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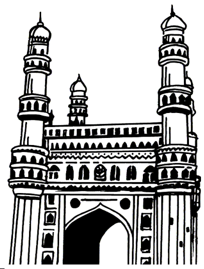

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UNIT I

Business Ethics in the Changing Environment: Business Ethics, Levels of Business Ethics, Myths about Business Ethics, Stages of Moral Development Kohlberg's Study, Carol Gilligan's Theory, Principles of Ethics.

1.1 Business Ethics

Q1. Define ethics. Explain the characteristics of ethics.

Ans :

Introduction

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.

Definitions

(i) **According to the Josephson Institute,** "Ethics is defined as standards of conduct that indicate how one should behave based on moral duties and virtues".

(ii) **According to Webster,** "Ethics is the discipline dealing with what is good and bad and with moral duty and obligations".

(iii) **According to Philip Wheel Wright,** "Ethics is a branch of philosophy which is the systematic study of selective choice of the standards of right and wrong and by which it may be ultimately directed".

Characteristics

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 different types of ethics.

Ans :

Types

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:

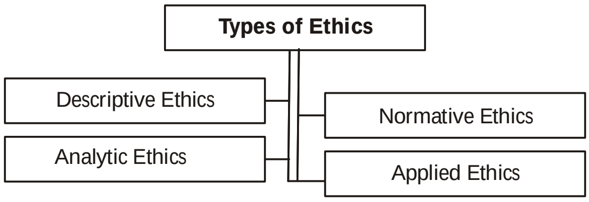
i) Establish and define what is good and what is bad, what is acceptable and what is not.

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. What is 'Utilitarian Ethical Theory'? Explain its types and Criticisms.

Ans : **(May-22)**

The utilitarian ethical theory is founded on the ability to predict the consequences of an action. To a utilitarian, She choice that yields the greatest benefit to the most people is the choice that is ethically correct. One benefit of this ethical theory is that the utilitarian can compare similar predicted solutions and use a point system to determine which choice is more beneficial for more people.

There are two names associated with utilitarian philosophy; they are Jeremy Bentham who is generally considered the founder of traditional utilitarianism, and philosopher cum classical economist, John Stuart Mill. According to the utilitarian principle, a decision is ethical if it provides a greater net utility than any other alternative decision.

Bentham viewed the interests of the community as simply the sum of the interests of its members. The utilitarian principle holds and "An action is right from an ethical point of view if and only if the sum total of utilities produced by that act is greater than the sum total of utilities produced by any other act the agent could have performed in its place".

When utilitarianism argues that the right action for a particular occasion is the one that produces more utility than any other possible action, it does not mean that the right action is the one that produces most utility for the person who performs the action. On the contrary, an action is right, as pointed by J.S. Mill, if it produces the most utility for all persons affected by the action. The concept of utilitarianism has many loose ends and it means many things to many people. The following are the basic meaning of utilitarianism:

1) Greatest good of the greatest number

2) Maximisation of pleasure

3) Minimisation of pains

4) Maximisation of happiness, and

5) Satisfaction of desire

The theory of utilitarianism is sometimes interpreted in terms of Cost and Benefit Analysis (CBA). An action is acceptable if the net benefit (benefit minus cost) is the greatest in a project as compared to other available projects or policies. The concept of utility involved in the theory of utilitarianism has been interpreted by mam as net benefit.

Types

There are two types of utilitarianism, which are as follows:

1) Act Utilitarianism

Act utilitarianism is solely concerned with achieving the maximum good. According to this theory an individual's rights may be infringed upon in order to benefit a greater population. In other words, act utilitarianism is not always concerned with justice, beneficence or autonomy for an individual oppressing the individual leads to the solution that benefits a majority of people.

2) Rule Utilitarianism

Rule utilitarianism also contains a source of instability that usefulness. In rule utilitarianism, there is the possibility of conflicting rules. Let us take an example of a person running late for his meeting. While a rule utilitarian who just happens to be a state governor may believe that It is ethically correct to arrive at important meetings on time because the members of the state government will benefit from this decision, he may encounter conflicting ideas about what is ethically correct if he running late.

Criticisms

Utilitarianism is criticised because it faces following problems:

1. Measurement of Utility

One major problem with the utilitarian theory concerns the measurement utility. Utility is a psychological concept and is highly subjective. It differs from person to person, place place, and time to time. Therefore, it cannot be the basis for a scientific theory.

2. Intractability to Measurement

A second problem concerns the intractability to measurementthat arises while dealing with certain benefits and costs.

3. Lack of Predictability

Another problem of the utilitarian theory concerns the lack of predictability, benefits and costs. If they cannot be predicted, then they cannot be measured either.

4. Lack of Clarity

The fourth problem concerns the lack of clarity in defining what constitutes 'benefit' what constitutes 'cost'. This lack of clarity creates problems, especially with respect to social issues that given different interpretations by different social or cultural groups.

Q4. What are the views of Thomas Hobbes on Ethics?

Ans : **(May-22)**

- The English philosopher Thomas Hobbes (1588-1679) is best known for his political thought, and deservedly so. His vision of the world is strikingly original and still relevant to contemporary politics.
- His main concern is the problem of social and political order: how human beings can live together in peace and avoid the danger and fear of civil conflict.
- He poses stark alternatives: we should give our obedience to an unaccountable sovereign (a person or group empowered to decide every social and political issue).
- Otherwise what awaits us is a state of nature that closely resembles civil war – a situation of universal insecurity, where all have reason to fear violent death and where rewarding human cooperation is all but impossible.
- Hobbes's moral thought is difficult to disentangle from his politics.
- On his view, what we ought to do depends greatly on the situation in which we find ourselves.
- Where political authority is lacking (as in his famous natural condition of mankind), our fundamental right seems to be to save our skins, by whatever means we think fit.
- Where political authority exists, our duty seems to be quite straight forward: to obey those in power.

Q5. Define business Ethics. Explain the nature of business ethics.

Ans :

Meaning

Business ethics means how ethics can be used in conducting the business. It helps businessmen in determining the difference between the correct and incorrect and ethical and unethical activities. A set of moral standards is provided by business ethics which helps in carrying-out business ethically. Each and every person engaged in executing and administrating business is required to adhere to these moral standards. Business environment is filled with several problems that involves ethical issues. Business ethics is a tool that helps in solving those problems by providing ethical criteria, standards and principles. Business ethics is a type of applied ethics as it is the application of ethical values, codes, and principles in real business world. These ethical values, codes, and principles help in defining the principles and preferences to be followed by the organizations.

Definitions

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

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

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

(iv) **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"

Nature

(i) 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.

(ii) 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.

(iii) Gives protection to social groups

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

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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. What are the Objectives of Business Ethics?

Ans :

Purposes of implementing business ethics are as follows:

1. To promote accuracy and credibility in business dealings by avoiding unethical activities in business.
2. To provide a common ground so that conformity can be maintained in business activities all over the nation.
3. To increase awareness and sensibility among business people towards different stakeholders like customers, employees, society, and government.
4. To make sure that the activities performed by businessmen do not violate the laws framed in several Acts.
5. To protect long-term benefits of public by stopping hazardous activities.
6. To highlight ethical values and principles to be implemented in the organizations.
7. To guide managers by teaching them how to follow ethical principles in their business activities.
8. To depict the activities in organization which are unethical and then recommending code of ethics.
9. To guide managers in strategy formulation and decision-making such that decision and strategy made are fair, good and ethically

Q7. Explain the Importance of Business Ethics.

Ans :

Importance of ethics in business is as follows:

1. Helps in Upholding Moral Values During Tough Times

Every business has to undergo several changes during tough times. During these tough times managers get confused between ethical and unethical activities. They have no proper guidance about what is correct or incorrect and ethical or unethical actions to implement changes. Business ethics helps managers in upholding morals during tough times by guiding them how they should perform.

2. Increases Employees Motivation

An organization should focus on implementing business ethics at workplace. It will help in implementing values like trust, openness and, community. These are the important elements of effective team or group in organizations. Individuals will be more motivated towards their work as they understand that they share same values as of their organization.

3. Supports Employee Development

Due to business ethics, employees would know better what is right and what is wrong in them as well as in organization. It helps employees in managing ethical issues effectively and efficiently. Thus, business ethics contributes towards development and success of each and every individual in an organization.

4. Assures Ethical and Legal Acts

Ethics at workplace helps in ensuring that policies and procedures made are ethical and legal. Competitors or any other person can sue company for its managerial activities and goods and services. But organizations following ethical principles in their activities can protect itself from legal actions. These ethical principles are converted into laws.

5. Avoids Unethical Acts

Businessmen sometimes know that the possible act can be considered as unethical or they may not check the unethical act properly. In these situations, act can be considered as illegal. Business ethics highlights ethical problems or unethical acts in advance which help in solving them easily. Thus, business ethics help in avoiding unethical acts which in turn help companies in reducing penalties.

6. Creates Positive Image

Company can make good image in the eyes of people in society by following business ethics at workplace. People will feel that company is doing business not only to gain profits but also to serve them. People think that these companies include honesty and integrity in their activities. Thus, business ethics helps in building positive relations between business and people.

Q8. Briefly describe the three Functions of Business Ethics.

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

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

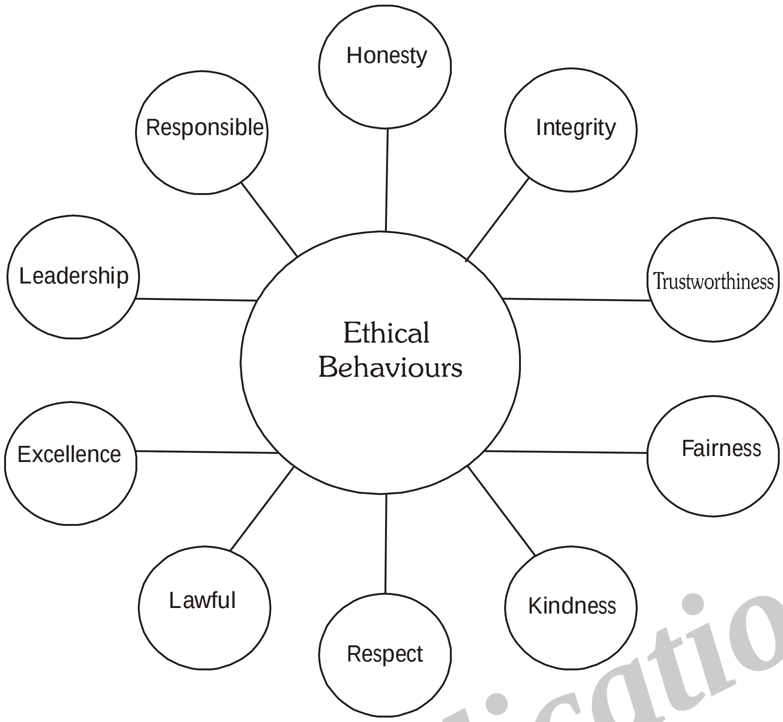
Supporting in decision making of organization is an important function played by business ethics. Ethics provides rules and guidelines to be followed by business in its functioning. All decisions are taken in light of moral and social values mentioned in these ethics. It guides in deciding what is right or wrong for business organization. Every ethic need to be practiced properly and any violation will lead to penalty.

Q9. How business ethics is considered a 'management discipline'?

Ans : **(May-22)**

Ethics in management refers to a company's social responsiveness. It is 'the discipline that deals with what is good and evil, or right and wrong, or moral responsibility and duty.'

In other words, ethics in management can be defined as a set of moral principles. Principles that govern the actions of a person or a group. It is a norm of behaviour that guides leaders and managers in their day-to-day actions. Company core values shape business ethics. And the establishment of an ethical culture relies on leadership. It is particularly true of leaders who display integrity, unity, and respect.



Here are 10 behaviours that outline ethics in management:

1. Honesty

In all their dealings, ethical executives are honest and truthful. They do not purposely mislead or deceive others by partial truths, selective omissions, or any other means.

2. Integrity

Ethical executives show personal honesty and courage. They are principled, trustworthy and upright. They fight for what is correct. Lastly, they will not betray morality or be duplicates.

3. Trustworthiness

Ethical executives are worthy of faith. They make every fair effort to fulfil the letter and spirit of their promises and commitments.

4. Fairness

Ethical people show a commitment to fairness. They treat people equally with tolerance and acceptance of diversity.

5. Kindness

Ethical executives are loving, compassionate, generous and kind. They help those in need and aim to meet their business goals with the least damage.

6. Respect

They treat all people, regardless of sex, race or national origin, with equal respect and dignity.

7. Lawful

Ethical managers follow rules and regulations in their company operations.

8. Excellence

In conducting their duties, ethical employees seek excellence. They are well-educated and trained. They actively aspire to improve their competence in all areas.

9. Leadership

Ethical employees strive to be positive role models as leaders. They help to build an atmosphere in which they are highly respected for principled thinking.

10. Responsible

They consider and accept responsibility for their choices and actions.

Q10. Explain various Approaches to Ethics in Management.

Ans : **(May-22, Imp.)**

Approaches

Basically, there are 3 approaches to ethics in management.

Each of them is discussed in the points below:

1. Consequence-Based Approach

- Managers check their decisions through this approach. Here, the emphasis is on the action and not the reason behind the action.
- It measures positive and negative outcomes. If the positive effects outweigh the negatives, company decisions are justified.
- In this approach, managers analyze the potential options before taking a specific action.
- For example, a manager might receive more revenue from fees or company donations from bringing on a certain event in a city. It can be an adventure programme such as boxing, but it will have a harmful effect on a number of residents.
- They might fear noise pollution or harm from competitors or loss of property during the programme.
- Here, the manager would look at this event from a cost-benefit viewpoint.
- He will conclude that most people in the group would appreciate this activity. And that the company would make more money from providing the programme. The manager will also ignore the neighbours concerned about potential damage and noise.
- It will bring more money to the organization. But the disappointed residents could sue for property damage. Moreover, it might lead to an expensive case for the organization.

2. Moral Rights Approach

- In this strategy, managers adopt a moral code that takes care of natural and moral rights. It includes the right to speech, life, and protection, as to express emotions, etc.
- Managers reveal all the necessary details in the annual reports. When disclosing information, its time and validity are taken into account.
- The moral rights approach includes helping coworkers with challenges they may have
- For example, a manager may see that it is difficult for some of the workers to engage in official training. It might be because they lack the necessary skills. Or, they might have a different challenge in participation. Some might even have a financial crisis.
- Managers with the moral rights approach should determine specific responsibilities. They should help group members who are facing issues. They should check whether specific duties are required.
- One clear advantage of this approach is supporting the disadvantaged person. The manager can make some reasonable settings for the same. The downside is that it may put the disadvantaged in the limelight. It will make them feel unjust.

3. Social Justice Approach

- Managers who take the social justice approach look for equality and fairness. No one is discriminated against based on caste, religion, race, or gender. But differences are justified based on skills or performance.

- For example, workers belonging to any gender, with the same abilities are equal. But treating employees who produce better than those who make less is justified.
- This approach has two principal theories – the liberty principle and the difference principle.

(i) The Liberty Principle

Every person has some fundamental freedom. Those should be consistent with other people's equal freedoms.

(ii) The Difference Principle

It stands for resolving social and economic bias. It supports the equal distribution of goods and services.

Q11. Explain how being ethically right as a manager can be fulfilling to oneself.

Ans : **(May-22)**

Managers at all levels are held to a high standard of ethical behaviour. Every day, these individuals make key decisions that affect the companies for which they work, its shareholders, and all other stakeholders involved, including society as a whole. As a manager yourself, it is essential to understand and adhere to the ethical and legal obligations of your position in order to meet the expectations of all stakeholders, and to set an example of such behaviour for others.

The Role of Business Ethics in Management Responsibilities

Organizations place a considerable amount of trust in their management. From the CEO on down, managers have a responsibility in ensuring that both they and their subordinates behave ethically and in the best interest of both primary and secondary stakeholders.

As a manager, it is considered one of your primary responsibilities to both understand and practice ethical behavior in order to: meet the company's expectations for conduct, set an example of appropriate behaviour for subordinates, and to minimize the ambiguity that often comes along with the practice of ethics.

Therefore, it is essential for managers to understand Codes of Conduct, Codes of Ethics, or any other official set of rules and to attain and keep records of related documentation laying out the expectations and guidelines for ethical behavior. Managers also have a responsibility to ensure that those who report to them understand these rules.

An ethical manager is also obligated to set the expectation that any and all ethically unsound practices are not acceptable. As such, anyone that either conducts or witnesses such an act has a responsibility to report it through the appropriate channels.

Leaders that consistently apply a company's 'Code of Conduct' or a similar program, along with other known and documented expectations of behaviour, provide a foundation of moral conduct and trust in their relationships with stakeholders.

1.2 Levels of Business Ethics

Q12. What are the various levels of Business Ethics?

(OR)

Briefly explain the various levels of Business Ethics.

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

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.

3. 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.

1.3 Myths about Business Ethics

Q13. "Business Ethics are Associated with Several myths". Explain.

(OR)

Elaborate the five Myths about Business Ethics.

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

Myth 1 : Our employees are ethical so we don't need attention to business ethics.

Most of the ethical dilemmas faced by managers in the workplace are highly complex.

People have a significant ethical conflict when there is presence of

- Significant value conflicts among differing interests,
- Real alternatives that are equality justifiable, and
- Significant consequences on "stakeholders" in the situation.

When the topic of business ethics comes up, people are quick to speak of the Golden Rule, honesty and courtesy. But when presented with complex ethical dilemmas, most people realize there's a wide "gray area" when trying to apply ethical principles.

Myth 2 : Business ethics is a discipline best led by philosophers, academics and theologians.

Lack of involvement of leaders and managers in business ethics literature and discussions has led many to believe that business ethics is a fad or movement, having little to do with the day-to-day realities of running an organization. They believe business ethics is primarily a complex philosophical debate or a religion.

However, business ethics is a management discipline with a programmatic approach that includes several practical tools. Ethics management programs have practical applications in other areas of management areas, as well.

Myth 3 : Business ethics is superfluous it only asserts the obvious: "do good!"

Many people react that codes of ethics, or lists of ethical values to which the organization aspires, are rather superfluous because they represent value to which everyone should naturally aspire.

The value of a codes of ethics to an organization is its priority and focus regarding certain ethical values in that workplace.

➢ It's obvious that all people should be honest.

➢ If an organization is struggling around continuing occasions of deceit in the workplace , a priority on honesty is very timely - and honesty should be listed in that organization's code of ethics.

Note that a code of ethics is an organic instrument that changes with the needs of society and the organization.

Myth 4 : Business ethics is a matter of the good guys preaching to the bad guys.

Some writers do seem to claim a moral high ground while lamenting the poor condition of business and its leaders. Those people well versed in managing organizations realize that good people can take bad actions, particularly when stressed or confused. (Stress or confusion are not excuses for unethical actions they are reasons.)

Managing ethics in the workplace includes all of us working together to help each other remain ethical and to work through confusing and stressful ethical dilemmas.

Myth 5 : Business ethics in the new police person on the block

➢ Many believe business ethics is a recent phenomenon because of increased attention to the topic in popular and management literature.

➢ Business ethics was written about even 2,000 years ago at least since Cicero wrote about the topic in his On Duties.

➢ Business ethics has gotten more attention recently because of the social responsibility movement that started in the 1960s.

Myth 6 : Ethics can't be managed

Ethics is always "managed" - but, too often, indirectly.

➢ For example, the behavior of the organization's founder or current leader is a strong moral influence, of directive if you will, on behavior or employees in the workplace.

➢ Strategic priorities (profit maximization, expanding market share, cutting costs, etc.) can be very strong influences on morality.

➢ Laws, regulations and rules directly influence behaviors to be more ethical, usually in a manner that improves the general good and/ or minimizes harm to the community.

➢ Some are still skeptical about business ethics, believing you can't manage values in an organization Management, after all is a value system Skeptics might consider the tremendous influence of several "codes of ethics," such as the "10 Commandments" In Christian religions or the U.S. Constitution. Codes can be very powerful in smaller "organizations"as well .

Myth 7 : Business ethics and social responsibility are the same thing.

The social responsibility movement is one aspect of the overall discipline of business ethics.

The definition of business ethics includes :

1. an application of ethics to the corporate community.
2. a way to determine responsibility in business dealings,
3. The identification of important business and social issues, and
4. a critique of business. Items 3 and 4 are often matters of social responsibility.

1.4 Stages of Moral Development Kohlberg's Study

Q14. What is Moral Development?

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

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.

Q15. Briefly explain Kohlberg's three 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.

Stage1: 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

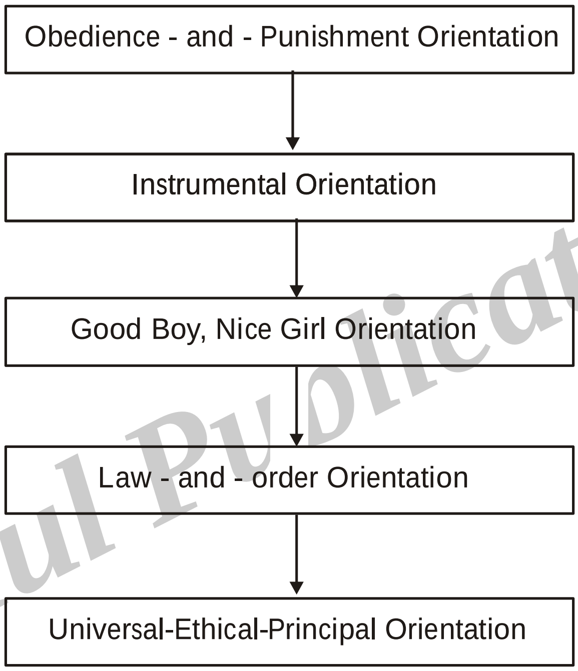
In stage 3, children want the approval of others and act in ways to avoid disapproval. Emphasis is placed on good behavior and people being "nice" to others.

