts of interest in fulfilling our professional responsibilities and activities. If we discern a conflict of interest, we disclose it to those concerned and obtain their approval before proceeding.

6. Professionalism

We evaluate communication products and services constructively and tactfully, and seek definitive assessments of our own professional performance. We advance technical communication through our integrity and excellence in performing each task we undertake. Additionally, we assist other persons in our profession through mentoring, networking, and instruction. We also pursue professional self-improvement, especially through courses and conferences.

Q18. Explain various theories of business ethics.

Ans :

Ethics or moral philosophy is, at its simplest, a study of right and wrong behavior with the ultimate aim of defining what is right and wrong. Ethics is the field of enquiry.

Ethical theories are commonly divided into three subject areas which are as follows:

1. Metaethics

A brief definition of metaethics "A classification within western philosophy that attempts to discover the origin or cause of right or wrong". It deals with the entire gamut of ethical issues. It can be defined as "the study of the origin and meaning of ethical concepts". The field of metaethical enquiry is not very well defined. Broadly, however, metaethics deals with three issues:

i) Metaphysical issues that deal with the question whether the moral values exist independently of humans or whether they are simply human conventions;

ii) Psychological issues that deal with the psychological basis of the moral action; and

iii) Linguistic issues that deal with the meaning of the key moral terms people use.

2. Normative Ethics

The term 'normative' implies something that 'guides' or 'controls'. Thus, normative ethics is that branch of ethics that guides human conduct. It sets-out certain moral standards that help us to determine what is right and what is wrong. A normative theory aims to discover what should be and would include sentences like 'company should follow corporate governance standards' or 'managers ought to act in a manner to avoid conflicts of interests'. Detailed ahead.

3. Applied Ethics

Applied ethics is a branch of ethics that deals with specific, often controversial moral issues such as abortion, female feticide and infanticide, displacement of tribal people due to huge hydro-electrical projects, cloning, testing drugs on animals, etc. There are many such controversial issues in the medical field. Businesses too face many controversial moral choices such as misleading advertising, insider trading, bribery, corruption, etc.

Ethical theories lay down certain moral standards that provide a reference point for judging the moral value of a decision. When applied to business, these theories should enable the manager to distinguish between right and wrong and to take morally acceptable decisions.

Ethical behavior is important for long-term success in business and adversely affects performance in the long run.

Short Question & Answers

1. Define the term ethics.

Ans :

The word "ethics" is extracted from the Greek word "ethos", which refers to the nature, guiding values, principles or ideals that are spread through a group, community or people. Each and every individual is responsible to his community for his behaviour. The community can exist in various forms such as neighbourhood, profession, city, state, etc.

According to Webster, "Ethics is the discipline dealing with that which is good and bad and with moral duty and obligations".

Ethics is a set of standards, or a code, or value system, worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. Ethics may be defined as the science of the Highest Good. It is the science of the supreme ideal of human life. It is the science of the highest end or purpose of human life.

2. Define business ethics.

Ans :

Definitions :

According to Robert Kreitner, "Business ethics is the study of complex business practices and behaviours that "gives rise to ethical issues in organizations".

According to Raymond C. Baumhart, "The ethics of business is the ethics of responsibility. The businessman must promise that he will not harm knowingly".

According to Andrew Crane, "Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed".

According to Manuel Velasquez, "Business ethics is applied ethics. It is the application of our understanding of right and good to institutions, transactions, activities, and pursuits called business".

3. Elements of Business Ethics.

Ans :

i) Values

Values are the moral beliefs held by an individual, an organization and a society. Values represent moral convictions and are relatively permanent. For example, a company may charge reasonable prices due to its value systems inspite of its monopoly position in the industry.

ii) Rights

Rights are the claims of the individual or organization. For example, every citizen of India enjoys certain rights under the country's constitution.

iii) Duties

Duties are the obligations of a person or an organization. For example, every citizen has the duty to follow the country's law.

4. Moral Obligations Approach.

Ans :

The third approach to business ethics is that morality must be introduced as a factor that is external to both profit motive and law. This is the view of most philosophers of business ethics. It is expressed most clearly in a well-known business ethics essay as "Proper ethical behaviour exists on a plane above the law. The law merely specifies the lowest common denominator of acceptable behaviour. The most convenient way to explore this approach is to consider, among other. The five supra- legal moral principles suggested by philosophers are as follows:

i) Harm Principle

Businesses should avoid causing unwarranted harm.

ii) Fairness Principle

All business practices should be fair.

iii) Human Rights Principle

Businesses should respect human rights.

iv) Autonomy Principle

Businesses should not infringe on the rationally reflective choices of people.

v) Veracity Principle

Businesses should not be deceptive in their practices.

5. Various levels of Business Ethics.

Ans :

The ethical standards of an organization have a major influence on how it conducts its business. Business ethics are defined by the behavior standards of management and personnel, and the way in which business is carried out at both a strategic and operational level. A positive approach to maintaining ethical standards can lead to competitive market advantage and an enhanced reputation. Ethical standards are classified at three levels.

i) Macro Level

At a macro level, sometimes called the systemic level, ethics are defined and influenced by the wider operating environment in which the company exists. Factors such as political pressures, economic conditions, societal attitudes to certain businesses, and even business regulation can influence a company's operating standards and policies. Business owners and managers must be aware of how these pressures affect operations and relationships, and how they may impact on markets locally, nationally and internationally.

ii) Company Level

At a company or corporate level, ethical standards are embedded in the policies and procedures of the organization, and form an important foundation on which business strategy is built. These policies derive from the influences felt at macro level and therefore help a business to respond to changing pressures in the most effective way. There can be a gap between the company policy on ethical standards and the conduct of those in charge of running the business, especially if they are not the direct owners, which can present an ethical challenge for some employees.

iii) Individual Level

Since businesses are run by people, the ethical standards of individuals in the business are an important consideration. Individuals may well have a very different set of ethical standards from their employer and this can lead to tensions. Factors such as peer pressure, personal financial position, and socio-economic status all may influence individual ethical standards. Managers and business owners should be aware of this to manage potential conflicts.

6. Principles of Ethics.

Ans :

i) Legality

We observe the laws and regulations governing our profession. We meet the terms of contracts we undertake. We ensure that all terms are consistent with laws and regulations locally and globally, as applicable, and with STC ethical principles.

ii) Honesty

We seek to promote the public good in our activities. To the best of our ability, we provide truthful and accurate communications. We also dedicate ourselves to conciseness, clarity, coherence, and creativity, striving to meet the needs of those who use our products and services. We alert our clients and employers when we believe that material is ambiguous. Before using another person's work, we obtain permission. We attribute authorship of material and ideas only to those who make an original and substantive contribution. We do not perform work outside our job scope during hours compensated by clients or employers, except with their permission; nor do we use their facilities, equipment, or supplies without their approval. When we advertise our services, we do so truthfully.

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iv) Quality

We endeavor to produce excellence in our communication products. We negotiate realistic agreements with clients and employers on schedules, budgets, and deliverables during project planning. Then we strive to fulfill our obligations in a timely, responsible manner.

7. Theories of business ethics.

Ans :

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UNIT II	**Professional Ethics:** Introduction to Professional Ethics- Ethics in Production and Product Management-Ethics of Marketing Professionals-Ethics in HRM-Ethics of Finance and Accounting Professionals-Ethics of Advertisement-Ethics of Media Reporting-Ethics of Healthcare Services. Ethical Dilemma. Introduction, Dilemma and Ethical Dilemma-Mounting Scandals-Ethical Issues-Preparatory Ethics: Proactive steps-The software challenge.

2.1 Introduction to Professional Ethics

Q1. What do you understand by the term professional ethics?

Ans :

Professional ethics refer to the moral standards demonstrated by the professionals working in the business of managing, promoting, marketing or developing (products). Not all professionals work in business or business related activities; there are many recognised professionals in society Chartered Accountants, lawyers, doctors, actors, reporters, etc. Who more often than not work in their individual capacities.

- Wherever they may work, and in whatever capacity, the morality of their actions and behaviour has a profound impact on the well-being of the society business being a part of it. And, just as the presence of moral standards and ethical sense in their work can benefit the community, business and the society, similarly, absence of the same can also harm society.
- To safeguard against this possibility, the society and the concerned government are careful to regulate and modulate the behaviour of professionals with the laws of the land and the rules and regulations of various professional bodies with the intent to promote fair practices and moral standards in professional behaviour.
- In today's scientific approach to management, professionals are generally considered the backbone of business and industries; they lead the way strategies are formulated and business is conducted. If the involved professionals are honest, moral, respectful to human values, and courageous in standing against any wrongdoing, businesses automatically become ethical and true to meeting their social responsibility and obligations.

While the concept of standards of behaviour expected from the professionals in a society is age-old, the necessity to reaffirm the principles of moral conduct in their behaviour has gained importance in today's larger context of business relationships, global economy, communication, and migration of people from one part of the world to another. In the business world, professional ethics hold more focus and attention than ever before especially in view of the series of business scandals referred to in earlier chapters. Awakened by their impact and the roles of professionals therein, governments, regulators and professional institutions the world over have become more aware about the necessity of introducing stricter ethical standards in the functional areas of various professions. While the impact of the numerous ethical violations and infringements of moral duties and rights in all professions all over the world in the past remained mostly localized, it is now affecting lives in other nations with economic globalization, free trade, and revolution in electronic media linking the financial and economic systems of different countries.

In India, there have been two directions to remedy the damage:

(i) The government and regulatory authorities (SEBI, RBI, Department of Company Affairs, etc.) enacting new laws and reinforcing existing laws and procedures, on the one hand; and

(ii) The professional establishments and institutions (IMA, ICAI, Institution of Engineers (India), etc.), under which professionals conduct their respective practices, incorporating minimum ethical standards for their members.

- However, for regulatory measures to be effective, the control of monitoring regulators is necessary in promoting and administering ethics in professional activities and the commitments of doers (professionals) to ethics. This is a difficult task when one considers the bias and political nature of human beings; not surprisingly, in India there is practically no instance of professionals being hauled up and punished for their wrongdoings, or of legal testimonies against fellow professionals.
- Though standards and rules of many professional bodies have legal sanction, very few individual professionals have been punished for carelessness, involvement or abetment in a fraud. Hence, many feel that it is not the acts and regulations that are effective in inculcating professional ethics and standards of behaviour in professionals, there has to be a change of heart and attitude in individuals something that can be brought about by ensuring that ethics is a part of the academic programmes of professional institutes.
- To make the society ethical, individuals have to be moral and value abiding; when individuals are wiser about ethics and their effect on society and business, self-regulation in professional activities becomes easier.
- To maintain ethics in professional activities and services, there is no better regulation than what can be exercised by professionals themselves; this is self-checking and self-correcting on real-time basis with a consciousness of what is wrong and right, what is moral and fair.

For professionals to be ethical, organizations must provide them with an honest work environment and ethical working platform. Organizations must hold on to principles of business ethics and demand ethics in the professional discharge of the duties of their managers.

- In the Enron case, the company had wilfully misrepresented its financial report through 'creative accounting' with the help of its auditors who were supposed to prevent such misrepresentation.
- In the Harshad Mehta-led stock market scam of 1992, which rocked and plunged the Indian stock market into a long gloom and recession, it was also observed that many members of the top management of several companies and financial institutions were involved and had willingly joined hands with the fraudsters to manipulate the stock prices. In both these cases, organizations (as represented by their top managements) had been the root-cause for ethical misconduct and fraud.
- One of the objectives of the study of business ethics as subject in academics would be to embolden professionals by imparting knowledge about moral principles, moral reasoning, moral rights, and morality of actions and behaviour necessary for the well-being of society, business and self.
- Throughout the history of social development, every society depended on the high moral standards of individuals, professionals, philosophers and artists who stood up against the many odds and adversities of their time to take the society forward.
- Similarly, modern society expects its professionals to stand up to the odd pressures perhaps of different kinds and hold on to high moral standards in their professional discharge of duties. Many past and recent happenings in the business world and their impact on the nations' economy and society establish beyond doubt that professional ethics is crucial for the sustained growth of business and society anywhere in the world.

  The involvement of professionals and the role of professions is overwhelming in business; not restricted to direct functional areas alone, it spans areas such as accounting, finance, product engineering and development, HRM and marketing.

- Moreover, professional expertise and professionalism in running a business are also required in all related fields (such as legal, advertising, publicity, etc.). And, since business is a socio-economic institution, business and business environment are greatly influenced by the overall professional behaviour in the country, including media reporting and editing.

2.2 Ethics in Production and Product Management

Q2. Explain the various ethical issues in Production and Product Management.

Ans : **(Imp.)**

Production management comprises supervising and managing a set of predetermined processes and activities, being carried out by people with the help of certain tools and equipment, for the outcome of some marketable products. In such a set-up, there are two sets of ethical issues:

(i) Ethics relating to the conduct of the process where people are involved in working with machines or equipment in a given environment

(ii) Ethics about the uses and utility of the products concerned. Since production management is a professional discipline with specialized knowledge and skills, it would be worthwhile to discuss these ethical issues under professional ethics.

With reference to the former ethical issue, ethics in production management, therefore, include care about safety, health hazard, reliability, pollution, contamination, adulteration, waste generation, etc., while the latter ethical issue implies that management is ethically duty-bound to ensure that the production process and the product does not cause any harm to the employees, consumers or the locality.

Therefore, it is necessary that professionals engaged in managing product development, product design, process planning and environment control are (made) aware of the shortcomings of their processes and products with regard to safety in use and practice, health hazard in the process and handling, need for pollution control, environmental damage, utility value, etc. While discharging their duties and responsibilities.

Important production related ethical areas are:

(a) Defectives, adulteration and inherently addictive/dangerous products for use and safety of the consumers

(b) Pollution, emission and dust generation in the production processes

(c) Ethical problems arising from new technology (e.g. genetically modified foods, seeds, etc.).

There is always the possibility of some danger of defect or deficiency in any product or production process - and it may be difficult to define the degree of permissibility in all such cases - but the principle of ethics demands that it should not be intentional. In other words, the organization, its management or its professionals should not act with the prior knowledge of that defect being harmful to health, hygiene or safety of the consumers (users).

i) Ethics and Production

One of the most important characteristic of the business today is that there is a great degree of interdependence between various business functions. Production cannot happen without marketing and sales and vice versa. In order to survive in the competitive sphere organizations try to reduce the costs involved in production processes. This cost efficiency is sometimes achieved at the cost of quality. Poor processes and technology is used to keep the cost down, this is especially true for small players who cannot afford economies of scale. Having said this there are also examples of industry giants that compromised on certain production processes, cola companies make up for a good example.

All the production functions are governed by production ethics but there are certain that are severely harmful or deleterious which need to be monitored continuously. The following are worth mentioning:

1. There are ethical problems arising out of use of new technologies that are deleterious to health, safety and environment. Technological advancements like genetically modified food, radiations from mobile phones, medical equipment etc are less problems are more of dilemmas.
2. Defective services and products or products those are innately deleterious like alcohol, tobacco, fast motor vehicles, warfare, chemical manufacturing etc.
3. Animal testing and their rights or use of economically or socially deprived people for testing or experimentation is another area of production ethics.
4. Ethics of transactions between the organization and the environment that lead to pollution, global warming, increase in water toxicity and diminishing natural resources.

Dilemma of Ethics in Production

There are certain processes involved in the production of goods and a slight error in the same can degrade the quality severely. In certain products the danger is greater i.e. a slight error can reduce the quality and increase the danger associated with consumption or usage of the same exponentially. The dilemma therefore lies in defining the degree of permissibility, which in turn depends on a number of factors. Bhopal gas tragedy is one example where the poisonous gas got leaked out due to negligence on the part of the management.

Usually many manufactures are involved in the production of same good. They may use similar or dissimilar technologies for the same. Setting a standard in case of dissimilar technologies is often very difficult. There are many other factors that contribute to the dilemma, for example, the involvement of the manpower, the working conditions, the raw material used etc.

Social perceptions also create an impasse sometimes. For example the use of some fertilizer by cola companies in India recently created a national debate. The same cold drinks which were consumed till yesterday became noxious today because of a change in the social perception that the drinks are not fit for consumption.

ii) Ethical Issue Relating to Production

U.S. companies with global operations all espouse adherence to a corporate code of ethics. The code usually is posted on their website, and employees are annually audited to confirm their commitment to the principles outlined. This is certainly a step in the right direction and reflects the notion that business is being done with the utmost integrity. Alas, such heroism borders on the brink of disaster once the corporation steps beyond the employee pool and dips its toes into the dark waters of global contractors and sub-contractors by outsourcing their production.

1. Supply Chain Control

It is difficult to know what every individual at every plant is doing on a daily basis. The expectation is everyone is following the rules in exchange for a paycheck, and in most instances, that would be the case. But as business has been globalized, and companies have worldwide plants manufacturing goods 24/7, ethical deviation rears its ugly head. This is not to say that certain countries are less ethical than others, but the message becomes diluted as it makes its way from the sterile corporate headquarters to a plant far away and then down the rabbit hole to contractors and sub-contractors. Suddenly, "do no harm" becomes "do no harm within a certain price range or as long as no one finds out."

2. Public Relations Impact

A company needs to know all parts of its supply chain are adhering to strict guidelines. Unfortunately, it becomes more difficult to monitor out-of-sight manufacturing locations, especially when there are sub-layers of people doing the work. Being contracted with 50 top-tier suppliers for the production of the 787 Dreamliner, handing them control to manage the subcontractors they chose.

The unfortunate result was it took some digging to locate the culprit when battery and electrical panels failed especially because contracted work was done in several countries. But it was Being that was held responsible and the Boeing name which hit the front page of the paper.

3. **Loss of Control via Outsourcing**

The outsourcing of production overseas also has ethical implications when standards are lowered in an effort to save money or to provide work to friends and relatives. In 2007, a large U.S. toy manufacturer was embroiled in a major recall when it was discovered its overseas manufacturing site had subcontracted the painting of toys to another contractor who sourced paint from a non-authorized third party supplier to save money. The problem was the toys were discovered to be coated in lead paint. So ideologically, you can aspire to ethical standards, but it entails constant auditing of everyone in the supply chain, in the U.S. and abroad.

4. **Ethics Are a Full-Time Job**

Ethical standards were new to the U.S. at one time. The nation has its own history of questionable business practices, but consumer and stockholder pressure slowly changed the culture within the U.S., which is still evolving. Unfortunately, in other parts of the world where cultural differences, pricing, bribery and keeping an economy afloat outweigh ethical operational standards, not only is there a need for 24/7 production, but also for 24/7 vigilance. Continual auditing of everyone who touches the product along the manufacturing process is necessary to ensure ethical manufacturing standards are upheld.

Ethical Issues in Product Management

Ethics basically refer to a systematic study of moral choices, and it is related to, but distinguished from, morals and laws.

- Morals are a set of principles used to distinguish right from wrong. Ethics conform to these moral principles.
- Ethics constitute a system of principles of personal behaviour that a person and a company adopt in daily life. Laws are developed politically based on the ethical pressures of the society.
- Laws are a set of rules passed by a government, consisting of both restraining and enabling legislation which is interpreted by courts and regulatory agencies.

The food industry has been slow over the last 100 years to move with society needs and has been subjected to many food regulations which are being constantly up-dated.

Workers in food product development have the dilemma of aligning what is 'right' according to cultural standards with company policy.

Generally speaking, each person in product development has their own set of standards which comes from their society and usually abides within them in their work practice. Why then is some of the behaviour of the food industry considered by society as unethical, so that many food regulations are imposed?

The problems are that society lacks commonly accepted standards of behaviour and often the unethical behaviour can be profitable in the short term. Standards vary from country to country, industry to industry and even from one situation to another. The product developer has a responsibility to evaluate society's ethics and abide by them, and sometimes taking account of more demanding standards which may be asked in the future. There may also be a dichotomy between the society's ethics and the company's ethics which the product developer has to reconcile.

There is a need for social responsibility by the company and by the individual in product development based on the ethical standards of both the company and the society.

2.3 Ethics of Marketing Professionals

Q3. Discuss the ethical responsibility of marketing professional in the light of the following statement : "marketing is not nearly campaigning or providing information are selling products and services it is about marketing the value of a product".

Ans : **(Oct.-20, Imp.)**

Market is the place where people interface and interact with a company's people, products and services. Market is the first link of consumers with the company, and 'marketing ethics' is the bond that binds the market with the consumers. Therefore, understanding the issues of ethics in marketing is of paramount importance for marketing professionals. **Marketing ethics deal with the following:**

(a) The ethicality of products and services being marketed

(b) The ethicality of the process and means of marketing

(c) The ethics in advertising and product promotion

(d) The ethical conduct of marketing personnel

(e) The ethicality of marketing goals and targets

(f) The ethical responsibility for the sales made

Marketing is about creating a condition where people willingly buy what they want fix fulfilling their legal, moral, psychological and intellectual needs. Therefore, personal ethics of marketing personnel and ethical imperatives of the marketplace are integral parts of marketing operations.

The ethical issues of marketing operations arise out of product offerings, pricing and price fixing mechanism, marketing process, marketing channels, services and contractual obligations. The aim of ethics in marketing is to protect and promote the interests of consumers and thus win the customer confidence and perpetuate the legitimate gains for business. Ethics in marketing is, therefore, a strategic game for ensuring profits and sustainable growth by balancing 'profitability' with 'morality'.

To begin with, all marketing transactions with customers are carried out through the interface of marketing professionals.

- Therefore, dealings of these marketing professionals are a critical indicator of ethical standards the business. These professionals not only have the responsibility of their own ethical behaviour, but also of building a good name and goodwill for the organization.
- One may argue that a marketing professional is only an employee, and that his or her activities are controlled and regulated by the employer. Hence, the company's adopted means and ethical standards in marketing may not be any different from his or her exhibited ethics as a professional.
- But, rules of ethical behaviour demand that, as a professional, a marketing person also has his or her own professional discipline and commitment to ethics. These ethical standards should apply to the customers and people they serve, as much as to their professional behaviour within the organization.
- As in the case of employees, professionals neither have to accept any kind of task or assignment nor do they have to be forced by the authorities of the organization if that task or assignment is not moral.
- Professional code of conduct and moral conscience should be the balancing factor in the performance of in assigned duty. It should be noted that marketing professionals may be directly accountable to their companies, but they are equally responsible for the morality of their actions and ethics in the marketplace.
- Ethics in marketplace are essential for fair deals and winning customer satisfaction both of which go on to secure the ultimate success of a business. The impact of falsehood and deliberate misstatement by a marketing professional can very adversely affect the long-term business prospects. Marketing professionals have the responsibility to be ethical to their customers and society in order to make for better business environment and growth.

- Ethics of marketing professionals cover the ethical issues in relationships between the company and the marketing persons, as well as their customers including the public as potential customer.
- In other words, ethics are more like a service transaction with a 'customer-supplier relationship' between the company and the marketing person on the one hand, and the marketing person and the customer on the other; this relationship aims to fulfil each other's needs and expectations.
- If this is the platform on which marketing professionals have to work, then they have to be careful not to lend their weight or support in hurting the interests and well-being of customers.
- They have to be mindful about their ethical duties and responsibilities in the marketplace. Referring to the sale of spurious drugs in exchange for a hefty commission, no ethical and moral professional can undertake such a criminal task, no matter how handsome is the reward.
- Ethical standards of a profession prohibit professionals from seeking gains only for themselves, their actions must safeguard the interests of society, consumers and the public all of whom they are supposed to be serving as professionals.
- Thus, holding on to ethics and morality in a profession is a dual task, asking for fair and just service to both the company and its customers.

On the other hand, marketing is not merely campaigning or providing information or selling products and services; it is about marketing the 'value of a product'.

- As per modern management principles, marketing is the value that a company offers through a product, which its customers buy at a price. Similarly, selling is not delivering a product and collecting money; it is about delivering the correct product (characterised by the value proposed by the makers) at right time for the right price.
- The ethics of marketing professionals comprise sharing information and data about a product in the most transparent manner so that the customer can judge for himself what he or she is buying. Misleading product advertisements, price fixing, operating a cartel, price discrimination, black marketing, etc. are ethical offences.
- Some of the most rampant violations of ethics take place in the field of (product and sales) advertising, and this needs to be regulated in order to avoid misrepresentation. In this context, both marketing professionals and advertising personnel are responsible for ensuring adherence to ethical conducts and rules protecting consumer interest.
- Developing countries have rather slack laws when it comes to protecting consumers against false or misleading product features, compared to developed economies where product liability and deficiency can lead to heavy penalty and punishment.
- Yet, from the professional viewpoint, it is immaterial whether the law is slack or stringent; ethics demand that marketing professionals do not misrepresent or misguide the buyers for personal gains, such as higher commissions, promotions or other rewards.
- Unlike accountants, marketing professionals have no chartered association of their own; they are included amongst management professionals. Hence, they should follow the ethical code of conduct of the company management they serve.
- As such, their activities should be monitored and over viewed by the ethics committee or the ethics counsellor of the company. Operating within the boundaries of their company's ethical norms brings certain limitations to the role of marketing professionals.
- Yet, as individuals, they are free to raise their objections or deny any unethical task or assignment, which might be acceptable in the eyes of the law and social justice.

2.4 Ethics in HRM

Q4. What is ethics in human resource management? Explain HR related ethical issues.

Ans : **(Imp.)**

Introduction

Human Resource Management (HRM) is the art of recruiting, training and sustaining an able work force to 'efficiently accomplish the objectives of an organization. As the name suggests, HRM has majorly to do with the management of people in an organization. It is a process by which the goals of an organization as well as the goals of the people working for it are brought in sync with each other.

According to Leon C. Megginson, "The term Human Resources can be defined as the process of total knowledge, skills, creative abilities, talents and aptitudes of an organization's work force, as well as the value, attitudes and beliefs of the individuals involved".

There is a strong connection between ethics and HRM. The human resource policies of an organization are significant factors that shape an employee's attitude towards his work and towards the organization. Ethics in HRM can be said to deal with the domain of the rights and obligations an employee and employer owe to each other. The equation between employer and employee should be such that maximum benefits for all parties concerned can be attained.

Business ethics cover everything decisions related to company strategies, decisions related to employing workers, decisions related to the pricing of the company's products, etc. An HR manager has to make decisions all the time regarding employing a worker or dispensing with a worker's services. He is also responsible to some extent for arranging special seminars for addressing the problems of the workplace, decisions regarding compensating employees, negotiations between workers' unions and the management, training employees to suit the organization's requirements, organizing orientation courses, and so forth. All these responsibilities must be performed keeping an ethical code of conduct in mind which aids HR professionals in taking sound decisions.

HR Related Ethical Issues

There is usually little mention of human resource management in discussions concerning the role of ethics in corporations when, in fact, it should be the primary topic under consideration in such discussions. Ethics form a big part of decisions related to managing human resources. The HR department of an organization can play a pivotal function in ensuring that the organization operates fairly and justly. Conversely, if the HR policies of an organization do not promote justice and fairness, the organization itself will have great difficulty in functioning in an ethical way. Several crucial issues related to ethics arise in the various jobs the human resource management of an organization performs. These different functions are:

1. Ethics in Recruitment

Recruiting can be defined as a process to find prospective employees for unoccupied positions in an organization so as to ensure that the organization can continue to operate smoothly. The issues concerning ethics that arise in the recruitment process are:

1. When new employees are recruited, they should be told about the actual condition of the organization and not be kept in dark regarding the same.
2. Employers recruiting new employees should not put out false advertisements in which the job being advertised is actually different from the job being offered just so that more people apply for the job.
3. Sometimes companies hire employees working for their competitors just to gain access to their competitors' trade secrets. This is unethical and an employee hired for such a reason could well divulge his

present employer's secrets if he is offered a lucrative enough price for them.

4. Only those directly part of the recruitment process should be handed over the information related to the different job applicants and they should keep this information to themselves.

5. Sometimes, people apply for jobs using false C.V. They may provide inaccurate infor- mation regarding their career milestones, experience, qualifications and age.

2. Ethics in Selection

Selection is the process of picking individuals (out of the pool of job candidates) with requisite qualifications and competence to fill job in the organization. It is the process of examining the applicants with regard to their suitability for the given job or jobs, and choosing the best from the suitable candidates and rejecting the others. Thus, selection is negative in its application as it seeks to eliminate as many unqualified applicants as possible in order to identify the right candidates.

Ethics play a major role during the hiring of employees. To be successful as a hiring manager making decisions that are sound and ethical is necessary. Though people say that an organization is more ethical if it goes for internal recruitment and it further provides training and development to the employees, if required. But, now the world demands highly skilled and talented people. So suppose if the internal sources are not as skilled as required, the company should hunt for suitable candidates outside, if the company recruits internal candidates, even though they are not suitable to the job requirement, it would be unethical.

Ethical Issues in Selection

Selection involves the choosing of the right employee with the required credentials and aptitude from the huge number of applicants who had applied for the job. Making ethical decisions is an important part of the selection process. The different issues concerning ethics that arise during a selection process are:

1) Nepotism A hiring manager can be said to be practicing nepotism if he prefers to hire a friend or family member with no merit in place of other meritorious candidates.

2) Situations can arise where people apply for jobs for which they are overqualified because market recession has decreased the total amount of jobs in the market. It can be a subject of debate whether such an action on the part of the overqualified applicant is ethical or unethical.

3) It is unethical to employ children to work when it is officially prohibited by government.

4) At times, hiring managers are pressurized by the executives at the top level of the organization to take in inept workers. This leads to lack of efficiency and hampers the organization's productive output.

5) When hiring managers, or managers responsible for the hiring process, for corrupt reasons, modify job requirements to suit a particular candidate who otherwise does not meet the job requirements, it is unethical.

6) Hiring more employees than one needs, is one of the usual unethical practices followed by organizations.

7) It is unlawful and unethical for hiring managers to discriminate between candidates on the basis of age or race.

8) Common ethical issues which may confront hiring managers in their work are those related to government laws regarding the hiring of people in a company or organization.

9) It is also the duty of hiring managers involved in the selection process for a particular opening in an organization to verify the particulars of the applicants in their applications and resumes and arrange for tests to confirm if the employees are addicted to drugs or not.

Guidelines for Ethics in Selection

The selection process should contribute to a work force that values ethical behaviour as something to aspire to in the workplace. Hence, it is essential that, the selection process focuses on attracting and selecting employees who share the organization's value systems. The selection process is the first place where the potential employees form their first idea of the organization's ethical orientation. Human resource staff must ensure that their first impression is positive and the resulting role identity incorporates recognition of the importance of ethics. Fairness in the selection process itself can influence a new employee's expectation about the ethical behaviour in the organization. If the prospective employees perceive that the selection process does not treat people fairly, they may assume that ethical behaviour is not important in the organization. A quick interview, without giving much opportunity to the candidate to get to know the job and prospects, may give the impression that selection decisions are already made and the interview process is only a facade.

To ensure that the selection system is perceived as fair and ethical, human resources managers:

1) Should use tests that have been validated for their organizational purpose. A test that is found to be good in one organization may not prove to be good for the other organization.

2) Should clearly set out the criteria of selection. These should be made known to those who are involved in selection.

3) All members of the panel should be given training in asking questions and drawing conclusions from the answers.

4) In a panel situation, the ratings on the performance of candidates should be done independently.

5) Before selection, a study of the application form should be done by the panel to familiarize itself with the issues that need to be discussed in the interview.

6) Candidates should be given ample opportunity to express themselves, so that enough information is generated to enable taking well-informed decisions.

3. Ethics in Training and Development

Organizations invest a great deal of time, money and effort in the training and development of employees because the skills they had learn at a particular point of time in the past run the danger of fading away or becoming outdated. Training means a systematic method via which people learn a particular skill or gain some knowledge on a particular subject. The skills or knowledge acquired by training can be regarding basic literacy, technical skills or knowledge, interpersonal skills and problem-solving. Training improves employees' abilities and increases their efficiency. Certain ethical issues that can arise in training and development are:

1) A major ethical question which concerns training and development is how beneficial the training provided by the organization will actually be for the employee, that is, will it best serve the interests of the employee or the organization? Associated questions are how the training goals will and objectives be fixed and to solve what problems, and will they really help the employees fruitfully grow in a positive way?

2) It is unethical when trainees are recruited not according to the requirements of the organization but based on favouritism.

3) It can be a subject of debate whether the training provided by an organization which it expects its employees to follow should solely benefit the organization. Ethically, this may be the cause of much concern if the training concerned involves changing the values of its participants.

4) Ethical issues can also arise with regard to the training methods used.

5) Another ethical issue which requires attention in this context is that of trainer perceptions. Various prejudices or preconceived notions that a trainer may harbour against trainees because of his own background may come to the fore during the training process.

6) Ethical issues arise when organizations employ trainers who are not highly

educated and not concerned in training the trainees in the first place.

7) Ethical issues arise when old and obsolete training material is supplied to the trainees.

8) Ethical issues arise when training programmes are organized and delivered during peak seasons.

4. Ethics in Performance Appraisal

Performance appraisal or performance assessment means carefully noticing the actions of employees in the workplace and subjecting them to a thorough appraisal. HR managers are expected to be experts at this job. Performance assessments should be conducted in accordance with the highest standards of ethics as an employee's future in an organization depends on it. The company's future depends on it as well since only by rewarding deserving employees and criticizing under- performing employees will the company manage to grow positively. An honest performance assessment should lead to the employee being assessed and his assessor together formulating a way to better the former's work output.

Performance appraisal can have many ethical issues related to it. Some of them are:

1) Favouritism and Organizational Politics

A few managers blatantly show favouritism towards one employee over another. Employees who are on the side of such managers and openly ally with them are given good, positive performance reviews while employees who do not toe their line are given negative performance reviews.

2) Rating Errors

Unsuitable managerial thinking and behaviour causes various rating errors such as central tendency, pitchfork, strictness, leniency, etc. Apart from being rating errors, these are basically ethical problems because managers too are human beings and their thought-processes too are shaped by particular biases, experiences, circumstances or events that influence their ability to act in a just manner.

3) Unethical Managerial Practices

Certain managers purposely do not give good reviews of their competent employees because they are afraid they will lose them to supervisors of other departments. Privately, they let such employees know that they admire their performance but they rate them low when it comes to public reviews.

4) Passing the Buck

While on the one hand, certain managers themselves give an employee a low rating in performance reviews, on the other hand, to escape an awkward situation with the same employee when they meet him in person, they purposely tell him that he doing good work which is totally wrong.

5) Internal Conflict

At times, achieving the goals a manager or an employee working for an organization has set for himself becomes such a burden that he is forced to ignore his personal values.

6) Organizational Politics

It is a major contributor to ethical dilemma in performance appraisal. Due to collusive behaviours driven by self-interest, perfor- mance of employees are appraised more on the basis of political alignment with a particular person or group rather than his accomplishments, competence and commit- ment towards organizational goals and objectives.

5. Ethics in Career Development

The development of the career of an employee is traditionally seen as both the responsibility of the employee himself as well as that of the management he is working under in an organization (Nowadays, however, it is seen as more the responsibility of the individual employee). As regards the organization's responsibilities towards the employee, the managers should offer him the chance to grow as much as possible, increase his salary from time to time if he is doing good work, try to make him find his place in the larger scheme of the goals the organization has set for itself and its future plans etc.

As regards the employee's responsibility towards himself to develop his career, he should have a firm sense of himself and his strengths and weaknesses, he should have built up a credible reputation for himself and he should have networked with his colleagues and other business associates outside his own organization to have as many options open to him as possible. From both sides, the employee himself as well as the management, whoever is shirking his responsibility and acting as a deterrent to the employee developing his career is deemed unethical.

6. Ethics in Compensation

There are ethical issues pertaining to compensation plans include the following:

1) Base Salaries

The base salary is what an employee gets for performing his job while other benefits are extra. The HR department tries to explain to its superiors that the higher base salaries of certain employees are due to competition from other firms. The HR department could use the higher grades and skills of employees as a justification for giving them higher base salaries. At times, there is pressure on the HR department to promote the employee to a higher position to justify elevating his base salary by a great extent.

2) Annual Incentive Plan

An annual increment is almost a must for most organizations. However, the HR departments of certain organizations prepare higher increments and incentive plans for top-level executives which are much more than these individuals deserve. The rationale given to the HR managers of such organizations for playing with the rules in this way is that if they do not do so, the organizations will lose high performing executives. This is not fair to the other employees who do not come in the top bracket.

3) Long-Term Incentive Plan

It is the duty of many HR executives to prepare an organization's long-term incentive plans by discussing them with the CEO and another outside advisor. Ethical issues arise if the HR executive is, in this process, pressurized to favour the top management executives over other employees and investors.

4) Executive Perquisites

Executive perquisites are often a test of the ethical standards of the HR executive of an organization because their cost is often several times over and highly disproportionate to the value the employee enjoying the perquisite adds to the organization. For example, there is the famous story of the CEO of a Bangalore-based public sector undertaking running into huge losses who spent 20 lacs to build a swimming pool at his house.

Q5. Explain the ethical guidelines for human resource management.

Ans :

Some ethical guidelines that HR professionals can use so as to cope with the situations they can possibly be confronted with in much better ways are:

1) Ethical Leadership

An HR professional should live up to outstanding ethical standards in his behaviour both within and outside the organization. This will enable him to:

i) Earn the respect of his peers.

ii) Gain credibility from his superiors.

iii) Be a role model for others.

Guidelines

Some general principles that HR managers should follow in order to lead their subordinates in an ethical fashion are:

i) Behave ethically in all aspects related to your profession.

ii) Examine individuals and groups in the organization to confirm if they are conducting themselves in an ethical manner.

iii) Consult a specialist if there is any confusion regarding what the right thing to do is in a particular situation.

iv) By serving as an example of an ethical leader in an organization, you will motivate others to follow suit.

2) Professional Responsibility:

An imperative duty of an HR professional is to contribute to raising the ethical standards of the organization of which he is a part. The goals of cultivating this professional duty are:

i) Positively influencing the process of hiring.

ii) Assisting the organization in accomplishing its aims.

iii) To boost employees to make better decisions and take up specialized responsibility.

iv) Creating trustworthiness and dignity for the HR profession within as well as outside the organization.

Guidelines

Some general principles which will help an HR professional carry out his professional responsibility well are:

i) Pushing for the pursuit of excellence in all facets related to his profession.

ii) Conducting himself in accordance with the highest standards of ethics.

iii) Looking at human beings as human beings and not just cogs in a wheel.

iv) Conducting himself in accordance with the law.

v) Working constantly, producing good results and valuing the profession he is part of.

vi) Promoting open debate on issues regarding which there can be no simple black or white answer and influencing key decisions relating to the HR department of the organization.

3) Fairness and Justice:

The fundamental ethical duty an HR professional has is to create an environment where all employees feel to be justly and fairly treated and all of them can feel secure that their organization and co-workers will help them reach their full potential.

Guidelines for Just and Fair Organizational Environment

i) Treat people empathetically with the respect that a human being deserves so as to create an atmosphere without harassment and favouritism.

ii) Ensure that the policies you draw for the organization treat all persons part of the organization fairly and justly.

iii) Ethical and legal decisions made by the organization should be backed by all its employees, from those at the top level to those at the lowest level, fully even if they go against their personal interests.

iv) Always remember that each person is unique and worthy of respect. If his talents are nurtured appropriately he too could blossom into as competent an individual as anybody else.

v) An organization should follow an inclusive approach in which everybody working there is made to feel part of key decisions that the organization makes and each person is given the chance to grow and harness his skills.

vi) If an organization does business internationally, then it should be ensured that its best face is shown to people abroad and the international responsibilities are carried out extremely diligently and ethically.

4) **Professional Development**

One's development as a professional is an ever-continuing process. It has no end. Professionals must, therefore, endeavour to be as skilled and dedicated as they possibly can at a particular point in time.

The key intentions on which professional development should be based are:

i) To expand one's horizons regarding how the organization operates.

ii) To gain more understanding of how specifically HRM functions in conjunction with the organization.

Guidelines for HR Professionals to Grow

i) An HR professional should be dedicated to constantly learning new things and improving his abilities.

ii) He should strive to join and complete formal academic courses to gain more knowledge.

iii) He should give back to the profession and enable the growth of individuals working around him by means of investing his time and energy into research and development and teaching.

5) **Conflicts of Interest**

The responsibility of an HR professional extends beyond employees working for the same organization to other stakeholders who could be directly or indirectly connected to the organization. The HR professional must build a high trust culture of which all his stakeholders are a part and he must be careful to be fair to all of them. The professional integrity and interests of stakeholders must be respected. If the HR professional shows undue favouritism towards one of the stakeholders or indulges in other corrupt behaviour, then it could result into conflicts of interest.

Guidelines to Identify and Avoid Conflicts of Interest

i) To identify conflicts of interest, prepare a list of obligations which must be given priority to.

ii) Support that published policies on conflicts of interest are used within the organization.

iii) It is unethical to ask for undue favours or grant undue favours in human resource management and this should be avoided.

iv) It is unethical that, because one occupies a high position of importance in an organization, one uses the influence that comes from that position for selfish, personal benefits at the cost of someone or something else.

6) **Use of Information**

It is one of the fundamental duties of HR professionals to make sure that there is a smooth and unhindered stream of honest communication from the top to the lowest level in the organization of which they are a part. They should make it a priority to create an environment where everybody from the highest to the lowest levels feels part of the decisions that the organization takes. HR professionals must make certain that the members of the organization should share a relationship of great trust and give and receive information freely, doing away with all concerns of the intentional or unintentional spreading of misinformation.

Guidelines for use of Information in an Organization

i) Receive and give information ethically and responsibly.

ii) Keep up with the latest HR information related to the organization or otherwise and make sure that it is correct in all respects.

iii) Before important information is put into practice, ensure by means of examination whether the source of the information and the information itself is reliable or not.

iv) Find out means to protect confidential information.

v) Ensure that all information regarding HR policies is valid.

Q6. Explain the role of HR in creating an ethical organization.

Ans :

For an organization to be an ethical organization, its HR department plays a vital role. One way for HR managers to build an ethical organization is to integrate ethics and values into performance management and reward systems, that is, to judge the performance of employees and promote or reward them on the basis of ethical behaviour that they exhibit. Conversely, unethical behaviour and indiscipline should be penalized by HR managers to set the right example. It should be a priority of HR managers to implement these methods regardless of whether the employee in question is a top level executive or an ordinary worker. This will prove to be an extremely strong indication to all the members of the organization that there will be no compromise on ethical behaviour. The emphasis on the part of the HR managers should be to create an ethical culture, that is, an environment where fairness and justice reigns supreme and where the employees can rest assured that no matter what happens, the truth will prevail. This ethical culture should be regularly examined and the shortcomings found should be done away with.

The most important duties of the human resource management of an organization to ensure that it becomes an ethical organization are:

1) **Developing and Implementing Ethical HR Practices:**

   First and foremost, to ensure that all departments of the organization act according to the highest standards of ethics, the HR department must lead by example. The initial contact a potential employee applying for a job in an organization from the outside has with the organization is with the hiring methods that the HR department of the organization has put into practice. This aspect speaks volumes about the organization to a prospective employee. Another aspect of an organization directly under the control of the HR department is evaluating how employees perform and how much employees are to be paid. If an organization wants to be regarded as an ethical organization it must take care that the way it evaluates employees is as fair as possible and that the payment it offers to employees must be given on time and must be proportional to the employee's efforts so that no one feels cheated or short-changed. An organization can also aid its HR department by arranging for special seminars or training that can help employees learn how to create and blend into a high-trust culture free from unethical behaviour of every sort.

2) **Defining and Facilitating Changes to Policies, Procedures, and Practices:**

   In order to fulfil its goal of becoming an ethical organization, the different divisions of an organization must work together with the HR department. Just as the HRM decides to change certain policies, procedures and practices to get in sync with the organization's goal of becoming an ethical organization, so must the other divisions of the organization be prepared for an overhaul of existing policies and plans. This is the duty of the management of each of the separate divisions of the organization.

3) **Creating a Supportive and Enabling Culture:**

   An increasing number of HR professionals nowadays are being given the charge of building workplace cultures which allow each individual employee to express his individuality but at the same time forge a community out of the group of employees working for the organization. The training and development function plays a crucial part in this case. The training and development function emphasises helping workers learn the latest plans, strategies and programmes of the organization which they can work on as a team. However, organizations that wish to be judged ethical organizations must commit themselves to a set of core ethical values which all their plans, strategies and programmes, from the smallest to the biggest, must be based on, which will not be compromised with at any cost and which all the employees of the organization as a collective must adhere to and be proud of. This will build a strong culture of shared, honest values in the organization.

2.5 Ethics of Finance and Accounting Professionals

Q7. Explain various principles Related to Ethics in finance ?

Ans : **(Imp.)**

Introduction

Finance is concerned broadly with the generation, allocation, and management of monetary resources for any purpose. Ethics in finance consists of the moral norms that apply to financial activity broadly conceived. Finance conducted according to moral norms is of great importance, not only because of the crucial role that financial activity plays in the personal, economic, political, and social realms but also because of the opportunities for large financial gains that may tempt people to act unethically. Many of the ethical norms in finance are embodied in laws and government regulation and enforced by the courts and regulatory bodies. Ethics plays a vital role, however, first, by guiding the formation of laws and regulations and, second, by guiding conduct in areas not governed by laws and regulations. The moral norms that apply to financial activities are diverse and vary to some extent among societies or cultures.

Principles Related to Ethics in Finance

Principles related to ethics in finance are as follows:

1) **Principle of Integrity**

Integrity means "adherence to moral and ethical principles". Professionals have to adhere religiously to honesty and straightforwardness while disclosing their representative professional duties. The following acts of responsibility would help professionals comply with the integrity principles:

i) Avoid activities which could affect goodwill of the organization.

ii) Refuse to get involved in activities which could adversely affect the achievement of the organization's objectives.

iii) Communicate adverse and favourable information with those concerned.

iv) Avoid conflicts.

v) Refuse favours or gifts which could influence action taken or to be taken.

2) **Principle of Objectivity**

According to this principle, accounting and finance professionals should not allow bias, personal views, conflicting interests and undue influence of themselves or others to override business judgement. They should communicate information fairly and objectively in a transparent manner.

3) **Principle of Confidentiality**

The principle requires accounting and financial professionals to refrain from disclosing confidential information related to their work.

4) **Principle of Professional Competence and Due Care**

The financial and accounting professional need to update their professional skill in the modem competitive environment.