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.

1.5 Carol Gilligan's Theory

Q16. Explain in detail Carol Gilligan's Theory.

(OR)

Discuss the stages of moral development with a view of Carol Gilligan's Theory.

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

This is an advancement of Kohlberg's theory. It had been observed that Kohlberg's theory was proposed based on the moral thinking of privileged white men and boys. Hence this theory was popularized by taking both male and female thinking capabilities into account.

Carol Gilligan, a psychological theorist was born on Nov 28, 1936 in the New York city. She pursued her doctorate degree in Social Psychology from the Harvard University. Gilligan was a research assistant for Lawrence Kohlberg, but she eventually became independent and criticized some of his theories.

Carol Gilligan stated that the theory of moral development has to be studied through two different approaches namely male approach and female approach. According to Gilligan, morals of men differ from that of morals of women. She stated that men in their moral values focus on rules and principles of society which may be impartial and impersonal. But women in their moral values concentrate themselves on being caring and responsible to various relations.

Carol Gilligan Proposed a stage theory of moral development for women. This theory is a modified form of Kohlberg's theory, where she disregards Kohlberg in the following aspects,

(i) She complained about the male centered developmental psychology of Kohlberg. She felt that it is not a good psychology to leave women out and propose a male dominance theory.

(ii) Gilligan also disagreed the evaluating procedure of Kohlberg with which people develop morality. However, she appreciated the concept of stages used in developing a theory.

Gilligan conducted careful interviews with several working women and concluded that women mostly care about things rather thinking about the rules and principles of society. The table below illustrates the stages of Gilligan's theory developed specifically for women.

S.No.	Stage	Approximate Age	Goal	Transition
1.	Preconventional	Not specified	Goal is individual survival.	Selfishness to responsibility of others.
2.	Conventional	Not specified	Self-sacrifice is goodness.	Goodness to truth that she is a person too.
3.	Post-conventional	May never exist	Non violence, do not hurt others.	

Gilligan's theory has pre-conventional, conventional and post-conventional levels. Progression from one stage to the other is due to the changes in the sense of self beings.

Stage 1: Pre-conventional Level

(i) In this level, individuals survive for their own goals.

(ii) People undergo a transition from selfishness to responsibility of others.

Stage 2: Conventional Level

(i) In this level, individuals develop a feeling of "self sacrifice is goodness".

(ii) People undergo transition from goodness-to-truth that she is a person too.

Stage 3: Post-conventional Level

Post-conventional level develops a principle of non-violence and do not hurt others or self.

The theory concludes that women are not inferior to men and are equal to men in all aspects. Women take decisions on the basis of care and sensitivity towards the things.

1.6 Principles of Ethics

Q17. Write in detail about the various principles of business ethics.

(OR)

What are the some common characteristis of code of ethics? Discuss.

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

Principles of Business Ethics

Principles of business ethics are as follows:

1) Be Credible

Business should be based on credibility. Business ethics explains that customers can do business with an organization only if they have faith and confidence in the organization. An organization following credibility as its major principle can be easily identified by the customers. Credibility can be gained by adopting principles like justice, truth, and fairness in business activities.

2) Be Broad - Minded

For the success of a company, leaders of company should be broad - minded. They should be willing to consider ideas of others. They should also take suggestions and feedback of consumers as well as team members so that best idea can be implemented.

3) Fulfil Liabilities

No business can go through good times forever. There are also the situations of crisis. Therefore. businessmen should try to fulfil their liabilities so as to regain lost customer's and creditor's faith, even in worst business conditions as well.

4) True Documentation

One of the important principles of business ethics is documentation. Organizations reach to their customers through advertisements, pamphlets, brochures etc. Organizations should maintain all these paper records correct, clear, concrete, concise, and professional. They should also check these records periodically so as to ensure that they are not misunderstood by the customers.

5) Involvement in Society

Business should actively contribute to the society for its betterment. For this, business should indulge in social activities and solve society problems.

6) Proper Check of Financial Statements

Companies should make proper records of accounting and financial statements. These financial statements depict the true financial conditions of a company. These records also help in controlling unethical and unjust activities by highlighting transactions which are doubtful in nature.

Q18. Do you think identifying ethical standards are hard. Discuss the different source of ethical standards.

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

(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.

Short Question & Answers

1. What are the 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.

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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.

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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.

2. Define Ethics.

Ans :

Introduction

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.

Definitions

(i) **According to the Josephson Institute,** "Ethics is defined as standards of conduct that indicate how one should behave based on moral duties and virtues".

(ii) **According to Webster,** "Ethics is the discipline dealing with what is good and bad and with moral duty and obligations".

(iii) **According to Philip Wheel Wright,** "Ethics is a branch of philosophy which is the systematic study of selective choice of the standards of right and wrong and by which it may be ultimately directed".

3. Descriptive Ethics.

Ans :

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?

4. Applied Ethics.

Ans :

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.

5. Business Ethics.

Ans :

Meaning

Business ethics means how ethics can be used in conducting the business. It helps businessmen in determining the difference between the correct and incorrect and ethical and unethical activities. A set of moral standards is provided by business ethics which helps in carrying-out business ethically. Each and every person engaged in executing and administrating business is required to adhere to these moral standards. Business environment is filled with several problems that involves ethical issues. Business ethics is a tool that helps in solving those problems by providing ethical criteria, standards and principles. Business ethics is a type of applied ethics as it is the application of ethical values, codes, and principles in real business world. These ethical values, codes, and principles help in defining the principles and preferences to be followed by the organizations.

Definitions

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

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

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

(iv) 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"

6. Objectives of Business Ethics.

Ans :

1) To promote accuracy and credibility in business dealings by avoiding unethical activities in business.

2) To provide a common ground so that conformity can be maintained in business activities all over the nation.

3) To increase awareness and sensibility among business people towards different stakeholders like customers, employees, society, and government.

4) To make sure that the activities performed by businessmen do not violate the laws framed in several Acts.

7. 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.

8. 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.

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Ans :

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.

10. The Fairness or Justice Approach.

Ans :

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.

Choose the Correct Answers

1. Which is not one of the natures of ethics? [b]

   (a) Focus on human values (b) Social work

   (c) Branch of philosophy (d) Applies moral principles

2. Stage of maintaining the social order of Kohlberg's moral development model is in: [b]

   (a) Pre-conventional morality (b) Conventional morality

   (c) Post-conventional morality (d) None of the above

3. Actions or policies should be evaluated on the basic of producing greater good in the society" is the fundamental of which moral theory? [a]

   (a) Utilitarian theory (b) Theory of justice

   (c) Ethics of care (d) Theory of rights

4. Set of ideas that constitute one's goals, expectations and actions is known as: [c]

   (a) Values (b) Beliefs

   (c) Ideology (d) Morals

5. Theory of moral development was developed by: [d]

   (a) Piaget (b) Betham Jeremy and Lawrence Kohlberg

   (c) Lawrence Kohlberg (d) Lawrence Kohlberg and piaget

6. Ethics is: [b]

   (a) Morals + reasoning (b) Morals + Values

   (c) Values + Beliefs (d) Values + Philosophy

7. The moral principles, standards of behaviour, or set of values that guide a person's actions in the work place is called [d]

   (a) Office place ethics (b) Factory place ethics

   (c) Behavioural ethics (d) Work place ethics

8. If you believe in making decisions for the good of most people, you can be described as following which school of thought? [a]

   (a) Utilitarianism (b) Teleology

   (c) Deontology (d) Egoism

9. Which statement is/are true? [d]

(a) Ethics is not synonymous to religious morality or moral theology

(b) Ethics is the principle that guide the human behaviour

(c) The terms 'ethics' and 'morality' are not synonymous terms

(d) All of the above

10. Codes of conduct and codes of ethics: [a]

(a) Are formal statements that describe what an organization expects of its employees.

(b) Become necessary only after a company has been in legal trouble.

(c) Are designed for top executives and managers, not regular employees.

(d) Rarely become an effective component of the ethics and compliance program.

Fill in the Blanks

1. The word “ethics” is extracted from the Greek word “ethos”, which refers to the ______
2. ______ is the discipline dealing with that which is good and bad and with moral duty and obligations”.
3. ______ ethics focuses on norms or morals or accepted legitimized practices, as against behaviours.
4. ______ ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.
5. The term ‘normative’ implies something that ______ or ______ .
6. Kohlberg identified ______ levels of moral reasoning:
7. ______ , as the name suggests, is application of various ethical theories and precepts to day-to-day situations.
8. ______ is a conception of right and wrong behaviour, defining for us when our actions are moral and when they are immoral.
9. Analytic or ______ ethics investigates and explores the status, foundations, and scope of moral values, properties, and words.
10. ______ 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.

Answers

1. Nature
2. Ethics
3. Normative
4. Business
5. Guides Controls
6. Three
7. Applied Ethics
8. Ethics
9. Meta
10. Descriptive

One Mark Answers

1. 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.

2. Analytic Ethics.

Ans :

Analytic or Meta-ethics investigates and explores the status, foundations, and scope of moral values, properties, and words.

3. Business Ethics.

Ans :

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

4. Myths about Business Ethics.

Ans :

Myth 1 : Our employees are ethical so we don't need attention to business ethics.

Myth 2 : Business ethics is a discipline best led by philosophers, academics and theologians.

5. Moral Development.

Ans :

Moral development focuses on the emergence, change, and understanding of morality from infancy through adulthood.

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, Mounting Scandals, Ethical Issues, Preparatory Ethics: Proactive Steps, Cyber Ethics.

2.1 Introduction to Professional Ethics

Q1. Define Professional Ethics.

(OR)

Explain about Professional Ethics.

Ans :

Meaning

Professional ethics is defined as the personal and corporate rules that govern behaviour within the context of a particular profession. An example of professional ethics is the American Bar Association's set of ethical rules that govern an attorney's moral obligations.

Professional ethics encompass the personal, organisational and corporate standards of behaviour expected of Professionals. Professionals and those working in acknowledged professions, exercise specialist knowledge and skill. How the use of this knowledge should be governed when providing a service to the public can be considered a moral issue and is termed professional ethics.

Many professions that are trusted by the public to apply expert knowledge (doctors, engineers, lawyers, charted accountants and the like) have a Code of Ethics which sets out their expectations of a member's behaviour and the boundaries within which members have to operate. A Code of Ethics helps to clarify the profession's values provides a reference point for decision making and can be used as a framework for discipline. Most Codes of Ethics are principles based, providing guidance as to the principles on which professional judgement and decisions should be based, rather than a rigid system of rules.

Professional Ethics is partly comprised of what a professional should or should not do in the work place. It also encompasses a much greater part of the professional's life. If a professional is to have ethics then that person needs to adopt that conduct in all of his dealings. Another aspect of this is the enhancement of the profession and the industry within which the professional works.

Q2. Explain the significance of professional ethics.

Ans : **(Imp.)**

The significance of professional ethics are as:

1. It helps a professional in dealing with the problem which may lead to moral issues at work place.
2. It enables professionals to respond appropriately on ethical dilemmas arised at work place and this is also called as "Perspective professional ethics".
3. It provides beginning to the ethics of people who are inside and outside the profession.
4. It helps a professional in making an effective decision in a given situation.
5. It communicates professional's ethical viewpoint to the people who are outside the profession.
6. It also play a significant role in promoting equality of access and services for professional commitment, maintaining fair practices and equal rights at work place.

Q3. What is the implication of protection of 'whistle blower' in ethical practices in business?

Ans : **(May-22)**

Whistle blowing refers to the act of organization members, either former or current, disclosing information on illegal and unethical practices within the organization to parties internal or external to the organization, who can take action. It is becoming increasingly common as more and more employees speak out about their ethical concerns. It cannot be denied that whistleblowing is accompanied by a range of problems, for both the whistleblower and the organization. However, it can be argued that whistleblowing is an important and valid method of endeavoring to control possible unethical behavior by organizations, as well as helping to establish a level of social responsibility. For these reasons, it is important for society to maintain a level of support and encouragement towards whistleblowers, so that their often valuable contribution towards eliminating corporate wrongdoings can continue.

Employees who discover apparent wrongdoing within an organization are faced with several options, each of which comprises both negative and positive aspects. Generally, a whistleblower may hesitate to report wrongdoings either internally or externally due to a fear of losing their job or being transferred to an undesirable location, being subjected to harassment and victimization, having their lifestyle, competence, and mental health questioned, and becoming a focus of public attention, resulting in a loss of privacy. As well, they may struggle with a sense of disloyalty, where they inadvertently feel as if they are betraying their fellow colleagues or organization if they report what they know. A loyal employee will discern that any unethical behavior can never be in the best interests of an organization, and to ignore it with silence is in itself disloyal. Conversely, the final dilemma a whistleblower may face is one of personal loyalty, to their own ethical and moral values. Nevertheless, obligations of confidentiality and loyalty ideally should not take precedence over the fundamental duty to act in a manner that prevents unnecessary harm to others.

The protection of whistleblowers has become relevant enough that in July 1999, the U.K. launched the Public Interest Disclosure Act (PIDA), which grants an extremely high level of protection to whistleblowers in private, public, and nonprofit organizations, as well as encouraging and defending external whistleblowers with valid reasons.

2.2 Ethics in Production and Product Management

Q4. Explain in detail about various aspects related to the working conditions of an employee dealing in product or production process.

Ans : **(Imp.)**

The various aspects related to the working conditions of an employee dealing in product or production process are :

(i) Job Accidents

Millions of workers were found killed and injured due to job accidents. Workers in the workplace often face problems such as collapse of mine, direct exposure to hazardous substance like asbestos causing cancer deaths, severe injuries such as loss of hearing due to constant noise and even nerve damage.

Improper workplace hazards even cause death in terms of cancer, heart disease, respiratory conditions etc. Stress on the job is considered as work place hazard leading to headaches, back and chest pains, stomach ailments and emotional disorders etc.

(ii) Health and Safety

Health hazards at workplace bring illness and other conditions that affect the health of employees. Therefore, companies should provide safety to employees and make sure that health condition of the employee is not affected.

(iii) Product Safety and Quality

It is mandatory for the business firm to provide product safety and quality as per contract view. The firm should provide authentic information about the product's quality and safety and it must provide satisfaction to the buyers. If any business firm deviates from providing efficient safety and quality, then they are liable for legal proceedings.

(iv) Product Reliability

Generally, a product comprises of various components. A few product comprise of interdependent components. In such a case, the manufactures must ensure the efficient functioning of each and every component so as to make the whole product reliable. Product reliability is one of the key aspects of the production operations.

(v) Service Life

The consumers must have general awareness about the service life. Service life refers to the period of time under which the product function effectively. It is the duty of the seller to abreast with technological advancement in improving the product and to attract buyers by satisfying consumer's preferences.

(vi) Maintainability

Claims of maintainability comes under express warranty. Sellers ensures that under express warranty products can be repaired even after the date of expiry. Usually, products repair is a costly affair.

(vii) Product Safety

Product is considered safe when its risk is known and are accepted by the buyer. The levels of risk associated with a product must be reduced by the seller to ensure product safety. Product safety also implies that the product is free from hazardous substances.

(viii) Workers Rights

The workers rights includes the following,

(a) Right to a safe and healthy workplace

(b) Free from discrimination (racial or sexual discrimination).

(c) Right to get compensation for the harm caused etc.

2.3 Ethics of Marketing Professionals

Q5. Write a note on marketing ethics.

Ans :

Meaning

Marketing is a technique that is used to attract and persuade customers. Marketing provides a way in which a product is sold to the target audience. Marketing is a management process that identifies, anticipates and supplies consumer requirements efficiently and effectively. The main aim of marketing is to make customers aware of the products and services. It also focuses on attracting new customers and keeping existing customers interested in the product. The marketing department consists of various subdivisions, such as sales, after-sales service and marketing and research. The different subdivisions of the marketing department are shown in fig.

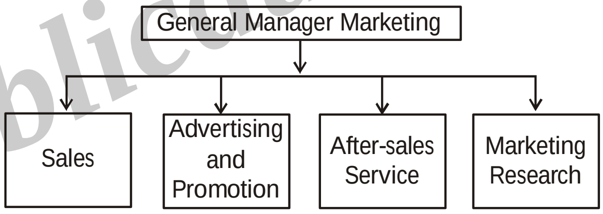


Fig.: Subdivisions of Marketing

In the field of sales, the following ethical issues require safeguards against unethical behaviour:

- Not supplying the products made by the company as per the order
- Not accepting responsibility for the defective product
- Not giving details about the hidden costs, such as transportation cost, while making the contract with the client
- Changing the specifications of the product without giving any prior information to the customer
- Changing the terms of the business without taking any approval from the client
- Delaying the delivery of the goods without giving any proper reason
- Treating two customers differently

- Not providing the after sales service as per the contract
- Selling the same product at different prices to different customers

Advertising and promotion provide the means for communicating with the customer. In the field of advertising and promotion, the following are examples of unethical communication practices:

- Making false commitments to the customers about the benefits of the product
- Supplying products that are different from those that are advertised
- Giving wrong prices to the customers during advertising
- Not giving the promised gift in the promotional campaign
- Hiding major flaws of the product
- Providing wrong testimonials about the product to prospective customers
- Not providing the advertised service to the customers as a part of the promotional plans
- Increasing the price of the product before starting its promotional campaign
- Making false references about the competitive products.

While selling the product to the customer, a company provides some extended features or facilities along with the product, such as after-sales service. These facilities are provided to increase the sale of the product. In the field of after-sales service, the following ethical issues require safeguards against unethical behaviour:

- Using below-standard material for the service and charging for relatively better material from the customer
- Using outmoded service equipments which can be harmful for the products during service
- Not taking the service calls if the location is not easy to reach, while free service was promised before the sale of the product
- Making only temporary adjustment in the product, which can last only for a short time or to make the product useful for the time being.
- Not keeping proper service records of major products for future use, as they can help in easy diagnosis of problem
- Overbilling the service charges, when the customer is not aware of the actual rates
- Using rejected or below-standard components for customer's temporary relief.
- Refusing the service of the product due to personal reasons.
- Exchanging healthy parts with below-standard parts when the product comes for servicing.

Marketing research is done to find out the needs of the market, its trends and competitive activities. In the field of marketing research, the following are example of unethical behaviour:

- Research is conducted only to substantiate the viewpoint of the manager.
- Research is focused on the areas that do not need to be covered.
- Some old research is presented as the new one just for the purpose of financial gain.
- A biased research report is prepared to suit the marketing manager.
- The research report is sold to the competitor.
- The report does not include important facts.

Q6. Explain various ethical issues in marketing.

Ans :

The following are the various ethical issues in marketing.

The recent developments made in the technological sector have encouraged both better as well as worse practices in marketing. Some people use these technologies for the benefit of consumers and some may use for their self interest. Companies always aim at maximising profits by increasing their sales and for this purpose they may sometimes use unethical practices to achieve such targets. As a result, consumers are deceived in many ways such as false product advertisement, promotion, non-transparent sales and service conditions etc.

Also, the introduction of internet has made it impossible to restrict the unethical content in advertisements and sales promotion. Ethics should also be applied in modem marketing concept such as cyber or internet marketing to minimize the unethical practices from the marketing environment. Moreover, there are many other issues which were coming up due to the advancement in technologies. They are as given below,

1. Marketers using electronic and cyber media for false and misleading advertisement.
2. The false promotional presentation of products exploiting social paradigms.

   Example: T. V advertisement of fairness creams for women with dark skin.
3. Large organizations using predatory pricing strategies to wipe out market competition.
4. Surrogate advertisements which are used to advertise harmful products like alcohol and cigarettes.
5. Confidentiality of company-client relationship and customers privacy getting compromised and violated due to intrusive service promotions.

Q7. "Marketing professional should practice ethical behavior" discuss this statement by considering the pragmatic reasons for ethical behavior.

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

Marketing professionals should practice ethical behavior because of the following reasons,

1. Marketing professionals make a direct interaction with customer, their behavior will have a significant impact on the minds of customers. Thus, they should behave ethically while dealing with customers.
2. They have a responsibility to be good to the society and customers, as this will result in organizational growth and better business environment.
3. A firm's business depends on how its employees behave with its customers. The marketing professional should avoid activities like black-marketing, price fixing, price discrimination etc as all these will degrade the company's reputation.
4. The job of marketing professional is not like an accounts professional who have their own department where they only deal with accounts and not the customer. But the case of marketing professional is that they are considered amongst management professionals because they have lot to do with customers and other crucial activities. Therefore, it becomes necessary for them to follow the company's ethical code of conduct.
5. If marketing professionals behave unethically in the marketplace, the customer may switch to the competitor. Thus, it is crucial for the marketing professionals to win the trust of customers by practicing great ethical principles.
6. When the marketing practices are unethical, the customers will develop negative attitude about the firm. This in turn will result in a dissatisfied customers, bad publicity and a lost business. To avoid all these, the marketing professionals should be mindful about their behavior.
7. Some unethical practices may also lead to legal actions. For example, receiving heavy commission to sell spurious drugs. Any such practice by marketing professional bring bad name not only to the company, but also the society at large. It is important for the professionals to avoid participating in the activities which may harm the interests of employees, society and customers.

Q8. What is the contribution of Ralph Nader through consumer movement to ethical marketing?

Ans : **(May-22)**

- The 1960s witnessed the formation of the Consumer Federation of America, which is a leading consumer protection organization today.
- It was during this period that Ralph Nader came on the scene and gave the cause of consumer protection high visibility.

- The 1970s saw a flourishing of private consumer protection agencies and councils. Such action prompted President Jimmy Carter to issue an Executive Order as a prelude to the establishment of a permanent federal consumer agency which is now known as the US Office of Consumer Affairs. It was Ralph Nader who coined the term consumer advocate.
- Before 1965, car dashboards were made of metal. Car wrecks could easily happen even at very low speeds. Seat belts had to be bolted to the car's floor boards. During mid-speed wrecks, passengers could be thrown into the windshield. Windshields were made of safety glass that could easily chisel a passenger's face and body in case of a wreck.
- Car doors were not capable of withstanding collision forces and were likely to pop off during accidents, proving to be fatal for the passengers.
- Ralph Nader's Unsafe at Any Speed (1965) focused on the Chevrolet Corvair.
- Many of the problems described in the book could be generalized to auto showroom and highway smash-ups.
- Based on the responseto Nader's book, the US Congress passed the Traffic and Motor VehicleSafety Act of 1966.
- Nader's relentless work has improved the quality of life for Americans in areas as diverse as the environment, healthcare, insurance, pension and disability rights.
- He is also the founder of numerous non-profit organizations which carry out this important work.
- Nader's other great accomplishment concerns the education of America's consumers. Through his efforts over the past half a century, consumers now understand their own power as social activists to make change through collective action.

2.4 Ethics in HRM

Q9. Write a notes on Ethics in HRM.

Ans : **(Imp.)**

Meaning

HRM is concerned with the management of the 'people' of an organization. The term HRM is used to refer to the procedures, philosophy, policies, and practices related to the management of people within an organization. HRM is an approach to bring the people and the organization together so as to achieve the desired goals. It helps in creating a relation between the management of the organization and the employees which is based on cooperation and coordination according to the designed strategy. It is the art of promoting, developing and maintaining a competent workforce to achieve the goals of an organization in an effective manner. HRM is responsible for performing various functions like planning, organizing, directing and controlling of human resources. HRM also involves activities like procurement, development, compensation and maintenance.

Definition

According to Ivancevich and Glucck, 'Human resource management is the function performed in organizations that facilitates the most effective use of people (employees) to achieve organizational and individual goals.'

HRM is extensive in nature and it is present in all organizations and at all levels of an organization. HRM focuses on action rather than theoretical procedures and it encourages an employee to utilize his skills and potential completely to give his best to the organization. It encourages the employees through systematic procedures like recruitment, selection, training and development. An effective HRM works towards achieving its goals by providing a competent and motivated workforce. The primary aim of HRM is the promotion of effectiveness of the people employed in the organization and the performance of their allotted duties with cooperation. It seeks to develop and bring together an effective organization, enabling the women and men who make up an enterprise to give their best contribution towards its success both as members of a working group and as individuals. HRM can help organizations achieve their goals more effectively and efficiently. Effective management of human resources helps in improving the quality of work life. It seeks to provide fair conditions and terms of employment and work that satisfies all those employed. The following are the key objectives of HRM:

- To recruit trained and spirited employees
- To help the organization reach its goals
- To train the employees for best results
- To communicate HR policies to the employee
- To ethically respond to the needs of the society

Q10. Discuss in detail various ethical issues in HRM.

Ans : **(Imp.)**

1. Ethics in Recruitment

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

(i) When new employees are recruited, they should be told about the actual condition of the organisation and not be kept in dark regarding the same.'

(ii) 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.

(iii) 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.

(iv) 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.

(v) Sometimes, people apply for jobs using false C.V. They may provide inaccurate information 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 organisation. 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 other' 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 decision' that are sound and ethical is necessary. Though people say that an organisation 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.

3. Ethics in Training and Development

Organisations invest a great deal of time, money and effort in the training and development of employees because the skills they had learnt 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:

(i) A major ethical question which concerns training and development is how beneficial the training provided by the organisation will actually be for the employee, that is, will it best serve the interests of the employee or the organisation? 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?

(ii) It is unethical when trainees are recruited not according to the requirements of the organisation but based on favouritism.

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

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

(v) 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.

(vi) Ethical issues arise when organisations employ trainers who are not highly educated and not concerned in training the trainees in the first place.

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

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 organisation depends on it. The company's future depends on it as well since only by rewarding deserving employees and criticising 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.

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 organisation (Nowadays, however, it is seen as more the responsibility of the individual employee). As regards the organisation'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 organisation has set for itself and its future plans etc.

6. Ethics in Compensation

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

(i) 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 employee - 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.

(ii) Annual Incentive Plan: An annual increment is almost a must for most organisations. However, the HP departments of certain organisations prepare higher increments and incentive plans for top-le-e executives which are much more than these individuals deserve. The rationale given to the HR manage- of such organisations for playing with the rules in this way is that if they do not do so, the organisation will lose high performing executives. This is not fair to the other employees who do not come in the tcc bracket.

(iii) Long-Term Incentive Plan: It is the duty of many HR executives to prepare an organisation's long-term incentive plans by discussing them with the CEO and another outside advisor. Ethical issues arise if the H executive is, in this process, pressurised to favour the top management executives over other employee- investors.

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

Q11. Elucidate the role of ethical guidelines for HRM.

Ans : **(Imp.)**

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 organisation. 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 organisation 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 organisation, 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 organisation of which he is a part. The goals of cultivating this professional duty are:

i) Positively influencing the process of hiring.

ii) Assisting the organisation in accomplishing its aims.

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

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

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 organisation.

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 organisation and co-workers will help them reach their full potential.

Guidelines for Just and Fair Organisational 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 organisation treat all persons part of the organisation fairly and justly.

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

vi) If an organisation 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 organisation operates.

ii) To gain more understanding of how specifically HRM functions in conjunction with the organisation. 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 organisation to other stakeholders who could be directly or indirectly connected to the organisation. 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 organisation.

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 organisation, 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 organisation 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 organisation takes. HR professionals must make certain that the members of the organisation 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 Organisation

i) Receive and give information ethically and responsibly.

ii) Keep up with the latest HR information related to the organisation 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.

2.5 Ethics of Finance and Accounting Professionals

Q12. 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

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.

Q13. Explain various Unethical Activities in Finance.

Ans :

Some common unethical activities in finance are as follows :

1. Unsuitability

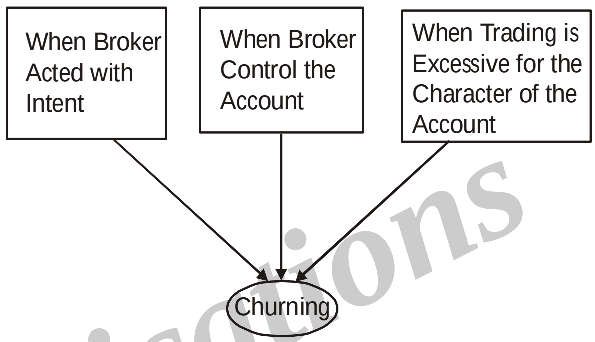
Insurance agents, brokers and other sales person cheat innocent investors by recommending unsuitable securities and financial products.

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

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.

Q14. 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.

Q15. What is the role of ethics in finance an accounting professional?

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

Role of Ethics in Guiding Finance Professionals

The following points highlight the importance/ role of ethics in guiding finance professionals,

1. Ethics enable a finance manager to utilize the limited financial resources of organization in best possible way.
2. It restricts the finance professionals from getting involved into unlawful activities.
3. It directs the finance professionals to behave ethically and perform their duties efficiently.
4. It encourages them to be clear and honest in presenting the information. When right information is presented, the decision makers can take best possible decisions based on such information.
5. It prevents them from engaging into financial frauds, bribery, insider trading, tax evasion etc.,
6. It guides the financial managers in effectively utilizing and monitoring all assets and resources which are given to them.
7. It encourages the finance professionals to protect the confidential information obtained during work.

Role of Ethics in Guiding Accounting Professionals

The below points highlight the role of ethics in guiding accounting professionals,

1. Ethics encourages the accountants to work honestly and handle the sensitive information carefully.
2. Ethics prevents an accountant from sharing the information with anyone who doesn't have a right to access such information, especially when the accountant is working in two or more companies.
3. Ethics encourages the accountant to carryout the work competently. It is the moral responsibility of accountant to be professionally committed to the client for whom he is working.

Q16. Discuss the Ethical issues facing Financial Managers.

Ans :

Ethical issues facing financial managers are as follows:

1. Accuracy

A company's financial manager ensures that all financial publications accurately and fairly reflect the financial condition of the company. Some organisations, document ethics guidelines specifically for financial managers.

For example, the ethics code of the United States Postal Service requires senior financial managers to maintain accurate records and books, maintain internal controls and prepare financial documents in accordance with generally accepted accounting principles.

2. Transparency

Financial documents reflect a company's performance relative to its peers, and its internal strengths and weaknesses. Regulatory agencies require publicly traded companies to submit periodic financial statements and make full disclosures of material information. A change in the senior executive ranks, buyout offers, loss or win of a major contract and new product launches are examples of material information. Transparency also means explaining financial information clearly, especially for those who are not familiar with the company's operations. Financial managers should not hide, obscure or otherwise render relevant financial information impossible for ordinary shareholders to understand.

3. Timeliness

Timely financial information is just as important as accurate and transparent information. Management, investors and other stakeholders require timely information to make the right decisions. Many cases exist of a publicly traded company's stock reacting sharply and negatively to negative earnings surprises or unpleasant product-related news.

For example, a company should promptly disclose manufacturing problems that could temporarily affect sales. Similarly, the company should not hold back news of a major contract loss in the hope that it can replace the lost revenue with new contracts.

4. Integrity

Financial managers should strive for unimpeachable integrity. Customers, shareholders and employees should be able to trust a financial manager's words. Managers should not allow prejudice, bias and conflicts of interest to influence their actions. Managers should disclose real or apparent conflicts of interest, such as an investment position in a stock or an ownership interest in one of the bidding companies for a procurement contract. The structure of certain stock-based incentive compensation schemes could also result in ethical issues.

For example, managers might be tempted to manipulate stock prices by selectively disclosing or not disclosing relevant financial information.

2.6 Ethics of Advertisement

Q17. What is Ethics in Advertisement?

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

Meaning

Advertising plays a vital role in communicating action about a product or service to the customer. And for a customer, advertising is considered as an understandable process which improves the ability of the customer to make better buying decisions.

On the other hand, marketer uses advertising as a tool which increases the demand of a product because advertising creates awareness and develops interest of the customer for a particular product or service.

Advertising is one of the advantageous concept in business but misuse of advertisements neither benefits the customer nor the competitor. Sometimes, advertising misleads the customers which may result in injuries and damages.

While discussing ethics in advertising, some judgements have to be made based on the accuracy of advertisements i.e., one should find out unethical practices from the advertisements with the help of gathered opinions of the society based on their fundamental values and beliefs.

Q18. Discuss about ethical issues in advertising.

(OR)

Explain any four ethical issues in advertisement.

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

In the advertising field, the ethical issues include decisions on what business and market a corporate organization should enter. Another ethical issue can be the decision on what product should be provided by a corporate organization to its customers. Though it is important that ethical standards be provided for the advertising of a particular product, it is not easy to establish common ethical standards which are agreed upon by different organizations. According to Ferrel and Gresham, 'There is no clear consensus about ethical conduct; that ethical standards are neither absolute nor constant; and that attempts to determine whether particular marketing activities are ethical or non-ethical cannot produce a definitive code of marketing behaviour'.

However, there is a general view also related to ethics in advertising. This view is that advertising practices, such as deceptive advertising, price fixing, holding of product test data, and falsifying research behaviour in the market are unethical practices.

In the advertising field, marketing promotion is the area where a large amount of public scrutiny takes place. Media persons report immediately any lack in ethical standards while selling products, in public relations and advertising.

Organizations follow various methods that are unethical while advertising for their products and services. These methods are :

(i) Ambiguity

(ii) Concealed facts

(iii) Exaggeration

(iv) Psychological appeal

(i) Ambiguity

Ambiguous advertisements are mostly deceiving for customers. Advertisements become ambiguous when they are wrongly interpreted and also with, the use of words through which organizations can avoid making direct statements. For example, you can consider the word 'help'. This word is used by organizations to ambiguously advertise their products. It can be used in the following ways in advertisement:

- Help us keep young
- Help you improve your complexion
- Help prevent cavities
- Help keep our house insect free

Organizations must provide clear information about products even though their advertisements can be interpreted differently by individuals. Ambiguity in advertisements can affect the health, loyalty and expectations of people who will be purchasing the product that has been advertised.

(ii) Concealed Facts

Organizations can conceal information related to a product that may result in less selling of that product thereby resulting in loss. The advertising practice of concealing facts is unethical because it, in a way, allows the exploitation of people. There are mainly two considerations regarding advertisements that force organizations to conceal facts. The first consideration is that information that will help in selling a product in the best way should be provided. The second consideration is that the information about a product should be provided in such a manner that:

- Individuals, who will be purchasing the product do not feel that false promises have been made to them and that they have been let down.
- Advertisements related to a product are able to avoid objections from agencies that are responsible for monitoring advertising.

Organizations may conceal facts that may be important in fulfilling the needs of customers. This way the organizations may be exploiting the customers and causing serious health injuries to them. Customers may also not be able to obtain the products of their choice.

(iii) Exaggeration

Organizations may mislead the customers by providing exaggerated information in the advertisements of their products. The exaggerated information is information that is not supported by evidence. Organizations can exaggerate information in advertisements by using superlative phrases. For example, an organization manufacturing pain relief ointments, can exaggerate information by stating that a pain reliever provides extra pain relief. The use of these superlatives may not cause any harm to customers but may be misleading sometimes. For example, if a washing powder manufacturing organization uses the phrase, 'best loved by housewives' then no harm may be caused to consumers of washing powders.

(iv) Psychological appeal

A psychological appeal is the appeal made considering the emotions of customers. The main objective of psychological appeal is to persuade customers to purchase products by appealing to their emotions and not to reason. For example, consider a car advertisement which focuses on the desire of the elite class to achieve status. Similarly, a life insurance company may use emotions, such as pity and fear in its advertisement to persuade people to take insurance policies. Through psychological appeal, the organizations make promises about their product that are not fulfilled when customers buy the products.

Q19. Describe the Ethical Guidelines for Advertising.

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. Advertisements 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 geographical 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

Q20. Explain the various ethical issues in media reporting.

Ans : **(Imp.)**

Meaning

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

1. 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.

2. **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.

3. **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.

4. **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 mostly 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.

2.8 Ethics of Healthcare Services

Q21. Explain the concept of ethics in healthcare services.

Ans :

Health is an important aspect in the life of each and every human being and health is considered as wealth. Health of people plays crucial role in developing an efficient governance and well-being of the society as well as country. According to Article 25 of human fights, every individual has the right to live a standard life with his/her family members by acquiring adequate health and well being factors including food, clothing, shelter, medical and social services. The government has the responsibility to provide better health care services to the people because now-a-days, the demand of health care has increased more rapidly. Due to this, government is facing various ethical issues in health and medical sector. Especially in developing and under developed countries, this issue has a wider scope as they lack qualified professionals and shortages in providing quality health care services to the people.

Basically, in any kind of profession, code of ethics is always involved and taught during the course of study. Based on such code, a professional has to perform his duties and responsibilities. Charaka Samhita has stated code of ethical conduct for medical professionals as,

"He who practices not for money nor for a price but out of compassion for living beings, is the best among all physicians".

The various aspects related to ethics of health care services are,

1. Misconduction of Services

In present world, misconduction is highly involved in health care services. The level of misconduction is high due to the lack of care, concern and violation of professional conduct. Basically, ethics of health care services demand professionalism, quality of service, credibility and confidence of patients in the doctors. However, these requirement are not getting fulfilled due to the misconduct of professionals while delivering services. They are intentionally deceiving patients.

2. Money Intensive Approach

The health care service providers are focusing more on earning money instead of delivering quality service to their patients. They are just overvaluing bills and treating patients as their customer from whom they want to earn targets.

3. Alliances of Drugs Companies

In medical sector, companies which used to supply drugs and medicines are getting allianced with doctors and other medical professionals for promoting their products which are not optimum for usage. Now- a-days, this practice is spreading rapidly and can be seen in every locality.

2.9 Ethical Dilemma

Q22. Define the terms :

(a) Dilemma

(b) Ethical Dilemma

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

(a) Dilemma

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.

(b) Ethical Dilemma

An ethical dilemma is a complex situation that often involves an apparent mental conflict between moral imperatives, in which to obey one would result in transgressing another.

An ethical dilemma is one in which a person has to choose between two options, both of which are morally correct but in conflict. Ethics and morals are inseparable. They both deal with questions of right and wrong. What constitutes ethical behavior is determined by societal or cultural norms. What constitutes moral behavior is up to the individual to decide based on his or her own sense of right and wrong.

Q23. Explain different types of Ethical Dilemma.

Ans :

1. **Organizational Goals Vs Personal Values :** Every organization sets certain goals which are to be achieved for the progress of the organization. These goals are achieved with the help of employees belonging to different backgrounds and holding different

value system. If there is an imbalance between organizational goal and employee's value system, then it leads to conflict.

2. **Organizational Goals Vs Social Values:** Organizational goals versus social or personal values is another ethical dilemma. The world's largest soft-drink company, Coco-Cola in India is the perfect example of organizational goals versus social values. The ethical dilemma between organizational goals and social values made the companies like Procter and Gamble and Johnson & Johnson to withdraw its product from the market. People are of the opinion that the products of these companies are causing death of people. Even though these companies are not involved in unethical practices, they handle these issues in a proactive way to solve the ethical dilemma of life and death.

3. **Organizational Practices Vs Person a Beliefs:** The source of ethical dilemma prevailing in organization are organizational practices and personal beliefs. The other main source of ethical dilemma prevailing in the organizations are racial discrimination and gender bias on account of multi-national nature of organizations.

4. **Organizational Profit Vs Production and Sale of Hazardous Products:** The motive of every business is to gain profits and to achieve maximum returns in the future. Some business organizations produce those goods which are helpful to the society and they earn profits on that business. Some business organizations produce those goods which are very harmful to the society such as 'Cigarette' and Beverage'. Even though these products are harmful, business organizations are involved in such activities to earn maximum returns.

Q24. What are the reasons for ethical dilemma?

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

1. Management Pressure

When the management pressurizes an individual/employee to sell or produce harmful products in an organized way, the employee will face an ethical dilemma. Immoral people face less ethical dilemmas when compared to moral people.

2. Personal Values Versus Organizational Values

A dilemma may occur when the personal values of an employee don't match with the organizational values or culture. In such a situation, the employee will have a dilemma of whether to sacrifice personal values or the organizational values.

3. Organizational Goals Versus Legal Standard

A dilemma may also occur as a result of a clash between organizational goal and legal standards. For example, a senior police officer may ask his subordinate to pay him an amount of ` 50,000 every month. He also gives subordinate the freedom to take the amount from other subordinate officers. In this situation, the subordinate officer would face a dilemma of whether to obey his senior police officer or to deny his commandment.

4. Moral Weakness

An ethical dilemma may occur when a person with moral weakness is offered something beneficial. He/she may feel difficulty in deciding between two options. Whereas, a person with good/strong moral values will stick to his values irrespective of the situation.

5. Less Salary to Lower Grade Employees

It is observed that the government offers less salary to its C and D grade employes which is not sufficient to meet the life's basic needs. In this situation, ethical dilemma may occur.

6. Leadership

Leaders play an important role in an organization. They deal with many activities and may come across situations which are ethical in nature. To help them handle such ethical situations or ethical dilemmas, the organization should provide them with proper training on business ethics.

Q25. What are the sources of ethical dilemmas?

Ans : **(May-22)**

According to Keith Davis and William C Frederick ethical challenges in business take several forms and raise different kinds of ethical dilemmas. Ethical challenges and their attendant dilemmas may arise due to

(i) Failure of personal character;

(ii) Conflict of personal values and organizational goals;

(iii) organizational goals versus social values; and

(iv) hazardous, but popular products.

Added to these, there may arise other ethical challenges when corporations cross boundaries and become multinational companies. Newer technologies, diverse religious, cultural and social beliefs, different economic systems, political systems and ideologies may bring in their own dilemmas and problems. The issues and problems confronting business are large, varied and ever growing. Different functions of management (marketing, production, financial, human resource management, sales, service, etc.) throw up different problems and dilemmas. 'The primary tasks for business are to be aware of the ethical dimension, to learn how to reason ethically as well as economically, and to incorporate ethical considerations in to the firms operations.

2.9.1 Mounting Scandals

Q26. 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.

2.10 Ethical Issues, Preparatory Ethics Proactive Steps

Q27. Explain the concept of Preparatory Ethics and Proactive Steps.

Ans : **(Imp.)**

Preparatory Ethics

The main aim of preparatory ethics is to restrict and monitor the crisis management of ethical dilemmas. This results in avoiding the cases of conflict and hiding the unethical practices which intum prevents situation from legal proceedings.

Proactive Steps of Preparatory Ethics

The corporate managers may undertake the following proactive steps to restrict the number of ethical dilemmas.

Steps:

Step-1: Be A Moral Role Model

Being a moral role model, one has to show morality, integrity and fairness in his decision. It is about preferring to do what is correct, good, fair and just. In the words of 'Mark Twain', a person intending to build moral role model should "always do the right thing, this will surprise some people and astonish the rest". It is very essential for an administrator to maintain moral behaviour as many things can be attained through good administrative practices. Corporate managers should not only encourage personal and professional morals but also act morally. They should always do what is right, good and just.

Step-2: Hire, Mingle and Communicate with Moral People

Under this step, corporate managers intend to build and maintain professional relationship with the internal and external people who are having values matching with the organisation. In simple words, in this step, corporate manager make efforts to bring ethics into each and every work-related decisions and practices at different levels of employment. More precisely, this step is all about bringing ethics into policy formulations which intend to build cooperation between administrators and employees, administrators and customers and administrators and the general public.

Activities like hiring, terminating, communicating and working with others should be carried out morally. Like personal decisions, professional decisions should also be supported by unbiased moral standards.

Step-3: Stress Standards and the Spirit of the Law

Usually, self governance is enough for ensuring ethical management and moral conduct. Apart from this, majority of the organisations set certain formal procedures and policies to check and promote standards, values and mission to overcome ethical challenges. The procedures and policies which are widely accepted can be used as guidelines for directing ethical behaviour.