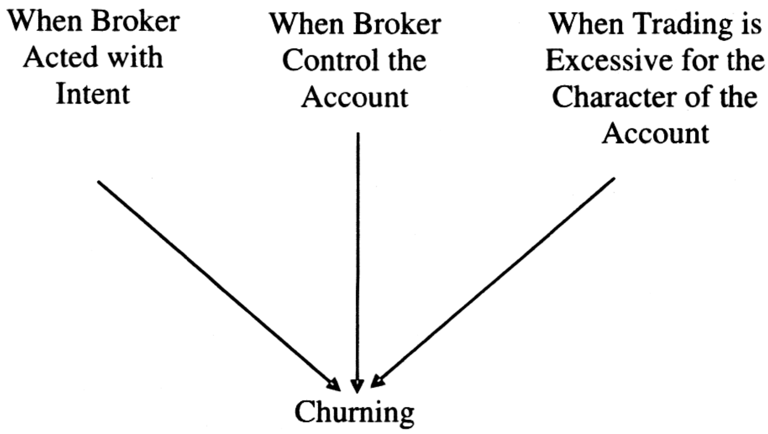
5) **Principle of Professional Behaviour**

The principle requires accounting and financial professional to comply with relevant laws and regulations and avoid such action which may result into discrediting the profession.

Q8. Explain various Unethical Activities in Finance.

Ans :

Some common unethical activities in finance are as follows :



1) **Unsuitability**

Insurance agents, brokers and other sales person cheat innocent investors by recommending unsuitable securities and financial products.

2) **Deception**

Deception is quite common unethical practice in India by strengthening the returns and minimizing the weaknesses and risk factors. Salespersons, agents, advisors deceive the public using the misleading statements like tax free or 0% interest, etc., they make public unable to make rational choices among so many alternatives.

3) **Inappropriate and Excessive Trading**

This situation arises when the broker keeps an intention to generate commission rather than benefits to client in the standing of having control over the client's account. It is a kind of 'Churning' breach of a fiduciary duty.

4) **Fraud and Manipulation in Markets**

As by law all the participants in the financial markets are same so fairness in dealings is desired. Here the fairness is not meant by preventing losses rather it contributes to the efficiency. Here fraud means when a company fails to report proper information and manipulation of buying and selling of securities for the purpose of creating misleading impression about price to misguide the investors to buy or sell the securities.

5) **Unequal Bargaining Power**

It is quite common unfair practice along with unequal information in the financial market. The principle of equal bargaining power says that all the parties have relatively equal bargaining power.

6) **Insider Trading**

The act of buying or selling a company's stock on the basis of 'inside' information about the company is called as 'insider trading'. Insider trading is illegal as well as unethical the information which is confidential and not available to the general public outside the company, have a significant impact on the price of the company's stock.

7) Greenmail

The term greenmail refers to the payment of the substantial premium for a significant shareholders' stock in return for the stockholders' agreement that he or she will not initiate a bid for the company.

8) Golden Parachute

Golden parachutes are facilities provided to the management executives, which enable the executives to secure their financial condition if they happen to lose their job. Such benefits may be rendered under various circumstances, and evidently are supposed to be the most lucrative. Golden parachutes are neither ethical nor unethical per se but depend on several factors. Target company management may institute golden parachutes to protect itself in the event of a hostile takeover and may even give golden parachutes to hundreds of lesser managers to make the target company look less attractive to the predator. When management take such actions, they are clearly breaching their fiduciary duty to safeguard corporate assets for the shareholders.

Reasons for Unethical Activities in Finance

Reasons for unethical activities in finance are as follows:

1) Emphasis on Short-Term Results

The company manipulates accounting entries to depict good profitability in order to raise further capital from the market. This is one of the primary reasons for downfall of companies like Enron, World Com, Satyam, etc.

2) Ignoring Small Unethical Issues

Tolerance of small lapses leads to larger problems. So, the companies should develop an environment where small ethical lapses are taken seriously so that they are not repeated in future.

3) Economic Cycles

To prevent disclosure of ethical problems in times of recession companies should be extremely careful and vigilant during good times. A company must ensure itself that the effect of recession on its financial statements will be limited and it will be able to bear losses. At the same time, the company must take steps to make the situation acceptable to its shareholders.

4) Complex Accounting Rules

In the era of globalization, accounting rules are changing fast and becoming more complex. It becomes difficult to identify deviation from these complex sets of requirements. The difficulty associated with identifying abuse is one of the reasons that promote unethical behaviour.

Q9. Explain the importance of Ethics in Finance.

Ans :

Importance of ethics in finance is as follows:

1) **Maintaining Public Faith**

In the wake of the numerous accounting scandals in the early 2000s, transparency regarding a company's accounting methods and practices has become increasingly important to the general public. A company that provides a clear explanation of the accounting methods used to prepare its financial statements appears to be more ethical and trustworthy than companies that do not provide such information. Often, the more ethical and trustworthy a company appears, the more likely it is to attract new investors.

2) **Avoiding Regulatory Investigations and Sanctions**

If a company's financial reports contain suspicious accounting methods, it can lead to a regulatory investigation such as a SEBI investigation. If regulatory bodies find any accounting malfeasance on the part of the company and/or on the part of the accountant, they can levy costly fines or sanctions against the company and the CPA could lose his licence. An example of corporate malfeasance is if the company failed to report all of its earned income. Accounting malfeasance can include actions such as the accountant knowingly using false information provided by the company or accepting cash or other incentives outside of his regular pay to prepare the company's financial statements; e.g., if the accountant knew the company was not reporting all of its income but prepared the financial statements anyway and accepted cash or other incentives to do so.

3) **Avoiding Stock Price Volatility**

When companies are accused of, or under investigation for, unethical accounting practices, investors begin selling off their shares in an attempt to avoid a total loss on the investment. This leads to a decline in the price per share. However, as some investors are selling their shares, market speculators and high-risk investors may be purchasing the shares at the lower price, causing a temporary increase in share price. Constant share price volatility can lead to investor panic and induce a large sell-off of the company's shares, driving the share price down. If the price per share drops low enough for a long enough time, the company is delisted from its respective stock exchange, its credit rating can go down and it will have a difficult time obtaining the money it needs to continue operation. Banks and other creditors to which the company owes money may call in their loans. If the company cannot obtain the funding to pay its creditors, bankruptcy and corporate collapse could follow.

2.6 Ethics of Advertisement

Q10. What is Ethics of Advertisement? Explain the ethical issues related to Advertisement.

Ans : **(Oct.-21)**

Introduction

Ethics in advertising put some moral and social responsibility on advertisers. The advertiser should not use excessive fear and sexual appeal, indecent language, excessive persuasion, false claims, baseless and misleading comparisons. The ads should not undermine the position of women, aged persons, should not pollute the thinking of children, should not promote the use of undesirable products like tobacco, alcohol, etc.

- Ethics are moral principles and values that govern the actions and decisions of an individual or group. Many laws and regulations are put into forces that determine what is permissible in advertising. However, not every issue is controlled by rules. Marketers are often faced with decisions regarding the appropriateness of their actions which are based on an ethical consideration rather than what are within the law or industry guidelines.
- There is considerable overlap between what many consider to be ethical issues in advertising and the issues of manipulation, taste, and the effects of advertising on values and lifestyles. Certain actions may be within the law but still unethical.
- For example, Cigarette smoking has been shown to be associated with high levels of lung cancer and other respiratory tract diseases and many people would consider cigarette advertising as unethical.
- In India, Advertising Standards Council of India (ASCI) enforces the ethical code for advertisers. The council is a non-profit organization set-up by 43 founder members and has developed a regulating code. It proposes to adjudicate on whether an advertisement is offensive or not. The Council's decisions are binding on its members and in case; of any disputes, it proposes to deal with the government.

Ethical Issues Related to Advertising

Ethical issues related to advertising are as follows:

1) **Puffery**

Puffery as a legal term refers to promotional statements and claims that express subjective rather than objective views, such that no reasonable person would take literally. Puffery is especially featured in testimonials.

Puffery is common practice in advertising. Puffery refers to “exaggerated claims comments, commendations, or hyperbole”. For example, a diner advertisement promoting what it claims to be the “world’s best cup of coffee” would classify as puffery. Such a claim would be almost impossible to substantiate, and no reasonable consumer would fall for it and take such an exaggeration at its face value.

2) Surrogate Advertising

This is a new category of advertising. In this type of promotional effort, the marketer promotes a different product.

For example, the promotion of Bagpiper soda. The firm is promoting Bagpiper Whisky, but intentionally shows soda. They know that the audience is quite well aware about the product and they know this fact when the actor states, “Khoob Jamega Rang, Jab Mil Baithenge Teen Yaar ... Aap ... Main, Aur Bagpiper”).

Thus, in general, surrogate advertising is when one promotes one product or service in the hope of selling another. The best reason is that one is not able to legally. But other reasons might be because the two products sell better together.

3) Stereotyping

Stereotyping is categorising an individual as a part of the group and inferring that an individual will have the qualities and personality possessed generally by all the group members.

These advertisements portray an over generalized and idealistic version of reality, but most people still use them as a measuring stick when it comes to beauty, health or behaviour.

This in turn creates unattainable goals and expectations that can lead to a variety of negative consequences. For example, women are often portrayed as “objects” of sensuality in most advertisements such as Axe, Set Wet, etc.

4) Subliminal Advertising

The advertising industry, a prominent and powerful industry, engages in deceptive subliminal advertising which most of us are unaware of. By passing our unconscious mind using subliminal techniques, advertisers tap into the vulnerabilities surrounding our unconscious mind, manipulating and controlling us in many ways.

Subliminal are inherently deceptive because the consumer does not perceive them at a normal level of awareness, and thus is given no choice whether to accept or reject the message, as is the case with normal advertising.

For example, an advertiser can insert a message in a music track that is played in a store, in a film shown in a theatre, or on T.V., in such a way that the viewer is not consciously aware of the advertisement, even though he or she is subconsciously picking it up.

5) Advertising to Children

Advertisements aimed at pre-school children are another fairly clear case of unethical practice in advertising. At this age, children tend to be very impressionable.

They believe most of what they hear and see, are unable to distinguish clearly truth from fancy, and have very little critical skill or experience. Ads aimed at children are inappropriate because they create a desire in children for products they do not understand (e.g., vitamins). The intent of the ads is clearly to manipulate the children into applying pressure on their parents to make such purchases.

Q11. “Product placement is a kind of advertisement”. Discuss also mention the ethical aspects in product placement.

Ans :

Product placement is a type of advertisement in which an advertiser pays to prominently display a product as a part of scene or story in a television show, movie, magazine article, or other form of media. Product placement is an advertising technique in which companies pay a fee or provide services in exchange for a prominent display of their products. It is primarily used in connection with the movie industry, although other venues such as concert halls, convention centres and high-profile nightclubs may also agree to some form of product placement. The product placement is often not disclosed at the time that the good or service is featured. Product placement became common in the 1980s.

Product placement has received an increasing role in promoting global brands with soft drinks, beer brands, watches, clothing, etc., of TV shows, movies and now even video games, being a new way to promote products and services. Competition can be fierce between rival products or brands, such as Ericsson and Nokia both competing to be the mobile phone of choice for the James Bond movies. Naturally with the selection of any product placement opportunity, the promoting company will need to decide, whether the intended target audience is appropriate, and whether that project is a cost-effective means to achieve the promotional goals.

For example, hero in a movie is drinking a bottle of soda as the bad guys drive by disguised as delivery men. The hero leaps into his sports car and a chase ensues. The bad guys finally crash their delivery truck into a coffee house and surrender to the hero. There is a reason why the hero was drinking Pepsi, the bad guys were driving a Federal Express truck and the crash scene was a Starbucks coffee shop. That reason is called product placement.

The business of product placements has evolved at warp speed during the past decade. An activity that was once rare, haphazard, and opportunistic has become more systematic, and in many cases, even strategic. Even though product placement will never be as tidy as crafting and running a 30-second T.V. spot, numerous case histories make several things apparent about using this tool, both in terms of challenges and opportunities.

Product placements will add the greatest value when they are integrated with other elements of an advertising plan. No big surprise here; it is always about the synergy. As with event sponsorship, the idea is to leverage the placement. One should avoid isolated product placement opportunities and create connections to other elements of the advertising plan.

For example, a placement combined with a well-timed public relations campaign can yield synergy; novel product placements create great media buzz. In addition, a product placement can be just the right thing to complement other advertising initiatives that attend the launch of a new product. People have seen this use on numerous occasions in the launch of new car models and brands.

Product displacement is the removing of trademarked products from primarily visual media in order to avoid the payment of licensing fees, if the trademark owner objects, or if the broadcaster would prefer not to publicise a product for free, if the owners have not paid for it to be included in a program. Product displacement is usually achieved via digital pixilation, though prior to the widespread availability of computer post-production, stage hands would cover-up brands on bottles, etc., using tape, or by using fake labels. This was called “jerking” and the term is also used now for the digital process as well.

There are three ethical problems related to product placement ethics:

1) Deception

The insertion of clearly branded products as if they were naturally occurring artifacts in a disinterested fictional landscape feels deceptive, but is it really? And does the wrong depend on the audience’s is being tricked? What if the audience is in on it, or grows to view product placement as a routine and expected element of content? If the deception is gone, does the wrong then disappear?

2) Expressive Integrity

Product placement is a process by which the vocabulary of creative expression is altered as a direct and deliberate response to payments. Accordingly, even if audience expectations evolved (or degraded) to where people no longer expected programming to be free of commercial insertions, something would still be lost.

3) Trust

The most serious ethical problem with placement is trust. The consequence of widespread, undeclared product placement is to create a taint, to cast doubt on the purpose of even innocuous communication and raise the possibility that it too has an ulterior motive, an unstated aim, which is manipulation.

Q12. What is the role of consumer autonomy in advertising?

Ans :

Consumer autonomy can be defined as the aptitude and character to choose products rationally while being able to review and reject them based on a person's feelings or research. People should not accept blindly and unconditionally an advertiser's claims. However, many advertisers "toe the line" in trying to convince people to buy their products and infringing on the autonomy of their prospective customers.

An example of a practice that violates consumer autonomy is related to advertisers attempting to generate a need for the consumer. The cosmetic industry attempts to do this most often. Many cosmetic companies attempt to make women believe they have a need for various creams and moisturisers to fight-off the effects of aging.

Advertising can achieve its target of sales promotion in two ways: influencing peoples' convictions with regard to products (cognitive influencing) and influencing their desires and emotional perception with regard to products (affective influencing). In both cases the moral boundary is there where legitimate forms of influencing change into coercion.

An important moral starting point is that advertising may not hinder consumers in making an autonomous choice. A choice is autonomous when it is made:

1) In full possession of one's faculties;
2) Based on understanding the situation;
3) Free of controlling influences determining the action.

These are minimum requirements - the consumer's autonomy must be sufficiently safeguarded. It is unrealistic to expect consumers to make all their choices based on all available information and without there being some control on the seller's part. The only thing that is important is that consumers have a sufficient understanding of what the products on offer are and that the seller's influence is not too great.

Consumers do not have to have all available product information in order to be able to make an autonomous decision to buy a product, and in principle it is not a crime for sellers to try to tempt consumers to use particular products, by publishing attractive advertisements or by appealing to people's emotions. However, there is a moral boundary to influencing consumers at some point.

Q13. Explain the ethical guidelines for adverti- sement

Ans :

Ethical guidelines for advertising are as follows:

1) Decency and Honesty

Advertisements should not contain statements or visual presentations which offend prevailing standards of decency. Advertise-ments should be so framed as not to abuse the trust of consumers or exploit their lack of experience or knowledge. Advertisements should not misuse research results or quotations from technical and scientific publications.

2) Social Responsibility

Advertisements should not condone any form of discrimination, including that based upon race, national origin, religion, sex or age, nor should they in any way undermine human dignity. Advertisements should not (without justifiable reason) play on fear. Advertisements should not appear to condone or incite violence, or to encourage unlawful or reprehensible behaviour. Advertisements should not play on superstition.

3) Truthful Presentation

Advertisements should not contain any statement or visual presentation which directly or by implication, omission, ambiguity or exaggerated claim is likely to mislead the consumer, in particular with regard to characteristics such as: nature, composition, method and date of manufacture, range of use, efficiency and performance, quantity, commercial or geograpmcar origin or environmental impact, delivery, exchange, return, repair and maintenance, terms of guarantee, copyright, trade marks, designs and trade names etc. Statistics should not be so presented as to exaggerate the validity of advertising claims. Scientific terms should not be used to falsely ascribe scientific validity to advertising claims.

4) Comparisons

Advertisements containing comparisons should be so designed that the comparison is not likely to mislead, and should comply with the principles of fair competition. Points of comparison should be based on facts that can be substantiated and should not be unfairly selected.

5) Unassembled Merchandise:

When advertised merchandise requires partial or complete assembly by the purchaser, the advertising should disclose that fact, e.g., "unassembled," "partial assembly required."

6) Testimonials:

Advertisements should not contain or refer to any testimonial or endorsement unless it is genuine, verifiable, and relevant and based on personal experience or knowledge. Testimonials or endorsements that have become obsolete or misleading through passage of time should not be used.

7) Portrayal (or) Imitation of Personal Property:

Advertisements should not portray or refer to any persons, whether in a private or a public capacity, unless prior permission has been obtained; nor should advertisements without prior permission depict or refer to any person's property in a way likely to convey the impression of a personal endorsement.

8) Exploitation of Goodwill:

Advertisements should not make unjustifiable use of the name, initials, logo and/or trademarks of another firm, company or institution nor should advertisements in any way take undue advantage of another firm, person or institution's goodwill in its name, trade name or other intellectual property, nor should advertisements take advantage of the goodwill earned by other advertising campaigns.

9) Imitation

Advertisements should not imitate the general layout, text, slogan, visual presentation, music and sound effects, etc., of any other advertisements in a way that is likely to mislead or confuse the consumer. Where advertisers have established distinctive advertising campaigns in one or more countries, other advertisers should not unduly imitate these campaigns in the other countries where the former may operate, thus preventing them from extending their campaigns within a reasonable period of time to such countries.

10) Identification of Advertisements:

Advertisements should be clearly distinguishable as such, whatever their form and whatever the medium used; when an advertisement appears in a medium which contains news or editorial matter, it should be so presented that it will be readily recognised as an advertisement.

11) Safety and Health:

Advertisements should not without reason, justifiable on educational or social grounds, contain any visual presentation or any description of dangerous practices or of situations which show a disregard for safety or health.

12) Guarantees:

Advertisements should not contain any reference to a guarantee which does not provide the consumer with additional rights to those provided by law. Advertisements may contain the word "guarantee", "guaranteed", "warranty" or "warranted" or words having the same meaning only if the full terms of the guarantee as well as the remedial action open to the purchaser are clearly set out in the advertisements, or are available to the purchaser in writing at the point of sale, or come with the goods.

2.7 Ethics of Media Reporting

Q14. Explain the various ethical issues in media reporting.

Ans : **(Imp.)**

Media ethics are a complex topic because they deal with an institution that must do things that ordinary people in ordinary circumstances would not do. Media ethics draw on a range of philosophical principles.

Ethical Issues in Media Reporting

- **Truthfulness**

  Journalists need to make a commitment to telling the truth. This includes not giving false or made-up reports, and telling truthful stories that are not intended to deceive the audience. This may require reporters to provide not only the facts but also the context surrounding them. Truthfulness requires a commitment not only from the journalist but also from the organization he or she works for.

- **Conflicts of Interest**

  The interests of a corporation that owns a news organization may sometimes be at odds with the nature of the news being reported. Journalists need to be careful not only to portray their parent company in an accurate light but also to give no special favors to companies connected to the organization's parent company.

- **Sensationalism**

  News organizations sometimes emphasize news that is interesting but unimportant. This happens when reporters put more effort into attracting and pleasing an audience than into reporting on the critical issues of the day. This can happen because of the increased pace of the news business brought about by cable television, the Internet, and the parent company's desire for profits.

- **Authenticity and Appropriateness of Photographs**

  Photos can be among the most controversial media materials, both because of their disturbing content and because they can be altered with digital editing tools.

Journalists and their employers can apply a variety of methods for enforcing and implementing ethical behavior. These include employing an ombudsman, requiring commitment to ethical behavior on the part of all employees, and adhering to a code of ethics.

The advertising industry became concerned with protecting its image during World War II. Among the major ethical issues in advertising are the following:

- **Truthfulness:** How important is it that claims such as "Tastes great" or "It's the best" can be demonstrably true?
- **Taste:** Is it appropriate for ads to attract attention by shocking audiences?
- **Media control:** Do advertisers have a right to control the editorial material that surrounds their advertisements?

In the public relations industry, practitioners need to work at balancing their clients' interests against those of the public at large. This can become problematic when a client is attempting to influence the public to support an issue such as going to war.

Ethics of media reporting is, perhaps, best reflected in the statement of a senior journalist who said: 'Journalism occupies a special position in the society because their role and function influences the masses, but he cautioned that they need to subscribe to a code of ethics in the course of their professional duties. Truth, objectivity and privacy are some of the issues that must be carefully pursued'. In today's world of mass communication, there could not be anything more important than ethics of the media reporting professionals.

Media has the ethical responsibility to stop or minimize the damage that an advertisement can cause to the interests of public or viewers or the society. There are numerous examples of electronic and media advertisements that we come across daily in TV, Internet, telecommunications, etc. Which are far from truth and mosdy misleading. In this age of communication via the recognised routes of media—that are growing everyday with the advancement of electronic and communication technology—we are often left with more of junk information than useful information.

Need for code of ethics in media was first recognised in USA when they formulated a code of practice for American Society of Newspaper Editors in 1926. Society of Professional Journalists code of ethics originated from this document and had undergone number of revisions in subsequent years. Ethical codes of the Society of Professional Journalists are based on the belief that public enlightenment is the forerunner of justice and the foundation of democracy in the media. The duty of journalists is to further those ends by seeking truth and providing a fair and comprehensive account of events and issues. Professional integrity and ethical behaviour are said to be the Society's principles and standards of practice.

2.8 Ethics of Healthcare Services

Q15. Explain the ethical issues relating to Healthcare Services.

Ans :

Health is, indeed, wealth. Health of people is the primary indicator of good governance of the country and well-being of its society. As per Article 25 of the Universal Declaration of Human Rights everyone has the right to a standard of living adequate for the health and well-being of oneself and one's family, including food, clothing, housing and medical care and necessary social services.

In the modern world, health care is regarded as a basic necessity of the people, and every State has the responsibility to work towards that goal. In recent years especially, the importance of health care has increased many-fold owing to the effect of socio-economic pressures and the stresses of modern industrialized lifestyles on the population. Increasing demands on health care services, and the need to make quality services available to the masses, has compounded the issue of ethics in health care and medical services. The problem is even more pronounced in the countries of the developing world which face acute shortages not only of quality services but also of qualified professionals.

The necessity to hold on to certain basic ethics in the medical profession is not new, it has existed since the beginning of human civilization and medicinal practice. 'Charaka Samhita', the ancient philosophy of Charaka, prescribes an elaborate code of ethics for medical professionals. It states: 'He, who practices not for money nor for a price but out of compassion for living beings, is the best among all physicians'. However, with the evolution of society, science and statehood, it is widely behaved that health is a fundamental right of humanity, and the responsibility lies with the State to promote, govern and assure good and ethical medical services to its people. The right to health brings on the issue of distributive justice' in managing and administering health care services.

Thus, the implied principles of health care services include the ethical principle of care, and making available an acceptable and affordable service to all at right time and in the right manner that assures safety, care and dignity of people receiving the service. Health care should be recognised as a basic responsibility of the state, and the organization providing health care services should be appropriately regulated and controlled by the state. It must be recognised that health care is a team-based activity where doctors as well as the supporting staff (including theatre and cleaning staff) should work with an ethical mission.

Hence, like all other professional services, health care services also require a regulatory approach to the ethical issues of the profession and professionals involved. The medical profession has formed a 'body of ethical statements' primarily for the benefit of the patients; yet, there are regular reports of medical negligence and patient suffering due to inadequate or careless medical services. While some such cases have been mentioned hearer as illustrations of care, there are ample court cases in India about the violation of medical ethics and duty of care.

Especially in India, people repose great trust in a doctor, who is considered second only to God. However, more and more people are now questioning the practice, the process of providing health care service and the attitude of the professionals involved. Trust based on 'goodness' of the doctor or nurse is slowly giving way to a patient's doubts and checks before the treatment. But, the problem is that in India not all people are in a position to take an educated view of the situation as they are not so literate, and neither the state nor the medical professionals go out of their way to minimize the hardship and suffering of common people. The general view is that medical professionals are duty-bound to care and treat patients to the best of their abilities, and the state is responsible for building infrastructures, facilities and faculties to ensure that health care services are possible to provide.

The American Medical Association (AMA), the leading professional body to recognize the responsibility of medical profession had enacted a code of ethical practices long ago. It states that: as a member of this profession, a physician must recognize responsibility to the patients first and foremost, as well as to society, to other health professionals, and to self. The following principles adopted by the AMA are not laws, but standards of conduct which define the essentials of honourable behaviour for the physician.

- A physician shall be dedicated to providing competent medical care, with compassion and respect for human dignity and rights.
- A physician shall uphold the standards of professionalism, be honest in all professional interactions, and strive to report physicians deficient in character or competence, or engaging in fraud or deception, to appropriate entities.
- A physician shall respect the law and also recognize a responsibility to seek changes in those requirements which are contrary to the best interests of the patient. A physician shall respect the rights of patients, colleagues, and other health professionals, and shall safeguard patient confidences and privacy within the constraints of the law.
- A physician shall continue to study, apply, and advance scientific knowledge, maintain a commitment to medical education, make relevant information available to patients, colleagues, and the public, obtain consultation, and use the talents of other health professionals when indicated.
- A physician shall, in the provision of appropriate patient care, except in emergencies, be free to choose whom to serve, with whom to associate, and the environment in which to provide medical care.
- A physician shall recognize a responsibility to participate in activities contributing to the improvement of the community and the betterment of public health.
- A physician shall, while caring for a patient, regard responsibility to the patient as paramount.

A physician shall support access to medical care for all people. The World Medical Association's Geneva declaration (September, 1983) also calls for the medical professionals pledging to: 'service to the humanity, serving the profession with conscience and dignity, committing to the principle of patients' health first and above all other considerations, respect for the secrets confided in doctors by patients, and maintaining the honour and noble tradition of the medical profession.' Indian Supreme Court has ruled that 'Medical profession is governed by code of medical ethics and etiquettes laid down by Medical Council of India. Although they are for internal self regulations of the profession, it is an obligation on the part of the professionals to fulfil certain rights, expectations of the patients.'

Another aspect of health care professional ethics is self-advertisement. The Medical Council of India (MCI) forbids advertising of medical doctors and rules advertising by doctors as unethical. Yet, there are plenty of cases where doctors somehow advertise themselves, in a way that cannot be acted against by the MCI for some 'technical reason'. In addition, in India, exaggerated or false ads by hospitals and diagnostic centres are increasing without any check, which is also contributing to unethical practices in health care services.

There is nothing wrong in advertising a business, of which health care services are a part, but that should be in good faith and reflect the truth. Unfortunately, many such ads are more with a view to deceive than to serve patients well within the principles of professional services and codes. Take the example of mushrooming of health care services all over country without adequate infrastructure or supporting qualified staff. Not only are some of these centres charging exorbitant fees, but are also harassing patients with their deficient treatment facilities, inflated bills and coercion at a point of time when patients are in desperate need of help and support. This is regarded as highly unethical professional practice.

Professionals associated with these activities have the ethical responsibility to safeguard the interests of public and serve the customers (patients) with promised products or packages. Misleading public with exaggerated claims, advertisements and false promise is unethical; and, behind such a business scenario, there is always some specialized persons or professional who is propagating wrongdoings. However, it should be appreciated that majority of businesses, and professionals engaged therein, are generally honest and ethical within the bounds of legal implications, though certainly there are a few who bring harm to some profession and business.

Unethical business practices, supported by some professionals, are not confined only to advertising or merchandising business; they have spread insofar as educational institutions, tourism and tour operations, and medicinal decisiveness among other areas.

2.9 Ethical Dilemma

2.9.1 Introduction to Dilemma

Q16. What is Dilemma?

Ans :

A dilemma is a situation that requires a choice between equally balanced arguments or a predicament that seemingly defies a satisfactory solution.

Organizational decisions generally evolve from issues, which are more abstract or general than concrete dilemmas. Issues are fairly easy to identify.

Example:

- Accounting procedures
- Customer service
- Crisis management
- Government regulations
- Targeted advertising
- Sexual harassment
- Affirmative action (in USA)
- Community spirit etc.
- Fair hiring
- Treatment of grievances

Issues stand outside of specific circumstances and often assume that individuals or groups can do the right thing if they so intend. It may also be about things like:

- Materials
- Buildings
- Plans
- Locations

A dilemma is a situation in which two or more options for action, representing varied interests, seem equally arguable, and where the decision is important but neither clear nor simple.

2.9.2 Introduction to Ethical Dilemma

Q17. What is an Ethical Dilemma?

Ans : **(Oct.-21)**

An ethical dilemma is a moral situation in which a choice has to be made between two equally undesirable alternatives. Dilemmas may arise out of various sources of behaviour or attitude, as for instance, it may arise out of failure of personal character, conflict of personal values and organizational goals, organizational goals versus social values, etc.

- A business dilemma exists when an organizational decision maker faces a choice between two or more options that will have various impacts on

  (a) the organization's profitability and competitiveness, and (b) its stakeholders.

- "In situations of this kind, one must act out of prudence to take a better decision. As we can see, many of these ethical choices involve conflicts of values".

- **According to Louis Alvin Day,** these conflicts can arise on different levels. "Sometimes, there is an inner conflict involving the application of general societal values". A production manager, when asked to produce a commodity by his company may face an ethical dilemma, when he knows that it will harm the large number of consumers who buys and uses the same. Sometimes, there may arise a conflict between general societal values, as in the case of minimizing harm to others and professional values.

- For example, news reporters may willingly hide a sacrilege a mob committed in a place of worship if they feared that it would result in a communal frenzy and mass slaughter.

- "Ethical dilem-mass involve problem solving situations in which decision rules are often vague or in conflict". The outcome of an ethical decision cannot be predicted with any degree of accuracy or precision. We cannot be sure whether we have made the right decision; nor can any one tell us so. There is neither a magic formula nor a software available to find a solution to this problem.

- Even the most astute business persons do commit ethical mistakes while deciding business issues. In such cases, people have no other alternative but to think well and deeply before they make decisions and once decided, to take the responsibility for such decisions.

  A person's intentions and what factors would prompt him or her to take the final decision are the "last steps in the ethical decision making process". When persons' intentions and their final decisions are at variance with one another, they may feel guilty for what they have done.

- Business persons and professionals come across several such situations in their lives. An advertising agent may be asked by the director of a mediocre B-school to draft an advertisement for admission stating that since its inception, the institute has 100 per cent placement.

- Though the advertiser knows it to be untrue, he or she may be prompted to draft and release the blatantly untrue advertisement due to extraneous factors. The advertiser's refusal to release the advertisement would mean loss of business, income and loss of a big client, all of which would affect the bottom-line of the company's business.

- The management may argue that as an advertising agency, they were expected to act according to the wishes of their client. Personally, the advertiser may also be affected if he or she disagrees with the boss, which might adversely impact his or her career and income.

- These external factors might influence his or her decision in favour of a resolution to his or her ethical dilemma. This decision might be unethical though the agent knows it is morally wrong. Such wrong decisions may lead to a feeling of guilt in a person.

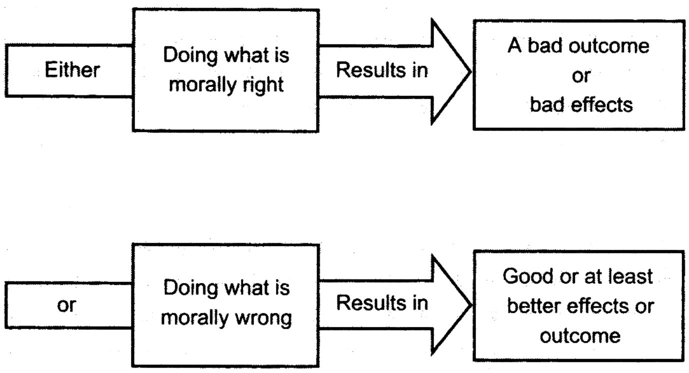


Fig. Structure of Ethical Dilemma

2.9.3 Mounting Scandals

Q18. Define Mounting Scandals.

Ans :

As we are seeing in our every day life, the scandals are increasing In the face of mounting scandals, many of the corporations adopt codes of ethics, business schools are developing ethics courses and consultants are hired to put 'integrity' into corporate cultures. Manj authors like Kenneth Blanchard and Norman Vincent Peale have responded with practical books aimed to demonstrate that ethical decision making is practical and effective.

What relevance does business ethics have for corporate managers? Laws and regulations underlie many matters that derive from the variety of relationships, managers have with employees, staff and customers. Many of the diverse groups need to be satisfied and this calls for mutual trust. A breach of ethics breaks down the mutual trust required to maintain individual and organizational moral behaviour.

2.9.4 Ethical Issues

Q19. Explain various Ethical issues in Ethical Dilemma.

Ans :

Most of the ethical issues presented to managers involve human resources treatment of employee problems involving customers and suppliers and then conflict between values and company loyalty. Most of these issues will involve ethical dilemmas.

The diverse ethical issues are to be managed effectively and efficiently by the managers. These issues may arise from various constituencies. Some common sense ethical principles can serve as the basis of fair and just administrative decisions. What is needed at the hour is mutual trust, effective communication and consistency in application. However, they do not guarantee success, but if implemented, may facilitate the management of diverse ethical issues.

Q20. How to Resolve Ethical Dilemmas ?

Ans :

Step 1: Analyse the Consequences

Assuming that the resolution to the ethical dilemma is to be found within the confines of law—ethical dilemmas that arise in business should be resolved at least within the bare minimum of law and legal framework as otherwise it will lead to a sort of Mafia business one has to look at the consequences that would follow one's proposed actions. And when one has several options to choose from, there will be an array of consequences connected with each of such options, both positive and negative.

Before one acts, answers to the following questions will help find the type of action that can be contemplated:

1. Who are the beneficiaries of your action?
2. Who are likely to be harmed by your action?
3. What is the nature of the 'benefits' and 'harms'?

The answer to this question is important because some benefits may be more valuable than others. Letting one enjoy good health is better than letting one enjoy something which gives trivial pleasure. Likewise, some 'harms' are less harmful than others.

4. How long or how fleetingly are these benefits and harms likely to exist?

After finding answers for each of one's actions, one should identify the best mix of benefits or harms.

Step 2: Analyse the Actions

Once you identified the best possible option, concentrate on the actions. Find out how your proposed actions measure against moral principles such as 'honesty, fairness, equality, respect for the dignity and rights of others, and recognition of the vulnerability of people who are weak, etc.' Then there are questions of basic decency and general ethical principles and conflicts between principles and the rights of different people in-volved in the process of choice of the options that have to be considered and answered in one's mind.

After considering all these possible factors in the various options, it is sensible to choose the one which is the least problematic.

Step 3: Make a Decision

Having considered all factors that lead to choices among various options, analyse them carefully and then take a rational decision.

This three-step strategy should give one at least some basic understanding to resolve an ethical dilemma.

2.9.5 Preparatory Ethics: Proactive Steps

Q21. Explain the Proactive Steps of ethical Dilemma.

Ans : **(Oct.-21)**

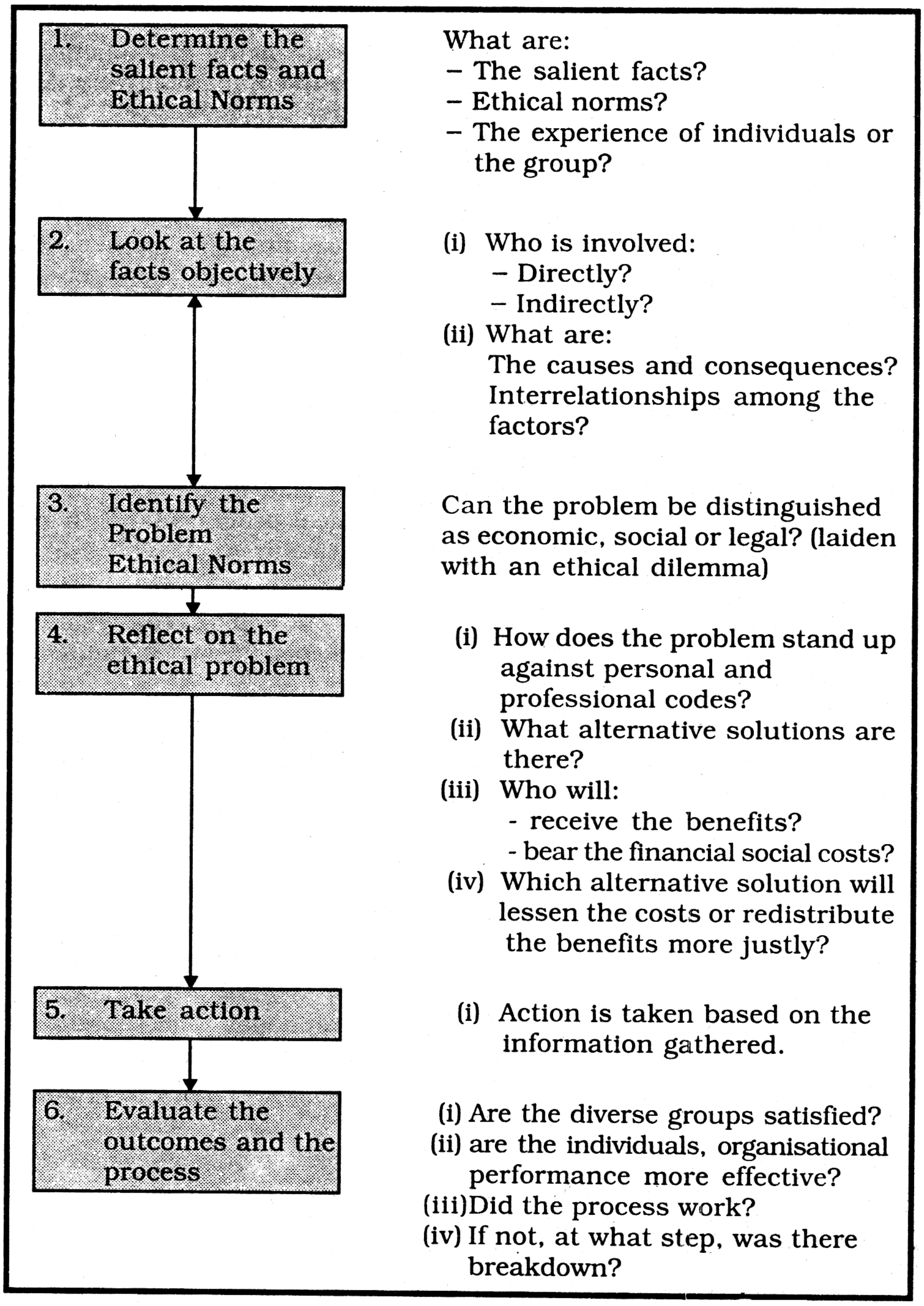
The aim of preparatory ethics is to prevent or control crisis management of ethical dilemmas. This may lead to the avoidance of cases of conflict and concealment of unethical practices and thereby prevention of a situation to punitive legal measures.

- Be a moral role model (Act morally - consistently do what is good, correct and just). Mark Twain puts it as "Always do the right thing, this will surprise some people and astonish the rest".
- Hire, associate and consult with moral people.
- Stress standards and the spirit of the law (have some well accepted normal procedures and policies in place to review and promote standards, values, and mission to prevent ethical problems. These can be used as norms of ethical behaviour).

- Be committed (the wide range of commit- ment is understood and acted upon by a growing knowledge of and concern for, those with whom one comes in contact without losing sight of the mission and the needs of the changing times).

Following commonsense, preparatory steps may limit the number and intensity of ethical dilemmas which may be adopted by corporate managers:

Common Sense Ethics - Proactive Steps



Common Sense Ethics – Proactive Steps

Examples of Ethical Dilemmas

1. Accounting:

Your supervisor enters your office and asks you for a check for `150.00 for expenses he tells you he incurred entertaining a client last night. He submits receipts from a restaurant and lounge. At lunch your supervisor's girlfriend stops by to pick him up for lunch and you overhear her telling the receptionist what a great time she had at dinner and dancing with your supervisor the night before. What do you do?

2. Bank Teller:

You have worked as a bank teller for several months when one of the other tellers who has become a good friend tells you that her daughter is extremely ill and that se must have an operation to survive. She also tells you that she has no insurance and the operation will cost `10,000. Sometime later you ask her about her daughter and she tells you she is just fine now. She then confides in you that she took ` 10,000.00 from a dormant account at the bank to pay for the operation. She assures you that she has already started paying it back and will continue to do so until it is all returned. What do you do?

3. Computers:

In your spare time at work, you have developed a new spreadsheet program on the personal computer in your office. It is even more powerful, yet easier to sue than anything on the market. You share your new program with a friend who encourages you to market it on your own because you could probably make an incredible profit in a very short time. This is a very attractive option, yet you developed it using company equipment and during time that you were at work. What do you do?

4. Journalism/Advertising

Your newspaper has published a report on a national study, which concluded that bottled water has virtually no health advantages over the tap water in more cities, including yours. The study included comments from local health store owners and water distributors challenging the study. The Aqua Pure Bottled Water Company, advertising account worth over ` 75,000. A year, has threatened to pull its account with your newspaper unless you run another story of equal prominence, focusing on the benefits of bottled water. What do you do?

5. Law Enforcement

You are a rookie officer assigned to a training officer for the first six months of your employment. The training officer is a 20-year veteran and is a close friend of thee Assistant Chief of Police and the brother-in-law of the Watch Commander. The third day that you are working with him you respond to a burglary call at a local convenience store. It is 2:30 am and the manager has been notified. You are directed to wait 30-35 minutes for his arrival. A short time later you observe your partner take a soda, candy and a bag of chips. He consumes the soda and chips. When the manager arrives, the two of you depart. What, if anything, should you do?

6. Personnel

Your company has a firm policy regarding cases of theft of company property. Used company equipment is on a table to be sold by bid each month. You see a valued employee who is 2 months from retirement slip an electric drill from the table and put it in his car before the day of the sale. What so you do?

7. Real Estate

A lady from out of town calls you to list her deceased parent's home in Liberty. She is not sure what it is worth, but says she will be happy to get ` 50,000.00 for the home. You look at the home and feel it is worth at least ` 75,000, and realize it would be perfect for your brother. What do you do?

8. Retailing

You are the buyer for a retail-clothing store. Your store has a policy of not accepting gifts. However, over the years, salesmen have offered, and other employees have accepted lunch, theater and baseball tickets. You arrive home from the office and find a new TV and DVD player on you doorstep with a note that says: "A personal gift for out long standing friendship. Enjoy it with you family in good health. The Jones Clothing Company" What do you do?

9. Teacher

You have a student who is from a single parent family. The student must work to attend college. However, the job is interfering with the student's performance and several assignments have not been turned in. You have determined that a "D" is all the student can make when a counselor informs you that the student need a "C" to qualify for an academic scholarship.' What do you do?

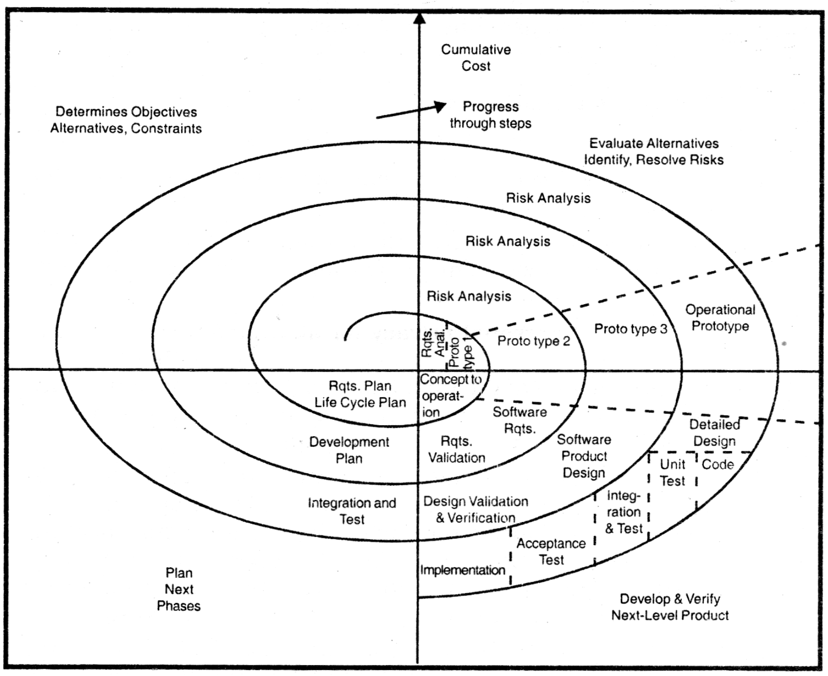
2.9.6 The Software Challenge

Q22. Explain the ethical challenges in software.

Ans :

One benefit of this circling back to an emphasis on the individual or wrfall group is that it holds the potential of improving the ethical climate in which software development is conducted. A large project with hundreds of peer workers belongs to nobody. A large project conceived by a few has an owner. Someone who is ultimately answerable for choices. Here are two examples of the results from a lack of ownership that should be dear to taxpayers' hearts.

The US Army stopped the development of a system that was supposed to replace 3700 older systems by the year 2002. After $158 million and 3 years of effort, the new system was far behind schedule and well over budget. The method for choosing the developer encouraged low bidding to get the contract, then throwing money at a slipping



schedule. The Army failed, having specified no way to know if the project was on track. The developer failed in not knowing the scope of the problem better than the customer. Both failed in that nobody was ultimately responsible. Appointing a project manager, splitting projects into pieces for which individuals are responsible, and enforcing risk management could produce a more logical approach.

The second example is worse because it is life-threatening. The Department of Energy (DOE) keeps a record of every ounce of plutonium, enriched uranium, and other potentially dangerous radioactive materials created, transported, or sold in the United States. This amounts to several hundred tons. The tracking system was obsolete and the DOE contracted for a replacement. When Congress asked the General Accounting Office (GAO) to check up on the project a year later, the GAO reported that the developer had started programming without adequately analyzing the problem, the user needs, or the final cost of operation. Furthermore, the developer could provide no specifications, no test results, and no status reports. The GAO recommended canceling the project because "the history of software development is littered with systems that failed under similar circumstances." Nevertheless, the DOE switched over to the new system without ever requiring that the software pass any acceptance tests. Clearly there are ethical issues involving all three organizations, but individuals, not organizations, practice ethics.

Ethical Challenges in Software

The software challenge, then, has many facets:

1. In high-risk, life critical systems, a clear delineation of ethical responsibility is necessary.
2. The issue of defining minimum skill levels and enforcing proficiency in new technologies among software professionals has not yet been resolved.
3. The issue of personal privacy for all system users, including those whose lives are touched by systems without their full comprehension of the ramifications (think of the supermarket scanner or the video store rental), is scarcely addressed beyond some tentative forays into encryption.
4. Another major challenge is the integration of systems. The technological issues of component based development and the creation of platforms to provide the infrastructure needed to develop applications must be addressed. Project managers need to be aware of the tools available for estimating the resources required to design and develop large systems.
5. The last great challenge, without whose solution all other discussion is moot, is reliability. How can large, integrated systems be tested sufficiently to warrant trust? Schemes such as software rejuvenation acknowledge that it is impossible to catch every bug. Testing methods that can guarantee a secure window of operation need to be linked with human factors analysis to determine what to do when those windows are breached. For example, it does no good to have the auto pilot of an airplane compensate for tilting due to ice buildup on the wings if it then disengages without warning and hands the pilots a plane that is out of control and irretrievable. These problems must be resolved before computer technology can become sufficiently mature and trustworthy to be transparent, allowing focus on the task rather than the tool.

Short Question & Answers

1. Professional ethics.

Ans :

Professional ethics refer to the moral standards demonstrated by the professionals working in the business of managing, promoting, marketing or developing (products). Not all professionals work in business or business related activities; there are many recognised professionals in society Chartered Accountants, lawyers, doctors, actors, reporters, etc. Who more often than not work in their individual capacities.

- Wherever they may work, and in whatever capacity, the morality of their actions and behaviour has a profound impact on the well-being of the society business being a part of it. And, just as the presence of moral standards and ethical sense in their work can benefit the community, business and the society, similarly, absence of the same can also harm society.
- To safeguard against this possibility, the society and the concerned government are careful to regulate and modulate the behaviour of professionals with the laws of the land and the rules and regulations of various professional bodies with the intent to promote fair practices and moral standards in professional behaviour.
- In today's scientific approach to management, professionals are generally considered the backbone of business and industries; they lead the way strategies are formulated and business is conducted. If the involved professionals are honest, moral, respectful to human values, and courageous in standing against any wrongdoing, businesses automatically become ethical and true to meeting their social responsibility and obligations.

2. Ethical Issues in Product Management.

Ans :

Ethics basically refer to a systematic study of moral choices, and it is related to, but distinguished from, morals and laws.

- Morals are a set of principles used to distinguish right from wrong. Ethics conform to these moral principles.
- Ethics constitute a system of principles of personal behaviour that a person and a company adopt in daily life. Laws are developed politically based on the ethical pressures of the society.
- Laws are a set of rules passed by a government, consisting of both restraining and enabling legislation which is interpreted by courts and regulatory agencies.

The food industry has been slow over the last 100 years to move with society needs and has been subjected to many food regulations which are being constantly up-dated.

Workers in food product development have the dilemma of aligning what is 'right' according to cultural standards with company policy.

3. Ethics in Selection.

Ans :

Selection is the process of picking individuals (out of the pool of job candidates) with requisite qualifications and competence to fill job in the organization. It is the process of examining the applicants with regard to their suitability for the given job or jobs, and choosing the best from the suitable candidates and rejecting the others. Thus, selection is negative in its application as it seeks to eliminate as many unqualified applicants as possible in order to identify the right candidates.

Ethics play a major role during the hiring of employees. To be successful as a hiring manager making decisions that are sound and ethical is necessary. Though people say that an organization is more ethical if it goes for internal recruitment and it further provides training and development to the employees, if required. But, now the world demands highly skilled and talented people. So suppose if the internal sources are not as skilled as required, the company should hunt for suitable candidates outside, if the company recruits internal candidates, even though they are not suitable to the job requirement, it would be unethical.

4. Principles Related to Ethics in Finance.

Ans :

Principles related to ethics in finance are as follows:

i) Principle of Integrity

Integrity means "adherence to moral and ethical principles". Professionals have to adhere religiously to honesty and straightforwardness while disclosing their representative professional duties. The following acts of responsibility would help professionals comply with the integrity principles:

i) Avoid activities which could affect goodwill of the organization.

ii) Refuse to get involved in activities which could adversely affect the achievement of the organization's objectives.

iii) Communicate adverse and favourable information with those concerned.

iv) Avoid conflicts.

v) Refuse favours or gifts which could influence action taken or to be taken.

ii) Principle of Objectivity

According to this principle, accounting and finance professionals should not allow bias, personal views, conflicting interests and undue influence of themselves or others to override business judgement. They should communicate information fairly and objectively in a transparent manner.

iii) Principle of Confidentiality

The principle requires accounting and financial professionals to refrain from disclosing confidential information related to their work.

iv) Principle of Professional Competence and Due Care

The financial and accounting professional need to update their professional skill in the modem competitive environment.

v) Principle of Professional Behaviour

The principle requires accounting and financial professional to comply with relevant laws and regulations and avoid such action which may result into discrediting the profession.

5. Ethical Issues in Media Reporting.

Ans :

➢ **Truthfulness**

Journalists need to make a commitment to telling the truth. This includes not giving false or made-up reports, and telling truthful stories that are not intended to deceive the audience. This may require reporters to provide not only the facts but also the context surrounding them. Truthfulness requires a commitment not only from the journalist but also from the organization he or she works for.

➢ **Conflicts of Interest**

The interests of a corporation that owns a news organization may sometimes be at odds with the nature of the news being reported. Journalists need to be careful not only to portray their parent company in an accurate light but also to give no special favors to companies connected to the organization's parent company.

➢ **Sensationalism**

News organizations sometimes emphasize news that is interesting but unimportant. This happens when reporters put more effort into attracting and pleasing an audience than into reporting on the critical issues of the day. This can happen because of the increased pace of the news business brought about by cable television, the Internet, and the parent company's desire for profits.

- **Authenticity and Appropriateness of Photographs**

  Photos can be among the most controversial media materials, both because of their disturbing content and because they can be altered with digital editing tools.

6. What is Dilemma?

Ans :

A dilemma is a situation that requires a choice between equally balanced arguments or a predicament that seemingly defies a satisfactory solution.

Organizational decisions generally evolve from issues, which are more abstract or general than concrete dilemmas. Issues are fairly easy to identify.

Example:

- Accounting procedures
- Customer service
- Crisis management
- Government regulations
- Targeted advertising
- Sexual harassment
- Affirmative action (in USA)
- Community spirit etc.
- Fair hiring
- Treatment of grievances

Issues stand outside of specific circumstances and often assume that individuals or groups can do the right thing if they so intend. It may also be about things like:

- Materials
- Buildings
- Plans
- Locations

7. What is an Ethical Dilemma?

Ans :

An ethical dilemma is a moral situation in which a choice has to be made between two equally undesirable alternatives. Dilemmas may arise out of various sources of behaviour or attitude, as for instance, it may arise out of failure of personal character, conflict of personal values and organizational goals, organizational goals versus social values, etc.

- A business dilemma exists when an organizational decision maker faces a choice between two or more options that will have various impacts on

  (a) the organization's profitability and competitiveness, and (b) its stakeholders.

- "In situations of this kind, one must act out of prudence to take a better decision. As we can see, many of these ethical choices involve conflicts of values".

- **According to Louis Alvin Day,** these conflicts can arise on different levels. "Sometimes, there is an inner conflict involving the application of general societal values". A production manager, when asked to produce a commodity by his company may face an ethical dilemma, when he knows that it will harm the large number of consumers who buys and uses the same. Sometimes, there may arise a conflict between general societal values, as in the case of minimizing harm to others and professional values.

- For example, news reporters may willingly hide a sacrilege a mob committed in a place of worship if they feared that it would result in a communal frenzy and mass slaughter.

- "Ethical dilem-mass involve problem solving situations in which decision rules are often vague or in conflict". The outcome of an ethical decision cannot be predicted with any degree of accuracy or precision. We cannot be sure whether we have made the right decision; nor can any one tell us so. There is neither a magic formula nor a software available to find a solution to this problem.

- Even the most astute business persons do commit ethical mistakes while deciding business issues. In such cases, people have no other alternative but to think well and deeply before they make decisions and once decided, to take the responsibility for such decisions.

  A person's intentions and what factors would prompt him or her to take the final decision are the "last steps in the ethical decision making process". When persons' intentions and their final decisions are at variance with one another, they may feel guilty for what they have done.

8. Define Mounting Scandals.

Ans :

As we are seeing in our every day life, the scandals are increasing In the face of mounting scandals, many of the corporations adopt codes of ethics, business schools are developing ethics courses and consultants are hired to put 'integrity' into corporate cultures. Manj authors like Kenneth Blanchard and Norman Vincent Peale have responded with practical books aimed to demonstrate that ethical decision making is practical and effective.

What relevance does business ethics have for corporate managers? Laws and regulations underlie many matters that derive from the variety of relationships, managers have with employees, staff and customers. Many of the diverse groups need to be satisfied and this calls for mutual trust. A breach of ethics breaks down the mutual trust required to maintain individual and organizational moral behaviour.

UNIT III	**Corporate Governance:** Introduction to Corporate Governance - Major Corporate Governance Failures- Need for Corporate Governance - Corporate Governance in India, Theories of Corporate Governance - Agency Theory, Stewardship Theory, and Stakeholder Theory – Convergence- Problems of Governance in Companies. **Corporate Governance codes and committees –** Global reporting initiative – OECD Principles - Cadbury Committee Report - Kumara Mangalam Birla Committee Report - Naresh Chandra Committee Report - Narayana Murthy Committee Report - SEBI Clause 49 Guidelines- Corporate Governance Committees - Role of capital Markets, Regulator, Government in Corporate Governance.

3.1 Introduction to Corporate Governance

Q1. Define the term Corporate Governance.

Ans :

Corporate governance is concerned with set of principles, ethics, values, morals, rules regulations, & procedures etc. Corporate governance establishes a system whereby directors are entrusted with duties and responsibilities in relation to the direction of the company's affairs.

The term "governance" means control i.e. controlling a company, an organization etc. or a company & corporate governance is governing or controlling the corporate bodies i.e. ethics, values, principles, morals. For corporate governance to be good the manager needs to meet its responsibilities towards its owners (shareholders), creditors, employees, customers, government and the society at large. Corporate governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the company.

For effective corporate governance, its policies need to be such that the directors of the company should not abuse their power and instead should understand their duties and responsibilities towards the company and should act in the best interests of the company in the broadest sense.

Meaning of Corporate Governance

Corporate governance provides a road map for a corporation, helping the leaders of a company make decisions based on the rule of law, benefits to stakeholders, and practical processes. It allows a company to set realistic goals, and methodo- logies for attaining those goals.

Corporate governance is not only beneficial to the company but also for the people working within it and the society with which they are related. It focuses on proper utilization of the resources and the way they should be taken care of. The main purpose of corporate governance is to maintain the equilibrium between economic and social objectives of the organization which further helps in balancing individual and societal goals.

According to Cadbury Committee, "Corporate governance is defined as the system by which companies are directed and controlled".

According to Rafael La Porta, "Corporate governance to a large extent is a set of mechanisms through which outside investors protect themselves against expropriation by the insiders".

According to Sternberg, "Corporate governance describes ways of ensuring that corporate actions, assets and agents are directed at achieving the corporate objectives established by the corporation's shareholders".

Q2. Explain the evolution of Corporate Governance.

Ans :

Corporate governance came into existence in following ways:

1) Though there are many factors that influence the corporate governance such as laws and orders, tradition and values adopted by the company, political and economical environment, etc., but the factor that has strongest impact on the corporate governance is the ownership structure of the company.

2) Since centuries ago, it was not possible for a single businessman to arrange sufficient finances that were required for the growth and development of a company. Thus, the concept of selling company share was introduced in order to arrange required capital that further led to industrial revolution and unstoppable development of the companies all over the world.

3) East India Company was the first company that merged overseas trade and joint stock. In 1600, the agreement between this company and the merchants of London was approved by the government. The governance system of this company was considered very effective and is still followed by various companies.

4) In 17th century, people of Britain started taking interest in international trade and made investment in the company shares of one of the Great Britain's merchant who traded in South Seas. But soon they realised that the investment made by them paid them with loss and their hard earned money was gone. This fall down of first stock market in 1720 due to overvaluation was given the name 'South Sea Bubble' incidence.

5) After the incidence of South Sea Bubble, The Bubble Act was introduced according to which the companies were asked to take legal permission before selling their shares in order to raise capital. As per this act, the companies were no more corporate bodies and needed authority from the parliament or legal agreement to sell its shares. This incidence adversely affected the Joint Stock Companies in 17th century but by 18th century the development of these companies was again activated with the establishment of railway network in Britain as these companies met the financial demands of railways.

6) In 1844, first Joint Stock Company's Act was introduced, under which 910 companies got registered out of numerous companies.

7) By the end of eighteenth century, administratively controlled companies were growing continuously in U.S.A. With the starting of Civil War in late 19th century, the ownership structure started changing as the connection between the ownership and the control was breaking slowly and steadily.

   The governance system of this time period showed that this breaking of ownership and control relationship led to a situation where the stakeholders, who were the true owners of the company had less control over the company management. This was because of lethargic attitude of shareholders towards the operations carried out in the company and due to the wide scattering of ownership.

8) After some time, it was observed that the corporate governance structures of U.K. and U.S.A. based companies were becoming effective as they not only positively influenced the entire society but also resulted in higher productivity. Appropriate utilization of resources and efficient working of capital markets also contributed in making their governance system effective.

9) However, the corporate governance system in U.K and U.S.A. faced lot of changes year after year which further led to conversion of ownership structure in these countries. With the passage of time, it was observed that the relation of the company and its shareholder was changing. The investors were becoming the powerful component of governance system and played a significant role in making corporate governance effective.

Q3. Explain the Nature and objectives of corporate Governance ?

Ans :

Nature of Corporate Governance

Corporate governance has following features:

1) Ethical by Nature

The ethical values followed by the company have a great influence on the corporate governance. Thus, BOD should always remain fair and unbiased to maintain healthy ethical environment within the organization.

2) Wide Scope

Now-a-days, corporate governance is being used by almost all the companies throughout the world. It has been legally recognized around the world. Thus, it can be said that corporate governance system has become universally applicable system.

3) Systematic

Corporate governance is methodical as it mainly emphasises on rules, regulations, laws, practices, etc., followed by any company. Since these laws are established for the benefit of the stakeholder, thus, they must be followed sincerely and honestly.

4) Represents Business Decisions

Corporate governance includes ethical and moral values adopted by an organization, depending upon which decisions are made by the organization. Thus, the companies having effective governance system not only take legalized and morally appropriate decisions but also benefit their investors by handling their investments carefully.

5) Integral Part of the Contract

People dealing or having any sort of contract with any company give great importance to its governance system. Effective governance system not only helps in economic prosperity of a company but also increases the trust of customers in that company.

6) Leads to Smooth Functioning of Markets

Good corporate governance is an indicator of market development as it helps in its smooth functioning and further results in economic prosperity of entire business world.

Objectives of Corporate Governance

The existence and success of any company largely depends upon its governance system. It is not limited to the rules and laws of the company. It has various other objectives that it desires to achieve. Some of them are:

1) Strengthens Confidence

Good governance system ensures high profits to its investors which increase their confidence and reliability for the company.

2) Transparency

Besides the fulfilment of legal policies, effective governance system gives equal importance to transparency between the stakeholders and the company's management. This helps in increasing the trustworthiness of the company and creates greater profit for the investors.

3) Balanced Board

Corporate governance ensures that the board consist number of non-executive and independent directors so that the decisions taken by them are unbiased and in the interest of the investors.

4) Clarity of Policies and Procedures

Good governance system takes care that the policies and procedures followed by the board are transparent enough so that each and every transaction carried out is clear to both the company as well as the investors.

5) Relevant information to Shareholders

It ensures that all the relevant information regarding the growth and development of the company is provided to the shareholder by the board.

6) Vision of the Board

Good governance system observes the long-term vision of the board in the interest of the company and the steps taken by them to make wealth for its stakeholders.

7) Investment Tool

Good governance system encourages the investors for long term investment by making capital markets more efficient and profitable.

8) Resolving Tool

Governance system is an effective tool to resolve any conflict or clashes that may arise between the stakeholders and the members of the company, especially when the conflict are related to their personal interest.

9) Utilization of Resources

Good governance system focus at proper utilization of resources available within the company. Efficient use of company's assets helps in increasing the productivity which in turn benefits the stake holders to maximum degree.

10) Developing Trust

Corporate governance is an effective way of building the trust of the stakeholders in the capabilities of the company.

Q4. What are the Features of Corporate Governance

Ans :

The characteristics or features of corporate governance are listed below.

1. Transparency

This means that the Board of Directors must release all relevant information to the stakeholders. They must show all the necessary financial and operational data to the stakeholders. They must not hide any important information or maintain any secrecy.

2. Protection of Shareholders' Rights

The Board of Directors must protect the rights of the stakeholders. They must protect all the stakeholders, especially the minority stakeholders.

3. More Powers to CEO

The CEO must be given more powers so that he can approve the companies plans and strategies independently.

4. Accountability

The CEO and the Board of Directors must be made accountable for their actions to the stakeholders and to the entire society.

5. Based on Ethics

Corporate governance is based on ethics, moral principles and values. So, the Board of directors must avoid unfair practices, cheating, exploitation, etc.

6. Universal Application

Corporate governance has universal application. That is, it is used by companies all over the world. It is given a legal recognition in many countries. All companies must use corporate governance voluntarily.

7. Systematic

Corporate governance is very systematic. It is based on laws, procedures, practices, rules, etc. All these laws are made to increase the wealth of the shareholders and to protect the rights of all the stakeholders of the company.

Q5. Discuss the Principles of Corporate Governance.

Ans :

The principles of corporate governance can be used by an organization to assist them in designing and implementing their own corporate governance guidelines.

1. Interests of stakeholders

A principle objective of an organization is to keep shareholders happy by making optimum use of company resources. They must realise that they have obligations toward all shareholders. It is important to set long-term goals for the benefit of the shareholders to increase their ROI (return on investment

2. Board Structure

The structure of the board and committees must be made in such a way keeping their strengths and weaknesses in mind. The management must be monitored to keep a track of their progress. The board must be equipped with the skills required to deal with any issue that crop up. They must be committed to their duties and responsibilities.

- **Timely Disclosure**

  A company must disclose its annual reports transparently and on time. The organization must be honest and transparent with the roles and responsibilities of the board and management. Financial infor- mation must be maintained and balanced to prepare annual reports and to ensure that shareholders have access to reports anytime they want.

- **Ethics and Code of Business Conduct**

  This is an important element of corporate governance is conducting a company ethically and by following laws and code of business conduct. A code of conduct must be developed for the management and board of directors to facilitate ethical and responsible decision making. Corrupt practices undertaken by individuals in the name of the company should not be tolerated and must be admonished.

- **Environmental commitment**

  The board must commit themselves to promote environmental governance. They must make it a point to not ignore environmental issues, as it can affect a company's success. Not only that it is everyone's duty to be responsible toward environmental friendliness.

- **Rights of the shareholders**

  The organization must respect the rights of the shareholders and allow effective exercise of those rights. Information must be easily available to shareholders and they must be encourage to take an interest in the organization and attend meetings to better understand the organizations performance and financial condition.

Q6. What are the Pillers of Corporate Governance?

Ans :

The principle of corporate governance is built on the following four pillars.

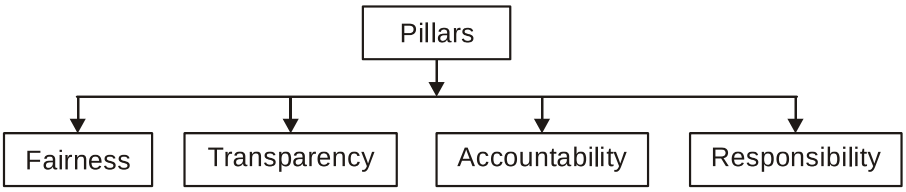


Fig.: Pillars of Corporate Governance

1. Fairness

It refers to the manner in which the business is conducted without any detriment to the interest of the stakeholders, shareholders, employees and the public as a whole. Business ethics plays a vital role in this context, hence they have to be on par with the ethical code of the society in which a business operates.

2. Transparency

It is disclosure, which is tool of corporate governance. Corporate governance ensures timely and accurate disclosure on all material matters. Disclosure regarding the corporate performance, ownership and governance should be of high quality in accordance with the financial, accounting and auditing standards. Transparency is access to information by users/stakeholders/shareholders/ public, which by way of disclosure should include the following :

- Financial and operating results of the company
- Company's objective

- Members of the Board
- Material foreseeable risk factors
- Information regarding employees and stakeholders

3. Accountability

It is monitoring managerial performance and achieving adequate return fro the shareholders by true and fair means by the managerial body (Board of Directors). It is also a responsibility to implement system designed to ensure that the corporation obeys laws. It is acting in good faith, with due diligence and care, and in the best interest of the company and its constituents.

4. Responsibility

Responsibility and accountability go hand in hand. Corporate is expected to be a responsible citizen and serve not only the interest of the stakeholders but also in the best interest of the society. Corporate governance reflects the larger ethics prevailing in society. Companies are required to take more active roles in changing the practices and values that are believed to be harmful to groups outside the company.

Q7. What are the Dimensions Corporate Governance?

Ans :

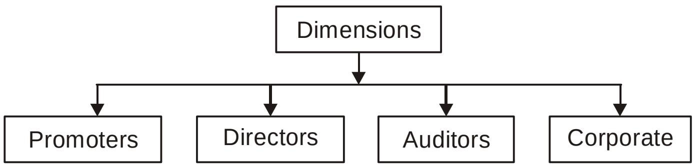


Fig.: Dimensions of Corporate Governance

1. Promoters

They form companies. They are both financiers and managers. Earlier, mostly, the family members of promoters managed companies. Since many of them did not have managerial competence, most of the companies failed. It was because the promoters were neither answerable nor accountable to anyone. The concept was more or less the one-man company principle. Over the years, their involvement started declining. The promoters felt the need for a professional management to manage the affairs of the company so as to maximize their returns. Good corporate governance is intended to enhance the quality of functioning of the Board.

2. Directors

They are the persons appointed by the promoters to manage the affairs of corporates. They are collectively known as Board of Directors. In a Corporate, it was considered prestigious to hold the office of the Director. Their duties and responsibilities are multifarious. The Board is the governing organization of a corporate. It is invested with a high degree of accountability and responsibility. It forms and frames rules and regulations for the efficient functioning of the firm. Corporate governance enhances the value of the company by making the Board accountable and responsible. The Standard Director’s Conference has listed the following as the important tasks of the Board :

- Monitor and evaluate a long-term strategy
- Evaluate management performance
- And monitor current corporate performance

- Maintain legal and ethical practice

  In addition, there should be the following different communities of the Board to ensure, the above :

- Management committee
- Share and securities transfer committee
- Audit committee
- Corporate planning committee
- Appropriation committee (for approving capital expenditure/projects)
- Executive committee.

3. Auditors

An auditor has the crucial responsibility of certifying the truth and fairness of the financial statements of a company under the Companies Act. They should act independently and express their opinion. Formation of an Audit committee as a sub-committee of the Board of Directors would improve the quality of reporting.

4. Company

Being considered as a corporate citizen a company encompasses the relationship with various constituents in day-to-day business and it has the responsibility of being accountable, transparent and fair in all its dealings. Corporate governance is the system by which companies are directed and controlled.

Q8. Explain the Scope of Corporate Governance.

Ans :

Corporate governance has following scope:

1) Auditors

The role played by external auditors in corporate governance is very significant. The tradition of appointing auditors by the stakeholders on their own is being followed since 19^{th} century. Since these auditors are known to the stakeholders, the chances of misuse and misrepresentation of reports is minimised. Now-a-days stakeholders appoint professional auditors to review the reports given to them by their directors.

2) Stock Markets

Stock market and the list of rules are essential to make the governance system of public and listed companies. These rules not only mention the requirement for being one of the listed companies but also govern the company in the stock market. Not only domestically, the stock markets have become important worldwide as they help in developing governance codes for the companies all over the world.

3) Shareholders/Institutional Investors

Shareholders in the form of investors, stockholders, etc. and their relation with the company is also one of the crucial elements of corporate governance. Earlier, in corporate governance, there was direct interaction between the shareholder and the company since all the shares belonged to individual shareholders, but in modern corporate world, intermediaries have a significant role in governance.

4) Government

Laws and orders, rules and regulations passed by government have a great influence on the governance system of the companies. Corporate governance turns out to be effective only if the relation between the government and the company is healthy. The established laws facilitate the companies to carry out their activities within the legal boundaries. Registering the companies, keeping record of relevant corporate documents, revising various Companies Acts etc., are some of the functions performed by the government to develop an effective governance system.

5) Regulatory Authority

In order to scaitinise the activities of the stock market and the compliance of governance rules, most of the companies have started appointing corporate regulators. These supervisory bodies are responsible to ensure the obedience of governance codes set by the company.

6) Contractual Stakeholders

Stakeholders having contractual relation with the company are known as contractual stakeholders. These stakeholders include employees, dealers, suppliers, contractors, distributors, whole salers, retailers, consumers, etc., contractual stakeholders are also considered as an important element of corporate governance.

Besides all these elements, media has also started playing crucial role in corporate governance, especially investigative media. They focus on various business affairs and the activities carried out by the companies which indirectly influence the governance system of the companies.

Q9. What are the benefits and limitations of corporate governance.

Ans :

Benefits of Corporate Governance

Efficient corporate governance inevitably helps build superior management structures and systems. Following are the factors that highlight the benefits of good corporate governance:

1) Provides Competitive Advantage to Corporations

Wherever there is business, there is competition. Monopolies do not last long. Good corporate governance encourages research and development, innovation, regular training programmes, extensive market research, etc. R&D and innovation help corporations be ahead of the competition by modification of the product as and when the needs of the customers dictate. For example, a mosquito-repellent manufacturer came up with a liquid mosquito repellent that is stored in a bottle and requires no changing of mats or daily attention. This was in response to the consumers' reluctance to attend to the equipment daily. Good governance ensures that the corporation has the resources to take maximum advantage of opportunities and effective management of threats. Good governance provides great motivation to, and invokes loyalty among, employees. Motivation and loyalty of employees constitute the basis of successful strategies; after all, strategies are implemented through the actions of employees. Good governance ensures formulating of excellent strategies and effective implementation of these strategies.

2) Enables Efficient Performance by Preventing Malpractices and Frauds

A corporation is governed by the Code of Best Conduct, which constitutes guidelines and policies with regard to behaviour of its employees; it also lays down procedures to deal with behavioural matters. Adherence to the Code of Best Conduct results in all-round enhancement of efficiency in performance, as the code ensures prevention of malpractices and frauds.

3) Protects Shareholders' Interests

One of the factors that qualify corporate governance as 'good' is the management's transparent and accountable behaviour towards shareholders. Transparent behaviour means the shareholders are kept well informed about the corporation's activities and plans. Accountability means ensuring sincere efforts, ethical functioning and good returns to shareholders on their investment in the corporation. Good corporate governance ensures that the management diligently discharges its fiduciary duty towards its shareholders, which is especially necessary because in the corporate sector, shareholders are the owners and trust the managers, who actually run the corporation.

4) Enhances Value of Corporations

Good corporate governance ensures transparency and accountability with regard to dealings with shareholders, which in turn enables corporations gain confidence of shareholders. This enhances the value of corporations.

5) Ensures Compliance to Laws and Regulations

In the past, managements of unscrupulous corporations used to take their shareholders for a ride, but no longer so. With more and more companies raising capital through public offerings, stringent laws have been made to protect investors' rights. Small investors do not possess the necessary resources to redress their grievances through costly, time-consuming legal procedures. Good corporate governance ensures compliance with laws, rules, and regulations, especially those that are framed to protect the interest of shareholders and institutional investors.

6) Improves Performance

Good corporate governance builds better organizational structures and improves processes, which results in improved management functioning. Consequently, the profitability of a well- governed corporation increases.

7) Protects Interests of Parties during Takeovers and Mergers

Takeovers and mergers are transactions between two corporations, which are very common today and are governed by relevant laws. Good corporate governance by virtue of diligent compliance to laws ensures that these transactions take place justly and smoothly.

8) Facilitates Global Market Penetration

Business in the global market has its specific professional and regulatory needs. For example, marketing in the foreign markets requires different skills and knowledge as compared to that in the local market. Also, there are different sets of laws, rules, and regulations operative in foreign trade, like those related to foreign exchange. Good governance enables recruitment of suitable professionals and ensures compliance with specific foreign trade-related regulations.

Limitations/Issues of Corporate Governance

Following are the issues involved in corporate governance:

1) Demarcating the Roles of the Board and Management

Since the Board of Directors is directly answerable to the shareholders, though the management (those managers who manage the day-to-day affairs of the corporation) per se is accountable, the board in most cases broadly controls the management by giving directions and guidelines, as well as by having checks and a feedback mechanism in place. To facilitate this, the board appoints and delegates management responsibilities to a CEO, who in turn delegates responsibilities to senior managers, who report to the CEO. Thus, the board of a listed company performs the following functions:

i) Appointing a CEO, fixing his remuneration, evaluating his performance, and if it is found below the required standard, replacing him.

ii) Broadly overseeing the corporation's activities in order to assess its performance and ensuring that it is being satisfactorily managed.

iii) Periodically reviewing the corporation's financial targets and setting new ones as and when necessary: and also setting new plans and strategies to facilitate achievement of these new targets.

iv) Advising and counselling the top-level managers.

v) Identifying the right person for being elected as a Director on the Board of Directors and recommending this candidate to the shareholders.

vi) Ensuring that organizational systems are facilitative to the compliance of the relevant laws, rules, and regulations.

vii) Performing all its statutory functions.

2) Composition of the Board and Related Issues

The composition of the board has always been a vital issue as the board has a balancing act to perform between the shareholders and the management of the corporation. The directors should have a thorough under-standing of the working of the corporation and the shareholders' expectations and legal rights. Thus the board should consist of expert professionals from various fields. The issue arises when certain individuals wish to be on the board just because of their owning large number of shares; this is especially so when family members have major share holdings. The interest of shareholders lies in inducting expert professionals on the board. However, over the years, business experts and economists have been advocating greater professional representation on the board.

3) Separation of the Roles of the CEO and Chairperson

The Chairperson is the leader of the board and as such has great influence over the directors on the board, whose responsibility it is to evaluate the CEO. On the other hand, the CEO is the leader of the managers. If the Chairperson is also the CEO, it creates a situation such that the Chairperson has the responsibility to evaluate himself as the CEO, though through the board over which he has great influence. This conflict of interest leads to compromising the diligence necessary in evaluating the performance of managers, as well as to removing a vital check on them. Also, both the posts carry heavy responsibilities, diminishing the efficiency in performance of both these jobs, and it is unfair to the individual who shoulders both these responsibilities and to the shareholders.

4) Should the Board have Committees:

To decide on this issue, many committees have been formed in the past, and all these committees have unanimously recommended appointment of special committees for each of the following functions:

i) Nomination,

ii) Remuneration, and

iii) Auditing.

It is a sort of delegation of these responsibilities by the board to respective committees, thus reducing the work load of the board. These committees consist of independent directors who have the relevant professional expertise and experience and hence can perform these functions judiciously and effectively. Shareholders are the ultimate beneficiaries.

5) Appointments to the Board of Directors and Re-Election of Directors

The Indian Company Law requires that the shareholders elect the directors to the board. However, in view of the large number of shareholders in large companies, the actual practice is that the present board of directors or its specially constituted committee selects and provisionally appoints a director, who then gets officially "elected" by the shareholders at the ensuing Annual General Body meeting.

6) Remuneration of Directors and Executives

Of late, remuneration of directors and executives has been a sensitive, debatable issue. The following aspects are at the centre of this debate:

i) Whether there is transparency in the procedure to decide the remuneration.

ii) Whether the performance justifies the remuneration.

iii) Whether the process and parameters for determination of remuneration are proper.

iv) Whether severance payments are adequate.

v) Pensions for Non-Executive Directors.

7) Disclosure and Audit:

There are many provisions enacted by OECD with regard to disclosure of, and communication regarding, 'key facts' about a company to its shareholders. According to the Cadbury Report, the annual audit is 'one of the cornerstones of corporate governance'. Both the Cadbury Report and the Bosch Report emphasise the morally obligatory responsibility of the Board of Directors to provide the shareholders with a lucid and fair assessment of the company's financial status through audited financial statements. Such audited financial report helps assure the financial stakeholders of the company that there is transparency regarding the company's financial transactions and status. However, there are questions such as the following to be answered:

i) Should boards establish an audit committee?

ii) If yes, how should it be constituted?

iii) How should the independence of the auditor be ensured?

iv) What are the roles of the state and regulators regarding the provision of non-audit services provided by the auditors?

v) Should individual directors be allowed access to independent resources?

vi) Should boards formalise performance standards?

Various organizations and committees have considered and analyzed these questions, but there have been varying answers, the differences being attributable to the differences in perspectives and the extent of emphasis on various aspects related to the issues raised by these questions.

8) Protection of Shareholders' Rights and Fulfilment of their Expectations

Companies make policies and establish procedures with regard to, among others, the rights of shareholders and the fulfilment of their expectations. The issue is the extent to which a company is prepared to regulate itself to meet this objective. Following are the questions involved in this issue:

i) Should companies always abide by the one share-one vote principle?

ii) Should the voting be done by a poll or by show of hands?

iii) Should the resolutions for shareholders' approval be 'bundled' (two or more discrete issues combined into one resolution for the shareholders to approve)?

iv) Should it be mandatory to obtain prior approval of the shareholders for all major transactions?

These questions too have evoked varying responses from various organizations and committees that have gone into these questions.

9) Dialogue with Institutional Share holders

Institutional investors have large investments in a company, made out of the money invested by small investors with them. As such institutional investors should exercise their rights as major 'owners' of the company in which they have invested and fulfil their responsibility to protect the interests of so many small investors who have reposed their faith in the institutional investors. For achieving this objective, they should regularly interact with the directors of the company, responsibly use their voting rights, and positively influence the process of appointment of directors, apart from taking keen interest in the activities and plans of the company. The issue is whether the company voluntarily cooperates with the institutional investors and facilitates exercising their rights and fulfil their responsibilities or do the institutional investors have to frequently take recourse to legal remedies to achieve this objective. A healthy dialogue between the company and its institutional investors influences the financial prospects of thousands of small investors.

10) Institutional Investors' Role in Making the Company a 'Socially Responsible Corporate Citizen'

This issue arises due to conflict between self-interest and interests of the community. The interest of institutional investors and the small investors who have invested with them lies in higher profitability of the company in which the institutional investors have share holdings. However, it is generally understood that actions that make companies 'socially responsible corporate citizens', e.g., actions that improve the environment, enhance quality of life of the local population, involve employee welfare, etc., constitute a cost to the company and hence reduce its profitability.

3.2 Major Corporate Governance Failures

Q10. What are reasons for Corporate Governance Failure ? And What are mechanisms of develop the Corporate Governance ?

Ans : **(Imp.)**

Reasons for Corporate Governance failures

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management, and the board of directors. Other stakeholders include labor (employees), customers, creditors (e.g., banks, bond holders), suppliers, regulators, and the community at large.

Factors Influencing Corporate Governance

1. The ownership structure

The structure of ownership of a company determines, to a considerable extent, how a Corporation is managed and controlled. The ownership structure can be dispersed among individual and institutional shareholders as in the US and UK or can be concentrated in the hands of a few large shareholders as in Germany and Japan. But the pattern of share holding is not as simple as the above statement seeks to convey. The pattern varies the across the globe. Our corporate sector is characterized by the co-existence of state owned, private and multinational Enterprises.

The shares of these enterprises (except those belonging to a public sector) are held by institutional as well as small investors. Specifically, the shares are held by

(1) The term-lending institutions

(2) Institutional investors, comprising government-owned mutual funds, Unit Trust of India and the government owned insurance corporations

(3) Corporate bodies

(4) Directors and their relatives and

(5) Foreign investors. Apart from these block holdings, there is a sizable equity holding by small investors.

2. The structure of company boards

Along with the structure of ownership, the structure of company boards has considerable influence on the way the companies are managed and controlled. The board of directors is responsible for establishing corporate objectives, developing broad policies and selecting top-level executives to carry out those objectives and policies.

3. The financial structure

Along with the notion that the structure of ownership matters in corporate governance is the notion that the financial structure of the company, that is proportion between debt and equity, has implications for the quality of governance.

4. The institutional environment

The legal, regulatory, and political environment within which a company operates determines in large measure the quality of corporate governance. In fact, corporate governance mechanisms are economic and legal institutions and often the outcome of political decisions. For example, the extent to which shareholders can control the management depends on their voting right as defined in the Company Law, the extent to which creditors will be able to exercise financial claims on a bankrupt unit will depend on bankruptcy laws and procedures etc.

Mechanisms of Corporate Governance

In our country, their are six mechanisms to ensure corporate governance :

1) Companies Act

Companies in our country are regulated by the companies Act, 1956, as amended up to date. The companies Act is one of the biggest legislations with 658 sections and 14 schedules. The arms of the Act are quite long and touch every aspect of a company's insistence. But to ensure corporate governance, the Act confers legal rights to shareholders to (1) Vote on every resolution placed before an annual general meeting; (2) To elect directors who are responsible for specifying objectives and laying down policies; (3) Determine remuneration of directors and the CEO; (4) Removal of directors and (5) Take active part in the annual general meetings.

2) Securities law

The primary securities law in our country is the SEBI Act. Since its setting up in 1992, the board has taken a number of initiatives towards investor protection. One such initiative is to mandate information disclosure both in prospectus and in annual accounts. While the companies Act it self mandates certain standards of information disclosure, SEBI Act has added substantially to these requirements in an attempt to make these documents more meaningful.

3) Discipline of the capital market

Capital market itself has considerable impact on corporate governance. Here in lies the role the minority shareholders can play effectively. They can refuse to subscribe to the capital of a company in the primary market and in the secondary market; they can sell their shares, thus depressing the share prices. A depressed share price makes the company an attractive takeover target.

4) Nominees on company boards

Development banks hold large blocks of shares in companies. These are equally big debt holders too. Being equity holders, these investors have their nominees in the boards of companies. These nominees can effectively block resolutions, which may be detrimental to their interests. Unfortunately, the role of nominee directors has been passive, as has been pointed out by several committees including the Bhagwati Committee on takeovers and the Omkar Goswami committee on corporate governance.

5) Statutory audit

Statutory audit is yet another mechanism directed to ensure good corporate governance. Auditors are the conscious-keepers of shareholders, lenders and others who have financial stakes in companies. Auditing enhances the credibility of financial reports prepared by any enterprise. The auditing process ensures that financial statements are accurate and complete, thereby enhancing their reliability and usefulness for making investment decisions.

6) Codes of conduct

The mechanisms discussed till now are regulatory in approach. The are mandated by law and violation of any provision invite penal action. But legal rules alone cannot ensure good corporate governance. What is needed is self-regulation on the part of directors, besides of course, the mandatory provisions.

3.3 Need for Corporate Governance

Q11. Explain the need for corporate governance.

Ans :

Corporate governance is essential part of every organization and its importance can be realised due to following reasons:

1) Globalization

Increasing globalization has brought great advancement in the business world. With increasing globalization, challenges for the corporate sector have increased. To face these challenges and to overcome them, companies need to have effective corporate governance system. Using international standards instead of traditional principles can help the companies to become more professional and face the upcoming challenges confidently.

2) Adapting Changes

Increasing competition, domestically as well as internationally, has changed the economic environment of the companies to a great extent. In order to survive in this changing environment, companies need to have good governance system. Companies need to realise their priorities and establish new policies and principles for the accomplishment of desired goals.

3) **To Increase Credibility:**

Rapid changes in business world have created a lot of obstacles for the people working in various companies. Since the investors are the main source of capital formation, share holding patterns are changing frequently to create profits for both the company as well as investors. Thus, to overcome these obstacles and to increase the credibility, companies need to have a proper governance system.

4) **Transparency to Stakeholders:**

People investing in company expect transparency and accountability from the company for all the transactions carried out by them. Company must prioritise the interest of their investors and for that proper governance should be maintained. This governance system may include certain laws that can help in protecting the interest of the investors.

5) **Benefits the Stakeholders:**

An effective governance system always focuses at profit maximisation not only for the company but especially, the stakeholders A company should understand the worth of its shareholders and try to increase their wealth, which is only possible with good corporate governance system.

3.4 Corporate Governance in India

Q12. Discuss about Corporate Governance in India.

Ans : **(Imp.)**

Corporate Governance in India

Corporate governance, in plain terms, refers to the rules, processes, or laws by which businesses are operated, regulated, and controlled. The term can refer to internal factors defined by the officers, stockholders or constitution of a corporation, as well as to external forces such as consumer groups, clients, and government regulations.

However, an enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. To that end, organizations have been formed at the regional, national, and global levels.

In recent times, corporate governance has received increased attention because of high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers. An integral part of an effective corporate governance regime includes provisions for civil or criminal prosecution of individuals who conduct unethical or illegal acts in the name of the enterprise.

Aims and Objectives

It is said that good corporate governance helps an organization achieve several objectives and some of the more important ones include:

- Developing appropriate strategies that result in the achievement of stakeholder objectives
- Attracting, motivating and retaining talent
- Creating a secure and prosperous operating environment and improving operational performance
- Managing and mitigating risk and protecting and enhancing the company’s reputation.

Some aspects covered in the poll include:

- Corporate governance regulations in India
- Corporate governance concerns in India and role of independent directors and audit committees in addressing these concerns
- Board practices, board oversight of risk management and the importance given to integrity and ethical values
- Practices that are fundamental to improved corporate governance.

In comparison with developed countries that impose stringent penal and criminal consequences for poor corporate governance, penalty levels in India are considered to be inadequate to enforce good governance. 71 percent of the respondents considered penalty levels to discipline poor and unethical governance to be low. 22 percent of the respondents were either undecided or did not know if the penalty levels are low.

Enforcing Clause 49

In recent years, more and more Indian companies have been raising capital overseas by getting themselves listed on international stock exchanges. These efforts have been accompanied by the Indian government's drive to attract more Foreign Direct Investment (FDI). Both factors have gone hand in hand with the realization that if Indian companies want more access to global capital markets, they will need to make their operations and financial results more transparent. In other words, they will need to improve their standards of corporate governance.

The Securities and Exchange Board of India (SEBI), which regulates India's stock markets, took a major step in this direction a year ago. It asked Indian firms above a certain size to implement Clause 49, a regulation that strengthens the role of independent directors serving on corporate boards.

Steps made a difference to corporate governance in Indian firms

1. **Corporate Social Responsibility**

   Corporate Social Responsibility (CSR) is a concept through which organizations consider the interests of society by taking responsibility for the impact their activities have on customers, suppliers, employees, communities and the environment. This responsibility goes beyond compliance with regulations and is about organizations voluntarily taking further steps to improve the quality of life for employees as well as for the local community and society at large.47 percent of the respondents believe that CSR is not high on the agenda of Indian companies. Thirty percent of the respondents were undecided on this aspect.

2. **Integrity and Ethical Values**

   Indian companies have been focusing on code of conduct and whistle blower mechanism as a fundamental of good governance. Respondents were asked if similar importance was given to integrity and ethical values. Majority of the respondents say that although Indian companies give similar importance to integrity and ethical values, significant scope exists to enhance integrity and ethical values within the organization and the eco-system.

3. **Effectiveness of Corporate Governance**

   Monitoring the effectiveness of corporate governance practices is also a key concept emerging in India. We asked respondents who should monitor the effectiveness of corporate governance practices. Forty-seven percent of the respondents believe that effectiveness of corporate governance should be monitored by way of corporate governance audits carried out by corporate governance specialists. Twenty-six percent of the respondents believe that it should be monitored by the boards themselves through self-assessment tools. Fifteen percent of the respondents believe that the monitoring should be by way of investors / minority shareholder groups having access to full information and another 12 percent believed that the monitoring should be through rating agencies.

Factors To Improve Corporate Governance

- 85 percent of the respondents think that the remuneration of Chief Executive Officers (CEO) should be significantly linked to company performance
- Most respondents believe that while steps at introducing the code of conduct and whistle blower policy have been introduced, there exists a significant need to enhance integrity and ethical values in the larger eco-system
- 72 percent of the respondents believe it is necessary for an independent and transparent process to evaluate performance of board members
- Two-thirds believe that exclusive sessions of independent directors are essential
- 47 percent feel that the effectiveness of corporate governance should be monitored through audits by corporate governance specialists.

Government's Initiatives

The Ministry of Corporate Affairs has proposed the New Companies Bill 2008 which aims to improve corporate governance by vesting greater powers in shareholders. These have been balanced by greater emphasis on self-regulation, minimization of regulatory approvals and increased and more transparent disclosures. 53 percent of the respondents believe that the new Companies Act might have a limited or insignificant impact in addressing contemporary corporate governance issues in India. 28 percent of the respondents believe that its impact is likely to be positive. The remaining 19 percent were undecided.

In October 2011, the Ministry of Corporate Affairs said it was in favor of introducing a corporate governance index that would offer rankings to companies adopting governance standards. The index would offer rankings for corporate houses adopting governance standards.

The Ministry was keen to introduce a corporate governance policy to take forward the government's efforts towards better governance in companies. It had been worked out and the competition law would be revisited and amendments would be introduced soon.

Organizations have to develop elaborate systems, structures and processes as part of corporate governance.

Given below is the ITC's corporate governance model. ITC decision-making process is divided into three levels.

The basic principles of good governance are :

- Clear responsibilities
- A precise distinction between direction and management
- Checks and balances in the governance structure
- Effective financial control
- Transparency

CII brought out a fairly comprehensive code titled "Desirable Corporate Governance – A Code" with the primary objective of bringing about qualitative changes in the corporate governance practices in India.

3.5 Theories of Corporate Governance

Q13. What are the Theories of Corporate Governance ?

Ans :

There are six broad theories to explain and elucidate corporate governance, which are as follows :

1. Agency Theory
2. Stewardship Theory
3. Stakeholder Theory
4. Sociological Theory
5. Resource Dependency Theory
6. Transaction Cost Theory

3.5.1 Agency Theory

Q14. Explain briefly about Agency Theory.

Ans : **(Imp.)**

Agency theory was developed by **Jensen and Meckling** in 1976. They believed that the owner and the management of any organization carried out agency relationship. According to this theory, agency relationship meant a contractual relationship where the shareholders provided funds to the company for its functioning and the management carried out the functions and managed the entire organization. Shareholders were considered as principals who employed agents to work on their behalf and management was treated as agents. These agents were also provided with decision-making powers. With the passage of time, the number of shareholders and the complexity of organizational operations increased which further increased the demand of more expertise management. The new management was expected to manage the organization more efficiently and were given the authority to control the entire functioning of the organization as per their interest.