In case of complicated conditions and in situations of high expectations, corporate managers should have well recognized standards. The corporate managers should understand the standards clearly before expecting their co-workers to follow the standards. The corporate managers should be experts in utilizing their authority to determine formal and informal educational measures and to infuse ethical values in employees.

In the words of 'Catherine McAuley', "It is better not to make too many laws. If you draw the string too tight, it will break".

Step-4: Be Committed

Active commitment requires corporate managers to utilize their intellect, hear and will in bringing together the ethical values of the profession, the job and the organisation. The concepts or models like decentralization, collegiality and professional practice help a corporate manager in ensuring commitment.

Being committed is not just the duty of corporate managers, they should convert commitment into an action through the development, interpretation and implementation of the mission in such a manner that all individuals engaged in the delivery system become actively committed in achieving organisations mission and goals.

2.11 Cyber Ethics

Q28. Explain briefly about Cyber Ethics.

Ans : **(Imp.)**

Meaning

Cyberethics is a branch of computer technology behavior that defines the best practices that must be adopted by a user when he uses the computer system. In simple terms, cyberethics refers to the basic ethics and etiquette that must be followed while using a computer system. Ethics, in general, refers to propagating good behavior, similarly by cyber ethics we refer to propagating good behavior online that is not harsh or rude.

Cyberethics governs rules that individuals must be polite and responsible when they use the internet. Cyberethics aim to protect the moral, financial, social behavior of individuals. Cyberethics engages the users to use the internet safely and use technology responsibly and sensibly. Cyberethics empathizes the behavior that must be adopted while using cyber technology.

Some of the breaches of cyberethics are listed below:

1. Cyber Bullying

Cyber bullying is a form of bullying carried out via internet technology such as social media where individuals are mocked on their physical appearance, lifestyle, preferences, etc. The teenage generation or say youngsters are the major victims of this form of cyber ethic breach. Cyber bullying affects the emotional ethics of individuals and can cause mental disturbance to individuals.

2. Hacking

Stealing a user's personal or organizational information without authorized permission is not considered a good practice. It is one of the riskiest cyber breaches to data leak. Data leak includes passing of sensitive information such as passwords, bank details of the user to a third-party user who is not authorized to access the information.

3. Copy writing

Claiming of another individual as one's own is another type of cyber ethic breach that must be eradicated. Never engage in copywriting another person's content or document and claim as it is your own. It leads to a serious problem called plagiarism, which is a punishable offense and considered a legal crime. It is always advisable to follow general cyberethics, while using the internet or say any kind of technology. A proper code of conduct must be followed while using cyber technology. Cyberethics if not used wisely can lead to serious situations. Social and legal laws are defined to use cyber technology wisely. In extreme cases, legal action can be taken if there is a violation of cyber ethics.

Focus

Cyber Ethics focuses on the following:

1. Privacy

- The content that is available on the internet should not hurt any moral, emotional, or personal ethics of individuals.
- Users should have the right to protect any information which they don't want to share openly.
- Private information like user's contact details, address, security-related information like bank details, credit card/debit card details, are all included in basic cyber ethics of user privacy and must not be breached in any case.
- Any breach of privacy is theft/fraud of user identity and user personal information, which is punishable as per the rules of law.

2. IPR

- IPR stands for Intellectual Property Rights.
- IPR defines that the owners have the complete right to the content that is posted on the internet.
- The entire content is solely a belonging of the originator and no individual is allowed to claim that content published by the original creator as its own.
- Unauthorized distribution of someone else's work should never be adopted as it's ethically incorrect to not give creation and monetary benefits to the creator of the work.

3. Security

- Security on the internet is the most basic ethical right that every user must be accessible.
- Users of the internet should feel safe while they surf the net.

- Security, in general means only authorized users to have access to the content on the computer.
- And confidential information is safe, without any risk of loss of information/content.

4. Accuracy

- The content available on the internet is accessed by billions of users.
- If there is no reliability of the information that is posted online, then it would mislead the masses.
- Cyberethics assert the importance of posting content on the internet that is correct in all aspects.
- Users trust the content of the internet and rely heavily on the internet for facts, therefore it is highly needed that the asked information is correct and reliable.

Short Question and Answers

1. Professional Ethics.

Ans :

Professional ethics is defined as the personal and corporate rules that govern behaviour within the context of a particular profession. An example of professional ethics is the American Bar Association's set of ethical rules that govern an attorney's moral obligations.

Professional ethics encompass the personal, organisational and corporate standards of behaviour expected of Professionals. Professionals and those working in acknowledged professions, exercise specialist knowledge and skill. How the use of this knowledge should be governed when providing a service to the public can be considered a moral issue and is termed professional ethics.

2. Marketing Ethics.

Ans :

Marketing is a technique that is used to attract and persuade customers. Marketing provides a way in which a product is sold to the target audience. Marketing is a management process that identifies, anticipates and supplies consumer requirements efficiently and effectively. The main aim of marketing is to make customers aware of the products and services. It also focuses on attracting new customers and keeping existing customers interested in the product. The marketing department consists of various subdivisions, such as sales, after-sales service and marketing and research.

3. Ethics in HRM.

Ans :

HRM is concerned with the management of the 'people' of an organization. The term HRM is used to refer to the procedures, philosophy, policies, and practices related to the management of people within an organization. HRM is an approach to bring the people and the organization together so as to achieve the desired goals. It helps in creating a relation between the management of the organization and the employees which is based on cooperation and coordination according to the designed strategy. It is the art of promoting, developing and maintaining a competent workforce to achieve the goals of an organization in an effective manner. HRM is responsible for performing various functions like planning, organizing, directing and controlling of human resources.

4. Principle of Integrity.

Ans :

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.

5. Principle of Objectivity.

Ans :

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.

6. What is Ethics in Advertisement?

Ans :

Meaning

Advertising plays a vital role in communicating action about a product or service to the customer.

And for a customer, advertising is considered as an understandable process which improves the ability of the customer to make better buying decisions.

On the other hand, marketer uses advertising as a tool which increases the demand of a product because advertising creates awareness and develops interest of the customer for a particular product or service.

Advertising is one of the advantageous concept in business but misuse of advertisements neither benefits the customer nor the competitor. Sometimes, advertising misleads the customers which may result in injuries and damages.

7. Ethical issues in media reporting.

Ans :

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

8. 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.

9. Ethical Dilemma.

Ans :

An ethical dilemma is a complex situation that often involves an apparent mental conflict between moral imperatives, in which to obey one would result in transgressing another.

An ethical dilemma is one in which a person has to choose between two options, both of which are morally correct but in conflict. Ethics and morals are inseparable. They both deal with questions of right and wrong. What constitutes ethical behavior is determined by societal or cultural norms. What constitutes moral behavior is up to the individual to decide based on his or her own sense of right and wrong.

10. Preparatory Ethics.

Ans :

The main aim of preparatory ethics is to restrict and monitor the crisis management of ethical dilemmas. This results in avoiding the cases of conflict and hiding the unethical practices which intum prevents situation from legal proceedings.

11. Cyber Ethics.

Ans :

Meaning

Cyberethics is a branch of computer technology behavior that defines the best practices that must be adopted by a user when he uses the computer system. In simple terms, cyberethics refers to the basic ethics and etiquette that must be followed while using a computer system. Ethics, in general, refers to propagating good behavior, similarly by cyber ethics we refer to propagating good behavior online that is not harsh or rude.

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Choose the Correct Answer

1. The process of implementing the objective into actual practice becomes the executivea. [b]

   (a) Function of workers (b) Function of management

   (c) Function of unions (d) labours

2. ________ is defined as a group of people working together to create a surplus. [b]

   (a) Routline (b) Organisation

   (c) System (d) Military

3. ________ is defined as the right of a person to guide. [d]

   (a) Democracy (b) Responsibility

   (c) Freedom (d) Authority

4. It is a multipurpose organ that manages a business and manages managers and manages work and the workers. this was stated by ________. [b]

   (a) Hellrigel (b) Peter drucker

   (c) harold koontz (d) FW taylor

5. Any business that has productive activities in two or more countries is called ________. [a]

   (a) Multinational enterprise (b) Multiglobal enterprise

   (c) Multilocational enterprise (d) Multilevel firm

6. The quest to maximize profitability should be constrained by ________. [a]

   (a) Ethical obligations (b) Unethical obligations

   (c) stakeholders (d) lack of social responsibility

7. ________ behavior tends to arise when mangers decide to put the attainment of their own personal goals, or the goals of the organization, above the fundamental rights of one or more stakeholder groups. [c]

   (a) Complementary (b) Situational

   (c) Unethical (d) Confusing

8. Accepted principles of right or wrong governing the conduct of businesspeople are called ________.

   [c]

   (a) Business values (b) Business conduct

   (c) Business ethics (d) Business principles

9. The process by which companies identify the most important stakeholders is called ________. [d]

   (a) Shareholder impact evaluation
   (b) Stakeholder importance evaluation
   (c) shareholder analysis
   (d) stakeholder impact analysis

10. A unique strength that rivals lack is called ________. [a]

   (a) Distinctive competency
   (b) Scope advantage
   (c) Horizontal advantage
   (d) Legacy constraint

Fill in the Blanks

1. _______ ethics refer to the moral standards demonstrated by the professionals working in the business of managing, promoting, marketing or developing (products).
2. _______ management comprises supervising and managing a set of predetermined processes and activities, being carried out by people.
3. _______ is the place where people interface and interact with a company's people, products and services.
4. _______ is the art of recruiting, training and sustaining an able work force to 'efficiently accomplish the objectives of an organization.
5. _______ is concerned broadly with the generation, allocation, and management of monetary resources for any purpose.
6. _______ responsibility on advertisers.
7. _______ 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.
8. _______ of people is the primary indicator of good governance of the country and well-being of its society.
9. A _______ is a situation that requires a choice between equally balanced arguments or a predicament that seemingly defies a satisfactory solution.
10. An _______ is a moral situation in which a choice has to be made between two equally undesirable alternatives.

ANSWERS

1. Professional
2. Production
3. Market
4. Human Resource Management
5. Finance
6. Social
7. Consumer
8. Health
9. Dilemma
10. Ethical Dilemma

One Mark Answers

1. Professional Ethics.

Ans :

Professional ethics is defined as the personal and corporate rules that govern behaviour within the context of a particular profession.

2. Principle of Confidentiality.

Ans :

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

3. Ambiguity.

Ans :

Ambiguous advertisements are mostly deceiving for customers. Advertisements become ambiguous when they are wrongly interpreted and also with, the use of words through which organizations can avoid making direct statements.

4. Exaggeration.

Ans :

Organizations may mislead the customers by providing exaggerated information in the advertisements of their products. The exaggerated information is information that is not supported by evidence.

5. Dilemma.

Ans :

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

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, Problems of Governance in Companies, Role of Capital Markets, Regulator, Government in Corporate Governance.

3.1 Introduction to Corporate Governance

Q1. Define Corporate Governance.

(OR)

What is meant by Corporate Governance?

Ans :

Meaning

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market-oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment

Definitions

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

(ii) **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".

(iii) **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 nature and objectives of corporate governance.

Ans :

Nature

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

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 of equal 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.

Q3. What are the benefits and limitations of corporate governance?

Ans :

Benefits

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

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 understanding 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.

Q4. Discuss the scope of corporate governance.

Ans :

Corporate governance has following scope:

1. Auditors

The role placed by external auditors in corporate governance is very significant. The tradition of appointing auditors by the stakeholders on their own is being followed since 19th century. Since these auditors are known to the stakeholders, the chances of misuse and misrepresentation of reports is minimized. 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 modem 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 scrutinize 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, distributers, wholesalers, retailers, consumers, etc., contractual stakeholders are also considered as an important element of corporate governance.

Q5. Explain the principles of corporate governance.

Ans :

The fundamental or key principles of corporate governance are described below:

(i) Transparency

Transparency means the quality of something which enables one to understand the truth easily. In the context of corporate governance, it implies an accurate, adequate and timely disclosure of relevant information about the operating results etc. of the corporate enterprise to the stakeholders.

In fact, transparency is the foundation of corporate governance; which helps to develop a high level of public confidence in the corporate sector. For ensuring transparency in corporate administration, a company should publish relevant information about corporate affairs in leading newspapers, e.g., on a quarterly or half yearly or annual basis.

(ii) Accountability

Accountability is a liability to explain the results of one's decisions taken in the interest of others. In the context of corporate governance, accountability implies the responsibility of the Chairman, the Board of Directors and the chief executive for the use of company's resources (over which they have authority) in the best interest of company and its stakeholders.

(iii) Independence

Good corporate governance requires independence on the part of the top management of the corporation i.e. the Board of Directors must be strong non-partisan body; so that it can take all corporate decisions based on business prudence. Without the top management of the company being independent; good corporate governance is only a mere dream.

3.2 Major Corporate Governance Failures

Q6. Discuss in detail about Major Corporate Governance Failures.

Ans : **(Imp.)**

1. Failure of Corporate Governance at ENRON

ENRON is a corporate company in which no single day has ended without fraudulent practices. A new fraud used to be found everytime. The top level management of ENRON encouraged a culture where breaking the rules and fraudulent practices were permitted. Employees of ENRON used to generate profits by breaking the company specified standards of ethics and by ignoring company's strategic goals. ENRON company had Corporate Social Responsibility (CSR) team and code of conduct related to social investment, security, public engagement and human rights but no one in the company followed code of conduct. The board of directors of the company permitted the management to disobey code of conduct. The audit committee failed to check the accounting practices in ENRON. All these resulted in corporate governance failure at ENRON.

2. Failure of Corporate Governance at Sahara Group

Subrata Roy was the chairman of sahara group. Roy was one of the successful businessman and had a passion for sports. A suit was filed against sahara group saying that it failed to refund around ` 20,000 crores to more than 30 million investors. The amount ` 20,000 crores was collected by sahara group via two unlisted companies of Sahara.

In the year 2011, SEBI (Securities and Exchange Board of India) instructed sahara group to refund the amount to investors with interest. On 28th February 2014, Subrata Roy was put in jail. SEBI and the court refused to accept the proposal of Roy concerning settlement of the issue.

3. Failure of Corporate Governance at Speak Asia

Ram Sumiran Pal was a founder of Speak Asia. It was an online trading company. Ram Sumiran Pal and its associates deceived around 24 lakhs investors for ` 2,200 crores in the fraudulent practice extending to Italy, Brazil and Singapore.

4. Failure of Corporate Governance at Saradha Chit Fund

Saradha Chit Fund was located in West Bengal. This chit fund company had acquired around 200-300 billion rupees from investors. Saradha chit fund company ensured investors that they will get high returns from their investments. The investors lost around 2060 to 2400 crores due to the fraudulent practice of Saradha chit fund chaired by Sudipta Sen.

3.3 Need for Corporate Governance

Q7. Explain the need for corporate governance.

Ans : **(Imp.)**

The need for corporate governance is highlighted by the following factors:

(i) Wide Spread of Shareholders

Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganized and having an indifferent attitude towards corporate affairs. The idea of shareholders' democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate governance.

(ii) Changing Ownership Structure

The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors (foreign as well Indian) and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

(iii) Corporate Scams or Scandals

Public confidence in corporate management. The event of Harshad Mehta scandal, which is perhaps, one biggest scandal, is in the heart and mind of all, connected with corporate shareholding or otherwise being educated and socially conscious.

The need for corporate governance is, then, imperative for reviving investors' confidence in the corporate sector towards the economic development of society.

3.4 Corporate Governance in India

Q8. Discuss about Corporate Governance in India present, past and future.

(OR)

Write a short notes on Corporate Governance in India.

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

Good corporate governance in the changing business environment has emerged as powerful tool of competitiveness and sustainability. It is very important at this point and it needs corporation for one and all i.e. from CEO of company to the ordinary staff for the maximization of the stakeholders' value and also for maximization of pleasure and minimization of pain for the long term business.

Global competitions in the market need best planning, management, innovative ideas, compliance with laws, good relation between directors, shareholders, employees and customers of companies, value based corporate governance in order to grow, prosper and compete in international markets by strengthen their strength overcoming their weaknesses and running them effectively and efficiently in an efficient and transparent manner by adopting the best practices.

Corporate India must commit itself as reliable, innovative and prompt service provider to their customers and should also become reliable business partners in order to prosper and to have all round growth.

Corporate Governance is nothing more than a set of ideas, innovation, creativity, thinking having certain ethics, values, principles etc which gives direction and shape to its people, employees and owners of companies and help them to flourish in global market.

Indian Corporate Bodies having adopted good corporate governance will reach themselves to a benchmark for rest of the world; it brings laurels as a way of appreciation. Corporate governance lays down ethics, values, and principles, management policies of a corporation which are inculcated and brought into practice. The importance of corporate governance lies in promoting and maintains integrity, transparency and accountability throughout the organization.

Corporate governance has existed since past but it was in different form. During Vedic times kings used to have their ministers and used to have ethics, values, principles and laws to run their state but today it is in the form corporate governance having same rules, laws, ethics, values, and morals etc which helps in running corporate bodies in the more effective ways so that they in the age of globalization become global giants.

Several Indian Companies like Pepsi Co, Infuses, Tata, Wipro, TCS, and Reliance are some of the global giants which have their flag of success flying high in the sky due to good corporate governance.

Today, even law has a great role to play in successful and growing economy. Government and judiciary have enacted several laws and regulations like SEBI, FEMA, Cyber laws, Competition laws etc and have brought several amendments and repeal the laws in order that they don't act as barrier for these corporate bodies and developing India. Judiciary has also helped in great way by solving the corporate disputes in speedy way.

Corporate bodies have their aim, values, motto, ethics and principles etc which guide them to the ladder of success. Big and small organizations have their magazines annual reports which reflect their achievements, failure, their profit and loss, their current position in the market. A few companies have also shown awareness of environment protection, social responsibilities and the cause of upliftment and social development and they have deeply committed themselves to it. The big example of such a company can be of Deepak Fertilizers and Petrochemicals Corporation Limited which also bagged 2nd runner up award for the corporate social responsibility by business world in 2005.

Under the present scenario, stakeholders are given more importance as to shareholders, they even get chance to attend, vote at general meetings, make observations and comments on the performance of the company.

Corporate governance from the futuristic point of view has great role to play. The corporate bodies in their corporate have much futuristic approach. They have vision for their company, on which they work for the future success. They take risk and adopt innovative ideas, have futuristic goals, motto, and future objectives to achieve.

With increase in interdependence and free trade among countries and citizens across the globe, internationally accepted corporate governance standards are of paramount importance for Indian Companies seeking to distinguish themselves in global footprint. The companies should always keep improving, enhancing and upgrading themselves by bringing more reliable integrated product and service quality. They should be more transparent in their conduct.

Corporate governance should also have approach of holistic view, value based governance, should be committed towards corporate social upliftment and social responsibility and environment protection. It also involves creative, generative and positive things that add value to the various stakeholders that are served as customers. Be it finance, taxation, banking or legal framework each and every place requires good corporate governance.

Hence corporate governance is a means and not an end, corporate excellence should be end.

Q9. Explain important issues in corporate governance.

Ans :

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, 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 [5]

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 [6]

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.

3.5 Theories of Corporate Governance

Q10. 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

Q11. What is the meaning of agency?

Ans :

An agent is a person who works for, or on behalf of, another. Thus, an employee is an agent of a company. But agency extends beyond employee relationships. Independent contractors are also agents. Advertising firms, lawyers, and accountants are agents of their clients. The CEO of a company is an agent of the board of directors of the company. A grocery store is an agent of the manufacturer of corn chips sold in the store. Thus, the agency relationship extends beyond the employee into many different economic relationships. The entity – person or corporation – on whose behalf an agent works is called a principal.

Agency theory is the study of incentives provided to agents. Incentives are an issue because agents need not have the same interests and goals as the principal. Employees spend billions of hours every year browsing the Web, e-mailing friends, and playing computer games while they are supposedly working. Attorneys hired to defend a corporation in a lawsuit have an incentive not to settle, to keep the billing flowing. (Such behavior would violate the attorneys' ethics requirements.) Automobile repair shops have been known to use substandard or used replacement parts and bill for new, high-quality parts. These are all examples of a conflict in the incentives of the agent and the goals of the principal.

Agency theory focuses on the cost of providing incentives. When you rent a car, an agency relationship is created. Even though a car rental company is called an agency, it is most useful to look at the renter as the agent because it is the renter's behavior that is an issue. The company would like the agent to treat the car as if it were her own car. The renter, in contrast, knows it isn't her own car and often drives accordingly.

Q12. What is an agency theory? Discuss its importance and functions.

Ans :

Agency theories arise from the distinction between the owners (shareholders) of a company or an organization designated as "the principals" and the executives hired to manage the organization called "the agent." Agency theory argues that the goal of the agent is different from that of the principals, and they are conflicting.

The assumption is that the principals suffer an agency loss, which is a lesser return on investment because they do not directly manage the company. Part of the return that they could have had if they were managing the company directly goes to the agent. Consequently, agency theories suggest financial rewards that can help incentivize executives to maximize the profit of owners. Further, a board developed from the perspective of the agency theory tends to exercise strict control, supervision, and monitoring of the performance of the agent in order to protect the interests of the principals. In other words, the board is actively involved in most of the managerial decision making processes, and is accountable to the shareholders. A nonprofit board that operates through the lens of agency theories will show a hands-on management approach on behalf of the stakeholders.

Agency theory relative to corporate governance assumes a two-tier form of firm control: managers and owners. Agency theory holds that there will be some friction and mistrust between these two groups. The basic structure of the corporation, therefore, is the web of contractual relations among different interest groups with a stake in the company.

(i) Features

In general, there are three sets of interest groups within the firm. Managers, stockholders and creditors (such as banks). Stockholders often have conflicts with both banks and managers, since their general priorities are different. Managers seek quick profits that increase their own wealth, power and reputation, while shareholders are more interested in slow and steady growth over time.

(ii) Function

The purpose of agency theory is to identify points of conflict among corporate interest groups. Banks want to reduce risk while shareholders want to reasonably maximize profits. Managers are even more risky with profit maximization, since their own careers are based on the ability to turn profits to then show the board. The fact that modern corporations are based on these relations creates costs in that each group is trying to control the others.

(iii) Costs

One of the major insights of agency theory is the concept of costs of maintaining the division of labor among credit holders, shareholders and managers. Managers have the advantage of information, since they know the firm close up. They can use this to enhance their own reputations at the expense of shareholders. Limiting the control of managers itself contains costs (such as reduced profits), while profit seeking in risky ventures might alienate banks and other financial institutions. Monitoring and limiting managers itself contains sometimes substantial costs to the firm.

(iv) Significance

The agency model of corporate governance holds that firms are basically units of conflict rather than unitary, profit-seeking machines. This conflict is not aberrant but built directly into the structure of modern corporations.

(v) Effects

It is possible, if one accepts the premises of agency theory, that corporations are actually groups of connected fiefs. Each fief has its own specific interest and culture and views the purpose of the firm differently. In analyzing the function of a corporation, one can assume that managers will behave in a way to maximize their own profit and reputation, even at the expense of shareholders. One might even understand the manager's role as one of institutionalized deceit, where the asymmetry of knowledge permits managers to operate with almost total independence.

Q13. Discuss the role of agency theory in corporate governance.

Ans :

- Agency theory is used to understand the relationships between agents and principals.
- The agent represents the principal in a particular business transaction and is expected to represent the best interests of the principal without regard for self-interest.
- The different interests of principals and agents may become a source of conflict, as some agents may not perfectly act in the principal's best interests.
- The resulting miscommunication and disagreement may result in various problems within companies.
- Incompatible desires may drive a wedge between each stakeholder and cause inefficiencies and financial losses. This leads to the principal-agent problem.
- The principal-agent problem occurs when the interests of a principal and agent are in conflict. Companies should seek to minimize these situations through solid corporate policy.
- These conflicts present normally ethical individuals with opportunities for moral hazard. Incentives may be used to redirect the behavior of the agent to realign these interests with the principal's.
- Corporate governance can be used to change the rules under which the agent operates and restore the principal's interests.

- The principal, by employing the agent to represent the principal's interests, must overcome a lack of information about the agent's performance of the task.
- Agents must have incentives encouraging them to act in unison with the principal's interests. Agency theory may be used to design these incentives appropriately by considering what interests motivate the agent to act.
- Incentives encouraging the wrong behavior must be removed and rules discouraging moral hazard must be in place.
- Understanding the mechanisms that create problems helps businesses develop better corporate policy.

3.5.2 Stewardship Theory

Q14. What is Stewardship Theory in corporate governance?

(OR)

Give a detail note on Stewardship Theory.

Ans : **(Jan.-20)**

Stewardship theories argue that the managers or executives of a company are stewards of the owners, and both groups share common goals. Therefore, the board should not be too controlling, as agency theories would suggest. The board should play a supportive role by empowering executives and, in turn, increase the potential for higher performance. Stewardship theories argue for relationships between board and executives that involve training, mentoring, and shared decision making.

Most theories of corporate governance use personal self interest as a starting point. Stewardship theory, however, rejects self-interest. Agency theory begins from self-interested behavior and rests on dealing with the cost inherent in separating ownership from control. Managers are assumed to work to improve their own position while the board seeks to control managers and hence, close the gap between the two structures.

Motivation

For stewardship theory, managers seek other ends besides financial ones. These include a sense of worth, altruism, a good reputation, a job well done, a feeling of satisfaction and a sense of purpose. The stewardship theory holds that managers inherently seek to do a good job, maximize company profits and bring good returns to stockholders. They do not necessarily do this for their own financial interest, but because they feel a strong duty to the firm.

Identification

Agency and stewardship theories begin from two very different premises. The basic agency problem revolves around individuals considering themselves only as individuals, without any other meaningful attachments. However, stewardship theory holds that individuals in management positions do not primarily consider themselves as isolated individuals. Instead, they consider themselves part of the firm. Managers, according to stewardship theory, merge their ego and sense of worth with the reputation of the firm.

Policies

If a firm adopts a stewardship mode of governance, certain policies naturally follow. Firms will spell out in detail the roles and expectations of managers. These expectations will be highly goal-oriented and designed to evoke the manager's sense of ability and worth. Stewardship theory advocates managers who are free to pursue their own goals. It naturally follows from this that managers are naturally "company men" who will put the firm ahead of their own ends. Freedom will be used for the good of the firm.

Consequences

The consequences of stewardship theory revolve around the sense that the individualistic agency theory is overdrawn. Trust, all other things being equal, is justified between managers and board members. In situations where the CEO is not the chairman of the board, the board can rest assured that a long-term CEO will seek primarily to be a good manager, not a rich man. Alternatively, having a CEO who is also chairman is not a problem, since there is no good reason that he will use that position to enrich himself at the expense of the firm.

Put differently, stewardship theory holds that managers do want to be richly rewarded for their efforts, but that no manager wants this to be at the expense of the firm.

3.5.3 Stakeholder Theory

Q15. Describe the Stakeholder Theory in corporate governance.

Ans : **(May-22)**

Stakeholder theory considers a broad range of constituents rather than focussing on shareholders. Generally, when the focus is laid on shareholders, it is obvious that the shareholder value would increase. On the other hand, if the company focuses on a large stakeholder group which includes customers, employees, government, suppliers, local community and credit providers, then there would be less emphasis on shareholder value. However, there are many companies that not only try to increase shareholder value but at the same time, they consider the interest of the broader stakeholder group. The main reason for preferring shareholders over stakeholders is that they are the ones who receive extra free cash. This shows that the shareholders try to effectively utilize the resources in the best possible manner which in turn should benefit the society at large.

The stakeholder theory represents a combination of behavioural science, business ethics, economics and the stakeholder concept. The theory acts as the base for many normative theoretical point of views involving ethics of care, the ethics of fiduciary relationship, social contract theory, communitarianism ethics, critical theory, theory of stakeholders as investors, theory of property rights and so on.

Criticisms of Stakeholder Theory

The criticisms of stakeholder theory are,

1. The first problem with this theory is that it is difficult to define the concept. There is no specific list of stakeholders. Every author has their own set of stakeholders.
2. The stakeholder theory is mainly criticized due to its in applicability in practice by corporations.
3. The other reason behind criticizing stakeholder theory is that there is only very less amount of relative evidence for recommending a linkage or relationship between stakeholder concept and corporate performance.
4. According to Clive Smallman, the stakeholder model has given an opportunity to agents to divert wealth from shareholders to others which will result in corruption and confusion.
5. Critics point out that the theory doesn't deal with the problem of balancing the conflicting interest of different stakeholders.

3.6 Problems of Governance in Companies

Q16. Discuss the problems encounted in corporate governance.

(OR)

Explain important issues in corporate governance.

Ans : **(Imp.)**

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, 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 Role of Capital Markets

Q17. What is Capital Market? Explain the features of Capital Market.

Ans : **(Imp.)**

Meaning

'The term 'capital market' refers to the institutional arrangements for facilitating the borrowing and lending of long-term funds.

In the widest sense, it consists of a series of channels through which the savings of the community are made available for industrial and commercial enterprises and public authorities. It is concerned with those private savings, individual as well as corporate, that are turned in investments through new capital issues and also new public loans floated by government and semi-government bodies.

A capital market may be defined as an organized mechanism for effective and efficient transfer of money- capital or financial resources from the investing parties, i.e., individuals or institutional savers to the entrepreneurs (individuals or institutions) engaged in industry or commerce in the business would either be in the private or public sectors of an economy.

Definitions

(i) According to P.K. Dhar, "This is not a market for capital goods; rather it is a market for raising and advancing money capital for investment purposes".

(ii) According to M.Y. Khan, "It is a market for long-term funds. Its focus is on financing of fixed investments in contrast to money market which is the institutional source of working capital finance".

Features

Following are the features of a capital market:

1. Securities Market

The dealings in a capital market are done through the securities like shares, debentures, etc. The capital market is thus called securities market.

2. Security Prices

The price of securities that are dealt with in the capital market is determined through the general laws of demand and supply. The equilibrium in demand and supply of securities is brought about by the prices. The price depends upon a large number of factors such as the following:

(i) Yield on securities,

(ii) Extent of funds available from public savings,

(iii) Level of demand for funds,

(iv) Flow of funds from the banking system,

(v) Price situation in general,

(vi) Attitude towards liquidity on the part of investors.

3, Participants

There are many players in the capital market. The participants constitute a plethora of institutions, which provide a wide variety of services of access to capital. The capital is either directly supplied or arranged through financial intermediaries. These intermediaries form the basic structure of a capital market. The participants in the capital market include:

(i) Financial intermediaries like insurance companies, investment companies, pension funds, etc.

(ii) Non-financial business enterprises.

(iii) Ultimate economic units like households and governments.

4. Location

It is interesting to note that the capital market is not confined to certain specific locations, although it is true that parts of the market are concentrated in certain well-known centers known as Stock Exchange's. It exists all over the economy, wherever suppliers and users of capital get together and do business,

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Q18. Explain the structure and functions of Capital Market.

Ans : **(Imp.)**

Structure

The structure of Indian capital market is divided into two broad categories:

1. Primary Market

The primary market represents the new issue market where new securities, i.e. shares or bonds that have never been previously issued, are offered. Both the new companies and the existing ones can raise capital on the new issue market. The prime function of the new issue market is to facilitate the transfer of funds from the willing investors to the entrepreneurs setting up new corporate enterprises or going in for expansion, diversification, growth or modernisation. Besides, helping corporate enterprises in securing their funds, the new issue market channelizes the savings of individuals and other into investments.

2. Secondary Market

The secondary market, also known as the 'aftermarket', is the financial market where previously issued securities and financial instruments such as stock, bonds, options and futures are bought and sold. The term "secondary market" is also used to refer to the market for any used goods or assets or an alternative use for an existing product or asset where the customer base is the second market (e.g., com has been traditionally used primarily for food production and feedstock, but a second - or third - market has developed for use in ethanol production).

In the secondary markets, existing securities are sold and bought among investors or traders, usually on a organised securities exchange and over-the-counter, or elsewhere.

There are two types of capital market securities: those that represent shares of ownership interest, also called equity, issued by corporations, and those that represent indebtedness, or debt issued by corporations and by the state and local governments.

Functions

Role/functions that are performed by the capital market are explained below:

1. Allocation Function

Capital market allows for the channelisation of the savings of innumerable investors into various productive avenues of investments. Accordingly, the current savings for a period are allocated amongst the various users and uses. The market attracts new investors who are willing to make new funds available to business. It also allocates and rations funds by a system of incentives and penalties.

2. Liquidity Function

Capital market provides a means whereby buyers and sellers can exchange securities at mutually satisfactory prices. This allows better liquidity for the securities that are traded.

3. Other Functions

In addition to the functions of funds allocation and liquidity, capital market also renders the following functions:

(i) Indicative Function

A capital market acts as a barometer showing not only the progress of a company, but also of the economy as a whole through share price movements.

(ii) Savings and Investment Function

Capital market provides a means of quickly converting long-term investment into liquid funds, thereby generating confidence among investors and speeding up the process of saving and investment.

(iii) Transfer Function

Capital market facilitates the transfer of existing assets - tangible and intangible - among individual economic units or groups.

(iv) Merger Function

Capital market encourages voluntary or coercive take-over mechanism to put the management of inefficient companies into more competent hands.

Q19. Explain the role of Government in Capital Market.

Ans :

Governments generally say they do not like to take an active role in the securities market (except for regulating it); however, there are methods and policies by which the government's actions may have an indirect influence S)n the market.

Fiscal policies that affect the taxation of capital gains, dividends and interest gains may eventually have an effect on market activity.

For example, favourable policies such as tax cuts could persuade investors to become more active in buying and selling securities, while unfavourable policies might cause individuals to move to fixed-income securities or alternative investments (such as real estate or other appreciable assets).

Furthermore, through monetary policies, governments can indirectly involve themselves in the market by adjusting interest rates and taking part in open-market operations. In theory, cutting rates will discourage investors and companies from putting (or parking) their money into fixed-income investments the lower rates instead may encourage borrowing for investment purposes. The market is also affected by the bills and laws passed by the various levels of government.

3.7.1 Regulator, Government in Corporate Governance

Q20. Discuss the role of Regulator in Corporate Governance.

Ans : **(May-22, Imp.)**

Regulators play an important role in governing a corporation in a better manner. A company is required to deal with various types of regulators for performing different types of business activities. For example, For incorporation purpose, one needs to comply with the company law provisions of the country and various other requirements to carryout the business. All types of companies whether public limited or private limited, have to comply with some or the other laws. However, The laws to private limited companies may differ from laws applicable to public limited companies.

Generally, there exist common regulators who have controls that are macro in nature and are applicable to all the corporates throughout the industries. Apart from common regulation, there are industry specific regulators like,

(i) Reverse Bank India (RBI) for banking companies and non-banking financial entities.

(ii) Insurance Regulatory and Development Authority (IRDA) for regulating insurance companies.

(iii) Pension fund Regulatory and Development Authority (PFRDA) for regulating pension funds.

These specific regulators use their regulatory powers to same specific industries which come under them. The other regulators include,

(iv) Securities and Exchange Board of India (SEBI) and

(v) Department of Company Affairs (DCA)

Q21. Explain the role of government in ensuring corporate governance.

Ans : **(Imp.)**

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 globalization.

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.

Q22. Why is it necessary that corporate governance is more important in banking companies that in others? Discuss, substantiate your answer with suitable examples.

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

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.

Short Question & Answers

1. Define Corporate Governance.

Ans :

Meaning

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

2. Corporate Governance in India.

Ans :

Good corporate governance in the changing business environment has emerged as powerful tool of competitiveness and sustainability. It is very important at this point and it needs corporation for one and all i.e. from CEO of company to the ordinary staff for the maximization of the stakeholders' value and also for maximization of pleasure and minimization of pain for the long term business.

Global competitions in the market need best planning, management, innovative ideas, compliance with laws, good relation between directors, shareholders, employees and customers of companies, value based corporate governance in order to grow, prosper and compete in international markets by strengthen their strength overcoming their weaknesses and running them effectively and efficiently in an efficient and transparent manner by adopting the best practices.

Corporate India must commit itself as reliable, innovative and prompt service provider to their customers and should also become reliable business partners in order to prosper and to have all round growth.

3. What is an agency theory?

Ans :

Agency theories arise from the distinction between the owners (shareholders) of a company or an organization designated as "the principals" and the executives hired to manage the organization called "the agent." Agency theory argues that the goal of the agent is different from that of the principals, and they are conflicting.

The assumption is that the principals suffer an agency loss, which is a lesser return on investment because they do not directly manage the company. Part of the return that they could have had if they were managing the company directly goes to the agent. Consequently, agency theories suggest financial rewards that can help incentivize executives to maximize the profit of owners. Further, a board developed from the perspective of the agency theory tends to exercise strict control, supervision, and monitoring of the performance of the agent in order to protect the interests of the principals. In other words, the board is actively involved in most of the managerial decision making processes, and is accountable to the shareholders. A nonprofit board that operates through the lens of agency theories will show a hands-on management approach on behalf of the stakeholders.

4. Criticisms of Stakeholder Theory.

Ans :

The criticisms of stakeholder theory are:

1. The first problem with this theory is that it is difficult to define the concept. There is no specific list of stakeholders. Every author has their own set of stakeholders.

2. The stakeholder theory is mainly criticized due to its in applicability in practice by corporations.

3. The other reason behind criticizing stakeholder theory is that there is only very less amount of relative evidence for recommending a linkage or relationship between stakeholder concept and corporate performance.

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5. Problems encounted in corporate governance.

Ans :

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, Banking Laws etc.

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6. What is Capital Market?

Ans :

Meaning

'The term 'capital market' refers to the institutional arrangements for facilitating the borrowing and lending of long-term funds.

In the widest sense, it consists of a series of channels through which the savings of the community are made available for industrial and commercial enterprises and public authorities. It is concerned with those private savings, individual as well as corporate, that are turned in investments through new capital issues and also new public loans floated by government and semi-government bodies.

A capital market may be defined as an organized mechanism for effective and efficient transfer of money- capital or financial resources from the investing parties, i.e., individuals or institutional savers to the entrepreneurs (individuals or institutions) engaged in industry or commerce in the business would either be in the private or public sectors of an economy.

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7. Functions of Capital Market.

Ans :

1. Allocation Function

Capital market allows for the channelisation of the savings of innumerable investors into various productive avenues of investments. Accordingly, the current savings for a period are allocated amongst the various users and uses. The market attracts new investors who are willing to make new funds available to business. It also allocates and rations funds by a system of incentives and penalties.

2. Liquidity Function

Capital market provides a means whereby buyers and sellers can exchange securities at mutually satisfactory prices. This allows better liquidity for the securities that are traded.

8. Principles of Corporate Governance.

Ans :

The fundamental or key principles of corporate governance are described below:

(i) Transparency

Transparency means the quality of something which enables one to understand the truth easily. In the context of corporate gover- nance, it implies an accurate, adequate and timely disclosure of relevant information about the operating results etc. of the corporate enterprise to the stakeholders.

In fact, transparency is the foundation of corporate governance; which helps to develop a high level of public confidence in the corporate sector. For ensuring trans-parency in corporate administration, a company should publish relevant information about corporate affairs in leading newspapers, e.g., on a quarterly or half yearly or annual basis.

(ii) Accountability

Accountability is a liability to explain the results of one's decisions taken in the interest of others. In the context of corporate governance, accountability implies the responsibility of the Chairman, the Board of Directors and the chief executive for the use of company's resources (over which they have authority) in the best interest of company and its stakeholders.

(iii) Independence

Good corporate governance requires independence on the part of the top management of the corporation i.e. the Board of Directors must be strong non-partisan body; so that it can take all corporate decisions based on business prudence. Without the top management of the company being independent; good corporate governance is only a mere dream.

9. Need for corporate governance.

Ans :

The need for corporate governance is highlighted by the following factors:

(i) Wide Spread of Shareholders

Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganized and having an indifferent attitude towards corporate affairs. The idea of shareholders' democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate governance.

(ii) Changing Ownership Structure

The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors (foreign as well Indian) and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

10. Meaning of Agency.

Ans :

An agent is a person who works for, or on behalf of, another. Thus, an employee is an agent of a company. But agency extends beyond employee relationships. Independent contractors are also agents. Advertising firms, lawyers, and accountants are agents of their clients. The CEO of a company is an agent of the board of directors of the company. A grocery store is an agent of the manufacturer of corn chips sold in the store. Thus, the agency relationship extends beyond the employee into many different economic relationships. The entity – person or corporation – on whose behalf an agent works is called a principal.

Choose the Correct Answers

1. The foundation for corporate culture are laid by ______ [c]
   (a) Corporate members (b) Competitors
   (c) Founders (d) Industry standard
2. An organization's ______ embraces the behavior, rituals and shared meaning held by employees that distinguishes the organization from all others. [b]
   (a) External environment (b) Culture
   (c) Dominant culture (d) Ethics
3. Components of corporate culture includes ______ [d]
   (a) Vision and values (b) Practices and people
   (c) Narrative and place (d) All of these
4. The primary stakeholders area. Consumers ______ [c]
   (a) Consumers (b) Suppliers
   (c) Shareholders (d) Creditors
5. The corporate governance structure of a company reflects the individual companiesa. [d]
   (a) Cultural & economic system (b) Legal & business system
   (c) Social & regulatory system (d) All of these
6. Corporate governance is a form of- [b]
   (a) External regulation (b) Self regulation
   (c) Government control (d) Charitable action
7. Which of the following is/are feature of corporate governance? [b]
   (a) Non - universality (b) Accountability
   (c) Ambiguity (d) None of these
8. There are usually ______ key participants in corporate governance. [a]
   (a) Three (b) Four
   (c) Five (d) Eight
9. Corporate governance is a ______ approach. [a]
   (a) Top-down (b) Bottom-up
   (c) Hybrid (d) Scientific
10. Corporate governance is concerned with the formation of ______ term objective [d]
    (a) Very short (b) Short
    (c) Medium (d) Long

Fill in the Blanks

1. ______ Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment.
2. ______ means the quality of something which enables one to understand the truth easily.
3. ______ is a liability to explain the results of one's decisions taken in the interest of others.
4. ______ is a corporate company in which no single day has ended without fraudulent practices.
5. Good ______ governance in the changing business environment has emerged as powerful tool of competitiveness and sustainability.
6. An ______ is a person who works for, or on behalf of, another.
7. The purpose of agency theory is to identify points of conflict among ______ groups.
8. ______ theory considers a broad range of constituents rather than focussing on shareholders.
9. SEBI stands for ______
10. 'The term ______ refers to the institutional arrangements for facilitating the borrowing and lending of long-term funds.

ANSWERS

1. Corporate
2. Transparency
3. Accountability
4. ENRON
5. Corporate
6. Agent
7. Corporate Interest
8. Stakeholder
9. Securities Exchange Board Of India
10. Capital Market

One Mark Answers

1. Corporate Governance.

Ans :

"Corporate governance is defined as the system by which companies are directed and controlled".

2. Stakeholder Theory.

Ans :

Stakeholder theory considers a broad range of constituents rather than focussing on shareholders. Generally, when the focus is laid on shareholders, it is obvious that the shareholder value would increase.

3. Capital Markets.

Ans :

The term 'capital market' refers to the institutional arrangements for facilitating the borrowing and lending of long-term funds.

4. Primary Market.

Ans :

The primary market represents the new issue market where new securities, i.e. shares or bonds that have never been previously issued, are offered.

5. Secondary Market.

Ans :

The secondary market, also known as the 'aftermarket', is the financial market where previously issued securities and financial instruments such as stock, bonds, options and futures are bought and sold.