In order to know this theory one should be clear about the following concepts:

i) The principal of the organization hires an agent to carry out the organizational operations on his behalf.

ii) According to this theory, agency is the relationship between a shareholder (principal) and the management (agent).

iii) Due to absence of trust in the confidence level of the agents, the cost incurred while supervising the agency behaviour is preferably carried out by principals.

iv) As soon the agent takes up the responsibility given by the principal on their behalf, they automatically become answerable to the principal for the responsibility undertaken.

Besides this, agency theory also states that any kind of gap between the owner and the management may give emergence to three major problems that may directly and adversely affect the value of that company. These problems are:

i) Effort problems usually arise when the managers are not determined to put in appropriate efforts to maximize the value of the company. When it becomes difficult for the principals to determine the extent to which the managers are putting in their efforts to increase the wealth of the shareholders, the effort problem arises. The effort problem can be minimised if the managers put in their full effort treating the company as their own company and function in the interest of the shareholders.

ii) Second problem is related to asset usage problem which is generally created by people working inside the company. The exploitation of assets against the interest of the shareholders, divergence of organizational assets, demand for excessive remuneration, adding the asset transfer prices to the prices of other articles handled by them are some of the examples of this type of problem.

iii) The difference between the outlook of principal and the management gives rise to the third problem i.e. risk preferences problem arises. However, it is not necessary that both of them have same view regarding the risk taking issue. It is observed that managers are less concerned about the interest of the shareholders and have different risk preferences. They prioritise the fulfilment of their economical and psychological needs. The projects related to risk taking issues are generally long term which makes the managers avoid making investments in such projects and think over the wealth maximisation of the shareholder.

Later, it was concluded by the agency theorists that the best way to reduce these above mentioned problems was the establishment of corporate governance system. Governance system provided the managers with certain incentives and benefits for maximizing the wealth of the shareholders which further helped in aligning the interest of both principal as well as agent. Governance system also included certain schemes under which senior executives were provided with shares which satisfied their financial interests along with the shareholder's interest. Another way of reducing the agency conflicts was fixing certain amount of compensation for the executives depending upon the shareholders returns and keeping certain amount for future in order to reward the executives for maximizing the organizational value.

3.5.2 Stewardship Theory

Q15. Explain the theory of Stewardship.

Ans :

Unlike other theories of corporate governance which emphasis on self interest, Stewardship theory does not give importance to self interest. In 1988, Donaldson and Davis developed this theory which was entirely different from agency theory. Agency theory included self-interested behaviour, separation of ownership and control, self improvement by the agent and supervision of the board over the managers which in turn covered the gap between the principal and the agent.

Whereas, as per stewardship theory, managers do not limit themselves to financial satisfaction but also consider other factors such as sense of worthiness, humanity, job purpose, better performance, job satisfaction, improved reputation, etc. Since the managers are highly devoted towards their company, they aim at profit maximisation for the company and creating benefits for the stockholders rather than their own profits and benefits. According to stewardship theory, managers working within any organization are not separate individuals but an integral part of entire company and this factor inspire them to combine their ego and worthiness with company's value.

Organizations adopting stewardship theory of corporate governance generally have lot of expectation from their managers. According to this theory, managers should be highly capable, goal-oriented and must have sense of worthiness. They must act as an absolute 'company men' and must be able to make the company successful. This theory involves various policies and provides lot of liberty to the managers which mostly work in the interest of the company.

Thus, it is observed that stewardship theory is much better than agency theory as both management and BOD gives equal importance to other organizational factors rather than focussing on only personal interests. When CEO of the company is also the chairman of that company, it is obvious that he will not put the company value at the cost of his own personal reasons. But in case when the CEO and the chairman are not same, the chances of prioritising the organisational interest reduce. Thus, it can be said that, although the managers of the organization adopting stewardship theory desire for rewards but he does not want company to suffer because of this.

The stewardship theory influences the organization in following way:

i) Impact on Business

Organization following stewardship theory of corporate governance always aims at achieving higher objectives which in turn, decides the degree of trust clients develop in that company. Just talking about the social responsibility without taking any measures or actions may adversely affect the company-client relationship.

ii) Effects on Employees

Organizations adopting stewardship theory of governance make their employees realise that they are the most powerful and important part of the company without which nothing is possible. Such organizations motivate the employees to put in more efforts in the interest of the company without considering the compensation level.

iii) Effects on Clients

Stewardship-driven companies comparatively have large number of clients as they give their clients a lot of importance and make them realise that they are an integral part of that company. Clients like to stay with such companies for long run irrespective of their high valued products and services. However, any kind of rigidity on the part of management or non-clarity of main purpose may create gap between the clients and the customers.

3.5.3 Stakeholder Theory

Q16. Describe briefly about Stakeholder Theory.

Ans : **(Imp.)**

Stakeholder Theory/Stakeholder theory of corporate governance emphasis upon the relationship between the management and tmfgroup of people dependent upon the management for different purpose. According to this theory, smooth functioning of any company entirely depends upon such groups. This theory also focuses on the people who get rewarded from the company and the people who manage the policies of the company.

Most of the people get confused between the shareholders and the stakeholders. This difference can be easily understood that stakeholder is a wider scope and shareholder is just a part of it. Shareholders are only the investors who put in some of their amount in the company. Whereas, stakeholders include all those people whose profit and loss entirely depends upon the functioning and performance of the company. Producers, con-summers, dealers, employees, society, government, etc., all belong to stakeholder category. These people are present in large groups and have a stake in the performance of the company. Optimal functioning of the company rewards these stakeholders in one way or the other. Each stakeholder seeks and receives reward from his own perspective and these different rewards given to the stakeholders help in proper management of that company. Company provides job security to the employees, dividends to investors, tax to government and strong economic base to the community.

The stakeholder theory is also considered as 'descriptive-normative' theory as it plays both descriptive as well as normative functions for an organization. Being descriptive, this theory describes the formation of an organization and the way it is managed and controlled and being normative, it suggests the strategies to be followed for the proper functioning of the organization. Organizations following stakeholder theory takes into accounts the views and ideas of different groups such as customers, investors etc. while formulating the policies and marketing the product.

According to stakeholder theory of corporate governance, an organization is a social institution that not only serves its shareholders but also considers the general public as an integral part of the organisational success. This theory is considered as highly autonomous and participatory concept of corporate governance. This theory states that a company is not only a profit making machine for influential people but a communal institution which is connected to numerous people who depend upon it for their needs.

3.5.3.1 Convergence

Q17. Compare Stewardship Theory with Agency theory.

Ans :

The roles of management and purposes of business are what are under discussion in this analysis. The differences between agency theory and stewardship theory are not whether the business should produce a profit, but how the profit concept is integrated into the operational activities of the business. In agency theory, the primary focus is the production of profit. In stewardship theory, the primary focus is the betterment of humanity. In agency theory extrinsic rewards such as tangible commodities having measureable value are of prime importance whereas in stewardship theory the focus is on intrinsic rewards that are not easily quantifiable such as affiliation, growth, and achievement The relationship of the individual within the organization is different between the two theories. In agency theory, the individual often times does not identify with the organization, may blame the organization for problems, or blame others for the shortcomings of the organizations.

In stewardship theory, the individual is connected to the organization, accepts the responsibility for problems, and works with others to resolve the issues without concern for personal reward.

The use of power is another difference. In agency theory, power is based on the owner-agent relationship and is bestowed on the agent (manager) by the owner with appropriate recognition and incentive mechanisms put in place to control the process. In stewardship theory, power is gained on a personal level over time and is not based on formal roles within the organization but rather knowledge and relationship to the specific issue

Conclusion

The primary difference between agency theory and stewardship theory is the purpose of business. In agency theory, the purpose of business is to build shareholder wealth. In stewardship theory, the purpose of business is to promote the well-being of society. Stewardship theory is much more of an altruistic approach to business than agency theory. It promotes a broader focus and purpose than agency theory and assumes not only that management's incentives are not in conflict with those of the owners but also that the role of business is to promote the health of our society. Given the history of business scandals and failures, one could argue that maybe business isn't capable of implementing such a concept today or in the near future.

Q18. Compare stakeholder theory with Agency theory ?

Ans :

Under stakeholder theory, managers need to consider multiple groups and identify the needs of those groups, determine how those needs can be assimilated into the strategic planning process of the firm, and manage those groups in the daily decision making process. These groups include external and internal entities and each has a different set of goals and objectives. Under agency theory there is only one goal the maximization of shareholder wealth.

At the present time, it is unclear under stakeholder theory how to evaluate the impact of multiple groups of stakeholders on the operations of the business and the impact of cross relationships.

Some relationships are truly linear as in a customer buying a specific product. However, expand the role of the customer to be involved with the design of the product as well as the packaging and marketing activities and this group of stakeholders takes on a different role and is involved in the operational activities of the firm.

Agency theory deals only with the relationship between the management and the shareholder and is less complicated to measure and manage. At the same time agency theory may create incentive systems that cause managers to make decisions that are not consistent with the long term goals of the owners as we have seen over time.

Stakeholder theory requires relationship building between the firm and its stakeholders. Consequently, management incentives will be more focused on the development and nurturing of these relationships to the benefit of the firm over the long term.

Conclusion

Stakeholder theory expands the focus of business beyond its own corporate boundaries. Since business is an integral part of today's society, the firm must consider the influence of other entities in the conduct of its business. This doesn't mean that the firm loses sight of profits. Quite the contrary, stakeholder theory promotes profitable operations Profits are necessary for the long term sustainability of the firm.

3.5.4 Sociological Theory

Q19. Describe briefly about Sociological Theory.

Ans :

The sociological theory of corporate governance mainly concentrates on members to be included in the board of the company and requirement of proper distribution of authority and wealth in the society. This theory considers the company as a part of society and expects from it to give due consideration to the welfare of the society. This theory emphasis on various methods such as disclosure of financial statements and auditing, by which company helps in developing equality within the society. Besides this, sociological theory also focuses on factors that adversely affect the growth and development of society such as knitted directorships, control in the hands of dominant shareholders and giving the directorships in the hands of only honoured and high-positioned people.

3.5.5 Resource Dependency Theory

Q20. Describe the mechanism of Resource Dependency Theory

Ans :

This theory was introduced by Hillman, Canella and Paetzold. RD theory majorly stress upon the rote of BOD in providing sufficient and appropriate resources required by the organization. In order to fulfil this demand, BOD even uses their external linkages and connections. Theorist Johnson et al., also agreed with this theory and believed that resource dependency theory include the appointment of such people who belong to autonomous organizations so that the resources essential for the success of the organization can be easily accessed.

For example, taking legal advice from outside the company may turn out to be expensive, whereas, directors who are also the partners of any legal firm can advice their executives in board meetings or personally, which is comparatively cost effective. Adoption of this theory helps in improving the performance of the organization and results in long-term survival of the company.

According to this theory, directors play an important role in bringing resources together and making them available to the company. These resources may include gathering relevant data, access to dealers, consumer, policy-makers and other social groups. Thus, there are four types of directors which are as follows:

i) Insiders

These directors work within the company and give their advice on various matters such as financial matters, legal matters, strategies to be followed and appropriate directions to be taken. These directors are generally former executives who continue to work with the company presently also.

ii) Business Experts

These directors are also former as well as presently working executives of other organization which are comparatively big and more profit-oriented. Business experts give their advice on business strategies to be followed, administrative techniques and analytical issues.

iii) Support Specialists

These directors are specialists in their field and give advice on the issues related to that particular field. Some of the support specialists are lawyers, bankers, PR experts, insurance company agents, etc.

iv) Community Influentials

These directors have a great influence on the society and hold a high position in the society. Some of them are politicians, university faculty, social leaders etc.

3.5.6 Transaction Cost Theory

Q21. Define Transaction Cost Theory.

Ans :

Transaction cost theory of corporate governance was introduced by **Cyert and March** but was elucidated in detail by **Williamson.** This theory was based on three major elements i.e. law, economics and organizations. According to this theory, large companies have started substituting the market place in case of appropriate allocation of resources. Besides this, such companies also include people with different viewpoints and objectives. The companies adopting transaction cost theory consider their managers opportunists who organize the transactions of the company in the interest of that company. This theory also believes that the determination of price and production of any company depends upon its structure. Transaction is used as the unit of analysis.

3.6 Problems of Governance in Companies

Q22. What are the problems / issues of Governance in Companies

Ans : **(Imp.)**

Important Issues in Corporate Governance

There are several important issues in corporate governance and they play a great role, all the issues are inter related, interdependent to deal with each other. Each issues connected with corporate governance have different priorities in each of the corporate bodies.

The issues are listed as below :

1. Value based corporate culture
2. Holistic view
3. Compliance with laws
4. Disclosure, transparency, & accountability
5. Corporate governance and human resource management
6. Innovation
7. Necessity of judicial reforms
8. Globalization helping Indian companies to become global giants based on good corporate governance.
9. Lessons from Corporate failure

1. Value based corporate culture

For any organization to run in effective way, it needs to have certain ethics, values. Long run business needs to have based corporate culture. Value based corporate culture is good practice for corporate governance. It is a set of beliefs, ethics, principles which are inviolable. It can be a motto i.e. A short phrase which is unique and helps in running organization, there can be vision i.e. dream to be fulfilled, mission and purpose, objective, goal, target.

2. Holistic view

This holistic view is more or less godly, religious attitude which helps in running organization.

It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.

3. Compliance with laws

Those companies which really need progress, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange Board of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, and Banking Laws etc.

4. Disclosure, transparency, and accountability

Disclosure, transparency and accountability are important aspect for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance etc. Transparency is needed in order that government has faith in corporate bodies and consequently it has reduced corporate tax rates from 30% today as against 97% during the late 1970s. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don't shift to other corporate bodies.

5. Corporate Governance and Human Resource Management

For any corporate body, the employees and staff are just like family. For a company to be perfect the role of Human Resource Management becomes very vital, they both are directly linked. Every individual should be treated with individual respect, his achievements should be recognized. Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus in Corporate Governance, Human Resource has a great role.

6. Innovation

Every Corporate body needs to take risk of innovation i.e. innovation in products, in services and it plays a pivotal role in corporate governance.

7. Necessity of Judicial Reform

There is necessity of judicial reform for a good economy and also in today's changing time of globalization and liberalization. Our judicial system though having performed salutary role all these years, certainly are becoming obsolete and outdated over the years. The delay in judiciary is due to several interests involved in it. But then with changing scenario and fast growing competition, the judiciary needs to bring reforms accordingly. It needs to speedily resolve disputes in cost effective manner.

8. Globalization helping Indian Companies to become global giants based on good governance

In today's age of competition and due to globalization our several Indian Corporate bodies are becoming global giants which are possible only due to good corporate governance.

9. Lessons from Corporate Failure

Every story has a moral to learn from, every failure has success to learn from, in the same way, corporate body have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success.

3.7 Global Reporting Initiative

Q23. What do you understand by Global Reporting Initiative (GRI) ?

Ans : **(Imp.)**

In the aftermath of the Exxon Valdez oil spill in 1989, a group of socially responsible investors and environmentalists combined together to form the Coalition for Environmentally Responsible Economies (CERES), which in the beginning used 'shareholder resolutions to persuade companies to adopt a set of environmental principles and produce public standardized annual environmental reports'. The non-corporate members who signed for this included names from different areas such as the Calvert Group, Conservation International, Domini Social investments, AFL CIO, Friends of the Earth, Interfaith Centre on Corporate Responsibility, National Wildlife Federation, Walden Asset Management, World Wildlife Fund (WWF), etc.

It also included 60 corporate signatories such as American Airlines, Bank of America, Ben & Jerry's Homemade, GM, Ford, Nike, Timberland, Sunoco, etc. While the CERES Principles were a very important step in conditioning environmentally and socially sustainable practices, a better and sustainable impact and legacy may have been made on the disclosure and transparency aspect by what CERES developed as Global Reporting Initiative (GRI). It is an international initiative backed by a multitude of stakeholders, launched in 1997 to establish a common framework for economic, environmental, and social reporting. The thinking of the leadership of the GRI was that rather than resorting to commonly used pressure tactics like boycott of the products, or services of a corporate, or introducing shareholder resolutions towards changing the approach of corporates, filing law suits, etc., and then going public with a hot story, corporates will be induced to disclose the negative and positive impacts of their operations so that they get to know the status quo and are encouraged to improve their own performance records.

According to Bob Massie, who led the CERES during the formative years, 'What the corporate world really needed, was a mutually agreed upon set of standards for environmental and social reporting. These standards would provide existing and prospective shareholders, creditors, and all those with a financial relationship with the company as well as the general public with a standardized, consistent, and independently verified window on the company's internal operations, their future risks, and the general health and viability of the enterprise'.

A number of companies voluntarily produced reports employing the GRI environmental and social reporting guidelines. For example, GM complied a detailed CSR report employing the GRI guidelines. According to Judith Mullins, Director of GM's Public Policy Centre at Detroit, 'GM was able to publicly identify and fix significant number of environmental problems at its manufacturing and assembly plants that might have gone undetected before committing to the analysis and review that Precedes public reporting'. Judy Henderson, a member of the GRI global directorate, while speaking at a Business for Social Responsibility conference in Miami in 2002 observed that 'competitive advantage can be gained with transparency, as a question of managing risk and reputation, because discerning investors now recognize that a company managed according to interests broader than those of only shareholders is more likely to profit over the long term. Corporations with a stakeholder focus have been shown to enjoy greater sales and value growth than companies with a narrow shareholder focus' (Hollender and Fenichell). A number of companies have started producing reports on the lines of GRI. These include Intel, Dupont, Hewlett Packard, Procter'& Gamble, Unilever, etc.

In 2002, more than 200 out of an estimated 2500 companies around the world that process some type of CSR report produced them in accordance with the GRI standards (Hollender and Fenichell 2004). The GRI guidelines enable companies to have a common framework leading to transparency through processes that are clear, unambiguous, and equivalent for all players.

The criticism against the GRI is in its utility as it is voluntary and that it lacks teeth as it cannot be enforced. Hollender and Fenichell say, 'After reviewing a collection of CSR reports that purport to follow GRI guidelines, it is clear that there is still much work to be done' and 'While no CSR report that I ve read complies with all GRI's requirements, overall I regard this argument as false and misguided, since as more and more companies realize that adopting effective social and environmental policies is good for business, if not necessary for business, the pressure on them will grow to comply with a standard in place like the GRI.' Appendix A shows a typical report (abridged to include only the salient features) conforming to GRI guidelines made by Jubilant Organosys Ltd from India.

International Corporate governance Network

In any corporate governance code, the attempt has been to establish certain principles that will act as guidelines for corporates. The same is true of the International Corporate Governance

Network (ICGN), which has been created by investors at Frankfurt on 9 July 1999.

The ICGN principles start with praising the OECD principles referring to them as the foundation of good corporate governance. It then lists a 10-point 'Working Kit', GG Criteria.

Assumptions made in the ICGN Approach

There are five assumptions on which the ICGN approach rests.

About shareholder rights

According to ICGN, there are five factors that need to be addressed :

1. Shareholders are entitled to be consulted before any major change is implemented to the company's strategic direction as this right affects the risk profile of the business, and shareholders have rights to have their risk profiles respected. Also, the approval of shareholders should be taken before the corporate indulges in anything that is likely to dilute the shareholder equity or erode shareholder economic interests.
2. Shareholder must be provided with adequate access to be able to exercise their right to vote and corporates must provide secure methods to enable the shareholders' voting.
3. The results of voting should be disclosed resolution-wise in a timely manner and votes cast in person or through post or proxy shall be treated alike.
4. Care should be taken to see that no shareholder enjoys power disproportionate to his/her holding or the 'one share, one vote' system be followed.
5. Institutional shareholders must exercise their vote, subject to the costs, as it is a fiduciary responsibility.

Equitable treatment of shareholders ICGN recognizes the 'one share, one vote' principle as the best way to enable the capital markets to grow and hence agree that markets that do not recognize this principle will be disadvantaged. 'One share, one vote' prevents any differential treatment of shareholders, especially the minority and foreign shareholders.

The role of stakeholders ICGN assumes that boards are accountable to shareholders and are responsible to interact with all stakeholders in their pursuit of creating wealth, employment and financially sustainable companies over a period of time. ICGN also assumes that there is a need to align both shareholder and stakeholder interests and is enabled to a very large extent by performance enhancing mechanisms like employee share ownership plans and profit sharing plans.

Disclosure and transparency While disclosure of financial and operating results, risk factors, stakeholder issues, and governance structure and procedures are necessary, disclosure of information such as major shareholders, special voting rights, shareholder agreements, dominant shareholders cross-holdings if any, guarantees provided by the company, related party transactions, etc., must also be provided. Also, details of the directors, their remunerations, any material transaction with the company other than that as a board member, etc., shall be disclosed. The details of auditors and the fees paid and also, whether they have been paid fees for any non-audit related work must be disclosed.

The board responsibilities ICGN emphasizes the fiduciary responsibilities of the board and hence expects the board as an entity and the directors as individuals being accountable to the shareholders as a whole. The board must have enough independent components with appropriate competencies and should contribute to the strategy and performance of the management, and also be responsible for constituting key committees with the right kind of skills and talents. ICGN endorses the OECD Principles fully on the independence aspect. It also suggests that relevant committees should be composed wholly or predominantly of independent, non-executive directors.

Criticism about the ICGN's approach is that it does not provide for any directives for chairpersons, CEOs, and other directors to handle their jobs effectively.

3.8 OECD Principles

Q24. What do you mean by OECD Principles? Explain the elements of OECD Principles.

Ans : **(Oct.-21, Oct.-20)**

The Organization for Economic Cooperation and Development (OECD) was one of the earliest non-governmental organizations to work on and spell-out principles and practices that should govern corporate in their goal to attain long-term shareholder value. Because of the ubiquitous approval, the OECD Principles are as much trend setters as the Codes of Best Practices associated to the Cadbury Report. A useful first step in creating or reforming the corporate governance system is to look at the principles laid-out by the OECD and adopted by its member governments. The OECD principles have become the most influential internationally and define corporate governance as involving 'a set of relationships between a company's management, its board, its shareholders and other stakeholders. It 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'.

In the aftermath of the Asian financial crisis in 1997, the OECD Council Meeting at Ministerial level called upon the OECD to develop, in conjunction with national governments, other relevant international organizations and the private sector, a set of corporate governance standards and guidelines.

The OECD Principles of Corporate Governance were agreed in 1999 and are intended to assist member and non-member governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance.

This framework of principles was endorsed by the World Bank, International Monetary Fund, and Asian Development Bank. The principles were the most influential global corporate governance guidelines and were designed to be acceptable within any framework of corporate governance found within any OECD member nation.

Elements of OECD Principles

Elements of OECD principles are as follows:

1) **Rights of Shareholders**

The rights of shareholders include a set of rights to secure ownership of their shares, the right to full disclosure of information, voting rights, participation in decisions on sale or modification of corporate assets, mergers and new share issues. The guidelines go on to specify a host of other issues connected to the basic concern of protecting the value of the corporation.

2) **Equitable Treatment of Shareholders**

The OECD is concerned with protecting minority shareholders' rights by setting-up systems that keep insiders, including managers and directors, from taking advantage of their roles.

3) **Role of Stakeholders in Corporate Governance**

The OECD recognizes that there are other stakeholders in companies in addition to shareholders. For example, Banks, bond holders and workers are important stakeholders in the way in which companies perform and make decisions. The OECD guidelines lay-out several general provisions for protecting stakeholder's interests.

4) **Disclosure and Transparency**

The OECD lays-down a number of provisions for the disclosure and communication of key facts about the company ranging from financial details to governance structure-including the Board of Directors and their remuneration. The guidelines also specify that independent auditors in accordance with high quality standards should perform annual audits.

5) **Responsibilities of the Board:**

The OECD guidelines provide a great deal of details about the functions of the board in protecting the company and its shareholders. These include concerns about corporate strategy. risk, executive compensation and performance as well as accounting and reporting systems.

3.9 Cadbury Committee Report

Q25. Describe Cadbury Committee in emergency of corporate governance.

Ans : **(Oct.-20)**

Cadbury Committee

Cadbury committee was chaired by Adrian Cadbury which produced the first Code of Best Practice on corporate governance. The 'Cadbury Committee' was set up in May 1991 with a view to overcome the huge problems of scams and failures occurring in the corporate sector worldwide in the late 1980s and the early 1990s. It was formed by the Financial Reporting Council, the London Stock of Exchange and the accountancy profession, with the main objective of addressing the financial aspects of Corporate Governance.

Other objectives include:

1) Uplift the low level of confidence both in financial reporting and in the ability of auditors to provide the safeguards which the users of company's reports sought and expected;

2) Review the structure, rights and roles of board of directors, shareholders and auditors by making them more effective and accountable;

3) Address various aspects of accountancy profession and make appropriate recommendations, wherever necessary;

4) Raise the standard of corporate governance.

Keeping this in view, the Committee published its final report on 1st December 1992. The report was mainly divided into following three parts:

1) Reviewing the Structure and Responsibilities of Boards of Directors:

The boards of all listed companies should comply with the Code of Best Practice. All listed companies should make a statement about their compliance with the Code in their report and accounts as well as give reasons for any areas of non- compliance. The Code of Best Practice is segregated into four sections and their respective recommendations are:

i) Board of Directors

Relating to the Board of Directors, the recommendations are as follows:

a) There should be a clearly accepted division of responsibilities at the head of a company, which will ensure balance of power and authority, such that no individual has unfettered powers of decision. In companies where the Chairman is also the Chief Executive, it is essential that there should be a strong and independent element on the board, who is a recognized senior member.

b) The board should include Non-Executive Directors of sufficient calibre and number, for their views to carry significant weight in the board's decisions.

c) The board should have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the company is firmly in its hands.

d) There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice, if necessary, at the company's expense.

e) All directors should have access to the advice and services of the Company Secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of Company Secretary should be a matter for the board as a whole.

ii) Non-Executive Directors:

Relating to the Non-Executive Directors, the recommendations are as follows:

a) Non-Executive Directors should bring an independent judgment to bear on issues of strategy, perfor- mance, resources, including key appointments and standards of conduct.

b) The majority should be independent of the management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment, apart from their fees and share holding. Their fees should reflect the time, which they commit to the work of the company.

c) Non-Executive Directors should be appointed for specified terms and re-appointment should not be automatic.

d) Non-Executive Directors should be selected through a formal process this process and their appointment should be a matter for the board as a whole.

iii) Executive Directors

Relating to the Executive Directors, the recommendations are as follows:

a) Directors' service contracts should not exceed three years without share holders' approval.

b) There should be full and clear disclosure of their total emoluments and those of the Chairman, including pension contributions and stock options. Separate figures should be given for salary and performance related elements and the basis on which performance is measured should be explained.

c) Executive Directors' pay should be subject to the recommendations of a remuneration committee made-up wholly or mainly of Non-Executive Directors.

iv) Financial Reporting and Controls

Relating to the Reporting and Controls, the recommen- dations are as follows:

a) It is the board's duty to present a balanced and understandable assessment of the company's position.

b) The board should ensure that an objective and professional relationship is maintained with the auditors.

c) The board should establish an audit committee of at least three Non-Executive Directors with written terms of reference, which deal clearly with its authority and duties.

d) The Directors should explain their responsibility for preparing the accounts next to a statement by the Auditors about their reporting responsibilities.

e) The Directors should report on the effectiveness of the company's system of internal control.

f) The Directors should report that the business is a going concern, with supporting assumptions or qualifi-cations, as necessary.

2) **Considering the Role of Auditors**

Cadbury committee provide report by considering the role of Auditors and addressing a number of recommendations to the Accountancy Profession, which are as follows:

i) The annual audit is one of the cornerstones of corporate governance. It provides an external and objective check on the way in which the financial statements have been prepared and presented by the directors of the company. The Cadbury Committee recommended that a professional and objective relationship between the board of directors and auditors should be maintained, so as to provide to all a true and fair view of company's financial statements.

ii) Auditors' role is to design audit in such a manner so that it provide a reasonable assurance that the financial statements are free of material misstatements. Further, there is a need to develop more effective accounting standards, which provide important reference points against which auditors exercise their professional judgement.

iii) Every listed company should form an audit committee which gives the auditors direct access to the non-executive members of the board.

iv) The Committee further recommended for a regular rotation of audit partners to prevent unhealthy relationship between auditors and the management.

v) It also recommended for disclosure of payments to the auditors for non-audit services to the company.

vi) The Accountancy Profession, in conjunction with representatives of preparers of accounts, should take the lead in:

a) Developing a set of criteria for assessing effectiveness,

b) Developing guidance for companies on the form in which directors should report, and

c) Developing guidance for auditors on relevant audit procedures and the form in which auditors should report. However, it should continue to improve its standards and procedures.

3) **Dealing with the Rights and Responsibilities of Shareholders**

Major recommendations of Cadbury Committee dealing with the rights and responsibilities of shareholders are as follows:

i) The shareholders, as owners of the company, elect the directors to run the business on their behalf and hold them accountable for its progress.

ii) Shareholders appoint the auditors to provide an external check on the directors' financial statements. The Committee's report places particular emphasis on the need for fair and accurate reporting of a company's progress to its shareholders, which is the responsibility of the board.

iii) It encouraged that the institutional investors/shareholders to make greater use of their voting rights and take positive interest in the board functioning.

iv) Both shareholders and boards of directors should consider how the effectiveness of general meetings could be increased as well as how to strengthen the accountability of boards of directors to shareholders.

3.10 Kumara Mangalam Birla Committee Report

Q26. Describe briefly about Kumara Mangalam Birla Committee Report.

Ans : **(Oct.-20)**

In early 1999, Securities and Exchange Board of India (SEBI) had set-up a committee under Shri Kumar Mangalam Birla, member SEBI Board, to promote and raise the standards of good corporate governance. Kumar Mangalam Birla Committee on Corporate Governance was set-up by Securities and Exchange Board of India (SEBI) under the membership of Shri Kumar Mangalam Birla.

The report submitted by the committee is the first formal and comprehensive attempt to evolve a 'Code of Corporate Governance', in the context of prevailing conditions of governance in Indian companies, as well as the state of capital markets. The Committee's terms of the reference were to:

1) Set-up systems of good corporate governance.

2) Systems which allow sufficient freedom to the boards and management to take decisions towards the progress of their companies and to innovate.

3) Promote a culture of strong and independent oversight.

4) Set-up transparent corporate disclosure norms and high-quality accounting practices.

5) Recommend a statutory code as under Indian conditions a statutory rather than a voluntary code would be far more purposive and meaningful.

6) Draft a code of corporate best practices.

7) Suggest safeguards to be instituted within the companies to deal with insider information and insider trading.

8) Suggest suitable amendments to the listing agreement executed by the stock exchanges with the companies and any other measures to improve the standards of corporate governance in the listed companies, in areas such as continuous disclosure of material information, both financial and non-fmancial, manner and frequency of such disclosures, responsibilities of independent and outside directors.

The primary objective of the committee was to view corporate governance from the perspective of the investors and shareholders and to prepare a 'Code' to suit the Indian corporate environment. The committee had identified the Shareholders, the Board of Directors and the Management as the three key constituents of corporate governance and attempted to identify in respect of each of these constituents, their roles and responsibilities as also their rights in the context of good corporate governance. Corporate governance has several claimants - shareholders and other stakeholders - which include suppliers, customers, creditors, and the bankers, the employees of the company, the government and the society at large. The Report had been prepared by the committee, keeping in view primarily the interests of a particular class of stakeholders, namely, the shareholders, who together with the investors form the principal constituency of SEBI while not ignoring the needs of other stakeholders.

Q27. Describe the various mandatory and non-mandatory recommendations Kumara Mangalam Birla Committee Report.

Ans :

The committee divided the recommendations into two categories, namely, mandatory and non-mandatory. The recommendations which are absolutely essential for corporate governance can be defined with precision and which can be enforced through the amendment of the listing agreement could be classified as mandatory. Others, which are either desirable or which may require change of laws, are, for the time being, be classified as non-mandatory.

A) Mandatory Recommendations

Mandatory recommendations of Kumar Mangalam Birla Committee are as follows:

1) Applicability

These recommendations are applicable to all listed companies with paid-up share capital of ?3 crore and above.

2) Board of Directors

Both the Birla Committee Report and the CII Code, have recommended that the Board of Directors should have an optimum combination of executive-and non-executive directors. The non-executive directors should comprise atleast 30 per cent of the Board if one of them is the chairman. The non-executive directors should comprise atleast 50 per cent of the board if the chairman and the managing director is the same person.

3) Audit Committee

One of the items of the CII Code is that there should be an Audit Committee, which shall have access to all financial information. The Birla Committee has recommended an Audit Committee to act as a catalyst for effective financial reporting, with powers to investigate any activity within its terms of reference and to seek information from any employee. According to this recommendation, the major role of the Audit Committee appointed by the Board of Directors is the oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

4) Remuneration Committee of the Board

The board of Directors should decide the remuneration of non-executive directors. Full disclosure of the remuneration package of all the directors covering salary benefits, bonuses, stock options, pension-fixed component, performance-linked incentives along with the performance criteria, service contracts, notice period, severance fees etc., is to be made on corporate governance of the annual report.

5) **Board Procedures**

The Company agrees that the board meeting shall be held atleast four times a year, with a maximum time gap of four months between any two meetings. The company further agrees that a director shall not be a member in more than ten committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore, it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

6) **Management**

The management is responsible for trans lating the policies and strategies of the Board in to an action and implementing its directives to achieve corporate objectives of the company framed by the Board. Some of the functions performed by management include:

i) Assisting the board in its decision-making process in respect of the company's strategy, policies, code of conduct and performance targets, by providing necessary inputs.

ii) Implementing the policies and code of conduct of the board.

iii) Ensuring compliance of all regulations and laws.

iv) Implementing and complying with the Code of Conduct as lay down by the board.

v) Cooperating and facilitating efficient working of board committees.

7) **Shareholders**

The shareholders are the owners of the company and as such they have certain rights and responsibilities. In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:

i) A brief resume of the director,

ii) Nature of his expertise in specific functional areas, and

iii) Names of companies in which the person also holds the directorship and the membership of Committees of the board.

The effectiveness of the board is determined by the quality of the directors and the quality of the financial information is dependent to an extent on the efficiency with which the auditors carry on their duties. The shareholders must, therefore, show a greater degree of interest and involvement in the appointment of the directors and the auditors. Indeed, they should demand complete information about the directors before approving their directorship. The Committee has also recommended that the institutional shareholders take an active interest in the composition of the Board of Directors and evaluate the corporate governance performance of the company.

8) **Report on Corporate Governance**

A separate section on Corporate Governance in the annual reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirements, i.e., which is part of the listing agreement with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted.

B) **Non-Mandatory Recommendations**

Some of the non-mandatory recommen dations are as follows:

1) **Chairman of the Board**

The Birla Committee has suggested that, in principle, the chairman's role should be different from that of the CEO. The company agrees that all pecuniary relationship or transactions of the non-executive directors, *viz-a-viz,* the company should be disclosed in the Annual Report. A non-executive Chairman should be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties.

2) Remuneration Committee

The board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment. To avoid conflicts of interest, the remuneration committee, which would determine the remuneration packages of the executive directors should comprise of at least three directors, all of whom should be non-executive directors, the chairman of committee being an independent director.

All the members of the remuneration committee should be present at the meeting. The Chairman of the remuneration committee should be present at the Annual General Meeting, to answer the shareholder queries. However, it would be up to the Chairman to decide who should answer the queries.

3) Shareholder Rights

The half-yearly declaration of financial performance including summary of the significant events in last six-months, should be sent to each household of shareholders.

4) Postal Ballot

Currently, although the formality of holding the general meeting is gone through, in actual practice only a small fraction of the shareholders of that company do or can really participate therein. This virtually makes the concept of corporate democracy illusory. It is imperative that this situation which has lasted too long needs an early correction. In this context, for shareholders who are unable to attend the meetings, there should be a requirement which will enable them to vote by postal ballot for key decisions. Some of the critical matters which should be decided by postal ballot are given below:

i) Maters relating to alteration in the memorandum of association of the company like changes in name, objects, address of registered office etc;

ii) Sale of whole or substantially the whole of the undertaking;

iii) Sale of investments in the companies, where the shareholding or the voting rights of the company exceeds 25%;

iv) Making a further issue of shares through preferential allotment or private placement basis;

v) Corporate restructuring;

vi) Entering a new business area not germane to the existing business of the company;

vii) Variation in rights attached to class of securities;

viii) Matters relating to change in management.

3.11 Naresh Chandra Committee Report

Q28. Explain the recommendations of Naresh Chandra Committee Report.

Ans : **(Oct.-20)**

In the year 2002, a high-level committee was appointed to examine and recommend drastic amendments to the Taw involving the auditor-client relationships and the role of independent directors by the department of: company affairs in the Ministry of Finance & Company Affairs under the chairmanship of Naresh Chandra.

Major Recommendations

Other than those issues which were recommended to the committee to make changes, the Naresh Chandra Committee also made major recommendations to be followed:

1) It recommended a list of disqualifications for audit assignments like direct or indirect relationship with company.
2) Audit firms not to provide services such as accounting and book keeping, internal audit assignments, and the like. To disclose contingent liabilities and highlight significant accounting.
3) CEO and CFO to certify on fairness, correctness of annual audited accounts.
4) Re-definition of independent directors - should not have any pecuniary relationship with the company.
5) Composition of Board of Directors - more independent directors.

3.12 Narayana Murthy Committee Report

Q29. What do you understand by Narayana Murthy Committee Report.

Ans : **(Oct.-20)**

This committee was set up as a sequel to Kumar Mangalam Birla Committee. SEBI constituted this Committee under the chairmanship of **N.R. Narayana Murthy,** chairman and mentor of **Infosys Technologies Limited,** and mandated the committee to review the performance of corporate governance in India and make appropriate recommendations. The Committee submitted its report in February 2003.

With the belief that the efforts to improve corporate governance standards in India must continue because these standards themselves were evolving in keeping with the market dynamics, the Securities and Exchange Board of India (SEBI) had constituted a Committee on Corporate Governance in 2002, in order to evaluate the adequacy of existing corporate governance practices and further improve these practices. It was set-up to review Clause 49, and suggest measures to improve corporate governance standards.

As per the committee, the recommendations codify certain standards of 'good governance' into specific requirements, since certain corporate responsibilities are too important to be left to loose concepts of fiduciary responsibility. Their implementation through SEBI's regulatory framework will strengthen existing governance practices and also provide a strong incentive to avoid corporate failures. The Committee noted that the recommendations contained in their report can be implemented by means of an amendment to the Listing Agreement, with changes made to the existing Clause 49. The terms of reference of the Committee were:

1) To review the performance of corporate governance, and
2) To determine the role of companies in responding to rumour and other price sensitive information circulating in the market, in order to enhance the transparency and integrity of the market.

Terms and Conditions Proposed by the Committee

The committee recommended that in order to achieve the objectives of corporate governance and to realise long term shareholder value, companies should agree to the following **terms and conditions:**

1) In case of the appointment of a new director or reappointment of a director, the shareholders must be provided with the following information:
   i) A brief resume of the director.
   ii) Nature of his expertise in specific functional areas.
   iii) Names of companies in which the person also holds the directorship and the membership of committees of the board.
2) Information like quarterly result and presentation made by companies to analysts shall be put on company's website or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own website.

3) A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressing of shareholder and investors complaints such as transfer of shares, non-receipt of balance sheet, declared dividends, etc. This committee shall be designated as "Shareholders/Investors Grievance Committee".

4) To expedite the process of share transfers the board of directors shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

Q30. What are the Major Recommendations of Narayana Murthy Committee Report?

Ans :

Major recommendations of Narayana Murthy Committee are as follows:

1) Audit Committees

Audit committees of publicly listed companies should be required to review the following **mandatory information:**

i) Financial statements and draft audit report, including quarterly/half-yearly financial information;

ii) Management discussion and analysis of financial condition and results of operations;

iii) Reports relating to compliance with laws and to risk management;

iv) Management letters/letters of internal control weaknesses issued by statutory / internal auditors; and

v) Records of related party transactions.

All audit committee members should be "financially literate" and atleast one member should have accounting or related financial management expertise.

2) Audit Reports and Audit Qualifications

i) Mandatory Recommendation

In case a company has followed a treatment different from that prescribed in an accounting standard, management should justify why they believe such alternative treatment is more representative of the underlying business transaction. Management should also clearly explain the alternative accounting treatment in the footnotes to the financial statements.

ii) Non-Mandatory Recommendation

Companies should be encouraged to move towards a regime of unqualified financial statements. This recommendation should be reviewed at an appropriate juncture to determine whether the financial reporting climate is conducive towards a system of filing only unqualified financial statements.

3) Related Party Transactions

Mandatory Recommendation

A statement of all transactions with related parties including their bases should be placed before the independent audit committee for formal approval/ratification. If any transaction is not on an arm's length basis, management should provide an explanation to the audit committee justifying the same.

The term "related party" shall have the same meaning as contained in Accounting Standard 18, Related Party Transactions, issued by the Institute of Chartered Accountants of India.

4) Risk Management

i) Mandatory Recommendation

Procedures should be in place to inform Board members about the risk assessment and minimization procedures. These procedures should be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

Management should place a report before the entire Board of Directors every quarter documenting the business risks faced by the company, measures to address and minimize such risks, and any limitations to the risk taking capacity of the corporation. This document should be formally approved by the Board.

ii) Non-Mandatory Recommendation

Companies should be encouraged to train their Board members in the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors, and the best ways to discharge them.

5) Proceeds from Initial Public Offerings ("IPO")

Mandatory recommendation related to IPO is that companies raising money through an Initial Public Offering ("IPO") should disclose to the Audit Committee, the uses/applications of funds by major category (capital expenditure, sales and marketing, working capital, etc.), on a quarterly basis. On an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/ prospectus. This statement should be certified by the independent auditors of the company. The audit committee should make appropriate recommendations to the Board to take-up steps in this matter.

6) Code of Conduct:

Mandatory recommen dation related to code of conduct is that there should be obligatory for the Board of a company to lay down the code of conduct for all Board members and senior management of a company. This code of conduct shall be posted on the website of the company.

All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed-off by the CEO and COO.

For this purpose, the term "senior management" shall mean personnel of the company who are members of its management/operating council (i.e., core management team excluding Board of Directors). Normally, this would comprise all members of management one level below the executive directors.

7) Nominee Directors

Mandatory recommendation given by committee is that there shall be no nominee directors. Where an institution wishes to appoint a director on the Board, such appointment should be made by the shareholders. An institutional director, so appointed, shall have the same responsibilities and shall be subject to the same liabilities as any other director. Nominee of the Government on public sector companies shall be similarly elected and shall be subject to the same responsibilities and liabilities as other directors.

8. Non-Executive Director Compensation

Mandatory recommendation related to non-executive director compensation is that all compensation paid to non-executive directors may be fixed by the Board of Directors and should be approved by shareholders in general meeting. Limits should be set for the maximum number of stock options that can be granted to non-executive directors in any financial year and in aggregate. The stock options granted to the non executive directors shall vest after a period of atleast one year from the date such non-executive directors have retired from the Board of the Company.

Companies should publish their compensation philosophy and statement of entitled compensation in respect of non-executive directors in their annual report. Alternatively, this may be put-up on the company's website and reference drawn thereto in the annual report. Companies should disclose on an annual basis, details of shares held by non-executive directors, including on an "if-converted" basis. Non-executive directors should be required to disclose their stock holding (both own or held by/for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should accompany their notice of appointment.

9) Independent Directors

The term "independent director" is defined as a non-executive director of the company who:

i) Apart from receiving director remuneration does not have any material pecuniary relationships or transactions with the company, its promoters, its senior management or its holding company, its subsidiaries and associated companies,

ii) Is not related to promoters or management at the board level or at one level below the board,

iii) Has not been an executive of the company in the immediately preceding three financial years,

iv) Is not a partner or an executive of the statutory audit firm or the internal audit firm that is associated with the company, and has not been a partner or an executive of any such firm for the last three year. This will also apply to legal firm(s) and consulting firm(s) that have a material association with the entity,

v) Is not a supplier, service provider or customer of the company. This should include lessor-lessee type relationships also, and

vi) Is not a substantial shareholder of the company, i.e., owning two per cent or more of the block of voting shares.

The considerations as regards remuneration paid to an independent director shall be the same as those applied to a non-executive director.

10) Whistle Blower Policy

Mandatory recommendations given by committee regarding it are as follows:

i) Personnel who observe an unethical or improper practice (not necessarily a violation of law) should be able to approach the audit committee without necessarily informing their supervisors. Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc. The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.

ii) Companies shall annually affirm that they have not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct) and that they have provided protection to "whistle blowers" from unfair termination and other unfair or prejudicial employment practices. The appointment, removal and terms of remuneration of the chief internal auditor must be subject to review by the Audit Committee. Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.

11) Subsidiary Companies

Mandatory recommendation related to it is that the provisions relating to the composition of the Board of Directors of the holding company should be made applicable to the composition of the Board of Directors of subsidiary companies. Atleast one independent director on the Board of Directors of the parent company shall be a director on the Board of Directors of the subsidiary company.

The Audit Committee of the parent company shall also review the financial statements, in particular the investments made for review at the Board meeting of the parent company by the subsidiary company. The minutes of the Board meetings of the subsidiary company shall be place. The Board report of the parent company should state that they have reviewed the affairs of the subsidiary company also.

12) Real-Time Disclosures

It was suggested that SEBI should issue rules relating to real-time disclosures of certain events or transactions that may be of importance to investors, within 3-5 business days. These would include events such as:

i) A change in the control of the company,

ii) A company's acquisition/disposal of a significant amount of assets,

iii) Bankruptcy or receivership,

iv) A change in the company's independent auditors, and

v) The resignation of a director.

The Committee was of the view that no recommendation would be made to SEBI in respect of this suggestion.

13) Evaluation of Board Performance

For evaluation of board performance non-mandatory recommendation of committee is that the performance evaluation of non-executive directors should be by a peer group comprising the entire Board of Directors, excluding the director being evaluated; and Peer group evaluation should be the mechanism to determine whether to extend/ continue the terms of appointment of non-executive directors.

14) Analyst Reports

Mandatory recommen dation given by the committee related to analyst reports is that the SEBI should make rules for the following:

i) Disclosure in the report issued by a security analyst whether the company that is being written about is a client of the analyst's employer or an associate of the analyst's employer, and the nature of services rendered to such company, if any, and

ii) Disclosure in the report issued by a security analyst whether the analyst or the analyst's employer or an associate of the analyst's employer hold or held (in the 12 months immediately preceding the date of report) or intend to hold any debt or equity instrument in the issuer company that is the subject matter of the report of the analyst.

3.13 SEBI Clause 49 Guidelines

Q31. Discuss briefly about SEBI Guidelines of Clause 49.

Ans : **(Imp.)**

Clause 49 Guidelines

SEBI in January 2000 considered the recommendations of the Kumar Mangalam Birla Committee to promote and raise the standard of corporate governance of listed companies. It decided to incorporate a new clause in the listing agreement between companies and stock exchanges **to** include the recommendation of the committee. The following guidelines were incorporated:

I The board of directors

(a) The board shall have optimum combination of executive and non-executive directors. In case the company has an executive chairman, at least half of the board shall be independent and in the case of a non-executive chairman, at least one-third of the board shall be independent.

(b) All pecuniary relationships or transactions of the non-executive directors and the company. should be disclosed in the annual report.

II Audit Committee

(a) A qualified and independent committee shall be set up. The committee shall have minimum three members, all non-executive directors, with the majority being independent, and the chairman must attend the AGM to answer shareholder queries. The committee can invite executives to be present at the meetings. The CFO/finance director, the head of internal, audit, and a representative of the external auditor shall be present, if required. The company-. secretary will act as the secretary of the committee.

(b) The committee shall meet at least thrice a year, once before the finalization of annual accounts and others in a gap of 6 months. The quorum shall be either two members or one third to the members whichever is higher with a minimum of two independent directors.

(c) The powers of the audit committee shall include

- To investigate any activity within its terms of reference
- To seek information from any employee
- To obtain outside advice
- To secure attendance of outside experts if necessary

(d) The committee's role will include

- To secure attendance of outside experts if necessary
- Oversight of the company's financial reporting with adequate disclosure
- Recommending the appointment or removal of external auditor, fixation of audit fee. and approval of fees for any other services
- Discuss with management the annual financial statements before submission to the board with focus on
- any changes in accounting policies and practice
- qualifications in draft audit report
- significant adjustments arising out of audit
- the going concern assumptions
- compliance with accounting standards
- compliance with requirements by stock exchanges and other legal aspects
- any related party transactions that may have potential conflict with the interests of the company at large
- Review of internal control systems with management, internal, and external auditors
- Review of internal audit functions including structure, staff, leadership, reporting structure, frequency of internal audit, etc.
- Discussion with internal auditors on any significant findings and follow up there on
- Review of any internal investigations by internal auditors
- Discussion and finalization of nature and scope of audit with external auditors
- Review the company's financial risk management policies
- To look into the reasons of substantial defaults in the payments to depositors, debenture holders, shareholders (non-payment of declared dividends), and creditors

III Remuneration of Directors

- The remuneration of non-executive directors shall be decided by the board.
- All details regarding remuneration shall be disclosed in the report on corporate governance in the annual report. Details like salary, benefits, bonuses, stock options, perquisites, etc., as well as details of fixed components and performance linked incentives along with performance criteria and service contracts, notice periods, severance pays and stock option details.

IV Board Procedure

- Board should meet at least four times a year with a maximum gap of 4 months between two meetings.
- No director can be a member of more than 10 committees or act as chairman

of more than five committees across all companies in which one is a director. It is mandatory for every director to declare the committee positions he occupies to the company and notify the changes as and when they take place.

V Management

- In addition to the director's report, MDA is added.

  Report is added as part of the annual report. MDA should discuss

- The industry and developments.
- Opportunities and threats
- Segment-wise or product-wise per formance
- Outlook
- Risks and concerns
- Internal control systems and adequacy
- Financial performance with respect to operational performance
- Material developments in HR/industrial relations including number of people employed
- All financial and commercial transactions made by managements, where they have a personal interest that may have a potential conflict with the interests of the company at large.

VI Shareholders

- When a new director is to be appointed, the shareholders must be provided with a brief resume of the director, nature of his expertise in specific functional areas, and names of companies where the person holds directorship and memberships of committees of the board.
- Information like quarterly results and presentation to analysts on its website be forwarded to the stock exchanges who may display them on their website.
- There must be a committee (shareholders'/investors' grievance committee) to look into the grievances of the shareholders regarding transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, etc.
- The company must expedite the process of share transfers and for this it should delegate the power to either an officer, a committee, or to the registrar and transfer agents with the delegated authority attending to the transfer formalities at least once a fortnight.

VII Report on Corporate Governance

There shall be a separate section on corporate governance in the annual reports with a detailed compliance report—compliance with any mandatory requirement and the extent to which non-mandatory requirements have been adopted shall be highlighted.

VIII Compliance

- The company shall obtain a certificate of compliance with regard to corporate governance requirements from the external auditors which shall be annexed to the corporate governance report and sent to the stock exchanges along with the annual returns.

IX **Schedule of implementation:**

- By all entities seeking listing for the first time, at the time of listing.
- By 31 March 2001 by all entities either in group of BSE A or in S&P Nifty Index as on 1 January 2000.
- By 31 March 2002 by all entities which are listed with paid-up capital Rs 10 crores and above or net worth of Rs 25 crores or more any time in the history of the company.
- By 31 March 2003 by all entities which are listed with paid up capital of Rs 3 crores and above.
- The non-mandatory requirements shall be implemented at the discretion of the company. Disclosures regarding

adoption/non-adoption of the non-mandatory requirements shall be made in the corporate governance report.

Amendments to Clause 49

1. Institutional directors will be considered as independent directors.

2. For the purpose of the number of memberships of committees, only public limited companies (listed and unlisted) shall be included and private limited companies, foreign companies, and companies of Section 25 of the Companies Act shall be excluded. Also, only audit committee, shareholders grievance committee and remuneration committee shall be considered for this purpose.

3. Institutional directors will be considered as independent in the case of government companies also.

4. Those companies which were required to comply with the provisions in the first phase will be required to submit a quarterly compliance report to stock exchanges within 15 days from the end of quarter.

5. The date compliance by all companies with a share capital of Rs 3 crores and above or net worth of Rs 25 crores or more at any time in the history of the company was extended to 31 March 2004. The submission of the quarterly reports also will start after 15 days from the quarter ending 31 March 2004.

6. Stock exchanges shall ensure that all provisions of corporate governance have been complied with before granting any new listing.

7. Stock exchanges shall set up a cell to monitor the compliance with the provisions of corporate governance. The cell has to submit a consolidated compliance report to SEBI within 30 days of each quarter.

8. The compliance date for companies with share capital of Rs 3 crores and above or net worth of Rs 25 crores or more will be 31 March 2005. The submission of the quarterly compliance reports also will start from 15 days from 31 March 2005.

9. Those companies which apply for listing must necessarily have audit committees and investor/ shareholder grievance committee before they are granted permission for listing.

10. The definition of independent director has been detailed. An independent director shall be a non-executive director (1) who apart from receiving the director's remuneration does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect the independence of the director; (2) has not been executive of the company in the immediately preceding three financial years; and (3) is not a partner or executive or was not a partner or an executive during the preceding three years of any of the following: (a) statutory audit firm or the internal audit firm that is associated with the company; (b) the legal firm(s) and consulting firm(s) that have material association with the company; (c) a material supplier, or a service provider, or a customer, or a lessor, or a lessee of the company which may affect the independence of the company; and (d) a substantial shareholder of the company owning 2 per cent or more of voting shares.

11. Minimum number of board meetings shall be four with the maximum time gap of three months between any two meetings.

12. The board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non- compliance.

13. The board shall lay down a code of conduct for all board members and senior management of the company. It shall be posted on the website of the company. All board members and senior management personnel shall affirm compliance with the

code on an annual basis. The annual report of the company shall contain a declaration to this effect signed by the CEO. The senior management shall mean personnel of the company who are members of the core management team excluding the board.

14. All members of the audit committee shall be financially literate and at least one member shall have accounting or related managerial expertise.

15. The audit committee shall meet at least four times a year with not more than four months between two meetings.

16. The audit committee shall review the functioning of the whistle-blower mechanism, in case it exists.

17. The audit committee shall mandatorily review the MDA of the financial condition and results of operations.

18. At least one independent director on the board of the holding company shall be a director on the board of a material non-listed Indian subsidiary company.

19. The audit committee shall review the financial statements in general and investments made by the unlisted subsidiary company.

20. Any change in the treatment of accounting standards shall be disclosed.

21. Procedures for risk management shall be informed to the board by the management.

22. The utilization of proceeds from public issues, right issues, preferential issues, etc., shall be disclosed to the audit committee.

23. The number of shares and convertible instruments held by non-executive directors shall be disclosed.

24. Any director candidate seeking appointment to a company shall disclose their shareholding in the company before their appointment.

25. The CEO/CFO shall certify to the board that they have reviewed the financial statements and the cash flow for the year and certify them for their verity.

26. The date for ensuring compliance with the revised clause 49 was extended to 31 December 2005.

27. The maximum time gap between two board meetings was increased from three months to four months.

28. Sitting fees paid to non-executive directors as authorized by the Companies Act 1956 would not require the previous approval of shareholders.

29. If the non-executive chairman is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board, at least one-half of the board of the company should consist of independent directors.

30. Disclosure of relationships between directors inter-se shall be made in specified documents/ filings.

31. The gap between resignation/removal of an independent director and appointment of another independent director in his place shall not exceed 180 days. However, this provision would not apply in case a company fulfils the minimum requirement of independent directors on its board (one-third or one-half as the case may be) even without filling the vacancy created by such resignation/removal.

32. The minimum age for independent directors shall be 21 years.

33. The company shall ensure that the person who is being appointed as an independent director has the requisite qualifications and experience (non-mandatory).

34. A non-executive chairman may be entided to maintain an office at the company's expense and also allowed reimbursement of expenses incurred in the performance of his duties. Independent directors may have a tenure not exceeding, in the aggregate, a period of nine years on the board of a company (non-mandatory).

35. When the promoter is a listed entity, its directors other than the independent directors, its employees, or its nominees shall be deemed to be related to it. If the promoter

is an unlisted entity, its directors, its employees, or its nominees shall be deemed to be related to it.

36. The board may set up a remuneration committee to determine, on their behalf and on behalf of shareholders with agreed terms of reference, the company's remuneration policies. It would be set up with minimum three directors, all non-executive, with the chairman being an independent director (non-mandatory).

37. The chairman of the remuneration committee shall be present at the AGM to answer the queries of the shareholders (non-mandatory).

38. Company should train directors on the business model of the company, their responsibilities as director and the best ways to discharge them (non-mandatory).

39. Every individual director should be evaluated by all other member of the board (non-mandatory).

40. The company should establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud, or violation of the code of conduct (non-mandatory).

3.14 Corporate Governance Committees

Q32. Explain briefly about various Corporate Governance Committees

Ans :

Corporate Governance Committees

The main committees on corporate governance, known by the names of the individuals who chaired them are as follows :

(a) Cadbury Committee on Corporate Governance, 1992

(b) Paul Ruthman Committee

(c) Greenbury Committee, 1995

(d) Hampel Committee, 1995

(e) Combined Code, 1998

(f) Turnbull Committee, 1999

(a) Cadbury Committee on Corporate Governance, 1992

The 'Cadbury Committee' was set up in May 1991 with a view to overcome the huge problems of scams and failures occurring in the corporate sector worldwide in the late 1980s and the early 1990s. It was formed by the Financial Reporting Council, the London Stock of Exchange and the accountancy profession, with the main aim of addressing the financial aspects of Corporate Governance. Other objectives include: (i) uplift the low level of confidence both in financial reporting and in the ability of auditors to provide the safeguards which the users of company's reports sought and expected;' (ii) review the structure, rights and roles of board of directors, shareholders and auditors by making them more effective and accountable; (iii) address various aspects of accountancy profession and make appropriate recommendations, wherever necessary; (iv) raise the standard of corporate governance; etc. A Keeping this in view, the Committee published its final report on 1st December 1992. The report was mainly divided into three parts:-

Reviewing the structure and responsibilities of Boards of Directors and recommending a Code of Best Practice The boards of all listed companies should comply with the Code of Best Practice. All listed companies should make a statement about their compliance with the Code in their report and accounts as well as give reasons for any areas of non-compliance. The Code of Best Practice is segregated into four sections and their respective recommendations are:

1) Board of Directors

The board should meet regularly, retain full and effective control over the company and monitor the executive management. There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognized senior member. Besides, all directors should have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

2) Non-Executive Directors

The non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. The majority of non-executive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding.

3) Executive Directors

There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid directors, including pension contributions and stock options, in the company's annual report, including separate figures for salary and performance-related pay.

4) Financial Reporting and Controls

It is the duty of the board to present a balanced and understandable assessment of their company's position, in reporting of financial statements, for providing true and fair picture of financial reporting. The directors should report that the business is a going concern, with stippetti Flag assumptions or qualifications as necessary. The board should ensure that an objective and professional relationship is maintained with the auditors.

Considering the role of Auditors and addressing a number of recommen- dations to the Accountancy Profession.

1) The annual audit is one of the cornerstones of corporate governance. It provides an external and objective check on the way in which the financial statements have been prepared and presented by the directors of the company. The Cadbury Committee recommended that a professional and objective relationship between the board of directors and auditors should be maintained, so as to provide to all a true and fair view of company's financial statements. Auditors' role is to design audit in such a manner so that it provide a reasonable assurance that the financial statements are free of material misstatements. Further, there is a need to develop more effective accounting standards, which provide important reference points against which auditors exercise their professional judgement. Secondly, every listed company should form an audit committee which gives the auditors direct access to the non-executive members of the board. The Committee further recommended for a regular rotation of audit partners to prevent unhealthy relationship between auditors and the management. It also recommended for disclosure of payments to the auditors for non-audit services to the company. The Accountancy Profession, in conjunction with representatives of preparers of accounts, should take the lead in: - Developing a set of criteria for assessing effectiveness,

2) Developing guidance for companies on the form in which directors should report, and

3) Developing guidance for auditors on relevant audit procedures and the form in which auditors should report. However, it should continue to improve its standards and procedures.

Dealing with the Rights and Responsi- bilities of Shareholders

The shareholders, as owners of the company, elect the directors to run the business on their behalf and hold them accountable for its progress. They appoint the auditors to provide an external check on the directors' financial statements. The Committee's report places particular emphasis on the need for fair and accurate reporting of a company's progress to its shareholders, which is the responsibility of the board. It is encouraged that the institutional investors/shareholders to make greater use of their voting rights and take positive interest in the board functioning. Both shareholders and boards of directors should consider how the effectiveness of general meetings could be increased as well as how to strengthen the accountability of boards of directors to shareholders.

Relating to the Board of Directors, the recommendations are as follows:

1) The board should meet regularly, retain full and effective control over the company and monitor the executive management.

2) There should be a clearly accepted division of responsibilities at the head of a company, which will ensure balance of power and authority', such that no individual has unfettered powers of decision. In companies where the Chairman is also the Chief Executive, it is essential that there should be a strong and independent element on the board, who is a recognized senior member.

3) The board should include Non-Executive Directors of sufficient caliber and number, for their views to any significant weight in the board's decisions.

4) The board should have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the company is firmly in its hands.

5) There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice, if necessary, at the company's expense.

6) All directors should have access to the advice and services of the Company Secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of Company Secretary should be a matter for the board as a whole.

Relating to **the Non-Executive Directors, the recommendations are as follows:**

1) Non-Executive Directors should bring an independent judgment to bear on issues of strategy, performance, resources, including key appointments and standards of conduct.

2) The majority should be independent of the management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding. Their fees should reflect the time, which they commit to the work of the company.

3) Non-Executive Directors should be appointed for specified terms and re-appointment should not be automatic,

4) Non-Executive Directors should be selected through a formal process - this process and their appointment - should be a matter for the board as a whole.

Relating to the Executive Directors, the recommendations are as follows:

1) Directors' service contracts should not exceed three years without shareholders' approval.

2) There should be full and clear disclosure of their total emoluments and those of the Chairman, including pension contributions and stock options. Separate figures should be given for salary and performance related elements and the basis on which performance is measured should be explained.

3) Executive Directors' pay should be subject to the recommendations of a remuneration committee made-up wholly or mainly of Non-Executive Directors.

Relating to the Reporting and Controls, the recommendations are as follows:

1) It is the board's duty to present a balanced and understandable assessment of the company's position.

2) The board should ensure that an objective and professional relationship is maintained with the auditors.

3) The board should establish an audit committee of at least three Non-Executive Directors with written terms of reference, which deal clearly with its authority and duties.

4) The Directors should explain their responsibility for preparing the accounts next to a statement by the Auditors about their reporting responsibilities.

5) The Directors should report on the effectiveness of the company's system of internal control.

6) The Directors should report that the business is a going concern, with supporting assumptions or qualifications, as necessary.

The stress in the Cadbury Report is on the crucial role of the board and the need for it to observe the Code of Best Practices. Its important recommendations include the setting-up of an audit committee with independent members. The Cadbury model is one of self-regulation. It was recognized that in the event British companies failed to comply with the voluntary code, legislation and external regulation would follow.

(b) Paul Ruthman Committee

This committee was constituted later to deal with the said controversial point of Cadbury Report. It watered down the proposal on the grounds of practicality. It restricted the reporting requirement to internal financial controls only as against "the effectiveness of the company's system of internal control" as stipulated by the Code of Best Practices contained in the Cadbury Report.

The final report submitted by the Committee chaired by Ron Hampel had some important and progressive elements, notably the extension of directors' responsibilities to "all relevant control objectives including business risk assessment and minimizing the risk of fraud".

(c) Greenbury Committee, 1995

In January 1995, the Confederation of British Industry (CBI) organized a Committee to study executive pay issues and provided the recommendations for governance reform. On July 17, 1995, Sir Richard Greenbury, Chairman of the Committee, released a report concerning Director compensation at publicly traded British Companies entitled 'Directors' Remuneration - Report of a Study Group chaired by Sir Richard Greenbury'.

The contents of the Code of Best Practice and its recommendations are segregated into four parts, which are as follows:

1) The Remuneration Committee;

2) Disclosure and Approval Provisions;

3) Remuneration Policy; and

4) Service Contract and Compensation.

The code contains the following recommendations:

1) The Board of Directors should set-up remuneration committee of the Non-Executive Directors to determine the company's policy on executive remuneration and specific remuneration packages for each of the executive Directors, including pension rights and any compensation payments.

2) The Chairman of the remuneration committee should be accountable directly to the shareholders.

3) The remuneration committee should consist exclusively of Non-Executive Directors with no personal financial interest (except being shareholders), no potential conflicts of interest (arising out of cross-directorships), and no day-to-day involvement in business affairs.

4) The board should determine the remuneration of the Non-Executive Directors, including members of the remuneration committee.

5) The Chairman of the committee should attend the company's annual general meeting to answer shareholders' questions on Directors' remuneration.

6) The remuneration committee reports should be included as a separate section in the annual report and should fully disclose all elements of pay for all company Directors, including base pay, incentive, bonus plans and benefits.

The report should also explain why the company is not in compliance with the code of best practice, if any.

7) The remuneration policy should attract, retain, and motivate Directors of the required quality in the long-term interests of the company.

8) Executive pay packages should link rewards to performance and should 'align the interests of Directors and shareholders in promoting the company's progress'. Management pay levels should be sensitive to employee wage levels.

9) The shareholders should be able to vote on all new long-term incentive plans, including share option schemes, and on existing pay packages that have 'attracted controversy'.

10) Stock options should be granted in phases based on 'challenging performance criteria'. They 'should never be issued at a discount', and should not be exercisable for three years from the date of grant. The Directors should be encouraged to own meaningful levels of stock. Stock options in the newly privatized companies should not be granted for atleast six months after the initial offering.

11) Contract terms for Directors should be disclosed. Terms in excess of one year maximum up to two years are discouraged. If service contracts of over one year's notice are needed to recruit key Directors, the notice period should be reduced to one year after an initial period.

12) While compensating Directors for departure on early termination of their contracts, account should be taken of the reasons for departure. A tough stance on compensation for poor performance should be taken. Consideration should be given to paying compensation in installments to avail an opportunity to reduce or stop them when the concerned Director finds a new employment.

(d) Hampel Committee, 1995

The Hampel Committee started work in November 1995 with a view to assessing progress of implementation of Cadbury and Greenbury recommendations. The sponsors of the Hampel Committee were the London Stock Exchange (LSE), the Confederation of British Industry (CBI), the Institute of Directors (IOD), the Consultative Committee of Accountancy Bodies (CCAB), the National Association of Pension Funds (NAPF), and the Association of British Insurers (ABI).

The Committee submitted its final report in June 1998. Some of the most important recommendations of the Hampel Committee are summarized below:

1) Companies should include in their annual reports a narrative account of how they apply the broad principles of corporate governance, and the companies should also explain the circumstances justifying departure from best practice.

2) Every listed company should be headed by an effective board, which should lead and control the company.

3) There are two key tasks at the top of every public company - the running of the board and the executive responsibility for running of the company's business. Separation of the roles of chairman and chief executive is preferred. However, a decision to combine these roles in one individual should be publicly explained.

4) The board should include a balance of Executive Directors and Non-Executive Directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision-making. To be effective, Non-Executive Directors need to make-up atleast one-third of the membership of the board.

5) There should be a formal and transparent procedure for the appointment of new Directors to the board. Companies should set-up nomination committees to make recommendations to the boards on all new

board appointments. The remuneration committee should be made-up of independent Non-Executive Directors.

6) All Directors should be required to submit themselves for re-election at regular intervals, atleast every three years.

7) The majority of Non-Executive Directors should be independent, and boards should disclose in the annual report which of the Non-Executive Directors are considered to be independent.

8) Boards should consider introducing procedures for assessing their own collective performance and that of individual Directors.

9) Whether or not the roles of Chairman and Chief Executive Officer are combined, a senior Non-Executive Director should be identified in the annual report, to whom concerns can be conveyed.

10) Levels of remuneration should be sufficient to attract and retain the Directors, needed to run the company successfully. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance.

11) Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration package of individual Executive Directors. The company's annual report should contain a statement of remuneration policy and details of the remuneration of each Director.

12) When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional investors, and their advisers should give due weight to all relevant factors drawn to their attention.

13) The board should present a balanced and understandable assessment of the company's position and prospects.

14) The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets. The Directors should report on the company's system for internal control.

15) The external auditors should independently report to shareholders in accordance with statutory and professional requirements and independently assure the board on the discharge of its responsibilities (financial reporting, internal control) in accordance with professional guidance.

16) Each company should establish an audit committee of atleast three Non-Executive Directors, atleast two of them independent. The audit committee should keep under review the overall financial relationship between the company and its auditors, to ensure a balance between the maintenance of objectivity and value for money.

17) The bodies concerned should consider reducing from 10%, the limit on the proportion of total income, which an audit firm may earn from one audit client.

18) The requirement on Directors to include a 'going concern' statement in the annual report should be retained.

(e) Combined Code, 1998

The Combined Code drew together the recommendations of the Cadbury, Greenbury, and Hampel reports. It has two sections, one aimed at companies and another aimed at institutional investors. The Combined Code operates on the 'comply or explain' basis. In relation to the internal controls of the business, the Combined Code states that 'the board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets' and that 'the directors should, atleast annually, conduct a review of the effectiveness of the group's system of internal control and should report to shareholders that they have done so. The review should cover all controls, including financial, operational, and compliance controls and risk management. The Turnbull Report issued in 1999 gave directors guidance on carrying-out this review.

The Combined Code consolidated the principles and recommendations of the

Cadbury, Greenbury, and Hampel reports. The code is divided in two sections. The first outlines principles of best practice and their supporting provisions for companies, while the second does the same for shareholders. While the compliance with this code was non-mandatory it was appended to listing rules and companies have to give information regarding the extent of compliance with the code.

(f) Turnbull Committee, 1999

The Turnbull Committee, chaired by Nigel Turnbull, was established by the Institute of Chartered Accountants in England and Wales (ICAEW) to provide guidance on the implementation of the internal control requirements of the Combined Code. The Turnbull Report confirms that it is the responsibility of the Board of Directors to ensure that the company has a sound system of internal control, and that the controls are working as they should. The board should assess the effectiveness of internal controls and report for them in the annual report. Of course, a company is subject to new risks both from the outside environment an a result of decisions that the board makes about corporate strategy and objectives. In the managing of risk, boards will need to take into account the existing internal control system in the company and also whether any changes are required to ensure that new risks are adequately and effectively managed.

3.15 Role of capital Markets

Q33. Explain the Role Capital Market in Corporate Governance

Ans :

The Indian capital market, like the money market, is known for its dichotomy. It consists of an organized sector and an unorganized sector. In the organized sector of the market, the demand for capital comes mostly from corporates, government and semi-government organizations. The supply comes from household savings, institutional investors such as banks, investment trusts, insurance companies, finance corporations, government and international financing agencies.

The unorganized sector of the capital market on the supply side consists mostly of indigenous bankers and money lenders. While in the organized sector the demand for funds is mostly for productive investment, a large part of the demand for funds in the unorganized market is for consumption purpose. In fact, many purposes, for which funds are very difficult to get from the organized market, are financed by the unorganized sector. The unorganized capital market in India, like the unorganized money market, is characterised by the existence of multiplicity and exorbitant rates of interest, as well as lack of uniformity in their business transactions. On the other hand, the activities of the organized market are subject to a number of government controls, and of the market regulator, SEBI. Though efforts were initiated to bring the unorganized sector under some sort of regulatory framework or at least to bring in some discipline such as registration, these were not successful and this segment is by and large outside the effective government control.

The organized sector has been subjected to increasing institutionalization. The public sector financial institutions account for a large chunk of the business of this sector.

Development of the Indian Capital Market

The Indian capital market, as pointed out earlier, has undergone many significant changes since independence. The important factors that have contributed to the development of the Indian capital market are given below.

1. Legislative measures

Laws such as the Companies Act, the Securities Contracts (Regulation) Act and the Capital Issues (control) Act had empowered the government to regulate the activities of the capital market with a view to assuring healthy trends in the markets, protecting the interest of the investor, efficient utilization of the resources etc.

2. Establishment of development banks and expansion of the public sector

Starting with the establishment of the Industrial Finance Corporation of India (IFCI), a number of development banks have been established at the national and regional levels to provide financial assistance to enterprises. These institutions today account for a large chunk of the industrial finance.

The expansion of the public sector in the money and capital markets has been accelerated by the nationalization of the insurance business and the major part of the banking business. The Life Insurance was nationalized in 1956 and the General Insurance in 1972. The Reserve Bank in India was nationalized as early as 1949. The Imperial Bank, the then largest commercial bank in India, was nationalized and established as the State Bank of India in 1955. Fourteen major private commercial banks were nationalized in 1969. With the nationalization of six more leading private banks in 1980, over 90% of the commercial banking business came to be concentrated in the government sector.

Thus, an important aspect of the Indian capital market is that a large part of the investible funds available in the organized sector is owned by the government. However, the new economic policy has changed the trend, and brought in the private sector in a large measure.

3. Growth of underwriting business

There has been a phenomenal growth in the underwriting business, which was mainly due to the public financial corporations and the commercial banks. After the elimination of forward trading, brokers have begun to take on underwriting risks in the new issue market. In the last one decade the amount underwritten as percentage of total private capital issues offered to public varied between 72% and 97%.

4. Public confidence

Impressive performance of certain large companies such as Reliance Industries, Tisco and Larsen & Toubro encouraged public investment in industrial securities. Booms and the consequent declaration of hefty dividends in the mid-80s boosted investor confidence.

5. Increasing awareness of investment opportunities

The improvement in education and communication has created more public awareness about investment opportunities in the business sector. The market for industrial securities has become broader.

6. Capital market reforms

A number of measures have been taken to check abuses and to promote healthy development of the capital market. The enactment of the Securities and Exchange Board of India Act, 1992 and the establishment of the Securities and Exchange Board of India (SEBI) as a capital market regulator are important milestones in the process of reforms in this sector.

SEBI's Role in Promoting Corporate Governance

G. N. Bajpai, former Chairman, Securities and Exchange Board of India, claimed in an international conference in 2003: "With the objective of improving market efficiency, enhancing transparency, preventing unfair trade practices and bringing the Indian market up to international standards, a package of reforms consisting of measures to liberalise, regulate and develop the securities market was introduced in the 1990s. The practice of allocation of resources among different competing entities as well as its terms by a central authority was discontinued. The issuers complying with the eligibility criteria now have freedom to issue the securities at market-determined rates. The secondary market overcame the geographical barriers by moving to screen-based trading, which made trading system accessible to everybody anywhere in the Indian sub-continent. Trades enjoy counter-party guarantee. The trading cycle has been shortened to a day and trades are settled within two working days while all deferral products are banned. Physical security certificates have almost disappeared. A variety of derivatives are available. In fact, some reforms such as straight through processing in securities, T+2 rolling settlement, clearing corporation being the central counter party to all the trades on the exchanges, real time monitoring of brokers positions and margins, and automatic disabling of brokers' terminals are singular to the Indian securities market. Indian disclosure and accounting standards are as modern, updated, potent and versatile as those of any other market. Today, the Indian securities market stands shoulder to shoulder with most developed markets in North America, Western Europe and Far East."[5]

According to SEBI's former chairman, The Securities and Exchange Board of India has been focussing on the following areas to improve corporate governance:

(i) Ensuring timely disclosure of relevant information

(ii) Providing an efficient and effective market system

(iii) Demonstrating reliable and effective enforcement

(iv) Enabling the highest standards of governance.

1. Disclosure standards

The erstwhile SEBI chairman, G. N. Bajpai, claims quoting academicians and researchers that disclosure standard in the Indian regulatory jurisdiction are at par with the best in the world. According to him this is a feedback from several global organisations, both regulatory and market participants.

SEBI has ensured that a company is required to make specified disclosures at the time of issue and make continuous disclosures as long as its securities are listed on exchanges. The standards for these disclosures including the content, medium and time of disclosures have been specified in the Companies Act, Disclosure and Investor Protection Guidelines, Listing Agreement Regulations relating to insider trading and takeover etc. These disclosures are made through various documents such as prospectus, quarterly statements, annual reports etc. and are disseminated through media, web sites of the company and the exchanges, and through EDIFAR (Electronic Data Information Filing and Retrieval) system maintained by the regulator. These disclosures relate to financial performance, shareholding pattern, trading by insiders, substantial acquisitions, related party disclosures, audit qualifications, buyback details, corporate governance, actions taken against company, risk management, utilization of issue proceeds, remuneration of directors etc. All listed companies and organisations associated with securities markets including the intermediaries, asset management companies, trustees of mutual funds, SROs, stock exchanges, clearing house/corporations, public financial institutions, professional firms such as auditors, accountancy firms, law firms, consultants, etc. Assisting or advising listed companies are required to abide by the Code of Corporate Disclosure Practices specified in SEBI (Insider Trading) regulations.

2. Efficient and effective market system

In the opinion of the chairman of SEBI, the Indian securities market has a large infrastructure to meet the demands of a sub-continental market. Presently, there are 25 stock exchanges and about 10,000 brokers, 15,000 sub-brokers, more than 10,000 listed companies, 500 foreign institutional investors, 400 depository participants, 150 merchant bankers, 40 mutual funds offering over 450 schemes, and 20 million investors. Yet, there is only one regulator. Not only the numbers are gigantic but also the systems and infrastructure are equally atlantean and sophisticated. All stock exchanges in India offer on line, fully automated, nation-wide anonymous, order-driven screen based trading system. It has a comprehensive risk management system. The depositories legislation ensures free transferability of securities with speed, accuracy and security. The securities are transferred electronically in demat form. Further, Indian accounting standards follow international accounting standards (principle based) and are by and large aligned. In addition to creating an efficient trading platform and settlement mechanism, SEBI's focus is substantially directed towards the following:

(a) Provision of timely availability of high quality price sensitive information to the market participants to enable them take informed decision and ensure efficient price discovery

(b) Maintenance of high quality of services and fair conduct for market participants. The regulations specify high standards to become market intermediaries and require them to abide by a code of conduct

(c) Ensuring that the market is fair, transparent and safe so that issuers and investors are at ease to carry out transactions.

3. Reliable and Effective Enforcement

SEBI aims at ensuring that no misconduct goes unnoticed or unpunished. It keeps an eye on the happenings in the market and identifies anything unusual or undesirable which may adversely affect the efficacy of the market. Every market participant, irrespective of his size and influence in the market or in the policy, is held accountable for his misdeeds. The proactive approach of the regulator in enforcement can be gauged from the fact that during the financial year 2002-2003, SEBI passed 561 orders, out of which over 350 were punitive.

4. Highest Standards of Governance

SEBI has avowed that its regulation and guidance of the country's securities market would spell success in the area of corporate governance. The Kumar Mangalam Birla Committee of the Indian jurisdiction outlined a code of good corporate governance, which compared very well with the recommendations of the Cadbury Committee and the OECD codes. The code was operationalised by inserting a new clause (Clause 49) to the Listing Agreement (LA) and have been made applicable to all the listed companies in India in a phased manner. Following the implementation of the Birla committee recommendations, substantial developments took place in the corporate world and securities market, which required revisit of the issue. The Narayana Murthy Committee has refined the corporate governance norms, which are proposed to be implemented through modification in the listing agreement. The government also appointed few committees to suggest ways and means of realising good corporate governance. Based on their recommendations, government is trying to provide statutory back-up to corporate governance standards.

The initiatives for improvement in corporate governance, according to G. N. Bajpai, come mainly from three sources, namely, the market, regulator and the legislature. While the legislative initiative is directed towards bringing about amendments to the basic law-India's Companies Act to include certain fundamental provisions related to corporate governance, dynamic aspects of corporate governance such as disclosures, accounting standards etc. Are being pursued through the regulatory initiatives by bringing about amendments to the Listing Agreement. Such an approach is aimed at because a comparatively more complicated and protracted process is involved in the amendments to legislation in a truly democratic society like India's. The most important initiative comes from market forces and mechanisms, which encourage and insist on the management's improving the quality of corporate governance. Indian market has formalised such forces in the form of a rating called "Corporate Governance and Value Creation Rating", which according to SEBI chairman is quite unique in the world and is sought after voluntarily by companies.

3.16 Role of Regulators to Improve the Corporate Governance

Q34. Explain the Role of Regulators to improve the Corporate Governance.

Ans :

The role played by regulators to improve corporate governance in India includes company law, security law, financial institutions, and credit-rating agencies

These are as discussed below:

1. Company Law

The companies Act, 1956 was enacted on the recommendations of the Bhaba Committee that was set up in 1950 with the object to consolidate the existing corporate laws and to provide a new basis for the corporate operation. The companies Act, 1956 has since then provided the legal framework for corporate entities in India. Important amendments introduced in the year 2000 to Sections 217 and 292 of the Companies Act, 1956 (made applicable from December 13, 2000) set the tone for corporate governance in the country.

The changes made are related to the following:

1. The Directors' responsibility statement.
2. Formation of audit committee
3. Guidelines from the Department of Public Enterprises on the corporate governance of central public sector enterprises.
4. SEBI's guidelines on corporate governance for listed companies.
5. Independent directors on the board of listed government companies.
6. Constitution and composition of audit committee in listed government companies.
7. Non-official directors on the board of unlisted government companies.
8. Corporate governance in statutory corporations.

2. Securities Law

Over the last few decades, in many countries, the responsibility for protection of investors has shifted to the securities law and the securities regulators at least in case of large listed companies. In India, the SEBI was set up as a statutory authority in 1992, and it has taken a number of initiatives in the area of investor protection.

SEBI initiatives for Strengthening Corporate Governance

As a regulator, SEBI has initiated several measures through amendments in the listing agreement.

Some of these are as follows:

1. Strengthening of disclosure norms for IPO following the recommendation of Kumar Mangalam Birla Committee.
2. Providing information in the Director's Report for utilization/end use of funds and variation between projected and actual use of funds.
3. Declaration of unaudited quarterly results.
4. Mandatory appointment of a compliance officer for monitoring the share- transfer process and ensuring the compliance with rules and regulations.
5. Dispatch of a copy of completer balance sheet to every investor household and arbitrage copy of balance sheet to all shareholders.

Under the SEBI Act, 1992, SEBI has extensive powers to issue directions to market participants on a wide range of subjects, many of which relate to corporate governance.

3. Corporate Governance through Listing Agreement

The issue of corporate governance has acquired a central stage with the introduction of clause 49 in the Listing agreement. In its constant endeavour to improve the standards of corporate governance in India, SEBI, in October 2002, constituted a Committee on Corporate Governance under the Chairmanship of N.R. Narayana Murthy.

Based on the recommendations of the said committee and public comments received thereof, SEBI issued a circular on august 26, 2003 revising Clause 49 of the Listing Agreement, to review the progress of the corporate sector in meeting the norms of corporate governance and to determine the role of companies in responding to rumour and other price-sensitive information circulating in the market, in order to enhance the transparency and integrity of the market players and participants.

Major changes have been made to the definition of "independent directors", strengthening the responsibilities of Audit Committee, improving the quality of financial disclosures, and finally the board as a whole has been tasked with the adoption of a formal code of conduct for the senior management and the certification of financial statements issued by the CEO or the CFO. Further, companies are now required to form various committees like a "compensation committee", "governance committee", "nomination committee", and other committees to adhere to corporate governance.

In India, the responsibilities of Audit Committee include scrutiny of company's annually audited financial statements, appointment of external auditors, interacting with internal auditors, and issues relating to internal controls that are existing in the company.

4. Governance by Financial institutions

The financial institutions have also taken responsibility in enforcing corporate governance in the companies where they have substantial stakes.

They insist companies on the following factors:

1. Making adequate disclosures,
2. Moving towards internationally accepted accounting standards,
3. Maintaining distinction between the CEO and Chairman, wherever applicable, and
4. Holding regular meetings with proper recording and dissemination of proceedings.

The financial institutions have also implemented new norms for appointment of Nominee Directors, which have drastically cut down the total number of such directors on the company's board.

5. Role Played by Credit-rating Agencies

Two of the leading credit-rating agencies-Credit Rating Information Services of India Limited (CRISIL) and ICRA have prepared a comprehensive instrument for rating the good corporate governance practices of the listed companies. The instrument will enable the securities market regulator to judge the compliance status of the corporate on parameters such as effective creation, management, and distribution of investors' wealth.

3.17 Role of Government in Corporate Governance

Q35. Explain the Role of Government in Corporate Governance.

Ans : **(Imp.)**

Government plays a key role in corporate governance by defining the legal environment and sometimes by directly influencing managerial decisions. As the efficiency of the bankruptcy system and the degree to which managers maintain control through the bankruptcy process help to determine whether or not the threat of bankruptcy influences managerial decisions. Similarly, the ability to write and then enforce contracts, to oblige management to provide accurate and comprehensive information before shareholders, votes on important issues, to enforce the obligations of the Boards of Directors to specify and have managerial incentive contracts enforced, and to have confidence in the full range of contractual arrangements that define the firm in modern corporations - all determine the extent to which equity and bond holders can exert corporate governance.

Some of the roles that are played by the government in ensuring corporate governance are given as follows:

1. **To Pass and Execute Proper Laws**

The behaviour of the people in society can be effectively controlled with the help of laws. The government has to pass laws which would create a friendly and helpful atmosphere for the business to grow. At the same time the laws should be capable of controlling the dishonest businessmen and prevent and punish their unfair practices.

In India the government has passed several laws such as Companies Regulation Act, The factory Act, The labour Laws, the social security laws, the foreign exchange management act etc. Though passing of proper laws is important, an efficient implementation of the law is more important. If a good law is implemented in a bad way it produces harmful effects. It encourages dishonesty on the part of the people.

2. **Maintenance of Law and Order**

It is the responsibility of the government to maintain law and order and peace in the community. Any business can exist and prosper if there is law and order in the country. Periods of disturbance are harmful to the existence of business and much more to the progress of the business. The government has to maintain law and order for attracting foreign investment.

3. **Providing Money and Credit**

Every business requires credit. It is like blood circulation in the body of the economy. Finance is provided to business by the money market and the capital market. The government has to regulate them in such a way that they are able to attract more capital and direct it to the business. It is the responsibility of the government to maintain the financial institutions in sound health so that they can mobilise more finances. The government, through the central bank of the country has to maintain a stable and appropriate rate of exchange which is helpful in attracting more foreign investment.

4. **Building Infrastructure**

All productive activities require infrastructure by way of means of transport & communications, supply of energy and credit, providing appropriate information about the openings for different businesses etc. If the government is successful in building efficient infrastructure, business can expand at a fast rate.

5. **Research**

Innovation is the watchword of modem business. Introduction of proper innovations at proper time requires extensive research. It is of two types:

i) **Basic Research**

Basic research is not profit oriented, hence it is the responsibility of the government to conduct it and provide foundation for the commercial research.

ii) **Commercial Research**

Commercial research is profit oriented; the business undertakes commercial research by using the basic research as the foundation. The government can give incentive to commercial research by providing fiscal concessions and monetary incentives.

6. **Providing Information**

The government collects information on several issues such as the growth of population, changes in the demographic features, trends in migration etc. This information is highly useful to business in formulating its policies. The government can keep that information open to business.

7. **Controlling the Growth of Monopolies and Preserving Competition**

A free market economy has an inherent tendency to give birth to monopolies. They are economically and socially harmful. They result into concentration of economic and political power. They are also instrumental in increasing inequalities. The government can pass appropriate laws and can take timely action for preventing the growth of monopolies and encourage competition.

8. Reservation of Fields of Production

The government reserves certain fields of production for the public sector. The remaining part is kept open to the private sector. In India several fields of production were reserved for the small scale and cottage industries. The sphere was contracted after we adopted the policy of globalisation.

9. Awarding Patent Rights and Copy Rights

Progress in any field requires research inventions and innovations. The job of patent rights and copyrights is to give protection to those who invest in research and arrive at inventions and innovations. Every country has its patent rights. After the establishment of the WTO the member countries have adopted the rules and regulations prepared by WTO in respect of patent rights, copy rights and allied matters.

10. Protections

The industries belonging to the developing countries are not able to compete with the industries belonging to the developed countries. It is the responsibility of the government to give them protection by using tariff and if necessary, non-tariff barriers. At the same time the industries should not get undue protection which would develop complacency. After the establishment of the WTO, protection is slowly on the decline.

Short Question & Answers

1. Define the term Corporate Governance.

Ans :

Corporate governance is concerned with set of principles, ethics, values, morals, rules regulations, & procedures etc. Corporate governance establishes a system whereby directors are entrusted with duties and responsibilities in relation to the direction of the company's affairs.

The term "governance" means control i.e. controlling a company, an organization etc. or a company & corporate governance is governing or controlling the corporate bodies i.e. ethics, values, principles, morals. For corporate governance to be good the manager needs to meet its responsibilities towards its owners (shareholders), creditors, employees, customers, government and the society at large. Corporate governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the company.

For effective corporate governance, its policies need to be such that the directors of the company should not abuse their power and instead should understand their duties and responsibilities towards the company and should act in the best interests of the company in the broadest sense.

Meaning of Corporate Governance

Corporate governance provides a road map for a corporation, helping the leaders of a company make decisions based on the rule of law, benefits to stakeholders, and practical processes. It allows a company to set realistic goals, and methodo- logies for attaining those goals.

Corporate governance is not only beneficial to the company but also for the people working within it and the society with which they are related. It focuses on proper utilization of the resources and the way they should be taken care of. The main purpose of corporate governance is to maintain the equilibrium between economic and social objectives of the organization which further helps in balancing individual and societal goals.

According to Cadbury Committee, "Corporate governance is defined as the system by which companies are directed and controlled".

According to Rafael La Porta, "Corporate governance to a large extent is a set of mechanisms through which outside investors protect themselves against expropriation by the insiders".

According to Sternberg, "Corporate governance describes ways of ensuring that corporate actions, assets and agents are directed at achieving the corporate objectives established by the corporation's shareholders".

2. Features of Corporate Governance

Ans :

The characteristics or features of corporate governance are listed below.

1. Transparency

This means that the Board of Directors must release all relevant information to the stakeholders. They must show all the necessary financial and operational data to the stakeholders. They must not hide any important information or maintain any secrecy.

2. Protection of Shareholders' Rights

The Board of Directors must protect the rights of the stakeholders. They must protect all the stakeholders, especially the minority stakeholders.

3. More Powers to CEO

The CEO must be given more powers so that he can approve the companies plans and strategies independently.

4. Accountability

The CEO and the Board of Directors must be made accountable for their actions to the stakeholders and to the entire society.

5. Based on Ethics

Corporate governance is based on ethics, moral principles and values. So, the Board of directors must avoid unfair practices, cheating, exploitation, etc.

3. Benefits of Corporate Governance.

Ans :

1) Provides Competitive Advantage to Corporations

Wherever there is business, there is competition. Monopolies do not last long. Good corporate governance encourages research and development, innovation, regular training programmes, extensive market research, etc. R&D and innovation help corporations be ahead of the competition by modification of the product as and when the needs of the customers dictate. For example, a mosquito-repellent manufacturer came up with a liquid mosquito repellent that is stored in a bottle and requires no changing of mats or daily attention. This was in response to the consumers' reluctance to attend to the equipment daily. Good governance ensures that the corporation has the resources to take maximum advantage of opportunities and effective management of threats. Good governance provides great motivation to, and invokes loyalty among, employees. Motivation and loyalty of employees constitute the basis of successful strategies; after all, strategies are implemented through the actions of employees. Good governance ensures formulating of excellent strategies and effective implementation of these strategies.

2) Enables Efficient Performance by Preventing Malpractices and Frauds

A corporation is governed by the Code of Best Conduct, which constitutes guidelines and policies with regard to behaviour of its employees; it also lays down procedures to deal with behavioural matters. Adherence to the Code of Best Conduct results in all-round enhancement of efficiency in performance, as the code ensures prevention of malpractices and frauds.

3) Protects Shareholders' Interests

One of the factors that qualify corporate governance as 'good' is the management's transparent and accountable behaviour towards shareholders. Transparent behaviour means the shareholders are kept well informed about the corporation's activities and plans. Accountability means ensuring sincere efforts, ethical functioning and good returns to shareholders on their investment in the corporation. Good corporate governance ensures that the management diligently discharges its fiduciary duty towards its shareholders, which is especially necessary because in the corporate sector, shareholders are the owners and trust the managers, who actually run the corporation.

4) Enhances Value of Corporations

Good corporate governance ensures transparency and accountability with regard to dealings with shareholders, which in turn enables corporations gain confidence of shareholders. This enhances the value of corporations.