UNIT IV	**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 Board:** Types of Directors Functions of the Board, Structure of the Board, Role of the Board in Subcommittees, Audit, Compensation Committee, Role, Duties and Responsibilities of Directors, Conflicts of Interest, Remedial Actions. Governance Ratings, Merits and Demerits of Governance Ratings.

4.1 Global Reporting Initiative

Q1. Explain in detail about Global Reporting Initiative.

Ans : **(Imp.)**

The socially responsible investors and environ-mentalists after bearing the effects of Exon Valdez oil spill in 1989, formed as a group called "Coalition for Environmentally Responsible Economies" (CERES). In the early stages of formation, the group generated standardized environmental reports by adopting a set of principles. The non-corporate members from various sectors also joined the group. The group is concerned with maintaining transparency in the environmental and social friendly practices/policies used by the corporates. This group has developed the global reporting initiative to create a common platform for reporting the social, environmental and economic problems. The GRI's approach towards the problems is different from the regular procedures such as avoiding the product, transforming the corporate's approach, filing law suits etc. Rather it supports the firms to enhance their performance/quality by disclosing the negative and positive effects of their activities in a status quo.

The set of standards for environmental and social reporting acts as a window for all the shareholders, creditors and public to keep a watch on the internal operations of the firm, risks, health aspects and its viability. GRI provides standard guidelines on how to prepare a report on environmental and social aspect. GRI reporting helps the corporates to gain competitive advantage by maintaining transparency. Most of the companies like Intel, HP, P & G etc., in recent years started developing reports based on GRI guidelines.

GRI Guidelines

These guidelines forms the core of the GRI reporting framework. The GRI guidelines consists of two parts.

Part-1 consists of the principles and guidelines for reporting.

(i) The principles to explain the content to be reported - it should be material, sustainable and complete.

(ii) The principles to explain the quality of the report - it should be balanced, comparable, accurate, time-specific, reliable and clear.

Part-2 Consist of the standard disclosures

(i) Strategy and profile of the company.

(ii) Approach of management.

(iii) Performance indicators used by the company.

4.2 OECD Principles

Q2. What do you mean by OECD Principles? Explain the elements of OECD Principles.

(OR)

"Governance is more than just board process and procedures". Discuss this statement in view of the OECD Principles of corporate governance.

Ans : **(May-22, Oct.-21, Oct.-20, Imp.)**

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

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.

4.3 Cadbury Committee Report

Q3. Describe Cadbury Committee in emergency of corporate governance.

(OR)

Elicit the recommendations of Cadbury Committee Report.

Ans : **(Jan.-20)**

Meaning

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, performance, 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 reappointment 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 recommendations 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 qualifications, 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 prepares 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.

4.4 Kumara Mangalam Birla Committee Report

Q4. Describe SEBI initiatives in corporate governance with the help of Kumara Mangalam Birla Committee Report.

Ans :

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 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-financial, 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 at the same time not ignoring the needs of other stakeholders.

Q5. Explain the major recommodations of Kumara Mangalam Birla Committee Report.

Ans : **(Imp.)**

I) 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 Biria 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 percent of the Board if one of them is the chairman. The non-executive directors should comprise atleast 50 percent 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 Biria 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 alongwith 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 translating the policies and strategies of the Board into 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 laid 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 Committtees 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:** There should be 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.

II) Non-Mandatory Recommendations

Some of the non-mandatory recommendations 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, vis a vis, 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 atleast 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) Matters 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 any part of the undertaking,

   iii) Sale of investments in the companies, where the shareholding or the voting rights of the company exceeds 25 percent,

   iv) Making a further issue of shares through preferential allotment or private placement basis;

   v) Corporate re-structuring,

   vi) Entering a new business area not germane to the existing business of the company,

   vii) Variation in rights attached to class of securities; and

   viii) Matters relating to change in management.

4.5 Naresh Chandra Committee Report

Q6. Explain the recommendations of Naresh Chandra Committee Report.

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

Naresh Chandra Committee (2002)

Following were the mandatory recommendations in the report of the Naresh Chandra committee, relating to in corporate governance, arc implemented by SEBI.

1. Disclosure of Contingent Liabilities

Management should provide a clear description in plain English of each material contingent liability and its risks, which should be accompanied by the auditor's clearly worded comments on the management's view.

2. CEO / CFO Certification

For all listed companies, there should he a certification by the CEO (either the Executive Chairman or the Managing Director) and the CEO (whole-time Finance Director or other person discharging this function) which should state that, to the best of their knowledge and belief:

- They have reviewed the balance sheet and profit and loss account and all its schedules and notes on accounts, as well as the cash How statements and the Directors' Report;
- These statements together present a true and fair view of the company, and are in compliance with the existing accounting standards and/or applicable laws regulations;
- They are responsible for establishing and maintaining internal controls and have evaluated the effectiveness of internal control

systems of the company; and they have also disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, and what they have done or propose to do to rectify these;

- They have also disclosed to the auditors as well as the Audit Committee, instances of significant fraud, if any, that involves management or employees having a significant role in the company's internal control systems;
- These statements do not contain any material untrue statement or omit any material fact nor do they contain statements that might be misleading; and
- They have indicated to the auditors, the Audit Committee and in the notes onxaccounts, whether or not there were significant changes in internal control and / or of accounting policies during the year.

3. Independence of Audit Committee

The Committee makes the following recommendation:

Legal provisions must specifically exempt non-executive and independent directors from; criminal and civil liabilities under certain circumstances. SEBI should recommend that such exemptions need to be specifically spelt out for the relevant laws by the relevant department of the Government and independent regulators, as the case may be. However, independent directors should periodically review legal compliance reports prepared by the company a well as steps taken by the company to cure any taint. In the event of any proceedings against an independent director in connection with the affairs of the company, defense should not be permitted on the ground that the independent director was unaware of this responsibility.

Narayana Murthy Committee Report (2003)

SEBI had constituted a Committee on Corporate Governance under the Chairmanship of Mr. N.R. Narayana Murthy. Based on the recommendations of the Committee and public comments received, certain amendments were made in Clause 49 of the Listing Agreement, vide circular dated August 26,2003.

Board of Directors

The company agrees that 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. The number of in directors would depend whether the Chairman is executive or non-executive. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should comprise of independent directors.

Audit Committee

(A) The company agrees that a qualified and independent audit committee shall be setup and that:

- The audit committee shall have minimum three members, all being non-executive directors, with the majority of them being independent, and withal least one director having financial and accounting knowledge;
- The chairman of the committee shall be an independent director;
- The chairman shall be present at Annual General Meeting to answer shareholder queries;
- The audit committee should invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and when required, a representative of the external auditor shall be present as invitees for the meetings of the audit committee;
- The Company Secretary shall act as the secretary to the committee.

(B) The audit committee shall meet at least thrice a year. One meeting shall he held before finalizaton of annual accounts and one every six months. The quorum shall be either two members or one third of the members of the audit committee whichever is higher and minimum of two independent directors.

(C) The audit committee shall have powers which should include the following:

- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if it considers necessary.

(D) The company agrees that the role of the audit committee shall include the following.

- 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.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the board.
- Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
- Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up there on.
- Reviewing the company's financial and risk management policies.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- Discussion with external auditors before top audit commences nature and scope of audit as well as has post-audit discussion to ascertain any area of concern.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of nonpayment of declared dividends) and creditors.

III) Remuneration of Directors

(A) The company agrees that the remuneration of non-executive directors shall be decided by the board of directors.

(B) The company further agrees that the following disclosures on the remunerati$_0$ directors shall be made in the section on the corporate governance of the ann report.

- All elements of remuneration package of all the directors i.e. salary, benefits bonuses, stock options, pension etc.
- Details of fixed component and performance linked incentives, along with the performance criteria.
- Service contracts, notice period. severance fees.
- Stock option details, if any - and whether issued at a discount as well as the period over which accrued and over which exercisable.

IV) Board Procedure

(A) The company agrees that the board meeting shall be held at least four times a year, with a maximum time gap of four months between any two meetings.

(B) The company further agrees that a director shall not be a member in more than IQ committees or act as Chairman of more than five committees across all companies in which he is a director. FurthermoreTit should be a mandatory annual requirement for every director toInform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

V) Management

(A) The company agrees that as part of the directors' report or as an addition there to, a Management Discussion and Analysis report should form part the» annual report to the shareholders. This Management Discussion and Analysis should include discussion on the following matters within the limits set by the company competitive position.

- Industry structure and developments.
- Opportunities and Threats.
- Segment-wise or product-wise performance.
- Outlook
- Risks and concerns.
- Internal control systems and their adequacy.
- discussion on financial performance with respect to operational performs
- Material developments in Human Resources/Industrial Relations front, in number of people employed.

(B) Disclosures must be made by the management to the board relating to all financial and commercial transactions, where they have personal interest have a potential conflict with the interest of the company at large (for e.g. dealing, in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.

VI) Shareholders

(A) The company agrees that in case of the appointment of a new director or reappointment of a director the shareholders must be provided with the following information:

- A brief resume of the director;
- Nature of his expertise in specific functional areas ; and
- Names of companies in which the person also holds the directorship and the membership of Committees of the board.

(B) The company further agrees that information like quarterly results, presentation made by companies to analysts shall be put on company's web-site, 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 web-site.

(C) The company further agrees that 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 like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'.

(D) The company further agrees that to expedite the process of share transfers the board of the company shah 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.

VII) Report on Corporate Governance

The company agrees that there shall be 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 requirement 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.

VIII) Compliance

The company agrees that it shall obtain a certificate from the auditors of the company regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual returns filed by the company.

Q7. What are the requirements on training of 'independent directors' of the board according to Naresh Chandra Committee?

Ans : **(May-22)**

An active, well-informed and independent Board is necessary to ensure highest standards of corporate governance. Getting the right people is crucial; as is the process of seeking, vetting and appointing such people.

Good Boards have a Nomination Committee typically comprising entirely of independent directors (or where independent directors constitute the majority), with the Committee chairman being an independent director. The Board as a whole decides the skill sets that are needed going forward, keeping in mind the present and the desired composition; and the specialized oversight needs of the company in the foreseeable future. The Nomination Committee then takes up the task of seeking such directors - either through its own network of contacts or by a formal search process with the help of external consultants. The shortlist, along with the CVs, is then discussed in the full Board, and the final candidate(s) is/are recommended to the Chairman of the Board. The Chairman, then, gets in touch with the selected people and invites them to join the Board as additional directors - after which their appointment is sought to be ratified by shareholders in the next shareholders' meeting.

4.6 Narayana Murthy Committee Report

Q8. Describe SEBI initiatives in corporate governance with the help of Narayana Murthy Committee Report.

Ans :

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 share-holders 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?

Q9. Explain the major recommodations of Narayana Murthy Committee Report

Ans : **(Imp.)**

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 represen-tative 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** in context to Related Party Transactions is that 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 minimisation 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 minimise 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 utilised 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 recommendation 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.

4.7 SEBI Clause 49 Guidelines

Q10. 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

The amendments to clause 49 are as follows,

1. In government companies, institutional directors will be treated as independent directors.
2. Board meetings should be held atleast four times in an year. The time gap between the two meetings should not be more than three months.
3. Stock exchanges make sure that all provisions concerning corporate governance are organised prior to granting of new listing.
4. The companies applying for listing should have shareholder/investor grievance committee and audit committees before getting approval for listing.
5. The changes in the treatment of accounting standards will be revealed.
6. The audit committee will compulsorily check Management Discussion and Analysis (MDA) of the financial condition and outcomes of operations.
7. The audit committee meeting must be held minimum four times in a year. Maximum time gap between the two meetings should not be more than four months.

8. The time span between the two board meetings was maximum 3 months before but now it increased to 4 months.

9. The relationships between directors inter-se will be disclosed in specific documents/ files.

10. Non-executive directors are paid sitting fees as per the companies Act 1956. Prior permission from shareholders is not required for making such payment.

11. The management shall inform the board regarding process of risk management.

12. Each director must be evaluated by other members of the board (not compulsory)

13. An independent director must be atleast 21 years old.

14. In an AGM (Annual General Meeting), remuneration committee chairman must be present to respond to the shareholders questions (Not compulsory)

15. The company make sure that an individual appointed as an independent director possesses required experience and qualification (not compulsory)

16. The company must train its directors on business model and how to perform their duties in an efficient manner (not compulsory)

17. The company must set up a procedure to be followed by employees to report the management regarding immoral behaviour, frauds or breach of code of conduct. (Not compulsory).

18. The audit committee must verify the financial statements and investments of unlisted subsidiary company.

19. It is compulsory to disclose convertible instruments and number of shares held by non-executive directors.

20. The audit committee members must be financially literate and minimum one member among them must possess knowledge regarding accounting or its managerial aspects.

21. The audit committee must check the working of whistle blower mechanism (If such mechanism exist in the company.

22. An individual looking for an appointment in the company as a director must disclose his/ her share in the company prior to appointment.

23. The audit committee must be informed about the use of proceeds from right issue, public issues, preferential issues and so on.

24. Institutional directors shall be viewed as independent directors.

25. The board must review compliance reports at periodical intervals.

26. Maximum 180 days time gap should be there between the termination/resignation of an independent director and appointment of new director in his/her place. This condition is not applicable for companies who meets minimum criteria of independent directors on its board.

27. The CEO/CFO provide certification to the board on the financial statements being checked.

28. In case if non-executive chairman of the company is a promoter or related to promoters or individuals holding management designation at board level or one level below the board then under such situation $1^{1/2}$ of the board must contain independent directors.

29. Out of the independent directors of the holding company, minimum one independent director should be the director of a material non-listed Indian subsidiary company.

30. When promoter is an unlisted company then its directors, employees and nominees are considered as related to the company. If promoter is a listed company then only its dependent directors, employees and nominees are considered to be related to the company.

31. The tenure of independent directors may be maximum 9 years.

32. A non-executive director may be eligible to manage an office at the company's expense and get reimbursement for the expenses incurred in carrying out his/her responsibilities.

33. The companies which have to follow the provisions in the first phase must submit quarterly compliance report to stock exchanges. This submission has to be done before the completion of 15 days from the end of quarter.

34. The stock exchanges must set up a cell to check whether the companies are following the provisions of corporate governance or not. The cell need to submit a consolidated compliance report to SEBI. This submission has to be done before the completion of 30 days of each quarter.

35. In a company, the board decide the code of conduct to be followed by all board members and core management team. This code of conduct is posted on company's web page.

36. For committees membership, only listed and unlisted public limited companies are considered. Apart from this, investor/ shareholders grievance committee, remuneration committee and audit committee are considered.

37. The definition of independent director has to be elaborated as follows,

An independent director is a non-executive director.

(i) Who receive director's remuneration and has no relation of transaction with company, its directors, promoters, core management or its holding company, its subsidiaries and associates which may influence the independence of directors.

(ii) Who was not an executive of the company in the last three financial years.

(iii) Who is not an executive or a partner in the present or was not an executive or a partner in past three financial years of the following,

(a) Consulting firm and legal firm associated with the company.

(b) Internal audit firm or statutory audit firm which is in association with the company.

(c) A service provider, lessee, lessor, material supplier or a customer of the company.

(d) The company's substantial shareholder with greater than or equal to 2% voting shares.

4.8 Corporate Governance Committees

Q11. Explain briefly about various Corporate Governance Committees.

(OR)

Write a brief note on various types of committee and their importance under the corporate governance in India with reference to the amended regulations.

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

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.

(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.

(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).

(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.

(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.

Q12. Briefly explain the Corporate Governance prevailing in Public Sector and Private Sector India.

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

(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.

4.9 Role of Board

Q13. Define Board. Explain the role of Board in corporate governance.

Ans :

Meaning

Board includes a group of people who are referred as directors. The members of the board combinedly manage the organisational activities and represent shareholders. Board is a governing body wherein directors meet at specific time to set up the policies for corporate management. It makes decisions as a fiduciary on behalf of shareholders. Board is responsible for hiring and firing of senior executives and for setting dividend policies, options policies and executive compensation. It also facilitate corporation in setting up of goals, supporting executive duties and making sure that company maintains adequate resources.

Role of Board

Following points explain how a strategic board must be formed to have effective governance practices.

1. Board Must be Small in Size

When size of the board is small, the involvement of the members will be more. Such in vomer results in more effective functioning and quick decision making and thereby adds up to the efficiency> of the organization.

2. Diversity of the Board

A board must include members with different experience, expertise, professional qualifications and ethical and cultural backgrounds. Generally and specifically markets and shareholders are focusing on governance issues and forcing companies to have diversified members. This phenomenon is prevailing worldwide with rapid globalization of business.

3. Board Must have a Broader Responsibility and Longer Vision

The objective and competition of the board implies the necessity to have a broader responsibility and longer vision compared to chief executives. The mission of CEO is particular and emphasize on operating the enterprise to gain profit by emphasizing on routine transactions. CEO perform its tasks and solve issues resulting in profitability of firm. The board when includes outside directors will operate on long term strategies, involve in investment decisions and other matters which not only benefit the interests of firm but of all stockholders.

4. Board Must be Independent

Independence should be the basic nature of strategic boards. The board can attain independence with less number of insiders and more number of outsiders. Insiders are more loyal to their boss not to the shareholders of the company. Managements likely prefer insiders for directors position in the board as they continue status quo in policies and procedures which are created by them to retain existing senior managers.

5. Board must be Well-Informed

Effectiveness and efficiency of the board of directors relies upon accurate and timely information provided by the management. A board must get suitable and in detailed information. Many committees on corporate governance suggested that non-executive and independent directors must be provided with free access to information and must be permitted to take professional advice whenever required. The company must pay the expenses involved in taking professional advice.

4.9.1 Functions of the Board

Q14. What are the Functions of the Board?

(OR)

List the functions of the board.

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

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 biannual 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.

4.9.2 Structure of the Board

Q15. Discuss in detail Structure of the Board.

(OR)

Explain the structure of the board.

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

Board structures are broadly classified into two, unitary board structure and dual board structure.

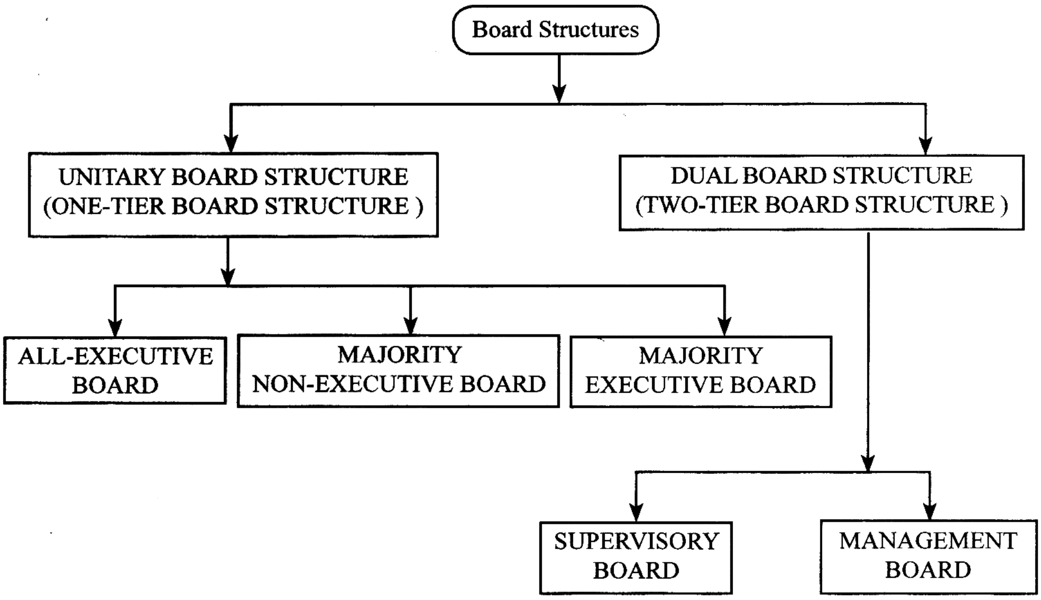

Fig.: Board Structure

1. Unitary Board Structure

Unitary board structure is also known as 'one-tier board structure. Unitary board structure is popularly adopted in UK. One main characteristic feature of unitary board structure is that it has one single board consisting of executive as well as non-executive directors. The single board is liable to carry out all the activities of the company and all the directors of the board strive towards attainment of same objectives. The directors of the board are elected by the shareholders of the company in the AGM (Annual General Meeting).

Unitary board structure is sub-classified into three, All-executive board, Majority non-executive board and Majority- executive board.

(i) All-Executive Board: All-executive board comprises of all executive directors who are full-time employees of the company. One advantage of All-executive board structure is that there is very less or no communication gap between the board members.

(ii) Majority Non-Executive Board: In case of majority non-executive board, outside directors are more than compared to executive directors.

(iii) **Majority Executive Board:** In case of Majority executive board structure, Whole-Time Directors (WTDs). Executive directors are more in number than compared to Non-Executive Directors (NEDs)/Outside directors.

2. **Dual Board Structure**

Dual board structure is also known as 'Two-tier board structure'. European countries such as Austria, Germany and Scandinavian countries such as Netherland and Denmark follow two-tier board structure. In this structure, functions are divided into two supervision functions and management functions. The dual board structure comprises two boards-supervisory board and management board.

(i) **Supervisory Board:** The supervisory board is responsible for direction of the business. This board takes important decisions concerning the enterprise A chairman is appointed for the supervisory board to co-ordinate the activities.

(ii) **Management Board:** The management board is liable to undertake managing activities. The chairman appointed for management board handle the work of management board.

4.10 Directors

Q16. Define Director. What are the Qualification and Disqualification of directors?

Ans :

Definitions

i) **Section 2(13) of the Act defines a** 'director' as any person occupying the position of director by whatever name called. Section 253 of the Act provides that only an individual, and not a body corporate, association or firm, shall be appointed as a director. Although the Act makes it obligatory for all the companies to have directors, yet the definition given by the Act does not throw any light nor does it guide and advise the shareholders as to whom they should appoint as directors.

ii) **According to "Section 2(34) of Companies Act 2013"** a director is appointed to the Board of a Company. There are many types of directors which have a different role to play accordingly. Here in this article we will discuss types of directors in a company according to the companies act, 2013.