4. Agency theory.

Ans :

Agency theory was developed by **Jensen and Meckling** in 1976. They believed that the owner and the management of any organization carried out agency relationship. According to this theory, agency relationship meant a contractual relationship where the shareholders provided funds to the company for its functioning and the management carried out the functions and managed the entire organization. Shareholders were considered as principals who employed agents to work on their behalf and management was treated as agents. These agents were also provided with decision-making powers. With the passage of time, the number of shareholders and the complexity of organizational operations increased which further increased the demand of more expertise management. The new management was expected to manage the organization more efficiently and were given the authority to control the entire functioning of the organization as per their interest.

In order to know this theory one should be clear about the following concepts:

i) The principal of the organization hires an agent to carry out the organizational operations on his behalf.

ii) According to this theory, agency is the relationship between a shareholder (principal) and the management (agent).

iii) Due to absence of trust in the confidence level of the agents, the cost incurred while supervising the agency behaviour is preferably carried out by principals.

iv) As soon the agent takes up the responsibility given by the principal on their behalf, they automatically become answerable to the principal for the responsibility undertaken.

5. Describe briefly about Sociological Theory.

Ans :

The sociological theory of corporate governance mainly concentrates on members to be included in the board of the company and requirement of proper distribution of authority and wealth in the society. This theory considers the company as a part of society and expects from it to give due consideration to the welfare of the society. This theory emphasis on various methods such as disclosure of financial statements and auditing, by which company helps in developing equality within the society. Besides this, sociological theory also focuses on factors that adversely affect the growth and development of society such as knitted directorships, control in the hands of dominant shareholders and giving the directorships in the hands of only honoured and high-positioned people.

6. Define Transaction Cost Theory.

Ans :

Transaction cost theory of corporate governance was introduced by **Cyert and March** but was elucidated in detail by **Williamson.** This theory was based on three major elements i.e. law, economics and organizations. According to this theory, large companies have started substituting the market place in case of appropriate allocation of resources. Besides this, such companies also include people with different viewpoints and objectives. The companies adopting transaction cost theory consider their managers opportunists who organize the transactions of the company in the interest of that company. This theory also believes that the determination of price and production of any company depends upon its structure. Transaction is used as the unit of analysis.

7. Elements of OECD Principles

Ans :

1) Rights of Shareholders

The rights of shareholders include a set of rights to secure ownership of their shares, the right to full disclosure of information, voting rights, participation in decisions on sale or modification of corporate assets, mergers and new share issues. The guidelines go on to specify a host of other issues connected to the basic concern of protecting the value of the corporation.

2) Equitable Treatment of Shareholders

The OECD is concerned with protecting minority shareholders' rights by setting-up systems that keep insiders, including managers and directors, from taking advantage of their roles.

3) Role of Stakeholders in Corporate Governance

The OECD recognizes that there are other stakeholders in companies in addition to shareholders. For example, Banks, bond holders and workers are important stakeholders in the way in which companies perform and make decisions. The OECD guidelines lay-out several general provisions for protecting stakeholder's interests.

4) Disclosure and Transparency

The OECD lays-down a number of provisions for the disclosure and communication of key facts about the company ranging from financial details to governance structure-including the Board of Directors and their remuneration. The guidelines also specify that independent auditors in accordance with high quality standards should perform annual audits.

8. Whistle Blower Policy.

Ans :

Mandatory recommendations given by committee regarding it are as follows:

i) Personnel who observe an unethical or improper practice (not necessarily a violation of law) should be able to approach the audit committee without necessarily informing their supervisors. Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc. The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.

ii) Companies shall annually affirm that they have not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct) and that they have provided protection to "whistle blowers" from unfair termination and other unfair or prejudicial employment practices. The appointment, removal and terms of remuneration of the chief internal auditor must be subject to review by the Audit Committee. Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.

9. Hampel Committee.

Ans :

The Hampel Committee started work in November 1995 with a view to assessing progress of implementation of Cadbury and Greenbury recommendations. The sponsors of the Hampel Committee were the London Stock Exchange (LSE), the Confederation of British Industry (CBI), the Institute of Directors (IOD), the Consultative Committee of Accountancy Bodies (CCAB), the National Association of Pension Funds (NAPF), and the Association of British Insurers (ABI).

The Committee submitted its final report in June 1998. Some of the most important recommendations of the Hampel Committee are summarized below:

1) Companies should include in their annual reports a narrative account of how they apply the broad principles of corporate governance, and the companies should also explain the circumstances justifying departure from best practice.

2) Every listed company should be headed by an effective board, which should lead and control the company.

3) There are two key tasks at the top of every public company - the running of the board and the executive responsibility for running of the company's business. Separation of the roles of chairman and chief executive is preferred. However, a decision to combine these roles in one individual should be publicly explained.

4) The board should include a balance of Executive Directors and Non-Executive Directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's

decision-making. To be effective, Non-Executive Directors need to make-up atleast one-third of tne membership of the board.

10. Role Capital Market.

Ans :

The Indian capital market, like the money market, is known for its dichotomy. It consists of an organized sector and an unorganized sector. In the organized sector of the market, the demand for capital comes mostly from corporates, government and semi-government organizations. The supply comes from household savings, institutional investors such as banks, investment trusts, insurance companies, finance corporations, government and international financing agencies.

The unorganized sector of the capital market on the supply side consists mostly of indigenous bankers and money lenders. While in the organized sector the demand for funds is mostly for productive investment, a large part of the demand for funds in the unorganized market is for consumption purpose. In fact, many purposes, for which funds are very difficult to get from the organized market, are financed by the unorganized sector. The unorganized capital market in India, like the unorganized money market, is characterised by the existence of multiplicity and exorbitant rates of interest, as well as lack of uniformity in their business transactions. On the other hand, the activities of the organized market are subject to a number of government controls, and of the market regulator, SEBI. Though efforts were initiated to bring the unorganized sector under some sort of regulatory framework or at least to bring in some discipline such as registration, these were not successful and this segment is by and large outside the effective government control.

UNIT IV	**Role of Board:** Functions of the Board, Structure of the Board, role of the board, Role, duties and responsibilities of Directors, Types of Directors, Board as a learning organization, Leveraging Good Governance for Competitive Advantage. Conflicts of Interest, Remedial Actions. Governance Ratings- Merits and Demerits.

4.1 Role of Board

Q1. What do you understand by Role of Board?

Ans :

The clear message from the series of corporate debacles that occurred in America and several parts of the world, was simple that the board of directors is increasingly being recognized as a critical success factor for corporations, be they large or small, private or public. This understanding and appreciation of the role of the boards as being valuable has resulted in several recommendations to boost their contributions to success of companies by innumerable committees that have been appointed by governments and public spirited organizations all over the world.

Susan F. Shultz, founder of SSA Executive Search International, author of several best sellers on the subject and a member of several boards of directors condenses her experiences and research in the following summation.

1. Small Size of the Board

The smaller the size of the board, the greater will be the involvement of its members. This will lead to a more cohesive functioning and decision-making could be expedited, all of which will add to the efficiency of the organization.

2. Independence of the Board

Independence should be the essence of strategic boards. To achieve this end, it is advisable to have less number of insiders and more of outsiders. As Susan F. Shultz points out, this kind of composition of the board will add to the 'proactiveness of the company's board. Further, an insider's allegiance is likely to be to his or her boss and not necessarily to the company's share-holders. Another downside to an insider dominated board is that not only can the CEO intimidate insiders, but insiders can also inhibit the CEO'. Managements have a vested interest to prefer insiders as directors to the board as they are likely to continue the status quo in policies and procedures that they themselves have helped to create and retain the present senior managers.

3. Diversity of the Board

It is of great importance that the board is composed of members with varied experience and expertise and diverse professional qualifications, but also of people with different ethnic and cultural backgrounds. 'With markets in general, and shareholders in particular becoming active in governance issues, the pressures are intensifying on companies to diversify and broaden board membership. And thankfully, the phenomenon is not restricted to just the US and UK, this increased activism is forcing companies worldwide to reform their boards in tune with the rapid globalization of businesses.

In India, for instance, with the Cadbury Committee Report and worldwide interest on corporate governance issues, several scams that have highlighted regulator's failures on this front, have brought to the centre stage the importance of the board of directors with a sizeable number of non-executive directors.

4. A well-informed Board

It goes without saying that the effectiveness and efficiency of the board of directors depends on the intelligent, timely and accurate information it gets from the management. The information they get should be appropriate and comprehensive. Various committees on corporate governance have recommended that even non-executive, independent directors should have access to a free flow of information on various issues in which they are called upon to decide. They should be allowed to have professional advice, if needs be, and the cost of it should be borne by the company.

5. The board should have a longer vision and Broader Responsibility

The very objective and the composition of the board dictate the need for a broader responsibility and longer vision than those of chief executives. The CEO has a specific and focussed mission of running the enterprise as a profitable one by concentrating on its day-to-day transactions. While the concerns of the CEO will centre around his immediate tasks on hand to enable a company solve its problems and tackle issues that would lead to the profitability of the firm during a financial year, the board, especially when it is composed of several outside directors, will work out long term strategies, take investment decisions and such other policy perspectives that would ensure not only the secular interests of the firm, but also of all its stockholders.

Governance Issues Relating to the Board

There are several vexed issues relating to the board of directors that are being hotly debated on several fora on corporate governance. Though these issues have generated a series of on-going discussions on familiar lines and the final verdicts have yet to be pronounced, there are certain common perceptions that have arisen which find general acceptance.

4.1.1 Functions of the Board

Q2. What are the Functions of the Board?

Ans :

1. Determine mission and strategy

It is the board's responsibility to create and review a statement of mission and strategy that articulates the organization's goals, and means of achieving those goals. Boards also provide a mechanism by which constituents, who may provide the mandate for the organization, have a voice in setting strategy and providing oversight of programmatic work. Once mission and strategy is determined, it's the board's role to ensure the organization's programs contribute to the laid out strategy. When need for a change in mission and strategy is identified, the board plays a role in redefining the new vision.

2. Select, support and evaluate the CEO

Boards must reach consensus on the CEO's responsibilities and undertake a careful search to find the most qualified individual for the position. The board should also develop and maintain a succession plan for replacing an executive in case of exit. Moreover, the board should ensure that the executive director has the moral support, as well as the professional skills and training that he or she needs in order to further the goals of the organization.

3. Ensure effective planning

Boards must actively participate in an overall planning process in regards to longer-term strategic planning and annual work planning. The Board should assist in monitoring the organization's performance against planned goals, and adoptively managing the plan.

4. Provide oversight of programs and services

The board's responsibility is to determine which programs are consistent with the organization's mission and monitor their effectiveness, calling for performance evaluations and improvements as appropriate.

5. Oversee financial management and protection of assets

The board must assist in developing and approving an annual budget that supports the organization's work plans and ensures that proper financial controls are in place to protect the assets of the organization. It is the board's responsibility to select an auditor and review and respond to the results of an audit on an annual or bi-annual basis.

6. Ensure adequate financial resources

The board has a responsibility to support the executive team in their efforts to secure adequate resources for the organization to fulfill its mission.

7. Develop and maintain a competent board

All boards have a responsibility to articulate qualifications for candidates, assess and maintain desired skill sets on the board, orient new members, and periodically and comprehensively evaluate their own performance.

8. Ensure legal and ethical integrity

The board sets the tone of the operations of the organization, and should articulate the values and principals that set that tone. It is ultimately responsible for adherence to legal standards and ethical norms.

9. Enhance the organization's reputation

The board should be ambassadors for the organization, articulating the importance of the mission and the value of the organization' work. The board should work to garner support from the community, including key stakeholders such as government, like-minded organizations and donors.

4.1.2 Structure of the Board

Q3. Explain the Structure of the Board.

Ans :

Board composition is one of the most important determinants of board effectiveness. A board should have a judicious mix of internal and Independent Directors with a variety of experience and cere competence. The potential competitive advantage of a Board structure comprising executive directors and independent non-executive directors lies in its combination of - the depth of knowledge of the business of the executives and the breadth of experience of the non-executive/independent director.

The Board Composition in the Indian context is governed by the Listing Agreement in case of listed companies. Clause 49 of the Listing Agreement mandates as under:

i) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.

ii) Where the Chairman of the Board is a non-executive director, at least one third of the Board should comprise of independent directors and in case he is an executive indirector, at least half of the Board should comprise of independent directors.

The Listing Agreement was amended by Securities and Exchange Board of India vide circular dated April 08, 2008 which provides as under:

1. If the non-executive chairman is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board, at least one-half of the board of the company should consist of independent directors.
2. Disclosures of relationships between directors inter-se shall be made in specified documents / filings.
3. The gap between resignation / removal of an independent director and appointment of another independent director in his place shall not exceed 180 days. However, this provision would not apply in case a company fulfils the minimum requirement of independent directors in its Board i.e. one-third or one-half as the case may be, even without filling the vacancy created by such resignation / removal.

4. The minimum age for independent directors shall be 21 years.

   An aspect of Board Structure which is fundamental but is very less visited is that of the Board Size. Board Size is also an important determinant of board effectiveness. The size should be large enough to secure sufficient expertise on the board, but not so large that productive discussion is impossible.

Q4. Explain the Role of Board of Directors.

Ans :

The Board of Directors has the following role:

1) **Directors Exhibit Total Commitment to the Company:** An efficient and independent board is conscious of protecting the interests of all stakeholders and not concerned too much with the current price of the stock.

   According to Roz Ridgway, "The hallmark of a good director is that he or she attends and actively participates in the meetings. This requires a cent per cent commitment."

2) **Directors Steer Discussions Properly:** Another important function of the director is to set priorities and to ensure that these are acted upon. The directors should see that all important issues concerning the companys business are discussed and then decision is taken so that nothing trivial can dominate and bog them down. A good director rarely dominates or hijacks the discussion to his line of thinking, but steps in where the discussion needs to be directed or adds newer thoughts after letting others have their say.

3) **Directors make Clear their Stand on Issues:** A director is also expected to have the courage of conviction to disagree. A good, responsible and duty-bound director should be willing to register dissent, when and where needed. The management led by the CEO should know that they are being challenged, should be kept on alert and should not take things for granted. Directors should also be alert to any deteriorating situations in functional areas of finance, stock market, sales, personnel, and especially those relating to moral issues.

4) **Directors' Responsibility to Ensure Efficient CEOs:** Directors have great responsibility in the matter of employment and dismissal of the CEO. The board as a whole, should recruit the best CEO they can probably hire, based on antecedents and market reports, evaluate objectively on a continuing basis his or her implementing effectively or otherwise the strategic planning devised by the board. "Great boards are those which proactively govern, help avoid the big mistakes, strategies and most importantly the best leadership is in place with the resources to lead".

5) **Challenges Posed by Decisions on Acquisitions:** One of the toughest challenges confronted by boards arises while approving acquisitions. It so happens in most cases that the board takes up the issue of acquisition only when the process has been set in motion and substantially gone through by the management. It will lead to a terrible embarrassment both to the CEO and the board, if the half-way-gone-through proposal has to be shelved. More of these none-too-worthy proposed acquisitions have to be accepted because of these predicaments.

6) **Directors Anticipate Business Events:** Directors are able to anticipate business events that would spell success or lead to disaster if proper measures are not adopted in time. The directors should be alert to such ensuing situations and be ready with the strategy to meet them so that either way the company stands to gain.

7) **Directors have Long-Term Focus and Stakeholder Interests:** Directors have a duty to act bona fide for the benefit of the company as a whole. This duty is owed to the company, i.e., the separate legal person that incorporation brings into existence, and not to any individual

or group of individuals. This would imply, as per the current laws, directors are required to act in the interests of shareholders, but at the same time, to consider such interests with a long time focus. They ought to help build productive relationships between the company and its employees, customers and suppliers, or any other kind of investment that would serve the long-term interests of its shareholders.

8) **Promoting Overall Interests of the Company and its Stakeholders are of Paramount Importance:** In recent times, those who advocate reform of laws governing corporate practices stress the importance of reformulation of the concepts behind these laws. This reformulation of the concept should encourage managers to pay great attention to the relationships that are the source of long-term value. Once this becomes accepted, it will be logically consistent for the directors to exercise their powers in order to promote the success of the company as a business enterprise. By doing so, they shall have regard to the interests of shareholders, employees, creditors, customers and suppliers.

4.2 Directors

Q5. Explain the meaning of director.

Ans :

The director is defined in Section 2(34) of the Companies Act, 2013 as under:

"A director ' means a director appointed to the Board of a company "

Thus, a director is a person appointed as director under the provisions of the Companies Act, 2013.

The directors manage and control the overall affairs of the company. They generally confine themselves to the general business policies and overall supervision of the management of the company. The day to day working of the company is left to other managerial personnel. Thus, the director is a person who controls and services the overall management of company's affair. It is immaterial by what name he is called.

Following points be noted with regard to the directors:

1. Only an individual can be appointed a director. A firm, association, or a company cannot be a director of the company [Section 149(1)].

2. An individual can be appointed or re-appointed as a director only if he has been allotted a Director Identification Number [Section 152(3)].

   Note: The provisions relating to directors' appointment and qualifications etc. are provided in Sections 149 to 172 of the Companies Act, 2013 all of which have been notified to be effective. The corresponding provisions of the Companies Act, 1956 stands deleted and are no more relevant.

Number of Directors

The Companies Act, 2013 has fixed the minimum and maximum number of directors, vide Section 149, which is as under:

1. Minimum number of directors [Section 149(l)(a)]

Section 149 has fixed the minimum number of directors which a company must have. These are different for different type of companies as stated hereunder:

(a) A public company must have at least 3 directors.

(b) A private company must have at least 2 directors.

Note: A 'one person company', which is always a private company, shall have at least one director [Section 149(l)(a)].

2. Maximum number of directors [Section 149(l)(b)]

Section 149 has also fixed the maximum number of directors which a company must have. This section makes the following provisions in this regard:

(a) A company can have maximum of 15 directors.

(b) A company may also appoint more than 15 directors after passing a special resolution [Section 149(l)(b) first proviso].

3. Other important points

Following points are important to note with regard to directors.

(a) Woman director

The companies prescribed by the Central Government shall have at least one woman director [Section 149(1)(b), 2nd proviso],

(b) Compulsory stay in India

Every company shall have atleast one director who have stayed in India for a total number of not less than 182 days in previous calender year [Section 149(3)].

(c) Independent directors

Every listed public company shall have at least l/3rd of the total number of directors as independent directors. The Central Government may prescribe the minimum number of independent directors in case of any class of companies [Section 149(4)].

Note: This point will be discussed in detail in Art. 12.17 in the following pages.

(d) Small shareholders' director

A listed company may have one director appointed by small shareholders in such manner as may be prescribed [Section 151].

A 'small shareholder' means a shareholder holding shares of nominal value of not more than Rs. 20,000 or such other sum as may be prescribed.

(e) Minimum number in articles

The minimum number of directors which the company should have may be fixed in its articles of association. However, the minimum number so fixed should not be less than the statutory minimum limit as stated above.

(f) Minimum number statutory requirement

The provision as to the minimum number of directors is mandatory i.e. legally compulsory. Thus, every company must have the minimum number of directors at all times during its existence i.e., from the date of incorporation till dissolution of the company. Any business transacted after the number of directors falls below statutory minimum limit would be invalid.

Q6. What are the Qualifications and Disqualifications of directors?

Ans :

Qualifications of a Director:

As regards to the qualification of directors, there is no direct provision in the Companies Act, 2013. But, according to the different provisions relating to the directors; the following qualifications may be mentioned:

1. A director must be a person of sound mind.
2. A director must hold share qualification, if the article of association provides such.
3. A director must be an individual.
4. A director should be a solvent person.
5. A director should not be convicted by the Court for any offence, etc.

Disqualifications of a director:

Section 164 of Companies Act, 2013, has mentioned the disqualification as mentioned below:

1) A person shall not be capable of being appointed director of a company, if the director is

(a) Of unsound mind by a court of competent jurisdiction and the finding is in force;

(b) An undischarged insolvent;

(c) Has applied to be adjudicated as an insolvent and his application is pending;

(d) Has been convicted by a court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months and a period of five years has not elapsed from the date of expiry of the sentence;

(e) Has not paid any call in respect of shares of the company held by him, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call; or

(f) An order disqualifying him for appointment as director has been passed by a court in pursuance of section 203 and is in force, unless the leave of the court has been obtained for his appointment in pursuance of that section;

2) Such person is already a director of a public company which:

(a) Has not filed the annual accounts and annual returns for any continuous three financial years commencing on and after the first day of April, 1999; or

(b) Has failed to repay its deposits or interest thereon on due date or redeem its debentures on due date or pay dividend and such failure continues for one year or more:

Provided that such person shall not be eligible to be appointed as a director of any other public company for a period of five years from the date on which such public company, in which he is a director, failed to file annual accounts and annual returns under sub-clause (A) or has failed to repay its deposit or interest or redeem its debentures on due date or paid dividend referred to in clause (B).

4.2.1 Role, Duties and Responsibilities of Directors

Q7. Explain the Role of Directors.

Ans :

The Board of Directors has the following role:

1) Directors Exhibit Total Commitment to the Company

An efficient and independent board is conscious of protecting the interests of all stakeholders and not concerned too much with the current price of the stock.

According to Roz Ridgway, "The hallmark of a good director is that he or she attends and actively participates in the meetings. This requires a cent per cent commitment."

2) Directors Steer Discussions Properly

Another important function of the director is to set priorities and to ensure that these are acted upon. The directors should see that all important issues concerning the companies business are discussed and then decision is taken so that nothing trivial can dominate and bog them down. A good director rarely dominates or hijacks the discussion to his line of thinking, but steps in where the discussion needs to be directed or adds newer thoughts after letting others have their say.

3) Directors make Clear their Stand on Issues

A director is also expected to have the courage of conviction to disagree. A good, responsible and duty-bound director should be willing to register dissent, when and where needed. The management led by the CEO should know that they are being challenged, should be kept on alert and should not take things for granted. Directors should also be alert to any deteriorating situations in functional areas of finance, stock market, sales, personnel, and especially those relating to moral issues.

4) Directors' Responsibility to Ensure Efficient CEOs

Directors have great responsibility in the matter of employment and dismissal of the

CEO. The board as a whole, should recruit the best CEO they can probably hire, based on antecedents and market reports, evaluate objectively on a continuing basis his or her implementing effectively or otherwise the strategic planning devised by the board. "Great boards are those which proactively govern, help avoid the big mistakes, strategies and most importantly the best leadership is in place with the resources to lead".

5) Challenges Posed by Decisions on Acquisitions

One of the toughest challenges confronted by boards arises while approving acquisitions. It so happens in most cases that the board takes up the issue of acquisition only when the process has been set in motion and substantially gone through by the management. It will lead to a terrible embarrassment both to the CEO and the board, if the half-way-gone-through proposal has to be shelved. More of these none-too-worthy proposed acquisitions have to be accepted because of these predicaments.

6) Directors Anticipate Business Events

Directors are able to anticipate business events that would spell success or lead to disaster if proper measures are not adopted in time. The directors should be alert to such ensuing situations and be ready with the strategy to meet them so that either way the company stands to gain.

7) Directors have Long-Term Focus and Stakeholder Interests

Directors have a duty to act bona fide for the benefit of the company as a whole. This duty is owed to the company, i.e., the separate legal person that incorporation brings into existence, and not to any individual or group of individuals. This would imply, as per the current laws, directors are required to act in the interests of shareholders, but at the same time, to consider such interests with a long time focus. They ought to help build productive relationships between the company and its employees, customers and suppliers, or any other kind of investment that would serve the long-term interests of its shareholders.

8) **Promoting Overall Interests of the Company and its Stakeholders are of Paramount Importance**

In recent times, those who advocate reform of laws governing corporate practices stress the importance of reformulation of the concepts behind these laws. This reformulation of the concept should encourage managers to pay great attention to the relationships that are the source of long-term value. Once this becomes accepted, it will be logically consistent for the directors to exercise their powers in order to promote the success of the company as a business enterprise. By doing so, they shall have regard to the interests of shareholders, employees, creditors, customers and suppliers.

Q8. What are the Duties & Responsibilities of Board of Directors ?

Ans :

Responsibilities of Board of Directors may be divided under two heads, which are as follows:

1) Statutory Duties of Board

To File Return of Allotments: Section 75 charges a company to file with the registrar, within a period of 30 days, a return of the allotments stating the specified particulars Failure to file such return shall make Directors liable as 'officer in default'. A fine upto ` 500 per day till the default continues may be levied.

ii) **Not to Issue Irredeemable Preferences Shares or Shares Redeemable After 10 Years**

Section 80, forbids a company to issue irredeemable preference shares or preference shares redeemable beyond 10 years. Directors making any such issue may be held liable as 'officer in default' and may be subject to fine upto ` 1,000.

iii) **To Disclose Interest**

A Director who is interested in a transaction of the company must disclose his interest, to the Board. The disclosure must be made at the first meeting of the Board held after he has become interested. This is because a Director stands in a fiduciary capacity with the company and therefore, he must not place himself in a position in which his personal interest conflicts with his duty. Interest should be such which conflicts with the duties of the Director towards the company.

iv) **To Disclose Receipt from Transferee of Property**

Section 319 provides that any money received by the Directors from the transferee in connection with the transfer of the company's property or undertaking must be disclosed to the members of the company and approved by the company in general meeting. Otherwise the amount shall be held by the Directors in trust for the company. This money may be in the name of compensation for loss of office but in essence may be on account of transfer of control of the company. But if it is bona fide payment of damages of the breach of contract, then it is protected by Section 321(3).

v) **To Disclose Receipt of Compensation from Transferee of Shares**

If the loss of office results from the transfer (under certain conditions) of all of the shares of the company, its Directors would not receive any compensation from the transferee unless the same has been approved by the company in general meeting before the transfer takes place [Section 320], If the approval is not sought or the proposal is not approved, any money received by the Directors shall be held in trust for the shareholders who have sold their shares.

Section 320 further provides that in pursuance of any agreement relating to any of the above transfers, if the Directors receive any payment from the transferee within one year before or within 2 years after the transfer, it shall be accounted for to the company unless the Director proves that it is not by way of compensation for loss of office.

Section 321 further provides that if the price paid to a retiring Director for his shares in the company is in excess of the price paid to other shareholders or any other valuable consideration has been given to him, it shall also be regarded as compensation and should be disclosed to the shareholders.

2) General Duties of Board

i) **Duty of Good Faith**

The Directors must act in the best interest of the company. Interest of the company implies the interests of present and future members of the company on the footing that the company would be continued as a going concern.

A Director should not make any secret profits. He should also not exploit to his own use the corporate opportunities.

ii) **Duty of Care**

Directors should carry out their duties with such care, skill and diligence as is reasonably expected from persons of their knowledge and status. If they fail to exercise due care in the exercise of their duties, they are guilty of negligence. The standard of care, skill and diligence would, however, vary with:

a) The type and nature of work,

b) The division of power between Directors and other officers,

c) The general usages and customs of that type of business, and

d) Whether Directors work gratuitously or remuneratively.

iii) Duty to Attend Board Meetings

A number of powers of the company are exercised by the Board of Directors in their meetings held from time to time. Although a Director is not expected to attend all the meetings but if he fails to attend three consecutive meetings or all meetings for a period of three months, whichever is longer, without permission, his office shall automatically fall vacant.

iv) Duty Not to Delegate

Director being an agent is bound by maxim 'delegatus non potest delegare' which means a delegate cannot further delegate. Thus, a Director must perform his functions personally. A Director may, however, delegate in the following cases:

a) Where permitted by the Companies Act or articles of the company, and

b) Having regarded to the exigencies of business certain functions may be delegated to other officials of the company.

Some other duties are as follows:

1) To convene statutory, annual general meeting and also extraordinary general meeting when required by the shareholders of the company;

2) To prepare and place at the AGM along with the balance sheet and profit and loss account a report on the , company's affairs, and

3) To make a declaration of solvency in the case of a Member's voluntary winding up.

The duties of the Directors are usually regulated by the company's articles. While performing their duties, they must display reasonable care, honesty, good faith, skill and diligence. As they stand in a fiduciary relationship to the company and they are agents and trustees in certain respects, they are bound to exercise in the performance of their duties a reasonable degree of skill and care.

4.2.2 Types of Directors

Q9. Explain the different types of directors?

Ans :

Types of Directors

1. Executive Directors / Inside Directors

The term executive director is usually used to describe a person who is both a member of the board and who also has day to day responsibilities in respect of the affairs of the company. Executive directors perform operational and strategic business functions such as: managing people, looking after assets, hiring and firing, entering into contracts. Executive directors are employed by the company and paid a salary, so are protected by employment law.

a) Managing Director

Section 2 (26) of the Companies Act 1956 managing director as a director who, by virtue of an agreement with the company or of a resolution passed by the company in general meeting or by its board of directors or, by virtue of its memorandum and article of association, is entrusted with [substantial powers of management] which could not otherwise be exercisable by him, and includes a director occupying the position of a managing director, by whatever name called.

b) Whole-time Director

Whole-time director means a director who devotes all his time and attention to the management of the company. Where a director is appointed to act as technical director, legal director, work director and sales director on full time basis he is a whole-time director of the company. A whole-time director is also a managerial person.

2. **Non-executive Directors / Outside Directors**

   They are not in the employment of the company. They are the members of the Board, who normally do not take part in the day-to-day implementation of the company policy. They are generally appointed to provide the company with the benefits of professional expertise and outside perspective to the board. They play an effective role in governance of listed companies, but they may or may not be independent directors.

3. **Nominee Director**

   Nominee directors are appointed by financial institutions or banks, which extend term loans and / or working capital assistance or any other type of financial assistance to companies. Nominee directors are powerful tool of project supervision, monitoring and control, particularly following the issue of Government guidelines enjoying financial institutions to nominate director on the board of companies enjoying substantial assistance.

4. **Deemed Directors / Shadow Directors**

   Deemed director is a person who is not formally appointed as a director, but in accordance with whose directions or instructions the directors of a company are accustomed to act. Such persons have been addressed under English Law as 'Shadow Director'. The person in accordance with whose directions or instructions the Board of Directors is accustomed to act need not necessarily be an individual. The person may even be a body corporate. However, no person shall be deemed to be a director of a company if the Board acts on the advice given by him in his professional capacity such as Solicitor, Chartered Accountants etc.

5. **Independent Director**

   Kumar Mangalam Birla Committee defined "Independent directors are who apart from receiving director's remuneration do not have any other material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries, which in the judgment of the Board may affect their independence of judgment".

4.3 Board as a Learning Organization

Q10. How board as a Learning Organization?

Ans :

The Board as a Learning Organization

Revan's proposition states that if organizations want to survive and grow, their rate of learning has to be equal to or greater than the rate of change in their environment. Since environments undergo many changes, some of them dramatic and even punishing organizations have to be in a continuous learning mode and failure to do so will lead to their demise. In this context, organizations have to be adaptive organisms.

Look at great organizations such as GE, DuPont, or Harley Davidson. They have been able to achieve sustained success because they were always one up in learning and adapting vis-a-vis the environment. 'Changes in the environment will force the organization to face 'moments of truth' with respect to customers, competitors, employees, regulators, shareholders, or any or all of the stakeholders. For example, answers to questions such as Who is your customer? Why do they buy from you? How many of them come for repeat purchases? Who are your competitors? Why do customers buy from them rather than from you? Do your customers perceive 'value for money'? How do you create such a perception in the customers' minds? And similar questions with respect to other stakeholders will lead to exposing the company to the various moments of truth. The board must also have reasonable depth of knowledge about: such moments of truth. While much of this information has to come from management, it is unlikely that management will provide this information unsolicited.

The board has to be in a continuous learning mode if it has to solicit and use such information. A board which functions as a learning organization will be actively and fully involved and committed to the causes of the organization. The chances of such boards being taken by surprise by changes in the environment are less as they may have developed a great deal of insights. They will also be able to weather many a storm.

Most boards are taken by surprise, as in the case of Satyam. Had the directors been on a continuous learning mode, they would have sensed the moments of truth about the various developments that ultimately led to the downfall of the organization. In a matter of days, the reputation of the board as leaders of a well-governed corporate entity, as well as its erudite and eminent members, came to bought. So, every board must act as a learning organization and must take leadership in making the organization a learning one.

4.4 Leveraging Good Governance for Competitive Advantage

Q11. Explain about Leveraging Good Governance for competitive Advantage

Ans : **(Imp.)**

The role of the board also includes protection and creation of enterprise value. In a competitive market scenario, the value of a company's stock is considered to be proxy for the enterprise value. Stock prices rise in comparison with others when the company's competitive position is better than that of others. And today, everybody concurs that the board can play a very decisive role in sharpening the company's competitiveness. Such boards and directors 'listen probe, debate, and become engaged in the company's most pressing issues. Directors share their experience and wisdom as a matter of course. As they do, management and the board learn together, a collective wisdom emerges, and managerial judgement improves. The on-site coaching and counselling expand the mental capacity of the GEO and the top management team, and give the company a competitive edge out there in the marketplace', according to Charan (1998).

Regulations and penalties for non-compliance may force companies on compliance and prevention of small frauds (and in some companies such as Satyam, which apparently was complying with all the corporate governance requirements, the CEO had to make an admission to an ongoing fraud of massive dimension for many years, catching even the regulators by surprise and forcing the government to supercede its board and appoint its own nominees). By and large, such regulations or penalties have not resulted in better governance and competitive advantage. The competitive advantage will arise from the judgement of directors and not from the structures imposed by regulators. The collective judgement and wisdom of directors will help management and enable the company to have a competitive advantage. The active participation of the board in company matter, such as, strategy development and monitoring, continuous leanring, risk assessment and management, evaluating the performance of the CEO and top management, etc., will enable it to create a competitive advantage for the company.

4.5 Conflicts of Interest, Remedial Actions

Q12. What is conflict of Interest ? And its Remedical Measures

Ans : **(Imp.)**

Conflicts of interest are a major challenge to the establishment and maintenance of good governance practives, and can occur and exist irrespective of the ownership structures. While some of he conflicts may be similar in nature, others may be typical to the type of ownership structure.

1. Conflicts of Interest in Family-owned and Managed Companies

While the earlier allegations of family-managed partnerships or private limited company flourishing at the expense of publicly-listed companies managed by the same families mat longer be valid, thanks to the transfer pricing norms to be followed by them, a number of interest continue to exist. The most commonly observed conflicts are:

- Delineating ownership from management becomes difficult. Governance has to be dis from management. Managers might embrace risks which at times could affect the existence and/or goodwill of the organization and business. The board's job is to ha - hold on risks in order to ensure a sustained well-being of the business and the organize When owners are also in management, there can be serious conflicts of interest. The becomes more complicated when owners handling management have an overwhelm dominant shareholding.

- Another issue relating to conflicts is when the publicly-listed family companies enter dealings or transactions with other publicly-listed or other entities belonging to f members or their relatives. The expression, 'Blood is thicker than water', could be to justify such transactions. Today, SEBI insists that all such related party transaction' disclosed in the corporate governance report. For example, the annual report of Bajaj Ltd details the 'pecuniary relationship or transactions of non-executive directors' who to the family under the heading 'Remuneration of directors' as follows.
- Shekhar Bajaj is a director of Bajaj Electricals Ltd. During the year under review the total value of services availed by Bajaj Auto from Bajaj Electricals Ltd amounted Rs 22.8 million.
- Shekhar Bajaj is a director of Hind Musafir Agency Ltd, an accredited travel a During the year under review, the total value of services availed by Bajaj Auto from Musafir Agency Limited amounted to Rs 79.1 million.

Loopholes in the Company Law

The company law also has loopholes in this regard. Under Sub-clause (5) of Clause 1 independent directors can have transactions with the company up to a value of 10 per cent of turnover of the company. 'Many companies have an annual turnover in excess of Rs 100 billion, (Rs in crores in the article) and if a director transacts with such a company for Rs 9.9 billion (Rs in crores in the article), he would still be an independent director, in law. Such a provision all canons of corporate governance to the winds', according to LW Iyer, a corporate lawyer.'

- The issue could be relating to the nomination of independent directors itself. The loop in the Companies Act enable companies and/ or promoters to nominate persons know: them. Prithvi shaw Haldea calls such directors 'Home Directors'. This is because, according to the Companies As, persons from the wife's side (such as, brother/sister-in-law or father-in-law) or mother's side (mother's brother) are not considered as relatives. Thus, relatives can be on boards, giving rise to conflicts of interest, but they do not catch the attention as they could be classified as independent. Promoters could thus muster enough support from boards where independence could be only on paper.
- Another issue could be squeezing the public limited company for private gain. This was evident in the case of the Satyam affair. The Raj us, who held a minority stake of 8.6 per cent in the flag-ship company, publicly listed Satyam and tried to use the cash from Satyam to invest in two family-promoted companies—unlisted Maytas Properties and listed Maytas Infrastructure (where the stake of Rajus were reported to be 35 and 36 per cent, respectively).

2. Conflicts of Interest where Institutions Hold Major Stakes Variety of financial interests

- Most of the institutional investors, such as pension funds, mutual funds, or insurance companies are part of a financial conglomerate offering a variety of financial services, such as advisory, restructuring, investment banking, venture capital, cross-border deals, and some even commercial banking services.
- While the individual entities offer these services, they would be subsidiaries or associates of an umbrella company offering a gamut of financial services. One mutual fund arm of a financial service conglomerate may have invested their funds in the company's equity and the pension fund arm may manage the pension fund contributions of the company's employees on behalf of the company.
- The mutual fund as well the pension fund would aim for the total net benefits for the two arms together. They may also keep in mind the potential business interests. While the mutual fund has a responsibility to act in a fiduciary capacity for the investors who have

put their hard-earned savings in the units of the mutual fund, which might force the mutual fund to take a hard look at governance of the company, they may relax on this if they stand to gain in the form of additional businesses for the conglomerate as a whole.

- According to Smith and Walter (2006), individuals who have invested funds in the company's equity through the mutual fund vehicle 'are exposed to both agency conflicts of corporate managers as well as agency conflicts of investment managers.' When institutions, such as mutual funds or investment bankers not only act as agents on behalf of their clients (investors) but also invest their own funds generated over a period of time, there can be conflicts of interest.

- According to Smith and Walter, 'They are often very active principals investing their own money (in underwriting, trading positions, and bridge loans), and facilitating transactions (new issues of securities, mergers, restructuring, and off-balance-sheet financial vehicles) on the interface between buying and selling clients, for which their fees and returns on their investments can be considerable.'

Cross directorships

- Cross directorships can also result in conflicts of interest. Many bank nominees may occupy board seats on client companies. These banks, or their investment banking arms, or mutual funds promoted by them, could also be investors in the client company's shares. Such cross directorship - may prevent the right information from reaching investors. Smith and Walter talk about a high profile example: A member of the AT&T board, Citi group chairman and CEO Sanford Well allegedly urged the firm's telecom analyst, Jack Grubman, to rethink his negative views on the company's stock. AT&T's CEO, Michael Armstrong, also served on the Citi group board. AT&T shares were subsequently up-rated by Grubman and Citi group coincidentally was mandated up co-manage a major issue of AT&T mobile tracking stock.'

Use of lending power

A financial conglomerate may use its lending power to influence a client to employ its securities- or advisory services, or on the other hand, deny credit to clients that refuse to use their other services.

Smith and Walter (2006) identified eight basic conflicts of interest in the fund manager: industry:

- Fund managers prefer independent directors who comply with the rules but are cooperative supportive, and not difficult to work with. Investors prefer directors who will robustly perform their fiduciary duties to the mutual fund shareholders.

  Mutual fund directors are expected to represent the interests of their shareholder* in the selection of the fund management company, and in negotiating fees and expense reimbursements. If the directors are not satisfied with the fund manager, they can factor. another. But in practice, this very rarely happens (of course, individual portfolio managers are frequently fired for failing to meet return criteria) even when the fund manager's performance e is very poor or fees are very high.

- Fund managers want maximum fees and expense reimbursements. Investors want their function directors to negotiate minimum total costs and fully disclose these costs. But very rarely do boards try to reduce the expenses. In fact, expenses have increased from about 0.91 per cent in 1978, when the assets under management were only about $56 billion, to 1.36 per cent or. 2004, when the assets under management have grown many fold, to $7,500 billion (Smith and Walter 2006). Mutual fund directors get fat pay cheques so that they never even try to question the fund managers, forget about replacing the fund manager. According to Warren Buffet, the state of affairs of mutual fund directorships is 'a zombie like process that makes a mockery of stewardship.... A monkey will type-out Shakespeare before an 'independent' board will vote to replace management.'

- Fund managers want to ensure that they are re-appointed . Investors want boards that act vigorously in selecting the best managers they can find who are capable of top-flight, risk-adjusted performance.

- Fund managers want to increase assets under management. Investors want optimum investment returns, after expenses and taxes. In reality, while funds under management have increased considerably, the fees and other expenses have also gone up. Smith and Walter say that even fund managers such as John Bogle are critical of the high fees and high portfolio turnover resulting in increased costs. According to him, in 2003, 'the stock market returned an average of 11.1 per cent to investors, but the average equity mutual fund has delivered just 8.6 per cent—a 2.5 per cent shortfall that was roughly equal to the drain of heavy sales charges, management fees, and operating expenses, and the portfolio turnover cost incurred.'
- Managers want to push their funds through brokers and financial advisers who need to be compensated by charging fees for distributing the funds to the investors who buy them. Investors do not want to pay these fees if they receive no benefit from them. These fees appear to benefit management companies at the expense of fund investors .
- Managers want to lower unreimbursed costs through soft dollar commissions from broker-dealers. Investors want the best-price execution of trades and lowest commissions. Brokerages usually reimburse the various costs incurred by fund management companies in return for volume of business. When this is done, the fund managers may not get the best-price execution of trades and lowest commissions.
- Managers want to favour their own funds by obtaining a 'shelf space' in distribution channels, while investors want access through brokers, to the best and most appropriate funds for their own needs.
- Managers want to be able to organize funds to assist other business interests of the firm, such as investment banking and promoting investments in particular stocks. Investors want all investment decisions by managers to be at arm's length and objective.

3) Conflicts of Interest in PSUs

Most of the conflicts of interest in PSUs occur because of the roles played by bureaucrats and politicians in the running and management of the enterprise.

For example, politicians or bureaucrats may try to have their candidate as the chairman and/or managing director in order to push through their private agendas rather than getting the best professional to run the PSU. There have also been many instances while the chairman and/or managing director, or other senior executives of the PSU has placed orders or awarded contracts at rates higher than the best prices, and earned hefty commissions on these. Orders or contracts may also be given to those who do not have the necessary capabilities to execute them. What is best for the PSU usually gets neglected.

There may also be issues such as ministers or politicians yielding to recommendations of their cadre and sometimes even creating positions or designations that are not at all needed, leading the PSU to have a bloated work force and driving it into the sick category.

Politicians or bureaucrats may even harp on the flimsy reason that PSUs have employment generation as one of their aims. Most of the conflicts of interest with regret to PSUs dwell on the area of decision-making, which is very often not founded on merit.

4) Other Conflicts of Interest in General

- While the conflicts of interest discussed above are typical of the type of ownership, there are a number of other kinds of conflict of interests which are general in nature and observed across all enterprises irrespective of the ownership criteria. The commonly observed conflicts of interest are:
- A director keeps or adheres to a narrow agenda reflecting the interests of the sponsoring shareholders rather than

representing the entire shareholders as a group, as the law mandates.

- The auditor in one company is an independent director in another company belonging to the same group. While we debated about the very independence of such directors, this can also result in conflicts of interest. Anybody who earns compensation from one company for services as a director may lose his/her effectiveness as auditor as he/she may bring down the rigour of audit.

- An independent director acting as a consultant. Shultz (2001) quotes David Bays, a corporate lawyer, thus, 'One board member only accepts directorship if he is assured a minimum number of hours of consulting contracts with the company. He makes considerably more money than before he is "retired".' Shultz also mentions Henry Kissinger, former Secretary of State in the US, who had a huge consultancy with American Express while he sat or their board.

- Another situation which could cause conflict of interest is when the CEO's colleague on another board is appointed a director on the board, and is also given the responsibility of chairing or being a member of important committees such as audit, compensation, or nomination committees.

- The CEO of a company may also appoint a college friend, a batchmate, or a room mate a director and also as members or chairmen of important committees. The law is ineffective in curbing such practices as it is very difficult to identify such earlier associations.

- An independent director of the company may also be a partner of the firm of solicitors and advocates which offer legal advisory services to the company. While we have discussed this earlier from a real independence point of view, conflict of interest is another fall out.

- Directors may have pecuniary interests beyond compensation such as J.N. Godrej, director at Bajaj Auto, who is also a director and shareholder of Godrej & Boyce Manufacturing Company Ltd, which is a vendor to Bajaj Auto. Bajaj Auto purchased goods worth Rs 7.1 million from Godrej & Boyce as on 31 March 2009.

Remedial Actions

1. While it may be extremely difficult to totally eliminate the conflicts of interest, conscious effort should be made to reduce the instances of such conflicts occurring. Many companies and board- have adopted a 'disclose and go forward' policy, but it should be noted that disclosure of a confluence of interest does not remove the conflict of interest; it continues to exist. As far as possible, am issue such as buying materials from companies under the management of independent director or being an independent director while also being a partner of the firm offering solicitor's services, must be declared as in the best interests of the company by the CEO/CFO and auditors, and must be put before the shareholders for approval. Companies must bring out details of any type of relationship that exists between the CEO and promoter directors with the existing/potential independent directors. Any kind of MOU between promoters should also be brought to the board and before the shareholders if the company is publicly listed.

2. In the case of PSUs, the government has to take meticulous care in constituting the board consisting of a majority of really independent directors and the chances of political interferences should be reduced to the minimum. All transactions should be certified by the external independent auditors, as well as the comptroller and auditor general (CAG). The vigilance officers should function under totally independent authority.

3. In cases where conflicts of interests exist among institutions which hold major stakes in companies, the scenario is very complex and mitigation of conflicts of interest is very difficult considering the structure under which

the institutions have been constituted. We have already seen that institutionalizing arm's length practices have not yielded the desired results. The only solution could be not to have more than one kind of service from the umbrella institution. It may sometimes increase the cost but will definitely reduce hidden costs as well as conflicts of interest.

Also, the company should not engage the institution which has invested in the company for any services. In a typical corporate scenario in India, where promoters/promoter families promote a number of companies, measures have to be taken to prevent instances of conflicts of interest across the entire group. This might not be easy as the two companies belonging to the same group are treated as two independent economic entities under the law. Boards, as well as directors, have to remember that their reputations are at stake, and that they are accountable. Hence, it is better for the board to avoid nominating or continuing with directors who are vulnerable to conflicts of interest and also for directors not to get involved in acts or actions that will result in conflicts of interest. When directors have conflicts of interest, it will be extremely difficult for them to handle their fiduciary roles and be accountable to the shareholders as a whole.