Qualifications

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

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).

Q17. What is the requirement on 'percentage of independent directors' in the Board of Directors of a company? Elaborate.

Ans : **(May-22)**

An independent director is a non-executive director who does not have any kind of relationship with the company that may affect the independence of his/her judgment. An independent director should not have been a partner or executive director of the auditors/lawyers/consultants of the company in preceding three years or should not hold 2% or more of shares of the company. In this article, we look at the process for appointment of an independent director in a company.

Requirement for Independent Director

As per the Companies Act 2013, all listed public limited companies are mandatorily required to have at least one-third of the total number of directors as an independent directors. Unlisted public companies should appoint at least two independent directors in the following situations:

1. If the paid up share capital is in excess of Rs.10 crores;
2. If the turnover is in excess of Rs.100 crores;
3. If the total of all the outstanding loans, debentures and deposits is in excess of Rs.50 crores.

4.10.1 Types of Directors

Q18. Explain the different types of directors?

Ans :

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".

4.10.2 Role, Duties and Responsibilities of Directors

Q19. 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.

Q20. What are the Duties & Responsibilities of Board of Directors ?

(OR)

List out the Responsibilities of the Directors ?

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

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 delegate' 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.

Q21. What are the liabilities of directors of a company.

Ans : **(May-22)**

The liabilities of the directors may be discussed under the following heads:

1. Liability to outsiders

Ordinarily, the directors are not personally liable to outsiders if they act for the company and within the scope of their powers. However, there are certain circumstances in which the directors are personally liable to the outsiders. These are as under:

(a) Where the directors act in their own name rather than in the name of the company.

(b) Where the directors act ultra-vires the company i.e., beyond their powers.

(c) Where the directors do some tortuous act (i.e., civil wrong).

(d) Where the prospectus issued by them contains any untrue statement. They are liable for damages.

(e) Where the directors fail to repay the application money within the specified time, the amount of minimum subscription is not subscribed.

(f) Where the directors fail to repay the application money if allotment of shares or debentures is not dealt in on stock exchange where it is intended to be so dealt in the prospectus.

2. Liability to company

In certain circumstances, the directors are held liable to the company. These are as under:

(a) Where the acts of the directors are ultra-vires the company i.e., beyond their power. The directors are liable to the company for any loss or damage suffered due to such ultra-vires acts.

(b) Where the directors are negligent in performing their duties e.g., when they do not use reasonable care and skill in the management of company's affairs.

(c) Where there is a breach of trust i.e., where they do not act honestly and in the interest of the company e.g., misapplication of company's fund or property.

(d) Where they are guilty of misfeasance. The 'misfeasance' means the wilful misconduct or wilful negligence which results in loss to the company.

3. Criminal Liability

The directors' liability discussed in the above two points is their civil liability. It is to be noted that the Companies Act contains various provisions which make them criminally liable (i.e., liable to punishment by way of fine or imprisonment) if lint by fail to comply with these statutory provisions. The important legal provisions relating to the criminal liability of the directors, as contained in the Companies Act, 2013, may be summed up as under:

(a) Where a prospectus containing an untrue statement is issued, every officer authorised to issue the prospectus shall be punishable with imprisonment of 6 months which may extend to 10 years, and also with fine minimum [Section 34, 447].

(b) Where the money receives from the applicants for shares is not kept in the Scheduled Bank, every director shall be punishable with imprisonment upto one year or with minimum fine of Rs. 50,000 which may extend to Rs. 3 lakhs or with both [Section 40(5)].

(c) Where the return of allotment is not filed with Registrar within 30 days of allotment, every officer in default shall be punishable with fine which may extend to ` 1,000 for every day during which the default continues or Rs. One lakh, whichever is less [Section 39(5)].

(d) Where the notice of consolidation of shares, sub-division of shares, or conversion of shares into stock is not given to the Registrar within 30 days of such consolidation etc. every officer in default shall be punishable with fine which may extend to ` 1,000 for every day during which the default continues or Rs. 5 lakhs, which ever is less [Section 64(2)].

(e) Where the certificate of shares or debentures is not delivered within 2 months after allotment, or in case of certificate of transfer, within one months after transfer, every officer in default shall be punishable with minimum fine of Rs. 10,000 but which may extend to Rs. One lakh [Section 56(6)].

(f) Where the particulars of a charge are not filed with the Registrar, within the prescribed time, then, every officer in default shall be punishable with imprisonment upto 6 months or with minimum fine of Rs. 25,000 which may extend to Rs. One lakh or with both [Sections 77, 86]

(g) Where the Registrar of charges is not maintained by the company, every officer in default shall be punishable as stated above [Section 85, 86].

(h) Where the annual return is not filed with the Registrar within the specified time, then, every officer in default shall be punishable with imprisonment upto 6 months or with fine from Rs. 50,000 to Rs. 5 lakhs or with both [Sections 92(5)].

(i) Where a default is made in holding the annual general meeting of the company, every officer in default shall be punishable with fine which may extend to ` one lakh, and if the default continues, a further fine may extend to ` 5,000 for every day during which such default continues [Section 99],

(j) Where the dividend is not distributed within 30 days of the declaration of the dividend, every director shall be punishable with simple imprisonment upto 2 years, and shall also be liable to fine of Rs. 1,000 for everyday during which the default continues [Section 127].

(k) Where the register of directors, managing directors, and managers, is not maintained, every officer in default shall be punishable with fine from Rs. 50,000 to Rs. 5 lakhs [Sections 170, 1720].

4. Liability for the acts of co-directors

The directors are the agents of the company for which they act. It may, however, be noted that they are not agents of one another i.e., a director is not the agent of his co-director. It, therefore, follows that a director is not liable for the acts of his co-directors if he has no knowledge about those acts and is also not a party to the same. Thus, nothing done by the Board of Directors can impose liability upon a director who did not know about their action, and also did not participate in the meeting, even if he attends the subsequent Board meetings.

4.10.3 Conflicts of Interest, Remedial Actions

Q22. What is conflict of Interest ? Explain 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.

4.11 Audit, Compensation Committee

Q23. Who are auditors? Explain different types of auditors.

Ans :

Meaning

An audit is an evaluation of a person, organisation, system, process, enterprise, project or product. The term most commonly refers to audits in accounting, but similar concepts also exist in project management, quality management, and for energy conservation.

Definitions

i) According to the Institute of Chartered Accountants of India (ICAI), "Audit is the independent examination of any entity, whether profit-oriented or not and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon".

ii) An auditor is defined as a person appointed by a company to perform an audit. He is required to certify that the accounts produced by his client companies have been prepared in accordance with normal accounting standards and represent a true and fair view of the company.

Types

There are three types of auditors generally involved in the various audit examinations, which are as follows:

1. **Independent (External) Auditors:** The audits of financial statements are performed by independent accountants, usually CPAs. Also, the fact that CPAs are independent - i.e., they do not hold an ownership interest or have management involvement in the clients they audit - lends the utmost credibility to their attestations.

Independent auditors, also referred to as external auditors, and frequently as CPAs, CPAs in public practice, public accountants, or "outside" auditors, are never owners or employees of the entity that retains them to perform an audit, although they receive a fee for their services. Independent auditors perform financial statement audits to meet the needs of investors and creditors and the requirements of regulatory bodies like the Securities and Exchange Commission (SEC). The audits typically result in an opinion on whether the financial statements are fairly stated, in all material respects, in conformity with generally accepted accounting principles. Occasionally, CPAs perform compliance and performance audits. Increasingly, they perform attest engagements and provide other assurance services.

2. **Internal Auditors:** Unlike independent auditors, internal auditors are employed by a single organisation and only perform services for that firm. Internal auditors conduct operational and compliance audits for their employer. Essentially, their role is to determine:

   i) Whether the organisation and its employees are-complying with established policies and procedures; and

   ii) The efficiency and effectiveness of some aspect of the organisation's operating activities.

3. **Government Auditors:** They are employed by agencies of federal, state, and local governments. When the audit is of the government agency or department that employs the auditors, they function as internal auditors; when they audit recipients of government funds (including other government agencies), they act as external auditors. For example, auditors employed by the U.S. Department of Agriculture may audit the internal operations of that department; they also may audit the economy, efficiency, and programme results of research funded by the Department of Agriculture but performed by others, such as colleges and universities. Most audits performed by government auditors are performance audits of economy, efficiency, and programmes, which include determining whether the entity being audited has complied with laws and regulations concerning economy and efficiency as well as those applicable to the programme. Some audits, such as those by the internal revenue service, are performed almost exclusively for compliance purposes.

Q24. Explain the role duties and responsibilities of auditor.

Ans :

Role of Auditors

Role of auditors can be explained as follows:

1. **Audit Performance or PM Systems:** It involves auditing or assessing performance or performance management systems. This is a traditional role for many auditors who conduct studies of services, programmes, systems, or practices and make recommendations for improvement. The emphasis here is on auditing programme or service performance or the systems or practices that support performance management of a government programme, agency, or entire entity.

2. **Assess Performance Information:** It involves assessing the quality of performance information or performance reports. This is a traditional role for auditors in that it involves evaluating the quality of information to assess its usefulness and the risks of using the data. For performance measurement information, "quality" is condensed here to "relevance" and "reliability" of performance measures and data. For performance reports, quality refers to the relevance and reliability of reported information plus the adequacy of reports for meeting user needs, particularly the needs of elected officials and citizens. Audit organisations often use detailed criteria to determine relevance, reliability, and adequacy.

3. **Define or Measure Performance:** It involves developing performance measures or measuring performance, outside the traditional audit process. In playing this role, auditors work outside the traditional audit process (though some auditors consider these projects to be audits) to develop relevant performance measures or collect data to assess performance. In this role, auditors may either provide assistance in developing relevant performance measures or may identify measures themselves from various sources. They may help to establish performance expectations by assessing performance targets, by providing benchmarks or other sources of targets, or by assessing an organisation's process of setting expectations. Auditors may also collect data for assessing performance and report the results. Auditors often collect and report data on perceptions and satisfaction of external or internal stakeholders of public services.

4. **Encourage or Assist Management:** It involves planning, designing, improving, or advocating for performance management systems and their use. Auditors encourage or assist managers and other internal stakeholders in developing or improving one or more of an organisation's performance management systems or the managing for results processes that depend on them. Encouragement can come in many forms, such as audit recommendations, informal discussions, exposure to best practices, or proposals for improvement.

5. **Assist Elected Officials or Citizens:** It involves external reporting, capacity building, or advocacy for the use of performance information. This role includes auditor involvement in advocacy, communication, and assistance to citizens, non-executive elected officials, or other external stakeholders. Other external stakeholders include, e.g., interest groups, government contractors and grantees (non-profit and for profit), and the media.

Duties and Responsibilities of Auditors

Auditors are responsible for gathering and analysing various types of financial information and documents for the government, corporations, and organisations. Duties and responsibilities of auditors are as follows:

1. Analyse Documents

Auditors analyse and monitor various types of financial documents to ensure that employees are compliant with government and corporate regulations. These documents may include various types of financial information about assets, liabilities, surplus, income, expenses, and stock. Using these documents, auditors create files and charts for all the financial data to make the information accessible. Auditors also ensure that all government laws are being met and taxes are paid on time.

2. Verify Effectiveness

Auditors verify the efficiency and effectiveness of a company or organisation by looking for any fraud or mismanagement. A lot of time may be spent interviewing managers and employees. During these interviews, auditors determine whether financial records match-up with their statements. These interviews help to determine the productivity and financial stability of a company or organisation. Having strong interpersonal skills can improve an auditor's ability to communicate with these individuals and get honest answers to questions.

3. Report Findings

After analysing documents and interviewing employees, auditors create detailed reports and discuss their findings with management and executives. Any red flags or issues in these reports need to be addressed by the proper agencies. Based on this information, an auditor makes recommendations to management on how to reduce waste and improve the company's balance sheet. These findings generally allow a company to improve their financial operations and activities.

Q25. What is a compensation committee? Discuss the role and responsibilities of compensation committee.

Ans :

It refers to a board of independent directors who set the level of compensation and decide the payment rate for managers at the senior level. The committee also helps in the choosing of other compensation like profit sharing, bonuses, and stocks. The creation of corporate objectives, goals, and grants is sometimes the work of the committee.

Generally, the compensation committee serves as advisors, strategists, and administrators for the organization. As advisors, they should demonstrate best practices, and know the trends regarding compensation. In addition, they should come up with targets and performance measures, and also evaluate the performance of the executives. Also, in their role as strategists, the committee should show the board and stakeholders how they are going to achieve corporate goals. In their capacity as administrators, the compensation committee is required to research on the most appropriate ways to plan for compensation.

However, the plans should meet the set ground rules and regulations. The committee must ensure that their plans reap the desired results.

Roles and Responsibilities of the Compensation Committee

The board has assigned the following duties to the compensation committee;

- Create the philosophy of compensation for the organization based on the organizations values and mission. It includes the proportion of base salary to benefits, which drives an increase in salary, and the ways in which the philosophy affects the confidence of employees.
- The committee comprises of independent executives. Therefore, they need to approve all the compensation plans that the directors and the Chief Executive Officer will take part in. It is an overwhelming task for the committee as both the board and stake-holders vote on it to decide if they are appropriate.
- The committee, as board advisors, gives errors, recommends, and gives the go-ahead for the stock option awards. They may also be needed to approve incentive, benefits, and employment contracts with approvals from the board and shareholders.
- The compensation committee serves as a link between the Chief Executive Officer and the board on issues related to human resources and administration.
- Approves and recommends compensation for the reports that the CEO submits directly, as well as other packages that the CEO receives.
- Ensure there is enough money available to cater to the organizations compensation plan. They sit with the finance and audit team to evaluate the budget and approve the plan for compensations.

- Make changes, if need be, to the compensation packages for the CEO and the board members. The changes need to be approved by the board.
- Employ any external professional assistance that they require to assist them in achieving their goals. The support team includes the legal team, accountants, and consultants.
- Recommend performance evaluation metrics, and approve them concerning their set targets for establishing the awards for compensation.
- Identify the faults in compensation matters and discuss it with the board to find timely solutions to the oversights.

4.12 Governance Ratings

Q26. What is Corporate Governance Ratings.

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

A corporate governance rating refers to the status of a company with respect to the adoption of corporate governance practices. This rating is the final opinion regarding the important a corporation attached to corporate governance by looking at the information they provide to stakeholders, relationship with financiers, customers, suppliers, the community and others.

A corporate governance rating is provided by a rating entity after deriving information about the adoption of corporate governance by an institution through the reports of analysts. There are many sources where information can be gathered about the relative standing if an entity with respect to corporate governance. This means a rating agency may or may not actively conduct an audit of an entity before the rating is provided.

4.12.1 Merits and Demerits of Governance Ratings

Q27. Comment on governance ratings by giving merits and demerits.

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

Merits

The following are the merits of corporate governance ratings for investors or other stakeholders,

1. Governance ratings help inventors in making effective decisions.
2. Stakeholders such as financial institutions and banks are in a better position to decide about lending and funding the company.
3. Capital markets which include shareholders and stakeholders will have more confidence in firms with high governance rating.
4. Availability of information will bring institutional interest in the company which in turn improves price efficiency.

Demerits

The limitations of corporate governance ratings are as follows,

1. The agencies which provide rating will have to depend on the firms for information.
2. The institutions which provide governance ratings, focus on different parameters to evaluate the governance performance. A firm may be given different ratings by different raters. This confuses the investor who don't know the parameter differences among institutions.
3. Governance rating cannot stop a firm from getting involved into serious problems such as false reporting, insider trading, CEO's intentional fraudulent practices, misuse of resources by management.
4. It is in the hands of company to decide whether the ratings should be revealed to public or not.
5. Governance rating is voluntary in nature. Thus, a company that doesn't go for governance rating will not be considered low in performance when compared to the companies with high ratings.
6. It is important to focus on governance process rather than the structured aspects. However, structural aspects are focussed more while rating the performance.
7. Most of the firms do not opt for governance rating as it is not compulsory and also because it involves a lot of costs to the firm. This makes it difficult for an investor to consider governance ratings as a yardstick.

Q28. What is credit rating? Explain the benefits and limitations of credit rating.

Ans :

Benefits

1. **Lower cost of borrowing**

   A company with highly rated instrument has the opportunity to reduce the cost of borrowing from the public by quoting lesser interest on fixed deposits or debentures or bonds as the investors with low risk preference would come forward to invest in safe securities though yielding marginally lower rate of return.

2. **Wider audience for borrowing**

   A company with a highly rated instrument can approach the investors extensively for the resource mobilisation using the press media. Investors in different strata of the society could be attracted by higher rated instrument as the investors understands the degree of certainty about timely payment of interest and principal on a debt instrument with better rating.

3. **Rating as marketing tool**

   Companies with rated instrument improve their own image and avail of the rating as a marketing tool to create better image in dealing with its customers feel confident in the utility products manufactured by the companies carrying higher rating for their credit instruments.

4. **Reduction of cost in public issues**

   A company with higher rated instrument is able to attract the investors and with least efforts can raise funds. Thus, the rated company can economise and minimise cost of public issues by controlling expenses on media coverage, conferences and other publicity stunts and gimmicks. Rating facilitates best pricing and timing of issue

5. **Motivation for Growth**

   Rating provides motivation to the company for growth as the promotors feel confident in their own efforts and are encouraged to undertake expansion of their operations or new projects. With better image created though higher credit rating the company can mobilise funds from public and instructions or banks from self-assessment of its own status which is subject to self-discipline and self-improvement, it can perceive and avoid sickness.

6. **Benefits to brokers and financial intermediaries**

   Highly rated instruments put the brokers at an advantage to make less effort in studying the company's credit position to convince their clients to select an investment proposal. This enables brokers and other financial intermediaries to save time, energy, costs and manpower in convincing their clients about investment in any particular instrument.

Disadvantages

1. **Biased rating and misrepresentations:**

   In the absence of quality rating, credit rating is a curse for the capital market industry, carrying out detailed analysis of the company, should have no links with the company or the persons interested in the company so that the reports impartial and judicious recommendation for rating committee.

2. **Static study**

   Rating is done on the present and the past historic data of the company and this is only a static study. Prediction of the company's health through rating is momentary and anything can happen after assignment of rating symbols to the company. Dependence for future results on the rating, therefore defeats the very purpose of risk inductiveness of rating. Many changes take place in economic environment, political situation, government policy framework which directly affects the working of a company.

3. **Concealment of material information**

   Rating Company might conceal material information from the investigating team of the credit rating company. In such cases quality of rating suffers and renders the rating unreliable.

4. Rating is no guarantee for soundness of company

Rating is done for a particular instrument to assess the credit risk but it should not be construed as a certificate for the matching quality of the company or its management. Independent views should be formed by the user public in general of the rating symbol.

5. Human bias

Finding off the investigation team, at times, may suffer with human bias for unavoidable personal weakness of the staff and might affect the rating.

Q29. Briefly describe the Rating Criteria used by CRISIL and CARE.

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

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, intercorporate 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.

Short Question & Answers

1. OECD Principles

Ans :

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 share-holder 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'.

2. Cadbury Committee on Corporate Governance, 1992

Ans :

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.

3. Hampel Committee, 1995

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).

4. Define Board.

Ans :

Board includes a group of people who are referred as directors. The members of the board combinedly manage the organisational activities and represent shareholders. Board is a governing body wherein directors meet at specific time to set up the policies for corporate management. It makes decisions as a fiduciary on behalf of shareholders. Board is responsible for hiring and firing of senior executives and for setting dividend policies, options policies and executive compensation. It also facilitate corporation in setting up of goals, supporting executive duties and making sure that company maintains adequate resources.

5. Functions of the board.

Ans :

i) 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.

ii) 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.

iii) 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.

iv) 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.

v) 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.

vi) 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.

6. Define Director.

Ans :

Definitions

i) **Section 2(13) of the Act defines a** 'director' as any person occupying the position of director by whatever name called. Section 253 of the Act provides that only an individual, and not a body corporate, association or firm, shall be appointed as a director. Although the Act makes it obligatory for all the companies to have directors, yet the definition given by the Act does not throw any light nor does it guide and advise the shareholders as to whom they should appoint as directors.

ii) **According to "Section 2(34) of Companies Act 2013"** a director is appointed to the Board of a Company. There are many types of directors which have a different role to play accordingly. Here in this article we will discuss types of directors in a company according to the companies act, 2013.

7. Disqualification of directors.

Ans :

Section 164 of Companies Act, 2013, has mentioned the disqualification as mentioned below:

i) 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;

ii) 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:

8. Role of Directors.

Ans :

The Board of Directors has the following role:

i) 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."

ii) 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.

iii) 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.

9. Responsibilities of the Directors ?

Ans :

Responsibilities of Board of Directors may be divided under two heads, which are as follows:

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'.

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.

10. Who are auditors

Ans :

An audit is an evaluation of a person, organisation, system, process, enterprise, project or product. The term most commonly refers to audits in accounting, but similar concepts also exist in project management, quality management, and for energy conservation.

Defnintions

i) According to the Institute of Chartered Accountants of India (ICAI), “Audit is the independent examination of any entity, whether profit-oriented or not and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon”.

ii) An auditor is defined as a person appointed by a company to perform an audit. He is required to certify that the accounts produced by his client companies have been prepared in accordance with normal accounting standards and represent a true and fair view of the company.

11. What is Corporate Governance Ratings.

Ans :

A corporate governance rating refers to the status of a company with respect to the adoption of corporate governance practices. This rating is the final opinion regarding the important a corporation attached to corporate governance by looking at the information they provide to stakeholders, relationship with financiers, customers, suppliers, the community and others.