4.6 Governance Rating - Merits & Demerits

Q13. What is Government Rating and its Merits and Demerits.

Ans : **(Oct.-21, Imp.)**

- We identified that institutional investors use the corporate governance rating system as a tool to ascertain the quality of governance systems in a company where they propose to invest or where they have invested.
- 'A corporate governance rating can be a powerful indicator of the extent to which a company is currently adding, or has the potential to add in the future, the shareholder value.
- This is because a company with good corporate governance is generally perceived as more attractive to investors than one without'. Post Enron, WorldCom, etc., in the US and post-Satyam in India, investors have begun to be seriously concerned about governance practices of companies where they plan to invest their hard-earned savings.
- 'With this increasing level of awareness of corporate governance, there is a role for global benchmarks to help a company's stakeholders to assess and compare corporate governance practices from one firm to another, and from one county to another.
- The concept of corporate governance rating or scoring is a way to address this gap'.
- A number of rating agencies from all over the world have developed their models for evaluating corporates from a governance point of view, and assigning them corporate governance scores. Institutions/firms, such as Standard and Poor's (S&P), Governance Metrics International (GMI), Institutional Shareholder Services (ISS), the Corporate Library, and Audit Integrity in the US; Credit Rating Information Services of India Ltd (CRISIL), an affiliate of S&P, Investment Information and Credit Rating Agency Ltd (ICRA), and Credit Analysis and Research Ltd (CARE) in India; and seminar in Brussels, Belgium, etc., have been in the practice of rating governance of publicly-listed corporates for many years now.
- While the Indian outfits have restricted their operations to Indian publicly-listed companies, S&P has been using its governance rating system in widely different markets. GMI ratings extend beyond the US to countries in the Asia-Pacific region and Europe.
- Seminar has been concentrating on European companies while ISS, Corporate Library, etc. have concentrated mainly on the US. With the acquisition of the corporate governance practice of Seminar, ISS has been extending its presence in Europe.

- Since corporate governance depends greatly on the levels of transparency and the reporting practices in a county in general, 'an appropriate approach for a corporate governance rating system is first to have a rating of the corporate governance in a given country'.
- This necessitates finding out whether the country is enlightened on the need for better corporate governance, are there established guidelines, laws, or codes of best practices, and are the corporates following these.
- After establishing the scenario present in a country, the rating companies can set about assigning governance ratings for individual companies. The rating agencies collect a variety of information from companies but do not depend only on them. They also try to cross-check and verify such information through other channels. Different rating agencies follow different rating models, but the underlying fundamental principles are rather similar fairness, transparency, accountability, and responsibility.

According to Adilabadkar (2005), a corporate governance score is based upon the assessment of four key areas of corporate performance:

- Ownership structure, which asks who owns and controls the company and what conflicts are likely to arise from the ownership structure;
- Financial stakeholder rights and relations, which look into ownership rights; minority shareholder protection, voting procedures and takeover defences;
- Transparency and disclosure, which look at the quality and accessibility of financial and operational disclosure, including transparency of accounting methods, the integrity of the audit process, and how the audit committee oversees and maintains auditor independence;
- Board structure and process, which looks at board independence, effectiveness, succession policies, and the process of setting executive pay and aligning it with the interests of shareholders.

S&P, which started its corporate governance score (CGS) services in 2002, is based on four company characteristics (Adilabadkar 2005):

- Ownership structure and concentration
- Financial stakeholders' rights and relations
- Transparency and disclosure, and
- Board structure and process.

For S&P to determine a CGS for a company, the company has to request S&P for it. S&P reviews the client company's documents both publicly available and confidential, and has discussions with executive management, directors, shareholders, analysts, bankers, etc. After the process is completed, S&P awards a score on a scale of 1 to 10 within each of the four areas mentioned above. The client company can decide whether to make the rating public.

GMI on the other hand, examines a company's website, statutory filings, press coverage, etc., gathers data on each of the 600 metrics, and checks with the company for verification of facts. After getting feedback from the company, it puts the details into the database which comes out with the governance score on a scale of 1 to 10. In addition to an overall score, it provides scores in seven discrete categories.

CRISIL uses the following rating criteria:

- Equitable treatment of shareholders
- Ownership rights of shareholders
- Transparency and disclosure
- Composition of board
- Management assessment
- Value creation for various stakeholders.

CARE, on the other hand, uses the following seven criteria:

- Board composition and functioning
- Ownership structure

- Organization structure and management information system
- Shareholder relationship
- Disclosure and transparency
- Financial prudence, and
- Statutory and regulatory Compliance.

Merits of Corporate Governance Ratings

Investors have become highly demanding and discerning after the high profile corporate collapses at the beginning of the century. This has put pressure on corporates to be better governed. Evidence from various studies on corporates, with emphasis on the governance processes and practices, point to the fact that those with less meaningful governance practices have been required to pay a significant risk premium in their competition for garnering funds from capital markets. While legislation and regulations can mostly enforce a 'form' thorough insistence on the structure of the board, formation of committees, separating chairman and CEO positions, etc., the 'substance' of governance will eventually determine the credibility of the firm among all the stakeholders. Hence, the onus falls on the firm to be better governed and also to project it as being better governed to the stakeholders.

The governance rating process enables a company to achieve this and, in turn, enables investors to make informed choices from among a large range of options available. This can be of great help to investors in countries such as India where more than 4000 companies are listed on the stock exchanges. The major advantages of governance ratings can be listed as follows:

A) For firms

- Enables firms to obtain an independent and reliable assessment about their quality of governance
- Firms can understand their relative positioning in the national and international scenario
- Firms with better ratings can expect to lower the risk premium placed on them by capital markets, and thereby reduce cost of capital
- Firms can use the ratings (their own and those of competitors) as references and set benchmarks for further improvements
- Firms get to understand whether they add value to the stakeholders of the company
- It enables firms to improve their image/visibility/credibility in society
- Enables the company to attract talent to the board and management.

B) For investors/other stakeholders

- Enables investors to make informed decisions
- Information availability brings in institutional interest in the company resulting in better price efficiency
- Banks and other financial institutions can make informed decisions to lend and fund the company
- Employees, customers, suppliers, and other stakeholders will be keen to associate with a well-governed firm
- Increases the confidence of the capital markets in firms.

Demerits of Corporate Governance Ratings

While apparendy governance ratings have a number of merits as described above, there are also demerits and limitations:

- The rating agencies have to rely heavily on information provided by the firms.
- Different institutions offering governance ratings stress on different parameters to ascertain governance performance. Thus, the ratings of a firm may vary from one rater to another. This can send confusing signals to the ordinary investors who do not know or who do not have the time to learn about the differences in parameters.
- It is voluntary in nature; hence, if a company does not volunteer it need not necessarily mean that they are low on governance performance compared to other firms with a high rating.
- The methodology relies heavily on structural aspects rather than on the process of governance. This, once again, brings back the criticism on general governance reforms which has beer, more structural with consequent in-built deficiencies.
- Governance scores may not be able to prevent many maladies such as insider trading, false reporting, intentional fraudulent practices of the CEO and other members of the board, or misuse of resources by the management, etc. This was evident in the case of Satyam Computers which had a high governance rating.
- The decision on making the rating public, by and large, rests with the company.
- Since rating is not compulsory and involves a lot of costs for the firm (S&P is said to be charging a fee in the range of $18,000 to $150,000, according to Adilabadkar, only a very small percentage have volunteered, making it difficult for an investor to use them.
- Ratings have been assigned based on data and information about current working of the firm They do not necessarily look at the historical behaviour of a firm with regard to governance matters and cannot assure that the good/bad practices of the current will be carried over to the future. This once again puts the responsibility on to the investors to make their own judgements.

Short Question & Answers

1. Role of Board.

Ans :

The clear message from the series of corporate debacles that occurred in America and several parts of the world, was simple that the board of directors is increasingly being recognized as a critical success factor for corporations, be they large or small, private or public. This understanding and appreciation of the role of the boards as being valuable has resulted in several recommendations to boost their contributions to success of companies by innumerable committees that have been appointed by governments and public spirited organizations all over the world.

Susan F. Shultz, founder of SSA Executive Search International, author of several best sellers on the subject and a member of several boards of directors condenses her experiences and research in the following summation.

1. **Small Size of the Board**

   The smaller the size of the board, the greater will be the involvement of its members. This will lead to a more cohesive functioning and decision-making could be expedited, all of which will add to the efficiency of the organization.

2. **Independence of the Board**

   Independence should be the essence of strategic boards. To achieve this end, it is advisable to have less number of insiders and more of outsiders. As Susan F. Shultz points out, this kind of composition of the board will add to the 'proactiveness of the company's board. Further, an insider's allegiance is likely to be to his or her boss and not necessarily to the company's share-holders. Another downside to an insider dominated board is that not only can the CEO intimidate insiders, but insiders can also inhibit the CEO'. Managements have a vested interest to prefer insiders as directors to the board as they are likely to continue the status quo in policies and procedures that they themselves have helped to create and retain the present senior managers.

2. Director.

Ans :

The director is defined in Section 2(34) of the Companies Act, 2013 as under:

"A director ' means a director appointed to the Board of a company "

Thus, a director is a person appointed as director under the provisions of the Companies Act, 2013.

The directors manage and control the overall affairs of the company. They generally confine themselves to the general business policies and overall supervision of the management of the company. The day to day working of the company is left to other managerial personnel. Thus, the director is a person who controls and services the overall management of company's affair. It is immaterial by what name he is called.

Following points be noted with regard to the directors:

1. Only an individual can be appointed a director. A firm, association, or a company cannot be a director of the company [Section 149(1)].
2. An individual can be appointed or re-appointed as a director only if he has been allotted a Director Identification Number [Section 152(3)].

   Note: The provisions relating to directors' appointment and qualifications etc. are provided in Sections 149 to 172 of the Companies Act, 2013 all of which have been notified to be effective. The corresponding provisions of the Companies Act, 1956 stands deleted and are no more relevant.

3. Disqualifications of a director.

Ans :

Section 164 of Companies Act, 2013, has mentioned the disqualification as mentioned below:

1) A person shall not be capable of being appointed director of a company, if the director is

   (a) Of unsound mind by a court of competent jurisdiction and the finding is in force;

   (b) An undischarged insolvent;

   (c) Has applied to be adjudicated as an insolvent and his application is pending;

   (d) Has been convicted by a court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months and a period of five years has not elapsed from the date of expiry of the sentence;

   (e) Has not paid any call in respect of shares of the company held by him, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call; or

   (f) An order disqualifying him for appointment as director has been passed by a court in pursuance of section 203 and is in force, unless the leave of the court has been obtained for his appointment in pursuance of that section;

2) Such person is already a director of a public company which:

   (a) Has not filed the annual accounts and annual returns for any continuous three financial years commencing on and after the first day of April, 1999; or

   (b) Has failed to repay its deposits or interest thereon on due date or redeem its debentures on due date or pay dividend and such failure continues for one year or more:

   Provided that such person shall not be eligible to be appointed as a director of any other public company for a period of five years from the date on which such public company, in which he is a director, failed to file annual accounts and annual returns under sub-clause (A) or has failed to repay its deposit or interest or redeem its debentures on due date or paid dividend referred to in clause (B).

4. Executive Directors.

Ans :

The term executive director is usually used to describe a person who is both a member of the board and who also has day to day responsibilities in respect of the affairs of the company. Executive directors perform operational and strategic business functions such as: managing people, looking after assets, hiring and firing, entering into contracts. Executive directors are employed by the company and paid a salary, so are protected by employment law.

a) Managing Director

Section 2 (26) of the Companies Act 1956 managing director as a director who, by virtue of an agreement with the company or of a resolution passed by the company in general meeting or by its board of directors or, by virtue of its memorandum and article of association, is entrusted with [substantial powers of management] which could not otherwise be exercisable by him, and includes a director occupying the position of a managing director, by whatever name called.

b) Whole-time Director

Whole-time director means a director who devotes all his time and attention to the management of the company. Where a director is appointed to act as technical director, legal director, work director and sales director on full time basis he is a whole-time director of the company. A whole-time director is also a managerial person.

5. What is conflict of Interest ?

Ans :

Conflicts of interest are a major challenge to the establishment and maintenance of good governance practives, and can occur and exist irrespective of the ownership structures. While some of he conflicts may be similar in nature, others may be typical to the type of ownership structure.

1. Conflicts of Interest in Family-owned and Managed Companies

While the earlier allegations of family-managed partnerships or private limited company flourishing at the expense of publicly-listed companies managed by the same families mat longer be valid, thanks to the transfer pricing norms to be followed by them, a number of interest continue to exist. The most commonly observed conflicts are:

- Delineating ownership from management becomes difficult. Governance has to be dis from management. Managers might embrace risks which at times could affect the existence and/or goodwill of the organization and business. The board's job is to ha - hold on risks in order to ensure a sustained well-being of the business and the organize When owners are also in management, there can be serious conflicts of interest. The becomes more complicated when owners handling management have an overwhelm dominant shareholding.
- Another issue relating to conflicts is when the publicly-listed family companies enter dealings or transactions with other publicly-listed or other entities belonging to f members or their relatives. The expression, 'Blood is thicker than water', could be to justify such transactions. Today, SEBI insists that all such related party transaction' disclosed in the corporate governance report. For example, the annual report of Bajaj Ltd details the 'pecuniary relationship or transactions of non-executive directors' who to the family under the heading 'Remuneration of directors' as follows.

6. Conflicts of Interest in PSUs.

Ans :

Most of the conflicts of interest in PSUs occur because of the roles played by bureaucrats and politicians in the running and management of the enterprise.

For example, politicians or bureaucrats may try to have their candidate as the chairman and/or managing director in order to push through their private agendas rather than getting the best professional to run the PSU. There have also been many instances while the chairman and/or managing director, or other senior executives of the PSU has placed orders or awarded contracts at rates higher than the best prices, and earned hefty commissions on these. Orders or contracts may also be given to those who do not have the necessary capabilities to execute them. What is best for the PSU usually gets neglected.

There may also be issues such as ministers or politicians yielding to recommendations of their cadre and sometimes even creating positions or designations that are not at all needed, leading the PSU to have a bloated work force and driving it into the sick category.

Politicians or bureaucrats may even harp on the flimsy reason that PSUs have employment generation as one of their aims. Most of the conflicts of interest with regret to PSUs dwell on the area of decision-making, which is very often not founded on merit.

7. Merits of Corporate Governance Ratings.

Ans :

Investors have become highly demanding and discerning after the high profile corporate collapses at the beginning of the century. This has put pressure on corporates to be better governed. Evidence from various studies on corporates, with emphasis on the governance processes and practices, point to the fact that those with less meaningful governance practices have been required to pay a significant risk premium in their competition for garnering funds from capital markets. While legislation and regulations can mostly enforce a ‘form’ thorough insistence on the structure of the board, formation of committees, separating chairman and CEO positions, etc., the ‘substance’ of governance will eventually determine the credibility of the firm among all the stakeholders. Hence, the onus falls on the firm to be better governed and also to project it as being better governed to the stakeholders.

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UNIT V	**Corporate Social Responsibility:** Definition, Models for Implementation of CSR, Scope of CSR, Steps to attain CSR, Core - BCSD India, Ethics and Social Responsibility of Business, Social Responsibility and Indian Corporations, CSR as a business strategy for sustainable development.

5.1 Corporate Social Responsibility

5.1.1 Definition

Q1. Define Corporate social responsibility.

Ans : **(Imp.)**

Corporate social responsibility is self-imposed restriction by companies on their activities. CSR is a recent term but it has been followed by companies from many years ago. Companies know their responsibilities towards the society where they exist. As CSR concept is based on ethics, companies following CSR policies always strive to develop the society and environment. CSR refers to those activities through which companies control their actions and check whether they are following ethical and legal norms. CSR should be followed voluntarily by each and every company whether it is small or big, or multinational or local.

Definition of CSR

According to Cannon, "Corporate social responsibility means devising corporate strategies and building a business with the society's needs in mind".

According to Koontz and O'Donnel, "Social responsibility is the personal obligation of every one as he acts for his own interests to assure that the rights and legitimate interests of all others are not impinged".

According to Lord Holme and Richard Watts, "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large'.

According to Keith Devis and Robert Blomstrom, "Corporate social responsibility is the obligation of decision-maker to take actions which protect and improve the welfare of society as a whole along with their own interests".

According to the United Nations Industrial Development Organization (UNIDO), "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders".

Q2. Explain the Evolution of Corporate Social Responsibility.

Ans :

Corporate Social Responsibility in India has evolved in four phases, which are as follows :

Phase 1: CSR for Charity

Concept of CSR was first evolved during 19th century. During that time industrialists contribute towards society due to feeling of charity or religious purpose. Another purpose for contributing was to serve particular caste or political party.

Phase 2: CSR for Growth of Society

Freedom movement led the beginning of new phase of CSR. To make freedom movement more powerful, leaders focuses on making society economically developed. During that time industrialists were required to give more benefits to society. Due to these pressures from freedom fighters like Mahatma Gandhi, industrialists established several schools, colleges, etc.

Phase 3: CSR for Complying with Laws and Acts

Third phase of evolution of CSR started after gaining independence in India. Most companies were owned by government. Various laws and Acts were introduced to safeguard labour and environment. Thus, to comply with the laws and Acts framed by government, companies mostly PSUs follow activities related to CSR.

Phase 4: CSR for Complying with Inter national Norms and Standards

Fourth phase of evolution of CSR started during 1980s. During that time companies believed that to gain sustainable growth, companies should integrate ethics into their activities. Indian companies believed that to remain profitable in global market, it was essential to follow standards and norms that are contributing to society, employees, and environment.

Q3. Explain the Nature of CSR.

Ans :

Following points highlight the nature of corporate social responsibility :

1. **CSR is Multi-Faceted Approach**

   CSR involves various issues related to society, economy, and environment. Activities involving CSR is affected by the changes in the market. Therefore, to keep up with the changes, companies are required to update their CSR activities.

2. **CSR is Affirmative Concept**

   CSR is not an additional activity for any company. CSR activities cannot be separated from the business activities. It has now become part of the activities and management of each and every company. Thus, CSR can be understood as the affirmative concept that regulates the activities by companies themselves.

3. **CSR Secures the Interest of all Stake-holders**

   CSR takes care of all the stakeholders of the companies. Initially companies serve the interest of shareholders only. Shareholders were directly related with the company's activities. Shareholders have also power to directly influence the companies. But CSR involves taking care of the interest of parties which are not directly related with the interest of companies. Those parties include consumers, environment, and society. These parties are also influenced by the companies or can influence growth of companies. Thus, CSR encourages companies to ensure that the interest and development of parties other than shareholders will also take care of.

4. **CSR is Positive Approach**

   As CSR term includes responsibility, responsibility can both be understood in negative or positive sense. Responsibility in negative sense means inability to fulfil responsibilities borne by any company or an individual. Responsibility in positive sense means obligations or commitment of any company. As CSR is considered as obligation on the part of companies, therefore CSR is a positive concept. Negative sense arises only in case when companies fail to fulfil its obligations.

5. **CSR Incorporates Legal Commitment with Moral Commitment**

   Legal commitment means laws are used to conforming the actions of the companies. This commitment is required to maintain minimum moral standards in the society. Moral commitment means activities which are voluntarily performed by the companies to maintain moral standards. Moral commitment is different from legal commitment. As moral commitment is more important for companies to be performed than legal commitment for the betterment of the society. Therefore, CSR involves a combination of both legal and moral commitment.

6. **CSR is Complementary with Principle of Maximizing Shareholder's Profit**

   Principle of maximins shareholder's profit means that company's primary goal should be to maximize shareholders profit. But CSR holds that companies should maximize shareholders profit along with maximizing benefits to society. To maintain balance, companies should focus on one objective at a time. Thus, CSR complements principle of maximizing shareholder's profit.

Q4. What are the reasons for the CSR?

Ans :

After considering the arguments for and against CSR, it becomes evident that it is in the enlightened self-interest of companies to be good corporate citizens and devote some of their resources and energies to employees, the communities in which they operate, and society in general.

There are five important reasons why companies should undertake social responsibilities.

1. Self-Interest of the Organization

Every organization obtains critical inputs from the environment and converts them into goods and services to be used by society at large. In this process they help shareholders to get appropriate returns on their investment. It is expected that organizations acknowledge and act upon the interest and demands of other stakeholders such as citizens and society in general that are beyond its immediate constituencies – owners, customers, suppliers and employees. That is, they must consider the needs of the broader community at large, and act in a socially responsible way.

2. It generates Internal Benefits

CSR generates internal benefits like employee recruitment, workforce retention and training. Companies with good CSR reputation are better able to attract and retain employees compared to companies with tarnished reputations. Some employees just feel better about working for a company committed to improving society. This can contribute to lower turnover and better worker productivity. This also benefits the firm by way of lower costs for staff recruitment and training. Provision of good working conditions results in greater employee commitment.

3. It Reduces Risks

CSR reduces the risk of damage to reputation and increases buyer patronage. Consumer, environmental and human rights activist groups are quick to criticize businesses that are not socially responsive. Pressure groups can generate adverse publicity, organize boycotts, and influence buyers to avoid an offender's products. Research has shown that adverse publicity is likely to cause a decline in a company's stock price.

4. In the Best Interest of Shareholders

CSR is in the best interest of shareholders. Well-conceived social responsibility strategies work to the advantage of shareholders in several ways. Socially responsible behaviour can help avoid or prevent legal and regulatory actions that could prove costly or burdensome.

A study of leading companies found that environmental compliance and developing eco-friendly products can enhance earnings per share, profitability, and the likelihood of winning contracts.

5. It gives Competitive Advantage

Being known as a socially responsible firm may provide a firm a competitive advantage. For example, firms that are eco-friendly enhance their corporate image. In western countries, many consumers boycott products that are not "green". Companies that take the lead in being environmentally friendly, such as by using recycled materials, producing 'green' products, and helping social welfare programmes, enhance their corporate image.

Q5. What is the Importance of CSR?

Ans :

Some of the actions and behaviours that demonstrate corporate social responsibility are :

1. Observing ethical principles in operating the business
2. Making charitable contributions
3. Protecting or enhancing the environment
4. Creating good work environment

5. Employing a diverse workforce
6. Enhancing the quality of life for employees
7. Investing money and time in community services
8. Helping the underprivileged and weaker sections of the society.

5.1.2 Models for Implementation of CSR

Q6. Explain the various models for implementation of CSR.

Ans : **(Oct.-20)**

Though there are several theories to justify CSR activities of corporations, not all of them lend themselves to be put into practice. A model for implementation of CSR is one that enables organizations to apply a particular concept or theory as a workable proposition. Before managers can apply the concept, they need a simple working definition of it, so that there is the required conceptual clarity. For instance, CSR can be associated with philanthropy or a business strategy. When several such alternatives are available, a company choose a model that is suitable to its core competence. There are four models of corporate responsibility globally.

Model	Emphasis	Proponent
Ethical	Voluntary commitment by companies to public welfare	Mahatma Gandhi
Statist	State ownership and legal requirements determine corporate responsibilities	Jawaharlal Nehru
Liberal	Corporate responsibilities limited to private owners (shareholders)	Milton Friedman
Stakeholder	Companies respond to the needs of stakeholders - customers, creditors, employees, communities, etc.	R. Edward Freeman

1. **Ethical model**

   In the ethical model, there is a voluntary commitment to public welfare. It can be traced back to the pioneering efforts of 19th century corporate philanthropists such as, Cadbury Brothers in England. In India, it has its roots in the Gandhian philosophy of trusteeship. Examples of this model are found in the Tatas, Birlas, Infosys, Dr Reddy's Labs and Reliance Industries who have provided cash for social welfare projects, community investment trusts and schools. Many companies, particularly family-run businesses, continue to engage in philanthropic activities based on this model.

2. **Statist model**

   This model is based on the state-owned public sector units (PSUs). It is based on the socialist and Nehruvian mixed economy format that India had adopted for its economy. Propounded by Jawaharlal Nehru, this model calls for state ownership and legal requirements of CSR. The PSUs provide housing and schools to workers. They have existed in India since 1947, such as in Bhilai and Bokaro. The inspiration has been drawn from the labour laws and management principles. But this model is now being challenged by the trend of disinvestment and privatization.

3. **Liberal model**

   This is the liberal approach where the belief is that the free market would take care of corporate responsibility. It is drawn from Milton Friedman's view which states that a company responsibility lies mainly in improving the economic bottom-line and increasing the wealth of um shareholder. It is sufficient for the corporate to obey the law and generate wealth, which can be directed towards social ends through fiscal policy and charitable choices.

4. Stakeholder model

Since the late 1980s and through the 1990s, there has been an increasing realization that business has a social responsibility. It is generally understood that a stakeholder in an organization is an individual or a group of individuals who can affect or is affected by the objectives and activities of the organization. This has come about through public campaigns and pressure on the share holders. Companies like Nike have been sourcing raw material from developing countries. There were allegations of sweatshops being run by Nike and it had to change its practices. Corporate responsibility now means ethical and environment-friendly practices. Companies are expected to stick to the triple bottomline of economic, social and environmental responsibility towards workers, the shareholders and the community.

5.1.3 Scope of CSR

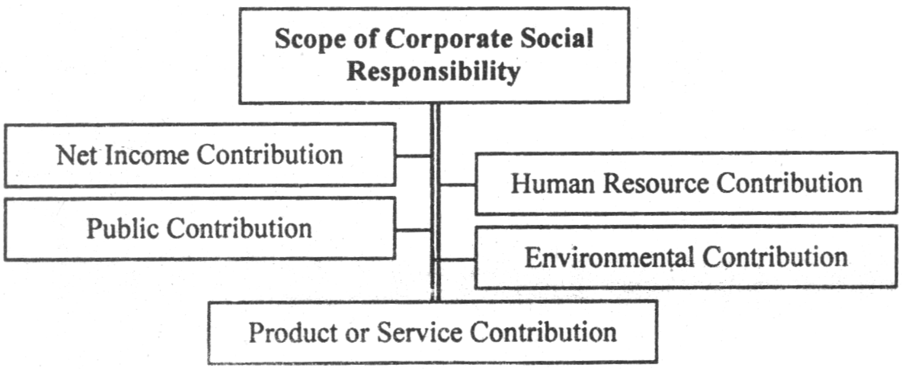
Q7. Explain the Scope of CSR.

Ans : **(Oct.-21, Imp.)**

Scope of Corporate Social Responsibility

Brummet suggested five possible areas (shown in figure below) in which corporate social objectives may be found.

The term 'contribution' includes social costs as well as social benefits associated with an organization's activities. They are discussed below:



1) Net Income Contribution

The social Net Income objectives of a business by no means reduce the importance of the income objective. Public Contribution Without an adequate return on investment, a business organization cannot exist. Further more long range planning for a business unit includes calculating the minimum return on shareholder's equity. The recognition of the importance of social objectives does not diminish the importance of the income objective. On the contrary, the circumstances under which the profit has been earned should also be taken into consideration. A business must contribute to the overall economic development of the society. If a business fails to recognize the social problems, its performances may be affected either in the short-run or in the long-run. This improper working condition may lead to lower productivity or causes damage to the quality of the product. Ultimately, the sales and income of the business may be affected, Therefore, the failure to plan and attain social objectives of a business will cause a failure in attaining the income objective of business concern, For this reason, it has been argued that the income objective is the comprehensive test of business efficiency, both in respect of financial and social goals.

2) **Human Resource Contribution**

The impact of organizational activities reflects on the people who constitute the human resources of the organization, i.e., social performance of a business directed towards the well-being of employees. These activities include the following:

i) Recruitment practices and training programs.

ii) Employee skill, knowledge, attitudes, and self-actualization.

iii) Wages and salary level, fringe benefits.

iv) Experience building - job rotation.

v) Job enrichment.

vi) Management-trade union relationship.

vii) On-the-job physical environment and safety.

viii) Congruence of employee and organization goals.

ix) Occupational health.

x) Transfer and promotion policies.

xi) Freedom from undue stress.

xii) Job security, stability of workforce, lay off and recall practices.

3) **Public Contribution**

The impact of organizational activities on individuals or groups of individuals generally outside the business is the topic for discussion under this area.

For example:

i) General philanthropy - contributions of the organization towards educational, charitable or cultural organizations.

ii) Equal opportunity employment practices.

iii) Employment and training of physically handicapped persons.

iv) Taxes and duties paid.

v) Financial or manpower support of the business for urban housing, health services, public transportation, etc.

4) **Environmental Contribution**

This area involves the environmental aspects of production. Activities directed towards alleviating or preventing environmental deterioration (pollution), e.g., air, water, noise pollution, conservation of scarce resources and the disposal of solid waste are included in this area (NAA).

The social objectives of a business concern is to make efforts for abatement of these negative external social effects of industrial production and adopt more efficient technologies to minimize the use of irreplaceable resources and the production of waste.

According to H.C Johnson, "The accountants would do well to recognize that cost of operating a business is something more than what is being disclosed in public accounts, e.g., pollution of environment (noise, water, air), spread of diseases, dislocation of inhabitants of a locality, local housing and transport problems, closure - of cottage industries, social tensions and several other social evils. This is on the liability side. What it does providing roads, schools and colleges, dispensaries, railway lines, employment, etc., is the asset side".

5) **Product or Service Contribution**

This area concerns the qualitative aspects of the organizations' product or service which includes consumerism, product quality, packaging, advertising, warranty provisions, product safety. There are differences in relative importance of product and service contribution to customers and product and service contribution to society in various industries.

Q8. What are the advantages and disadvantages of corporate social responsibility.

Ans :

Advantages

1) Changed Public Expectations of Business

One of the most potent arguments for social responsibility is that public expectations from business have changed. It is reasoned that the institution of business exists only because it satisfies the valuable needs of society. Society gave business its charter to exit, and the charter can be amended or revoked at any time that the business fails to live up to society's expectations. Therefore, if business wishes to remain viable in the long run, it must respond to society's needs and give the society what it wants.

2) Better Environment for Business

Social responsibility creates a better environment for business. This concept rationalizes that a better society produces environmental conditions more favorable for business operations. The firm which is most responsive to the improvement of community quality of life will as a result has a better community in which to conduct its business. Labor recruiting will be easier, and labor will be of a higher quality. Turnover and absenteeism will be reduced.

3) Public Image

Another argument in favour of social responsibility is that it improves public image. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets and other benefits. A firm which seeks public image should support social goals.

4) Avoidance of Government Regulation

Government is a massive institution with long arms. It seeks to regulate business in the public interest. Government regulation is costly and denies the much needed freedom in decision making. Before the government stretches its long arms, business should discharge its obligation to society.

5) Balance of Responsibility with Power

Another argument for social responsibility is that business's responsibility should be more related to its power. It is reasoned that businessmen have vast amounts of social power. They do affect the economy, minorities, and other social problems. In turn, an equal amount of social responsibility is required to match their social power.

6) Business has the Resources

Another argument for social responsibility is that business has a vast pool of resources in terms of men, talents, functional expertise and money. Probably, business is without peers in respect of the resources it possesses. With these resources at its command, business is in a better position to work for social goals.

7) Let Business Try

One interesting argument for business social responsibility is a sort of back-handed one. It is that many other institutions have failed in handling social problems, so why not turn to business. Many people are frustrated with the failures of other institutions, and in their frustration, they are turning to business.

8) Moral Responsibility

It is said that the acceptance of corporate social responsibility is the morally correct position. This notion suggests that our modem industrial society faces many serious social problems brought on, to a large extent, by large corporations. The corporations therefore have a moral responsibility to help solve or ameliorate these problems. A corollary to this notion is that because business firms control so many of the resources in our economy, they should devote some of these resources to the overall betterment of society.

9) Citizenship Argument

Corporations are institutional members of society. If individual members of the society have an obligation to improve society-to leave the world better than they found it-corporations also have this responsibility. After all, corporations unlike citizens are created by society. Corporations are citizens, and citizens have civic duties and responsibilities.

10) Duty of Gratitude

Business units benefit from society. On the basis of the commonly accepted principle that one owes debts of gratitude towards those who benefit us, the corporation has certain debts that it owes to the society.

11) Prevention is Better than Cure

The last point is that prevention is better than cure. If business delays with social problems now, it may find itself constantly occupied with putting out social fires so that is has no time to accomplish its goal of producing goods and services. Since these social problems must be dealt with at some time, it is actually more economical to deal with them before they develop into serious social breakdowns that consume most of the management's time.

Disadvantages

1) Profit Maximization

The first and the most forceful argument disfavoring social responsibility is that business has profit maximization as its main objective. Infact, the business is most socially responsible when it attends to its interests and leaves other activities to other institutions. Since business operates in a world of poverty and hunger, the economic efficiency of business is a matter of top priority and should be the sole mission of business. Business's function is economic, not social and economic values should be the only criteria used to measure success. In this kind of system, managers are the agents of the stockholders, and all their decisions are controlled by their desire to maximize profits for the stockholders while reasonably complying with law and social custom.

2) Society Has to Pay the Cost

Another argument is that the costs of social responsibility will be passed on to the society and it is the society which must bear them. Can the society afford these additional costs?

3) Lack of Social Skills

Business managers are best at managing matters relating to business. They are not equally good at solving social problems. Their outlook is primarily economic and that there skills are the same. They really do not feel at home in social matters. Corporate like the Lalbhais, Mafatlals and Shrift have already attempted to bring in management professionals into the social responsibility area.

4) Business Has Enough Power

Another argument is that business already has enough social power; therefore, society should not take any steps which give it more power. According to this line of reasoning, business is one of the two or three most powerful institutions in society at the present time. A business influence is felt throughout society. It is felt in education, in government, in the home and in the market place. It moulds many social values. The process of combining social activities with the established economic activities of business would give business an excessive concentration of power. Business is an institution, which is considered to be not so good, and giving more power to it is not advisable.

5) Social Overhead Cost

Cost on social responsibility is considered to be a social cost, which will not immediately benefit the business. Why spend money on an object, the benefits of which will be realized only in the future? It is the heavy social overhead cost which is one of the reasons for the miserable performance of some of our government undertakings.

6) Lack of Accountability

Another point of view is that the businessmen have no direct accountability to the people; therefore, it is unwise to give businessmen responsibility for areas where they are not accountable. Accountability should always go with responsibility, and it is poor social control to allow any other kind of arrangement. Until the society can develop mechanisms, which establish direct lines of social accountability from business to the public, business must stand clear of social activities and pursue only its goal of profit where it is directly accountable through the market system.

7) Lack of Broad Support

Business involvement in social goals lack support from all groups in society. If business does become socially involved, it will create so much friction among dissident parties that business cannot perform its social assignment. Although many persons desire business to become more socially involved, others oppose the idea. There is lack of agreernent among the general public, among intellectuals, in the government and even among businessmen themselves.

Q9. Explain the essentials of corporate social responsibility.

Ans :

Essentials of Corporate Social Responsibility

Essentials of corporate social responsibility are as:

1. Constituency Relation

'Constituency Relation' relates to statements of corporate responsibility to any or all of the following: employees, local self-government bodies, customers, suppliers, shareholders, home country, foreign governments and, in some cases, the general public. If these responsibilities are met, they will take care of the ethical conduct of business for specific situations.

2) Compensating Social Costs:

Companies relate to society through more than just marketplace transactions. They serve a wider range of values than the traditional economic ones. Thus, companies are more than economic institutions; they have a responsibility to devote some of their resources to help solve pressing social problems, many of which may have been caused by the companies themselves. The pursuit of economic growth need not necessarily lead to social progress.

The concept of social responsibility of business involves reducing the social costs of business by impressing upon companies the idea that they have an obligation to work for social as well as economic betterments.

The social responsibility concept asks business to assume broader responsibilities to society than ever before and to serve a wider range of human values. Business organizations in effect are being asked to contribute more to the quality of life than just supplying goods and services.

3) Social Contract Theory:

Proponents of corporate social responsibility claim that business organizations have a moral and ethical duty to contribute to social well-being. The relationship between business entities and society is based upon an implicit contract that spells out and defines the idea of corporate social responsibility. Business organizations and society have entered into a 'social contract' where each party has rights as well as duties towards the other party.

This social contract theory holds that in return for the right to conduct business and reap profit within a given social context, companies are obliged to protect and enhance the interests of consumers, workers and the communities in which they conduct business.

According to this view, these companies have a number of social responsibilities by the mere fact that they conduct business and use the natural and human resources of a community to further their own private economic ends. The management of business organizations must take definitive actions to use the accumulated resources at their command to assist society in tackling the ills that befall it. Not to take such action would be corporate irresponsibility and the social contract would be violated.

4) Moral Obligation

An organization is not only obliged to do no harm, it is required to do well. This is because it is the government through the political process and the existing society norm determine what social goods are.

Being profitable is a virtue in business, but it is not the only virtue. Organizations should be socially responsible because that is a part of the contract out of which the organizations come into being, a condition for the permission that society granted them in the first place.

Q10. What are the various tools of corporate social responsibility?

Ans :

The following are the accepted instruments for promoting socially responsible practices in business:

1) Accountability

It is focused on improving the quality of social and ethical accounting, auditing, and reporting. Accountability specifies the processes an organization should follow to account for its performance. It does not include the levels of performance the organization should achieve such as social, environmental, and economic indicators. It explains or justifies the acts and omissions to which one is responsible with a legitimate interest. It includes transparency with stakeholders of the organization, responsiveness (responsibility for the organization's acts and omissions and developing the processes and goals to continually improve performance), and compliance (adhere to legal requirements regarding the organization's policy and reporting).

2) Codes of Conduct

A code of conduct is intended to be a central guide and reference for day-to-day decision-making. It is meant to clarify an organization's mission, values, and principles, and to link them with standards of professional conduct.

Codes of conduct typically set guidelines on issues including child labor, forced labor, wages, and benefits, working hours, disciplinary practices, freedom of association, and health and safety.

3) Fair Trade

It is a growing international movement which seeks to ensure that producers get fair treatment within trade relations. Fair Trade seeks to challenge conventional wisdom about trading relations by establishing a partnership between the producer and the buyer based on long-term commitment, stable prices, and greater producer involvement in marketing.

4) Social Accountability

The Council on Economic Priority Accreditation Agency (CEPAA) has initiated an international standard for social accountability by in order to ensure the standards. It is a voluntary standard and can be applied to any organization or a business in any industry. In addition to performance standards, an organization must introduce a Social Management System (SMS) to assure compliance and continuous improvement in social performance in the set practices. The SMS include various aspects such as social policy, a planning process, and a designated senior manager to assure SA8000 standards.

5) Socially Responsible Investing (SRI)

It is a broad term and refers to many investment practices that consider not only the financial aspects of an investment but also social and environmental issues. SRI helps investing to be used as a tool for improving business practice and community development. It can be an effective means of promoting GSR when there is money to invest, a methodological approach, and an understanding of traditional investment practice.

6) Global Reporting (GR)

It is a multi-stakeholder; international initiative established to develop and provided globally applicable sustainability reporting guidelines. GR seeks to elevate the quality of reporting and achieve greater comparability, consistency, and usefulness of the reports. The GR consists of fifty four core indicators and are organized into environmental, financial, and social dimensions. A business must report on all core indicators or provide a reason for why they did not do so. The indicators are extensive and cover such issues as economic impact, natural resource consumption, impact on biodiversity and wetland, training and education, and child labor.

5.1.4 Steps to attain CSR

Q11. Explain the process of corporate social responsibility.

Ans : **(Oct.-21, Imp.)**

The International Chamber of Commerce recommends the following nine steps to attain CSR:

1. Confirming CEO/Board commitment to prioritize responsible business conduct;
2. Stating company purpose and agree on company values;
3. Identifying key stakeholders;
4. Defining business principles and policies;
5. Establishing implementation procedures and management systems;
6. Benchmarking against selected external codes and standards;
7. Setting up internal monitoring;
8. Using language that everyone can understand; and
9. Setting pragmatic and realistic objectives.

Corporations exist because they, in a sustainable fashion, enable people to constructively practice their craft and create jobs, economic value, and wealth for the society and the enterprise, especially free societies.

5.1.5 Core - BCSD India

Q12. Explain briefly about Core - BCSD India.

Ans :

There are several organizations now emerging on the Indian scene that focus on issues of CSR.

- Corporate Roundtable on Development of Strategies for the Environmental and Sustainable Development (CORE) and Business Council for Sustainable Development (BCSD) India Information Security, Control & Audit of Business Information System is a unique grouping of corporate organizations that, for instance, are trying collectively and individually to build in sustainable development concepts in their operations.
- CORE-BCSD India includes some of the most innovative, largest and also the most forward looking organizations in the country.
- The objectives of sustainable development rest within the principles of CSR, because unless the needs of the society, both present and future, are served, sustainable development would remain only a myth.
- And the most significant step in pursuing CSR Information Security, Control & Audit of Business Information System is to proactively protect the environment.
- The principal deterrent to the adoption of CSR is the lack of linkage between it and financial success.
- Since no direct relationship is evident, companies find it difficult to assess how much to invest in CSR, where to stop and how to achieve the right balance between financial performance and CSR. Also, explicit commitment to CSR often lays the corporation open to demands from vested interests.
- The CSR investments have a very long gestation period and lack visible results making it impossible to assess the effectiveness of investment.

- The lack of comprehension and capacity to implement CSR acts as a major hindrance to its adoption on a wider scale.
- Potential political interference in implementation of CSR-related activities and the lack of tools and mechanisms to measure, evaluate and report CSR practice and performance also act as a hindrance.
- Some other concerns perceived by corporate India are an anticipation of increased demand from the interested communities and also an increase in operating cost on the adoption of CSR.
- Increased interventions from regulatory bodies and a potential adverse impact on quality of goods and services are other potentially important concerns in implementation of CSR.
- The 2001 State of Corporate Responsibility in India Poll was conducted by TERI - Europe in collaboration with New Academy of Business and Commonwealth Science Council to assess the existing practices and their fitness to the evolving global corporate responsibility.
- The poll focused on four dimensions of corporate responsibility, namely, worker health and safety, community relations, environmental sustainability, and accountability to stakeholders.
- It was designed to capture perceptions and expectations (related to corporate responsibility) of the stakeholders.
- The survey found that there is more trust in the Press and NGOs than in business.
- The IT sector is regarded as the most responsible and alcohol and tobacco industries as the least.
- Government-controlled sectors like pharmaceutical and financial sectors are perceived to be more socially responsible than the private sector.
- One of the major issues is gender discrimination. It was felt that hiring policies and age restrictions were against women's interests, especially among workers.
- Public expectations from corporations in social and environmental matters are rising. Environmental pollution is being regarded with great concern.
- The main expectation of the companies by the public was that they provide good quality products at low prices, treat employees well without discrimination, protect the environment, help bridge the gap between the rich and the poor, and help in social and economic development.
- Corporations think that NGOs are the most trustworthy to work with in the interest of the country.
- Employees and the public believe the media and religious groups.
- The government is not regarded with much favour when it comes to CSR. Similarly, companies are not trusted to report fairly on their performance. External verification is trusted.
- Hence, there is a great role that NGOs and media can play in moving the agenda forward.

5.2 Ethics and Social Responsibility of Business

Q13. Explain briefly about Ethics and Social Responsibility of Business.

Ans :

Business Ethics in India Today.

In a recent international survey of levels of honesty in government and business, countries were ranked by giving them points out of 10 for their honesty: Singapore was number one in the world with 9.7 points while India was seventh with 3.1 points. Clearly, our country's ethical image badly needs furnishing.

In 1992, XLRI, Jamshedpur conducted a highly successful conference of company directors on business ethics. It was attended by over 100 participants and the proceedings were published under the title Corporate Ethics, the first book on the subject in India. Till 5 years ago, XLRI was the only management school which had ethics as a 3-credit core course. Now LIBA and the IIMs too have introduced Ethics in their curriculum. Why this upsurge of interest in ethics today? It is interesting to trace the crests and the troughs traversed by the concepts of ethics and social responsibility of business in India.

Indians are inclined to believe that they are a highly ethical nation, certainly more so than most others. Yet in 1964, Gunnar Myrdal, in his celebrated work Asian Drama, noted that in British days only petty corruption at lower levels was known in the Indian administration, whereas since independence corruption had spread through-out the system and indeed begun from the very top. It is this, says Myrdal, which is holding India back. Some years back, Time magazine reported that in the early years of independence, Indians bribed bureaucrats to do things which they were not supposed to do, but now they bribe them to do things which they are expected to do India would now probably have become another Asian Tiger, if corruption was not endemic in the country.

Why So Much Corruption?

The common man is forced to ask what has happened to its leaders. There seems to be little doubt that the principal culprits responsible for corroding the ethical sense of the industrial and political leaders of India is first the type of governance 'we, the people' gave to ourselves and second, the type of economy that was imposed on us. First, we chose an electoral process in which the spending of millions of rupees to win a sea: was forbidden, yet necessary. This single factor made corruption and black money a substantial part of the electoral process, and therefore of government and industry.

Secondly, thousands of faceless bureaucrats and venal politicians decided every aspect of the economy what should be produced, how much, by whom, at what price, with what technology and raw materials. Thus economic decision making was taken away from economists and end-producers, from farmers, industrialists and from market forces and handed over to politicians and bureaucrats, who had a field day in making hay while the sun was shining.

The License Raj

As a result, a forest of permits, licenses and controls was set up, and the notorious 'License Raj ' successful, dwarfed, stunted and made a 'bonsai' out of the economy of this enormous country. The government inspector had a field day and had a say in every aspect of Indian economy, from production to consumption, from, distribution, to exchange. The ubiquitous Inspection Raj touched every aspect of the life of the Indian, dwarfed , his freedom and destroyed his economic well-biding.

Black Money

Obviously, bribes had to be paid in unaccounted cash to get licenses, permits and the like. To get such large amounts of unaccounted cash, taxes of all kinds were evaded, exports under-invoiced and imports over invoiced. Corruption is like cancer eating into the very vitals of the social, political and economic life of the country Corruption at higher levels of the administration generates huge amounts of black money by way of dishonest businessmen and public servants. Since black money is so widespread and has become socially acceptable, it has corrupted every profession: teachers, doctors, lawyers, the judiciary, and it have spread its tentacles throughout every system of the country, from top to bottom.

5.3 Social Responsibility and Indian Corporations

Q14. How Social Responsibility is related to Indian Corporations?

Ans : **(Oct.-20)**

The concept of Corporate Social Responsibility (CSR) is not new to Indian companies. However, what is new is the way it has caught on with Indian corporates and the direct involvement of employees in implementation of these projects. Dedicated departments in most organizations are looking into much more than just funding or getting involved in one-time projects. CSR activities have their advantages.

- The benefits are in terms of building a positive image and encouraging social involvement of employees, which in turn develops a sense of loyalty for the organization. CSR activities help bond employees as a team, and with the organization, which in turn helps in creating a dedicated workforce that is proud of its employer.
- The trend is especially strong in IT companies with a young workforce that increasingly feels that they would like to contribute to the cause of creating a better society.
- Most of these companies are working on issues related to children and education. Voluntarism to them means taking technology to the grassroots levels and to bridge the digital divide.
- Whether, it is TCS's web-based solution for their adult literacy program or Kale Consultants' (an airlines and banking verticals software maker) effort in creating a centralized data system on children for adoption.
- CSR is not new to India, companies like TATA and BIRLA have been imbibing the case for social good in their operations for decades long before CSR become a popular cause.
- In spite of having such life-size successful examples, CSR in India is in a very nascent stage. It is still one of the least understood initiatives in the Indian development sector.
- It is followed by a handful of public companies as dictated by the very basis of their existence, and by a few private companies, with international shareholding as this is the practice followed by them in their respective foreign country.
- Thus the situation is far from perfect as the emphasis is not on social good but rather on a policy that needs to be implemented.
- A lack of understanding, inadequately trained personnel, non-availability of authentic data and specific information on the kinds of CSR activities, coverage, policy, etc., further adds to the reach and effectiveness of CSR programs.
- But the situation is changing. And CSR is coming-out of the purview of 'doing social good' and is fast becoming a 'business necessity'.
- The 'business case' for CSR is gaining ground and corporate houses are realizing that 'what is good for workers - their community, health, and environment is also good for the business'.

Corporate Social Responsibility Practices

- The survey on CSR is timely and suitable in the circumstance. The survey is expected to facilitate formation of an alliance of CSR initiatives so that such initiatives can be further streamlined, focused and converged to a powerful force of intervention.
- One of the major objectives of the survey is to bring-out in open the current status of CSR thereby giving both the NGOs and the common man an understanding of the various initiatives undertaken by corporates and the role that is played by the government in the field.
- The survey underlines the various issues - current CSR policies, major stakeholders - their current and future plans, geographical areas covered, role of civil society and government, challenges, recommendations, etc.
- Nearly all leading corporates in India are involved in Corporate Social Responsibility (CSR) programs in areas like education, health, livelihood creation, skill development, and empowerment of weaker sections of the society.
- Notable efforts have come from the Tata Group, Infosys, Bharti Enterprises, ITC Welcome group, Indian Oil Corporation among others.
- The 2010 list of Forbes Asia's '48 Heroes of Philanthropy' contains four Indians. The 2009 list also featured four Indians.
- India has been named among the top ten Asian countries paying increasing importance towards Corporate Social Responsibility (CSR) disclosure norms. India was ranked

fourth in the list, according to social enterprise CSR Asia's Asian Sustainability Ranking (ASR), released in October 2009.

- According to a study undertaken by an industry body in June'2009, which studied the CSR activities of 300 corporate houses, corporate India has spread its CSR activities across 20 states and union territories, with Maharashtra gaining the most from them.
- About 36 per cent of the CSR activities are concentrated in the state, followed by about 12 per cent in Gujarat, 10 per cent in Delhi, and 9 per cent in Tamil Nadu.
- The companies have on an aggregate, identified 26 different themes for their CSR initiatives. Of these 26 schemes, community welfare tops the list, followed by education, the environment, health, as well as rural development.
- However, one of the biggest advantages of such activities is the development of internal branding among employees.
- "Employees feel a sense of pride when they are involved in such activities which in turn help in retaining them.
- Similarly, such activities also in a small way contribute towards image building", says Bharti Das Gupta, Advisor, Social Initiatives and Managing Trustee of Catalyst for Social Action (CSA), Kale Consultants.
- Besides, with hectic work schedules, these activities help in de-stressing many employees and help in developing more evolved and conscientious human beings.

Diversified Activities

- CSR activities encompass three areas. The first is corporate governance, the second is employee satisfaction through HR activities and the third is community based social activities.
- Professor Nori agrees that the current CSR activities are much different from those implemented earlier that were primarily philanthropist initiatives, while now it involves creating linkages between the internal and the external communities and using the core competence of the organization.
- As an organization, software major Infosys has clearly identified its multiple stakeholders - its customers, employees, investors, vendor-partners and joint-venture-partners, the government of the land and, finally, the society-at-large.
- "We believe that corporations are social institutions. Companies are in a way like individuals; those who show long-term thinking and commitment and exhibit sincerity, accountability and transparency, will succeed. Visible actions to foster transparency, exhibit corporate governance standards and demonstrate innovative and self-regulating behavior need to feature high on the corporate agenda.
- "CSR has found recognition among enterprises, policy-makers and other stakeholders, as an important element of new and emerging forms of governance, which can bring about fundamental changes:
- The image and reputation play an increasingly important role in the competitive business environment, as there are new expectations from citizens, consumers, public authorities and investors.
- Greater transparency demanded by the stakeholders and media such that the disclosure of information beyond traditional financial reporting allows them to better identify the success and risk factors inherent in a company and its responsiveness to public opinion.
- As knowledge and innovation have become increasingly important for competitiveness, enterprises have a higher interest in retaining highly skilled and competent personnel. There has been a growing concern about the environmental issues and the sustainable development.

CSR Initiatives and Green Measures

India Inc. has joined hands to fine tune all its activities falling under CSR. For this, it has set-up a global platform to showcase all the work done by Indian firms. Confederation of Indian Industry (CII) and the TVS Group collaborated to form the CII-TVS Center of Excellence for Responsive Corporate Citizenship in 2007. It provides consultancy services and technical assistance on social development and CSR.

According to a National Geographic survey which studied 17,000 consumers in 17 countries, Indians are the most eco-friendly consumers in the world. India topped the Consumer Greendex, where consumers were asked about energy' use and conservation, transportation choices, food sources, the relative use of green products *versus* traditional products, attitudes towards the environment and sustainability and knowledge of environmental issues.

1) Reliance Industries and two Tata Group firms - Tata Motors and Tata Steel - are the country's most admired companies for their corporate social responsibility initiatives, according to a Nielsen survey released in May 2009.
2) As part of its Corporate Service Corps (CSC) program, IBM has joined hands with the Tribal Development Department of Gujarat for a development project aimed at upliftment of tribals in the Sasan area of Gir forest.
3) The financial services sector is going green in a steady manner. With an eye on preserving energy, companies have started easing the carbon footprint in their offices. The year 2009 witnessed initiatives including application of renewable energy technologies, moving to paperless operations and recognition of environmental standards. Efforts by companies such as HSBC India, Max New York Life, and Standard Chartered Bank have ensured that the green movement has kept its momentum by asking their customers to shift to e-statements and e-receipts.
4) State-owned Navratna company, Coal India Ltd. (CIL) will invest U.S.$67.5 million in 2010-11 on social and environmental causes.
5) Public sector aluminium company NALCO has contributed U.S.$ 3.23 million for development work in Orissa's Koraput district as part of its Corporate Social Responsibility (CSR).

	Social Welfare
Company	**Major CSR Activities**
TCS	Accelerating Adult Literacy Program through computer - based functional literary method.
Kale Consultants	'Catalyst for Social Action' adoption program for children. It includes child welfare, adoption, foster care and rehabilitation.
i - flex Solutions	i- flex for children program.
Infosys	Focuses on the underprivileged in rural areas, health for the poor, education, rehabilitation and promotion of Indian art and culture. Infosys' Hyderabad develop ment centre has launched a computer literacy program for Cyderabad police personnel.
Geometric Software Solutions	Children and youth, with education as the focus area.
Mastek	Mastek Foundation facilitates members to understand their interest areas and informs them about all NGOs working in that field.
Honey well Automation and Solutions	Education for street children with the Hermann Gmeiner organization.
Veritas	Education, healthcare.

5.4 CSR as a Business Strategy for Sustainable Development

Q15. Define Sustainble Development?

Ans : **(Oct.-20)**

The concept of sustainable development has received growing recognition, but it is a new idea for many business executives. For most, the concept remains abstract and theoretical.

Protecting an organization's capital base is a well-accepted business principle. Yet organizations do not generally recognize the possibility of extending this notion to the world's natural and human resources.

If sustainable development is to achieve its potential, it must be integrated into the planning and measurement systems of business enterprises. And for that to happen, the concept must be articulated in terms that are familiar to business leaders.

The following definition is suggested:

For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future.

This definition captures the spirit of the concept as originally proposed by the World Commission on Environment and Development, and recognizes that economic development must meet the needs of a business enterprise and its stakeholders. The latter include shareholders, lenders, customers, employees, suppliers and communities who are affected by the organization's activities.

It also highlights business's dependence on human and natural resources, in addition to physical and financial capital. It emphasizes that economic activity must not irreparably degrade or destroy these natural and human resources.

This definition is intended to help business directors apply the concept of sustainable development to their own organizations. However, it is important to emphasize that sustainable development cannot be achieved by a single enterprise (or, for that matter, by the entire business community) in isolation. Sustainable development is a pervasive philosophy to which every participant in the global economy (including consumers and government) must subscribe, if we are to meet today's needs without compromising the ability of future generations to meet their own.

Q16. Discuss in detail CSR as a Business Strategy for Sustainable Development.

Ans :

To IBM, CSR strategy refers to enhancing stakeholder value and the delivery of measurable results to society at large. In the context of developing societies, "CSR is about capacity building for sustainable livelihoods".

- When CSR is adopted as a business strategy for sustainable development, it goes to improve corporate performance. It offers manifold benefits to corporations both internally and externally Externally, it creates a positive image and goodwill among the public and earns a special respect amongst peers, customers, government agencies, investors and media, all of which go a long way in promoting long-term shareholder value and sustainable development. Internally, it cultivates a sense of loyalty and trust amongst employees in organizational ethics.
- More significantly, it serves as a soothing diversion from the mundane workplace routine and gives workers a feeling of satisfaction and a meaning to their lives. Companies like Infosys, Wipro, Satyam, Tata Steel, Dr Reddy's Lab and Polaris, for instance, find ways and means of getting their employees interested in CSR activities.
- There are reasons to believe that such employee involvement has reduced attrition rates in these organizations. It is because of all these positive factors that organizations involve themselves in socially responsible investing (SRI). SRI is gaining importance because of two factors: (i) Socially responsible companies offer long term value; and (ii) evaluating a company's social impact on top

of its financial performance provides an additional hedge against risk.

- For instance, a Chennai-based auto-motive parts manufacturing company faced a severe risk at its new plant in Pune when a posse of thugs barged into the plant and demanded INR 2.5 million as ransom when several locals who were the beneficiaries of the company's CSR unit came to the rescue of the company and offered to guard it against the extortionists in future.
- Many MNCs which have socio-political problems in emerging markets in which they operate, find socially responsible investing as one of the means to blunt the adverse sentiments against them and as a strategy to ensure their sustainable development.
- Most critics of CSR are against it because they look at it separately from business strategy. CSR is an outcome for business models, which goes beyond just financial viability.
- Cost of helping communities to develop becomes cost of the business like materials or labour. Billions of poor people have a potential to become part of the market, if helped. Before looking upon the poor as a potential market, the future business models must build sensitivities and capabilities to reach out to the poor.
- Business persons fail to appreciate the fact that CSR is a key constituent of business strategy, as to many of them it is pure philanthropy and 'do good' activity unconnected with their business.
- Sound strategy provides business with a source of competitive advantage. 'For any competitive advantage to be sustainable, the strategy must be acceptable to the wider environment in which the firm competes.'
- Lack of CSR or its improper execution is bound to threaten the competitive advantage a corporate may hold in an industry.
- Besides there are certain costs associated with being a socially irresponsible organization. Nike suffered significant damage to its brand and sales when it was brought to light that the company had poor labour standards in its supply chain.
- On the other hand, Nike gained its brand and sales once it started improving its labour standards down the line and publicized its efforts to comply with them.
- Nowadays, Greenpeace and other activist groups highlight socially irresponsible corporate behaviour that leads sometimes to voluntary corrective action on the part of the companies themselves, and at other times invites government action as we have seen in several instances of public interest.
- Practitioners of CSR stress the fact that it is a cost-effective way to gain competitive advantage.
- Corporations in their effort to engage in strategic CSR aim to match business objectives with the needs of the community.
- For instance, in the rain-starved Wada taluk of Thane district of Maharashtra where its bottling plant is located, Coca Cola has been harvesting rain water since 2003 to recharge groundwater and has been supplying water to people in summer, in addition to instituting water supply schemes in some villages.
- All these CSR efforts of the company have been integrated with its business strategy and have helped it to earn the goodwill of village folks, apart from reducing absenteeism at the workplace.
- An IT company for instance could help educate school or college students in its neighbourhood, who could become their potential employees.
- Likewise, a BPO can create its future workforce by providing vocational and soft skills training to the children in neighbouring communities.
- This symbiosis between corporations and the surrounding communi-ties will go a long way in integrating CSR and business strategy for mutual benefit.

Short Question & Answers

1. Define Corporate social responsibility.

Ans :

Corporate social responsibility is self-imposed restriction by companies on their activities. CSR is a recent term but it has been followed by companies from many years ago. Companies know their responsibilities towards the society where they exist. As CSR concept is based on ethics, companies following CSR policies always strive to develop the society and environment. CSR refers to those activities through which companies control their actions and check whether they are following ethical and legal norms. CSR should be followed voluntarily by each and every company whether it is small or big, or multinational or local.

Definition of CSR

According to Cannon, "Corporate social responsibility means devising corporate strategies and building a business with the society's needs in mind".

According to Koontz and O'Donnel, "Social responsibility is the personal obligation of every one as he acts for his own interests to assure that the rights and legitimate interests of all others are not impinged".

According to Lord Holme and Richard Watts, "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large'.

According to Keith Devis and Robert Blomstrom, "Corporate social responsibility is the obligation of decision-maker to take actions which protect and improve the welfare of society as a whole along with their own interests".

According to the United Nations Industrial Development Organization (UNIDO), "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders".

2. Importance of CSR.

Ans :

Some of the actions and behaviours that demonstrate corporate social responsibility are :

1. Observing ethical principles in operating the business
2. Making charitable contributions
3. Protecting or enhancing the environment
4. Creating good work environment
5. Employing a diverse workforce
6. Enhancing the quality of life for employees
7. Investing money and time in community services
8. Helping the underprivileged and weaker sections of the society.

3. Advantages of CSR.

Ans :

1) Changed Public Expectations of Business

One of the most potent arguments for social responsibility is that public expectations from business have changed. It is reasoned that the institution of business exists only because it satisfies the valuable needs of society. Society gave business its charter to exit, and the charter can be amended or revoked at any time that the business fails to live up to society's expectations. Therefore, if business wishes to remain viable in the long run, it must respond to society's needs and give the society what it wants.

2) Better Environment for Business

Social responsibility creates a better environment for business. This concept rationalizes that a better society produces environmental conditions more favorable for business operations. The firm which is most responsive to the improvement of community quality of life will as a result has a better community in which to conduct its business. Labor recruiting will be easier, and labor will be of a higher quality. Turnover and absenteeism will be reduced.

3) Public Image

Another argument in favour of social responsibility is that it improves public image. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets and other benefits. A firm which seeks public image should support social goals.

4. Nature of CSR.

Ans :

Following points highlight the nature of corporate social responsibility :

1. CSR is Multi-Faceted Approach

CSR involves various issues related to society, economy, and environment. Activities involving CSR is affected by the changes in the market. Therefore, to keep up with the changes, companies are required to update their CSR activities.

2. CSR is Affirmative Concept

CSR is not an additional activity for any company. CSR activities cannot be separated from the business activities. It has now become part of the activities and management of each and every company. Thus, CSR can be understood as the affirmative concept that regulates the activities by companies themselves.

3. CSR Secures the Interest of all Stake-holders

CSR takes care of all the stakeholders of the companies. Initially companies serve the interest of shareholders only. Shareholders were directly related with the company's activities. Shareholders have also power to directly influence the companies. But CSR involves taking care of the interest of parties which are not directly related with the interest of companies. Those parties include consumers, environment, and society. These parties are also influenced by the companies or can influence growth of companies. Thus, CSR encourages companies to ensure that the interest and development of parties other than shareholders will also take care of.

5. Define Sustainble Development?

Ans :

The concept of sustainable development has received growing recognition, but it is a new idea for many business executives. For most, the concept remains abstract and theoretical.

Protecting an organization's capital base is a well-accepted business principle. Yet organizations do not generally recognize the possibility of extending this notion to the world's natural and human resources.

If sustainable development is to achieve its potential, it must be integrated into the planning and measurement systems of business enterprises. And for that to happen, the concept must be articulated in terms that are familiar to business leaders.

The following definition is suggested:

For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future.

This definition captures the spirit of the concept as originally proposed by the World Commission on Environment and Development, and recognizes that economic development must meet the needs of a business enterprise and its stakeholders. The latter include shareholders, lenders, customers, employees, suppliers and communities who are affected by the organization's activities.

6. Human Resource Contribution.

Ans :

The impact of organizational activities reflects on the people who constitute the human resources of the organization, i.e., social performance of a business directed towards the well-being of employees. These activities include the following:

i) Recruitment practices and training programs.

ii) Employee skill, knowledge, attitudes, and self-actualization.

iii) Wages and salary level, fringe benefits.

iv) Experience building - job rotation.

v) Job enrichment.

vi) Management-trade union relationship.

vii) On-the-job physical environment and safety.

viii) Congruence of employee and organization goals.

ix) Occupational health.

x) Transfer and promotion policies.

xi) Freedom from undue stress.

xii) Job security, stability of workforce, lay off and recall practices.

7. Environmental Contribution.

Ans :

This area involves the environmental aspects of production. Activities directed towards alleviating or preventing environmental deterioration (pollution), e.g., air, water, noise pollution, conservation of scarce resources and the disposal of solid waste are included in this area (NAA).

The social objectives of a business concern is to make efforts for abatement of these negative external social effects of industrial production and adopt more efficient technologies to minimize the use of irreplaceable resources and the production of waste.

According to H.C Johnson, "The accountants would do well to recognize that cost of operating a business is something more than what is being disclosed in public accounts, e.g., pollution of environment (noise, water, air), spread of diseases, dislocation of inhabitants of a locality, local housing and transport problems, closure - of cottage industries, social tensions and several other social evils. This is on the liability side. What it does providing roads, schools and colleges, dispensaries, railway lines, employment, etc., is the asset side".

Internal Assessment (Mid Examinations)

The pattern of Mid Exams or Continuous Internal Evaluation (CIE) prescribed by the JNTU-H as per the Regulations 2019 (R19) for all the semesters is as follows,

- There would be two Mid Exams or Continuous Internal Evaluation (CIE) for each semester,
  - The Ist **Mid Term Examinations** would be conducted during the Middle of the Semester.
  - The IInd **Mid Term Examinations** during the last week of instructions.
- The Mid Exam I and II would have the same pattern of question paper which would carry **25 Marks** each and the time duration for conducting each Mid exam would be 120 min.
- The pattern of Mid Exam Question Paper would consist of two parts i.e., **Part-A** and **Part-B.**
  - **Part-A** consist of 5 compulsory questions each carries 2 marks (i.e $5 \times 2 = 10$ marks).
  - **Part-B** consist of 5 questions out of which 3 questions should be answered, each question carries 5 marks (i.e $5 \times 3 = 15$ marks).
- The average of the two Mid exams will be added with the 75 marks of External end examination which equals to 100 marks (i.e $25 + 75 = 100$).

UNIT - I

Part - A

1.	Various levels of Business Ethics.	(Refer Unit-I, SQA-5)
2.	Define business ethics.	(Refer Unit-I, SQA-2)
3.	Define the term ethics.	(Refer Unit-I, SQA-1)
4.	Elements of Business Ethics.	(Refer Unit-I, SQA-3)
5.	Moral Obligations Approach.	(Refer Unit-I, SQA-4)

Part - B

1.	Explain the different types of ethics.	(Refer Unit-I, Q.No. 2)
2.	Explain the various approaches of business ethics.	(Refer Unit-I, Q.No. 8)
3.	Explain the benefits of managing ethics in workplace.	(Refer Unit-I, Q.No. 9)
4.	Explain briefly about five myths about business ethics.	(Refer Unit-I, Q.No. 12)
5.	Explain Kohlberg's theory of model regarding ethical judgement.	(Refer Unit-I, Q.No. 15)
6.	Explain briefly about Gilligan's theory.	(Refer Unit-I, Q.No. 16)

UNIT - II

Part - A

1. Professional ethics. (Refer Unit-II, SQA-1)
2. Ethics in Selection. (Refer Unit-II, SQA-3)
3. What is Dilemma? (Refer Unit-II, SQA-6)
4. What is an Ethical Dilemma? (Refer Unit-II, SQA-7)
5. Define Mounting Scandals. (Refer Unit-II, SQA-8)

Part - B

1. Discuss the ethical responsibility of marketing professional in the light of the following statement : "marketing is not nearly campaigning or providing information are selling products and services it is about marketing the value of a product". (Refer Unit-II, Q.No. 3)
2. What is ethics in human resource management? Explain HR related ethical issues. (Refer Unit-II, Q.No. 4)
3. Explain the role of HR in creating an ethical organization. (Refer Unit-II, Q.No. 6)
4. Explain various principles Related to Ethics in finance ? (Refer Unit-II, Q.No. 7)
5. "Product placement is a kind of advertisement". Discuss also mention the ethical aspects in product placement. (Refer Unit-II, Q.No. 11)
6. Explain the various ethical issues in media reporting. (Refer Unit-II, Q.No. 14)
7. Explain the ethical issues relating to Healthcare Services. (Refer Unit-II, Q.No. 15)

UNIT - III

Part - A

1. Define the term Corporate Governance. (Refer Unit-III, SQA-1)
2. Features of Corporate Governance (Refer Unit-III, SQA-2)
3. Benefits of Corporate Governance. (Refer Unit-III, SQA-3)
4. Agency theory. (Refer Unit-III, SQA-4)
5. Whistle Blower Policy. (Refer Unit-III, SQA-8)
6. Hampel Committee. (Refer Unit-III, SQA-9)

Part - B

1.	What are the Pillers of Corporate Governance?	(Refer Unit-III, Q.No. 6)
2.	What are reasons for Corporate Governance Failure ? And What are mechanisms of develop the Corporate Governance ?	(Refer Unit-III, Q.No. 10)
3.	Explain the need for corporate gover- nance.	(Refer Unit-III, Q.No. 11)
4.	Discuss about Corporate Governance in India.	(Refer Unit-III, Q.No. 12)
5.	Explain briefly about agency theory.	(Refer Unit-III, Q.No. 14)
6.	Describe the mechanism of resource dependency theory.	(Refer Unit-III, Q.No. 20)
7.	What do you understand by Global Reporting Initiative (GRI) ?	(Refer Unit-III, Q.No. 23)
8.	What do you mean by OECD Principles? Explain the elements of OECD Principles.	(Refer Unit-III, Q.No. 24)

UNIT - IV

Part - A

1.	Director.	(Refer Unit-IV, SQA-2)
2.	Disqualifications of a director.	(Refer Unit-IV, SQA-3)
3.	Executive Directors.	(Refer Unit-IV, SQA-4)
4.	What is conflict of Interest ?	(Refer Unit-IV, SQA-5)
5.	Conflicts of Interest in PSUs.	(Refer Unit-IV, SQA-6)

Part - B

1.	What are the Functions of the Board?	(Refer Unit-IV, Q.No. 2)
2.	Explain the Structure of the Board.	(Refer Unit-IV, Q.No. 3)
3.	What are the Qualifications and Disqualifications of directors?	(Refer Unit-IV, Q.No. 6)
4.	Explain the Role of Directors.	(Refer Unit-IV, Q.No. 7)
5.	Explain the different types of directors?	(Refer Unit-IV, Q.No. 9)
6.	Explain about Leveraging Good Governance for competitive Advantage	(Refer Unit-IV, Q.No. 11)
7.	What is conflict of Interest ? And its Remedical Measures.	(Refer Unit-IV, Q.No. 12)

UNIT - V

Part - A

1. Define Corporate social responsibility. (Refer Unit-V, SQA-1)
2. Advantages of CSR. (Refer Unit-V, SQA-3)
3. Nature of CSR. (Refer Unit-V, SQA-4)
4. Define Sustainble Development? (Refer Unit-V, SQA-5)
5. Human Resource Contribution. (Refer Unit-V, SQA-6)

Part - B

1. Define Corporate social responsibility. (Refer Unit-V, Q.No. 1)
2. What is the Importance of CSR? (Refer Unit-V, Q.No. 5)
3. Explain the various models for implementation of CSR. (Refer Unit-V, Q.No. 6)
4. Explain the Scope of CSR. (Refer Unit-V, Q.No. 7)
5. Explain briefly about Core - BCSD India. (Refer Unit-V, Q.No. 12)
6. How Social Responsibility is related to Indian Corporations? (Refer Unit-V, Q.No. 14)
7. Discuss in detail CSR as a Business Strategy for Sustainable Development. (Refer Unit-V, Q.No. 16)

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERBAD

M.B.A I - Semester Examination

October / November - 2021

R19

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] [Max. Marks : 75

Note: Answer any five questions

All questions carry equal marks

ANSWERS

1. (a) Briefly explain the various Levels of Business Ethics. **(Unit - I, Q.No.11)**

(b) Briefly describe the three Functions of Business Ethics.

Ans :

(1) Protect consumer rights

Business ethics ensures that customers are treated fairly and provided with their full rights. Organizations that implement ethics operates economically and provide better quality goods at lower cost. They serve customers at a reasonable profit without exploiting them. Customers are fully satisfied with services that makes them loyal to such businesses for a long term.

(2) Enhance relations with society

Relationship with society is must for survival of every business organization. Ethics directs business to consider the interest of society and work for their welfare. It should not focus only on its growth at the cost of exploitation of society. Business should actively participate in corporate social responsibility and should contribute towards infrastructural development programmes for its society.

(3) Safeguard interest of industry

Business ethics protects the small scale business from exploitation by large firms in an industry. It provides them full rights to operate efficiently and establish their position in market. Following of ethics in an industry ensures that all firms works fairly without the exploitation of other players in market.

(4) Improve business goodwill

Ethics play a key role in enhancing the overall image of business in market. It monitors all operations of business and avoids any unethical activities. Practicing of ethics maintains the legality of business thereby providing better service to customers. All unfair trade activities are controlled and quality goods are delivered. Customers are happy with the services which leads to create a positive image of company.

(5) Assist in decision making

Supporting in decision making of organization is an important function played by business ethics. Ethics provides rules and guidelines to be followed by business in its functioning. All decisions are taken in light of moral and social values mentioned in these ethics. It guides in deciding what is right or wrong for business organization. Every ethic need to be practiced properly and any violation will lead to penalty.

2. (a) What is Moral Development?

Ans :

Moral development focuses on the emergence, change, and understanding of morality from infancy through adulthood. Morality develops across a lifetime and is influenced by an individual's experiences and behavior when faced with moral issues through different periods of physical and cognitive development. Morality concerns an individual's reforming sense of what is right and wrong; it is for this reason that young children have different moral judgment and character than that of a grown adult. Morality in itself is often a synonym for "rightness" or "goodness." It refers to a specific code of conduct that is derived from one's culture, religion, or personal philosophy that guides one's actions, behaviors, and thoughts.

(b) Briefly explain Kohlberg's 3-Stages of Moral Development. **(Unit - I,Q.No.14)**

3. What is ethics in Advertisement? Explain any four ethical issues in Advertisement. **(Unit - II, Q.No.10)**

4. What is Ethical Dilemma in Workplace? Given an example. What is the nine steps for resolving it? **(Unit - II, Q.No.17, 21)**

5. Briefly explain the Corporate Governance prevailing in

(a) Public Sector; and

Ans :

(1) Provisions as contained in the Companies Act, 2013

Provisions as contained in the Companies Act, 2013; SEBI guidelines on Corporate Governance; and DPE guidelines on Corporate Governance for Central Public-Sector Enterprises provide the Corporate Governance framework for listed PSUs in India. SEBI guidelines are not applicable to non-listed PSUs.

The Companies Act, 2013 was enacted on 29 August, 2013 and it replaced the Companies Act, 1956. The Ministry of Corporate Affairs has also notified Companies Rules, 2014 on Management and Administration, Appointment and Qualification of Directors, Meetings of Board and its Powers and Accounts. The Companies Act, 2013 together with the Companies Rules provide a robust framework for Corporate Governance all companies including PSUs registered under the Companies Act. Some of the important requirements which have been laid down are with regard to:

(i) Qualifications for Independent Directors along with the duties and guidelines for professional conduct (Section 149(8) and Schedule IV thereof).

(ii) Mandatory appointment of one-woman director on the board of listed companies [Section 149(1)].

(iii) Mandatory establishment of certain committees like Corporate Social Responsibility Committee [Section (135)], Audit Committee [Section 177(1)], Nomination and Remuneration Committee [Section 178(1)], and Stakeholders Relationship Committee [Section 178(5)].

(iv) Holding of a minimum of four meetings of Board of Directors every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board [Section 173(1)].

(2) SEBI Guidelines on Corporate Governance

Securities and Exchange Board of India (SEBI) is the capital market regulator in India. It amended Clause 49 of the Listing Agreement in 2014 in order to align it with the Corporate Governance provisions specified in the Companies Act, 2013.

(3) DPE guidelines on Corporate Governance for Central Public-Sector Enterprises

(i) The Department of Public Enterprises (DPE) issued first ever guidelines on Corporate Governance in November 1992 for PSUs which were voluntary in nature.

(ii) These have been revised from time to time, latest being the DPE guidelines in May, 2010[2].

(iii) These guidelines are mandatory and are applicable to all PSUs – listed or not listed.

(iv) The guidelines issued by DPE has covered areas like composition of Board of Directors, composition and functions of Board committees like Audit Committee, Remuneration committee, details on subsidiary companies, disclosures, reports and the schedules for implementation.

(v) DPE has also incorporated Corporate Governance as a performance parameter in the MoUs of all PSUs.

(vi) In July 2014, DPE issued revised guidelines for grading the PSUs on Corporate Governance.

(vii) In order to encourage compliance with guidelines, DPE made it clear that deviation from Corporate Governance guidelines would attract negative marking in the performance evaluation of PSUs under Memorandum of Understanding process from the fiscal year 2015-16.

(b) Private Sector India **(Unit - III, Q.No.24)**

6. (a) What is Corporate Governance Rating ? **(Unit - IV, Q.No.13)**

(b) Briefly describe the Rating Criteria used by CRISIL and CARE.

Ans :

CRISIL assigns credit ratings under the following seven categories:

(1) Long-term

The term 'long-term instruments' includes bonds, debentures, other debt securities, bank loans and other fund-based facilities with an original maturity of more than one year. Long-term ratings are assigned on a 20-point scale, from 'CRISIL AAA' to 'CRISIL D.'

(2) Short-term

The term 'short-term instruments' refers to commercial paper, short-term debentures, certificates of deposit, inter-corporate deposits, working capital borrowings, and other fund-based and non-fund based facilities with an original maturity of one year or less. Short-term ratings are assigned on a 9-point scale, from 'CRISIL A1' to 'CRISIL A4' and 'CRISIL D' denoting default.

(3) Dual Ratings

CRISIL assigns dual ratings (i.e., ratings on both long-term and short-term scale) to debt instruments that have an original maturity of more than one year, and also have a put option exercisable within one year from the date of issue. The first component of the rating, i.e., the long-term rating, addresses the likelihood of timely payment of principal and interest over the life of the instrument. On the other hand, the rating on the short-term scale indicates the likelihood of timely payment on the instrument by the issuer if the put option is exercised. Example of dual rating: CRISIL AA+/ CRISIL A1+.

(4) Structured obligation ratings (SO)

CRISIL assigns ratings to long- and short-term structured finance instruments by using a suffix 'SO'. SO ratings are assigned only to securitised or asset-backed transactions having credit enhancement/ structure that leads to the instrument being bankruptcy remote from the issuer/originator. Instruments with an original maturity of more than one year are rated on the long-term scale, while instruments with an original maturity of one year or less are rated on the short-term scale. The structured finance rating categories range from 'CRISIL AAA (SO)' to 'CRISIL D (SO)' on the long-term scale and 'CRISIL A1 (SO)' to 'CRISIL D (SO)' on the short-term rating scale.

(5) Credit enhancement (CE) ratings

CRISIL assigns 'CE' suffix to ratings to long-and short-term instruments that are backed by explicit credit enhancement that is external (or from a third party, parent or group), but the rated instrument is not bankruptcy remote from the issuer/originator. Instruments with an original maturity of more than a year are rated on the long-term scale while those with an original maturity of a year or less are rated on the short-term scale. The CE rating categories range from 'CRISIL AAA (CE)' to 'CRISIL D (CE)' on the long-term scale and 'CRISIL A1 (CE)' to 'CRISIL D (CE)' on the short-term rating scale.

(6) Fixed Deposit (FD)

CRISIL assigns ratings to the FD programmes of corporates, banks and financial institutions with the prefix, 'F'. FD ratings are assigned on a 14-point scale, from 'FAAA' to 'FD'

(7) Corporate credit ratings

CRISIL assigns corporate credit ratings to issuers on a scale ranging from 'CCR AAA' to 'CCR D' and 'CCR SD' (indicating selective default), CRISIL Corporate Credit Rating (CCR) is a rating on a counterparty and indicates the degree of strength of the entity with regard to honouring all its debt obligations. CRISIL also assigns CCR rating to insurance companies to indicate their financial strength, that is, their ability to meet policyholder obligations.

7. (a) How can one evaluate CSR activity?

Ans :

Many companies have difficulties measuring the effect of their corporate social responsibility (CSR) initiatives. Some of the benefits - such as customer loyalty and improved reputation - are hard to quantify, making it difficult to assess the value of your activities.

However, measurement is extremely important as it enables you to:

- Disclose the importance of your activities to your stakeholders and customers
- Improve your decision-making as you move forward with your CSR programmes
- Align your activities with corporate goals, eg decrease turnover or develop staff skills

By measuring the impact of your CSR, you can connect the value of your activities to your company's bottom line. For example, you can establish a link between skill development and lower training costs, employee satisfaction and lower turnover rate, and even growth in sales leads that increases revenue.

(b) What are the major obstacles to CSR activity in India ?

Ans :

1. Lack of Community Participation in CSR Activities

There is a lack of interest of the local community in participating and contributing to CSR activities of companies. This is largely attributable to the fact that there exists little or no knowledge about. CSR within the local communities as no serious efforts have been made to spread awareness about CSR and instill confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots.

2. Need to Build Local Capacities

There is a need for capacity building of the local nongovernmental organizations as there is serious dearth of trained and efficient organizations that can effectively contribute to the ongoing CSR activities initiated by companies. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities.

3. Issues of Transparency

Lack of transparency is one of the key issues brought forth by the survey. There is an expression by the companies that there exists lack of transparency on the part of the local implementing agencies as they do not make adequate efforts to disclose information on their programs, audit issues, impact assessment and utilization of funds. This reported lack of transparency negatively impacts the process of trust building between companies and local communities, which is a key to the success of any CSR initiative at the local level.

4. Visibility Factor

The role of media in highlighting good cases of successful CSR initiatives is welcomed as it spreads good stories and sensitizes the local population about various ongoing CSR initiatives of companies. This apparent influence of gaining visibility and branding exercise often leads many nongovernmental organizations to involve themselves in event-based programs; in the process, they often miss out on meaningful grassroots interventions.

8. (a) Broadly discuss the scope of Corporate Social Responsibility (CSR). **(Unit - V, Q.No.7)**

(b) What are the steps involved in attaining CSR ? **(Unit - V, Q.No.11)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA I - Semester Examinations

R19

October / November - 2020

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 2 Hours] [Max. Marks : 75

Note: Answer any **FIVE** Questions

All questions carry equal marks

ANSWERS

1. Do you think identifying ethical standards are hard ? Discuss the different source of ethical standards ?

Ans :

(i) The Utilitarian Approach

Some ethicists emphasize that the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected customers, employees, shareholders, the community, and the environment. Ethical warfare balances the good achieved in ending terrorism with the harm done to all parties through death, injuries, and destruction. The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.

(ii) The Rights Approach

Other philosophers and ethicists suggest that the ethical action is the one that best protects and respects the moral rights of those affected. This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends. The list of moral rights, including the rights to make one's own choices about what kind of life to lead, to be told the truth, not to be injured, to a degree of privacy, and so on, is widely debated; some now argue that nonhumans have rights too. Also, it is often said that rights imply duties in particular, the duty to respect others' rights.

(iii) The Fairness or Justice Approach

Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally (or) if unequally, then fairly, based on some standard that is defensible. We pay people more based on their harder work or the greater amount that they contribute to an organization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; many ask whether the huge disparity is based on a defensible standard or whether it is the result of an imbalance of power and hence is unfair.

(iv) The Common Good Approach

The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that life. This approach suggests that the interlocking relationships of society are the basis of ethical reasoning and that respect and compassion for all others especially the vulnerable are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone. This may be a system of laws, effective police and fire departments, health care, a public educational system, or even public recreation areas.

(v) The Virtue Approach

A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues. Virtue ethics asks of any action, “What kind of person will I become if I do this?” (or) “Is this action consistent with my acting at my best?

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2. What are some common characteristics of codes of ethics ? Discuss

Ans :

The common characteristics of codes of ethics is as follows :

- **Integrity :** Integrity is the cornerstone of all values. A business manager should be morally upright. It is this characteristic that distinguishes a professional manager from a mercenary.
- **Impartiality :** A manager should look at and treat all aspects of an issue in a fair and unprejudiced man-ner.
- **Responsiveness to the Public Interest:** Though a manager is paid to serve the interests of the stock-holders of the company public interest is no less important. In fact, managers should consider it as of paramount importance, if they have to be successful in their tasks.
- **Accountability:** Accountability is one of the basic characteristics of a good business manager. Business managers are responsible for all their actions and are accountable to all the stakeholders - stockholders, creditors, employees, consumers, government and the society at large.
- **Honesty:** A cardinal ethical value that a manager should possess is this quality. Managers should be fair, just and sincere both in character and behaviour. They should not indulge in cheating or stealing and should be free of deceit and untruthfulness.
- **Transparency:** Good business managers should be transparent and set standards for others to follow. They should be frank and open. Their actions should be easily discussed and understood by others.

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3. “Marketing professional should practice ethical behavior” Discuss this statement by considering the pragmatic reasons for ethical behavior. **(Unit-II, Q.No.3)**

4. “Governance is more than just Board processes and procedures” Discuss the statement in view of the OCED principles of corporate governance. **(Unit-III, Q.No.24)**

5. Why is it necessary that corporate governance is more important in banking companies that in others ? Discuss, substantiate your answer with suitable examples.

Ans :

Banks constitute the largest financial intermediaries around the world and possess stupendous powers of leverage. Unlike in the corporate world, authorities like RBI and the government play a direct role in bank governance through bank regulation and supervision. This role is justified by the need to ensure systemic stability, financial stability and deposit insurance liability considerations. Banks enjoy the benefit of high leverage with the downside protection of deposit insurance which weakens their incentives for strong management monitoring. While a ubiquitous form of corporate control and concentrated ownership will raise new barriers to effective corporate governance, large investors may manipulate the firm contrary to the broad interests of the bank and other stakeholders.

Large shareholders may arrange loans for firms they own or business transactions to profit themselves at the expense of the bank and thereby shift the bank to higher risk activities in which they benefit on the upside, but the bank bears the brunt of failure. Who controls management Boards or bank supervisors Regulatory and supervisory systems that foster more accurate information disclosure and empower private investors legal rights substantially boost banking system and profitability.

The current trends lay stronger emphasis on risk measurement and management. Bank supervision should help shareholders. Supervisors must make the boards the main locus of accountability and assess board effectiveness. Banks are important stakeholders of corporations. Their actions can affect corporate performance both positively and negatively. Their influence as lenders should complement effective shareholder monitoring.

Although information asymmetries plague all sectors, this problem is more difficult in finance. In product or other service markets, purchasers part with their money in exchange for something new. In finance, money is exchanged for a promise to pay in the future. Also, in many products or service markets, if the object sold from a car to a haircut is defective, the buyers often find out relatively soon. However, loan quality is not readily observable for quite some time and can be hidden for extensive periods.

Banks and non-bank financial intermediaries can also alter the risk composition of their assets more quickly than most non-financial industries. Moreover, banks can readily hide problems by extending loans to clients that cannot service previous debt obligations. In most sectors, when inventories of stuff piles up, be it cars, computers, or software, it is generally a negative sign about the company's performance. But when inventories of money piles up in a bank - it becomes more liquid it is much harder to sort out whether this is a negative signal or a prudent response by management to a risky environment.

Corporate governance of banks is an essential element of a country's governance architecture. It can have systemic financial stability implications and shape the pattern of credit distribution and overall supply of financial services. Hence the necessity and importance of enforcing effective corporate governance in the banking sector.

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6. Write a brief note on various types committee and their importance under the corporate governance in India with reference to the amended regulations. **(Unit-III, Q.No. 25, 26, 28, 29)**

7. Is CSR an essential feature of modern business ? Discuss the various models for implementation of CSR. **(Unit-V, Q.No. 6)**

8. Discuss the rationale for Corporate Social responsibility in India. How CSR could be considered as a business strategy for sustainable development. Discuss. **(Unit-V, Q.No. 14, 15)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A I Year I Semester Examination **R19**

MODEL PAPER - I

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] [Max. Marks : 75

PART - A (5 × 5 = 25 Marks)

(Short Answer Questions)

			ANSWERS
1.	(a)	Principles of Ethics.	**(Unit-I, SQA. 6)**
	(b)	What is an Ethical Dilemma?	**(Unit-II, SQA. 7)**
	(c)	Whistle Blower Policy.	**(Unit-III, SQA. 8)**
	(d)	Merits of Corporate Governance Ratings.	**(Unit-IV, SQA. 7)**
	(e)	Importance of CSR.	**(Unit-V, SQA. 2)**

PART - B (5 × 10 = 50 Marks)

(Essay Type Questions)

2. Explain briefly about five myths about business ethics. **(Unit-I, Q.No. 12)**

OR

3. Discuss the role of business ethics in an organization. **(Unit-I,Q.No.10)**

4. Discuss the ethical responsibility of marketing professional in the light of the following statement : "marketing is not nearly campaigning or providing information are selling products and services it is about marketing the value of a product". **(Unit-II, Q.No. 3)**

OR

5. Explan the various ethical issues in media reporting. **(Unit-II, Q.No. 14)**

6. What are the benefits and limitations of corporate governance. **(Unit-III, Q.No. 9)**

OR

7. Discuss briefly about SEBI Guidelines of Clause 49. **(Unit-III, Q.No.31)**

8. What are the Functions of the Board? **(Unit-IV, Q.No. 2)**

OR

9. What is conflict of Interest ? And its Remedical Measures **(Unit-IV, Q.No. 12)**

10. Define Corporate social responsibility. Explain the Scope of CSR. **(Unit-V, Q.No. 1, 7)**

OR

11. Discuss in detail CSR as a Business Strategy for Sustainable Development. **(Unit-V, Q.No.16)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A I Year I Semester Examination **R19**

MODEL PAPER - II

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] [Max. Marks : 75

PART - A (5 × 5 = 25 Marks)

(Short Answer Questions)

			ANSWERS
1.	(a)	Theories of business ethics.	**(Unit-I, SQA. 7)**
	(b)	Ethical Issues in Product Management.	**(Unit-II, SQA. 2)**
	(c)	Define the term Corporate Governance.	**(Unit-III, SQA. 1)**
	(d)	What is conflict of Interest ?	**(Unit-IV, SQA. 5)**
	(e)	Define Sustainble Development?	**(Unit-V, SQA. 5)**

PART - B (5 × 10 = 50 Marks)

(Essay Type Questions)

2. Explain Kohlberg's theory of model regarding ethical judgement. **(Unit-I, Q.No. 15)**

OR

3. Define the term ethics. Explain the characteristics and types of ethics. **(Unit-I,Q.No. 1,2)**
4. Explain various principles Related to Ethics in finance ? **(Unit-II, Q.No.7)**

OR

5. Explain the ethical issues relating to Healthcare Services. **(Unit-II, Q.No. 15)**
6. Define the term Corporate Governance. Explain the need for corporate governance. **(Unit-III, Q.No.1,11)**

OR

7. Explain briefly about various Corporate Governance Committees. **(Unit-III, Q.No.32)**
8. What are the Duties & Responsibilities of Board of Directors ? **(Unit-IV, Q.No. 8)**

OR

9. What is Government Rating and its Merits and Demerits. **(Unit-IV, Q.No. 13)**
10. Explain the various models for implementation of CSR. **(Unit-V, Q.No. 6)**

OR

11. Explain briefly about Core - BCSD India. **(Unit-V, Q.No.12)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A I Year I Semester Examination **R19**

MODEL PAPER - III

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] [Max. Marks : 75

PART - A (5 × 5 = 25 Marks)

(Short Answer Questions)

ANSWERS

1. (a) Elements of Business Ethics. **(Unit-I, SQA. 3)**
   (b) Define Mounting Scandals. **(Unit-II, SQA. 8)**
   (c) Benefits of Corporate Governance. **(Unit-III, SQA. 3)**
   (d) Director. **(Unit-IV, SQA. 2)**
   (e) Environmental Contribution. **(Unit-V, SQA. 7)**

PART - B (5 × 10 = 50 Marks)

(Essay Type Questions)

2. Define business ethics. Explain the various approaches of business ethics. **(Unit-I, Q.No. 3, 8)**

OR

3. Explain briefly about Gilligan's theory. **(Unit-I,Q.No. 16)**
4. What is ethics in human resource management? Explain HR related ethical issues. **(Unit-II, Q.No. 4)**

OR

5. "Product placement is a kind of advertisement". Discuss also mention the ethical aspects in product placement. **(Unit-II, Q.No. 11)**
6. (i) Explain briefly about Agency Theory. **(Unit-III, Q.No. 14)**
   (ii) Explain the recommendations of Naresh Chandra Committee Report. **(Unit-III, Q.No. 28)**

OR

7. Explain the Role Capital Market in Corporate Governance **(Unit-III, Q.No.33)**
8. Explain the Structure of the Board. **(Unit-IV, Q.No. 3)**

OR

9. Explain about Leveraging Good Governance for competitive Advantage **(Unit-IV, Q.No. 11)**
10. Explain the Scope of CSR. **(Unit-V, Q.No. 7)**

OR

11. How Social Responsibility is related to Indian Corporations? **(Unit-V, Q.No.14)**