A corporate governance rating is provided by a rating entity after deriving information about the adoption of corporate governance by an institution through the reports of analysts. There are many sources where information can be gathered about the relative standing if an entity with respect to corporate governance. This means a rating agency may or may not actively conduct an audit of an entity before the rating is provided.

12. What is credit rating

Ans :

A company with highly rated instrument has the opportunity to reduce the cost of borrowing from the public by quoting lesser interest on fixed deposits or debentures or bonds as the investors with low risk preference would come forward to invest in safe securities though yielding marginally lower rate of return.

Choose the Correct Answers

1. The process of evaluating a firm's _______ is to determine its effect on a society. [b]
   (a) Operating procedures (b) Code of conduct
   (c) Policies compliance (d) All of the above

2. The _______ is an agency to eliminate false and misleading advertising [a]
   (a) FTC (b) DOL
   (c) SEBI (d) Both (a) and (b)

3. Corporate Governance originated from _______ [a]
   (a) The Companies Act (b) SEBI Act, 1992
   (c) MCA (d) Clause 49 of SEBI act, 2000 discuss

4. _______ can be defined as the rights given to people over the creations of their minds. [a]
   (a) IPR (b) Patents
   (c) Copyright (d) Mandatory Rights discuss

5. A _______ is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. [a]
   (a) Social Audit (b) Financial Audit
   (c) Responsibility Audit (d) Compulsory Audit

6. The members of social audit can be from [d]
   (a) Zilla Panchayat (b) Block Panchayat
   (c) Gram Panchayat (d) All of the above

7. The consumers have an implied _______ with the corporations [b]
   (a) Quasi Contract (b) Social Contract
   (c) Legal Contract (d) None of the above

8. The right to _______ is the right to be protected against products, production processes and service hazardous to life [b]
   (a) Redress (b) Choose
   (c) Be informed (d) Safety

9. The principle of "let the buyer be aware "is based on the _______ theory [c]
   (a) Capitalist (b) Consumer
   (c) Free-market (d) None of the above

10. The _______ has a code of ethics that helps organizations monitor their ads [a]
    (a) AAA (b) FTC
    (c) FDA (d) All of the above

Fill in the Blanks

1. GRI stands for ______.
2. OECD stands for ______.
3. ______ committees of publicly listed companies should be required to review the following mandatory information:
4. The 'Cadbury Committee' was set up in May ______ with a view to overcome the huge problems of scams and failures occurring in the corporate sector.
5. ICAEW stands for ______.
6. ______ includes a group of people who are referred as directors.
7. ______ board structure is also known as one-tier board structure.
8. Dual board structure is also known as ______ board structure.
9. The term ______ 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.
10. A ______ rating refers to the status of a company with respect to the adoption of corporate governance practices.

Answers

1. Global Reporting Initiative
2. Organization for Economic Cooperation and Development
3. Audit
4. 1991
5. Institute of Chartered Accountants in England and Wales
6. Board
7. Unitary
8. Two-tier
9. Executive
10. Corporate governance

One Mark Answers

1. Cadbury Committee Report.

Ans :

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.

2. SEBI Guidelines of Clause 49.

Ans :

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.

3. Qualifications of Directors

Ans :

i) A director must be a person of sound mind.

ii) A director must hold share qualification, if the article of association provides such.

iii) A director must be an individual.

iv) A director should be a solvent person.

4. 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.

5. Limitations of credit rating.

Ans :

(i) Biased rating and misrepresentations

In the absence of quality rating, credit rating is a curse for the capital market industry, carrying out detailed analysis of the company, should have no links with the company or the persons interested in the company so that the reports impartial and judicious recommen-dations for rating committee.

(ii) Static study

Rating is done on the present and the past historic data of the company and this is only a static study. Prediction of the company's health through rating is momentary and anything can happen after assignment of rating symbols to the company. Dependence for future results on the rating, therefore defeats the very purpose of risk inductiveness of rating. Many changes take place in economic environment, political situation, government policy framework which directly affects the working of a company.

UNIT V	**Corporate Social Responsibility (CSR):** Models for Implementation of CSR, Scope of CSR, Steps to attain CSR, Business Council for Sustainable Development (BCSD) India, Ethics and Social Responsibility of Business, Social Responsibility and Indian Corporations, CSR as a Business Strategy for Sustainable Development, CSR Committee, Recent Amendments in Companies Act (Sec: 135)

5.1 Corporate Social Responsibility(CSR)

Q1. What is CSR?

(OR)

Define Corporate Social Responsibility.

Ans :

Meaning

The term "Corporate Social Responsibility (CSR)" can be referred as corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. The term generally applies to companies efforts that go beyond what may be required by regulators or environmental protection groups. Corporate social responsibility may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.

Definitions

(i) **According to Cannon,** "Corporate social responsibility means devising corporate strategies and building a business with the society's needs in mind".

(ii) **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".

(iii) **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'.

(iv) **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".

(v) **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. Explain 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.

Q6. Is CSR an essential features of modern business.

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

Yes "CSR is an essential feature of modem business". This view is advocated by professor paul Ison who believes that business firms are a part of society, so they should work not only for profit but also to serve the society. This idea of CSR is also supported by T.F Bradsha. According to him, community has social expectations from businesses and it is the responsibility of businesses to fulfil their expectation in the best possible manner.

Q7. Discuss the Rationale for CSR in India.

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

The need for social responsibility in India has been first recognized by Gandhiji based on his philosophy, 'Sarvoaaya' which means the moral and material well-being of all the areas of the community. Gandhiji, was the first person who conducted productive or beneficial programmes for encouraging women, for rural development, for eliminating untouchability and for decreasing the differences in income and wealth. All these programmes were meant for the well-being of the society.

The symbol used for denoting these programmes was "Charka". For assisting the citizens to earn their living with integrity, pride and self respect and for the functioning of a socialist democracy, it is very essential to provide employment opportunities to them without considering their caste, religion, colour etc. According to Gandhian principle of trusteeship, every firm has certain intrinsic responsibilities towards their stakeholders (i.e., customers, workers, shareholders and community).

In the present day business world, society affects the business enterprise greatly as the business operates within the dimensions of the society. Thus, a business cannot isolate itself from its social responsibilities. Every company of India should prove itself in the area of social responsibility along with their economic ability because of the following reasons,

1. The success or failure of a business basically depends on the overall development of the society in which it operates as the goods/ services produced by an enterprise are finally consumed by the society.
2. Another need for social responsibility is that an enterprise is totally dependent on the society for its existence (i.e.,) the society that provides the land, labour and other resources to run the business.

3. For bringing qualitative societal improvements, it requires huge resources which the government alone cannot fund. Therefore, equal contribution by corporate enterprises are needed for making investments in research and development works.

5.1.1 Models for Implementation of CSR

Q8. Explain the various models for implementation of CSR.

(OR)

Discuss the various Models for Implementation of CSR.

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

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.

S.No.	Model	Emphasis	Proponent
1.	**Ethical**	Voluntary commitment by companies to public welfare	Mahatma Gandhi
2.	**Statist**	State ownership and legal requirements determine corporate responsibilities	Jawaharlal Nehru
3.	**Liberal**	Corporate responsibilities limited to private owners (shareholders)	Milton Friedman
4.	**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 a 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.

5.1.2 Scope of CSR

Q9. Broadly discuss the scope of corporate social responsibility.

(OR)

Discuss the Scope of CSR.

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

1. Environment

This area involves the environmental aspects of production, covering pollution control in the conduct of business operations, prevention or repair of damage to the environment resulting from processing of natural resources and the conservation of natural resources.

Corporate social objectives are to be found in the abatement of the negative external social effects of industrial production, and adopting more efficient technologies to minimize the use of irreplaceable resources and the production of waste.

2. Energy

This area covers conservation of energy in the conduct of business operations and increasing the energy efficiency of the company's products.

3. Fair Business Practices

This area concerns the relationship of the company to special interest groups.

In particular it deals with:

(i) Employment of minorities

(ii) Advancement of minorities

(iii) Employment of women

(iv) Employment of other special interest groups

(v) Support for minority businesses

(vi) Socially responsible practices abroad

4. Human Resources

This area concerns the impact of organizational activities on the people who constitute the human resources of the organization.

These activities include:

(i) Recruiting practices

(ii) Training programs

(iii) Experience building -job rotation

(iv) Job enrichment

(v) Wage and salary levels

(vi) Fringe benefit plans

(vii) Congruence of employee and organizational goals

(viii) Mutual trust and confidence

(ix) Job security, stability of workforce, layoff and recall practices

(x) Transfer and promotion policies

(xi) Occupational health

5. Community Development

This area involves community activities, health-related activities, education and the arts and other community activity disclosures.

6. Products

This area concerns the qualitative aspects of the products, for example their utility, life-durability, safety and serviceability, as well as their effect on pollution. Moreover, it includes customer satisfaction, truthfulness in advertising, completeness and clarity of labelling and packaging. Many of these considerations are important already from a marketing point of view. It is clear, however, that the social responsibility aspect of the product contribution extends beyond what is advantageous from a marketing angle.

5.1.3 Steps to attain CSR

Q10. Explain the process of corporate social responsibility.

(OR)

What are the steps involved in attaining\ CSR?

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.

Q11. What are the advantages and disadvantages of corporate social responsibility?

Ans : **(Imp.)**

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.

Q12. Explain the essentials of corporate social responsibility.

Ans :

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.

Q13. 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, responsive-ness (responsibility for the organization's acts and omissions and developing the processes and goals to continually improve perfor-mance), 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 Business Council for Sustainable Development (BCSD) India

Q14. Explain briefly about Core - BCSD India.

Ans : **(Imp.)**

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

Q15. Explain briefly about Ethics and Social Responsibility of Business.

Ans : **(Imp.)**

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.

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

Q16. Explain about social responsibility and Indian Corporations. List out the different social responsibility functions performed by Indian Companies.

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

Social Responsibility and Indian Corporations

Indian corporations are taking several initiatives to reach community and help them out. They are no more limited to signing cheques, rather they are working with NGOs to adopt schools, build labs, educate women and kids in slum areas, start welfare programmes for AIDs and cancer patients.

Many companies of India are fulfilling their social responsibilities in a satisfactory manner. Companies spend a significant portion of their turnover for social activities. Indian industry has also become socially responsible. Delhi government has corporated with TaTa group to help AIDs patients and improve the awareness in Industrial areas of naraina.

Social Responsibility Functions Performed by Indian Corporations

The following points highlight the various examples of social responsibility functions performed by Indian companies,

1. The BHEL has provided assistance to communities to develop their quality of life in rural areas, family welfare, health care, adult education etc.
2. AMM foundation of the murugappa group has contributed in education communities, providing medical care and research facilities in rural development.
3. The areas on which ICICI Bank focuses are elementary schools and universal access to financial services.
4. The Godraj group is concerned about environment and conservation.
5. Infosys foundation has contributed in social development, libraries, research, art and culture, schools and higher education.
6. Sports activities are encouraged by MRF tyre Industries.
7. The main area on which the Raymonds focuses is fighting malnutrition and rehabilitation of school children.
8. A relief fund is established by the Times of India group to help people in times of calamities such as fires, earthquakes, floods, famine etc.
9. Wipro technologies have taken initiatives in providing quality primary education through its Azim premji foundation.

Q17. Who are the stakeholders of a corporation?

Ans : **(May - 22)**

Meaning

Stakeholders are parties invested in the success of a business or organization. Many decisions and results need to be considered from the perspective of various stakeholders to ensure all investments are honored. There are many roles you can serve in that require you to understand the needs and wants of different stakeholders. In this article, we define what stakeholders are and explore different examples of stakeholders you may encounter in your organization.

Stakeholders in business

Stakeholders are parties that take interest in a specific company, often for financial investment. They can directly impact decisions or successes of an organization through:

- Sharing their feedback on company decisions or processes
- Providing continued loyalty or participation
- Increasing or decreasing financial investment
- Taking a position or making a decision that goes against a company's goals and strategy.

There are two types of stakeholders: internal stakeholders and external stakeholders. It is important to consider how an organization's decisions can influence stakeholders because they often have the potential to change the priorities of how a business functions. Understanding who your organization's stakeholders are and what they need can help you achieve your business goals.

I) Internal Stakeholders

An internal stakeholder is an individual party that is directly or financially part of the organization's operations. If the company is successful, then they have a higher likelihood of earning a monetary gain as a result. Here are some common internal stakeholders you may encounter:

1. Employees

Employees are hired by the company as an instrumental asset in completing tasks that result in products or services provided to clients or consumers. These stakeholders contribute in exchange for compensation, benefits, training and professional development. Their time and effort are investments made to the organization, and they depend on the organization's success to ensure their continued employment.

Employee feedback can be considered to determine if they are satisfied with their environment, role and work-life balance and other factors. Their satisfaction can directly impact their productivity, which can then affect overall output and success as well as the satisfaction of other stakeholders.

2. Owners

Owners have exclusive rights over a property or business. They usually have full ownership in terms of the products and services that impact the customers who eventually purchase it from the company, and they set out strategies to meet and exceed sales goals for the product. They're often directly responsible for the success of the company and the employers who go forth generating results orchestrated by the owner. The success is dependent on the owner's actions.

3. Managers

Managers directly oversee employees within their department and execute the tactics communicated to them by the owner in the strategy in addition to delegating tasks and making sure the employees have the right directions in performing certain tasks. Overall, managers hold the responsibility of completing their tasks and having their employees meet their objectives in the process of successfully reaching business goals.

All managers impact the same comprehensive strategy that the owner decides to implement and measure success off of. Here are some levels of management within a large corporation that can have an impact on an organization's success:

- **Senior managers:** These high-level leaders include a Board of Directors, Chief Executive Officer or the President and other C-level executives who delegate direct supervision duties to the middle and lower managers.
- **Middle manager:** These include Regional Managers, Department Managers or Section Managers who usually work in a specific region and represent a larger company. They carry out tactics to ensure success in their region to employ lower-level managers to hit their performance goals.
- **Lower managers:** Direct supervisors or other Front-Line Managers execute plans and distribute tasks to front-line employees who report to them.

II) External Stakeholders

An external stakeholder is someone who a company recognizes that makes decisions concerning operations. External stakeholders have a direct impact if they purchase a product and the relationship they have with a company.

Here is a list of some of the most common external stakeholders your organization may work with:

1) Customers
2) Communities
3) Shareholders
4) Creditors
5) Government
6) Labor unions
7) Competitors

1. Customers

Customers purchase a product or service of the company. Sales, marketing, public relations and the overall strategy centered around the customer, and their interest in these strategies determine whether they buy a product. Customers buying products greatly affect the success of an organization, and customers can be given access to new products if the company has the profit to expand their product line. Overall, the customer is vital to the success of a company, and their satisfaction can directly influence whether internal stakeholders are also satisfied.

2. Communities

Communities are made up of the people who live near an organization's physical location. The opinions of people living in those communities influence an organization because their opinion of a company's facilities and adherence to environmental and other local, state and federal regulations can impact a company's reputation. Positive relationships with communities can ensure internal stakeholders and other external stakeholders, such as customers, shareholders and investors remain satisfied.

A company's relationship with the community that surrounds them can also impact whether they purchase products and services and contribute to the company's financial success.

Today, companies enact corporate social responsibility initiatives that benefit a local or global community. Programs such as volunteering build a relationship with a company's local community to create an image that persuades them to interact with a business. Companies must focus on the communities that can compile the most sales with their business and establish and core relationship to increase the prospect of future sales.

3. Shareholders

Shareholders own one or more shares of stock within an organization. Many shareholders are external parties, like customers and people within the community who have shares of a company's stock. If a shareholder has more shares, or ownership of a business, it's more likely that they have more power to make choices on behalf of the employer. These decisions can involve finances, staffing, strategies and others. Thus, shareholders' opinions influence how an owner determines a company's strategy and which audiences they're selling to.

Developing a strong relationship with all shareholders can increase their desire to invest in a company while providing feedback on decisions to create products and services that tailor to everyone's needs.

4. Creditors

Creditors can be a person, company or a government that lends property, service or capital to an organization. There are two types of creditors:

Secured creditors have a legal benefit of collateral over some of all of the assets pertaining to a business.

Unsecured creditors can be suppliers, customers or contractors that can lend capital without having collateral they can get in return.

A creditor can charge collateral after an organization purchases or acquires a product, service, property or another factor. Making payments to creditors is crucial in building a positive relationship with them while having the capital to scale a business. If a company is doing well, then it is likely making on-time payments to a creditor and forging a strong relationship.

5. Government

The government is the ruling body of the country in which a business operates. The government takes taxes out of the company's revenue as well as from employees' income. It also enforces labor laws that organizations are required to follow to ensure safe working conditions for employees. in addition, it sets regulations on the financial system to protect consumers.

A business must follow federal, state and local rules and regulations to continue and grow its operations, making this external stakeholder especially vital to an organization's success. Following these regulations, remaining transparent as necessary and seeking opportunities to partner with government agencies to provide mutually beneficial services can help a company build a positive relationship with the government.

6. Labor unions

Many industries and organizations work with labor unions that legally represent the employees of an organization and work with all levels of management to secure pay, benefits and adequate working conditions for all staff. Employees pay fees or union dues to earn this representation and negotiate contracts to guarantee or improve conditions of employment. If there are alterations to a company policy that affects employees, then labor unions intervene to ensure that the terms are agreed to on the employees' behalf.

Since labor unions work closely with employees, their satisfaction is directly related to how the organization's employees feel. This external stakeholder's satisfaction is very important to the company's productivity as well as financial and cultural success.

7. Competitors

Competitors are an entity that has a conflicting goal with another business that offers similar products and services. These external stakeholders compete for the same opportunities to profit within the same market. Having strong competitors can motivate an organization to innovate better products and services, improve marketing to their audience and increase its profit over other companies in its industry.

5.4 CSR as a Business Strategy for Sustainable Development

Q18. 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.

Q19. Discuss in detail CSR as a Business Strategy for Sustainable Development.

(OR)

How CSR could be considered as a business strategy for sustainable development? Discuss.

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

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.

Q20. How can one evaluate CSR activity?

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

Many companies have difficulties measuring the effect of their corporate social responsib-ility (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.

Q21. What are the major obstacles to CSR activity in India?

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

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.

5.5 CSR Committee

Q22. Explain briefly about Constitution and functions of CSR Committee.

Ans :

Constitution

- The CSR Committee of the Board shall consist of three or more directors, out of which at least one shall be an independent director.
- Foreign companies shall constitute CSR Committee with at least two persons in which one must be a resident person, authorised to accept notices/ documents served on the foreign company and the other as nominated by the foreign company.
- Unlisted public company (UPC) or a private company, which otherwise does not require an independent director on its board, shall not need an independent director for the purposes of this committee.
- Any private company which only has two directors on its board shall have the said two directors in the CSR committee.

Functions

- Formulation and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the projects/activities to be undertaken by the Company in areas or subject, as specified in Schedule VII.
- Reviewing with the CSR management, the quarterly financial statements before submission to the Board for approval.
- Recommend the amount of expenditure to be incurred on CSR projects/activities undertaken.
- To constitute Management Committee for implementation and execution of CSR initiatives/ activities.
- Shall institute a transparent monitoring mechanism for implementation of CSR projects/activities undertaken by the company.
- Reviewing performance of the Company in the areas of CSR.
- Submit an annual report of CSR projects/ activities to the board.
- Monitoring CSR Policy from time to time.

5.6 Recent Amendments in Companies Act (Sec. 135)

Q23. Explain the recent amendments in Companies Act 1935.

Ans :

Recent Amendments in Companies Act (Sec: 135)

(1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during [1][the immediately preceding financial year] shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director:

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

(a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company [3][in areas or subject, specified in Schedule VII];

(b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

(a) After taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, [4][or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years] in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

(6) Any amount remaining unspent under sub-section (5), pursuant to any ongoing project, fulfilling such conditions as may be prescribed, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

(7) If a company is in default in complying with the provisions of sub-section (5) or sub-section (6), the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and every officer of the company who is in default shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.]

(8) The Central Government may give such general or special directions to a company or class of companies as it considers necessary to ensure compliance of provisions of this section and such company or class of companies shall comply with such directions.]

(9) Where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

Short Question and Answers

1. Corporate Social Responsibility.

Ans :

Meaning

The term "Corporate Social Responsibility (CSR)" can be referred as corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. The term generally applies to companies efforts that go beyond what may be required by regulators or environmental protection groups. Corporate social responsibility may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.

2. Nature of CSR.

Ans :

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.

3. Explain the Importance of CSR.

Ans :

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.

4. Is CSR an essential features of modern business.

Ans :

Yes "CSR is an essential feature of modem business". This view is advocated by professor paul Ison who believes that business firms are a part of society, so they should work not only for profit but also to serve the society. This idea of CSR is also supported by T.F Bradsha. According to him, community has social expectations from businesses and it is the responsibility of businesses to fulfil their expectation in the best possible manner.

5. Ethical Model

Ans :

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.

6. Statist Model.

Ans :

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.

7. Scope of CSR.

Ans :

1. Environment

This area involves the environmental aspects of production, covering pollution control in the conduct of business operations, prevention or repair of damage to the environment resulting from processing of natural resources and the conservation of natural resources.

Corporate social objectives are to be found in the abatement of the negative external social effects of industrial production, and adopting more efficient technologies to minimize the use of irreplaceable resources and the production of waste.

2. Energy

This area covers conservation of energy in the conduct of business operations and increasing the energy efficiency of the company's products.

3. Fair Business Practices

This area concerns the relationship of the company to special interest groups.

In particular it deals with:

(i) Employment of minorities

(ii) Advancement of minorities

(iii) Employment of women

(iv) Employment of other special interest groups

(v) Support for minority businesses

(vi) Socially responsible practices abroad

8. Core - BCSD India.

Ans :

- 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.

9. Who are the stakeholders of a corporation?

Ans :

Meaning

Stakeholders are parties invested in the success of a business or organization. Many decisions and results need to be considered from the perspective of various stakeholders to ensure all investments are honored. There are many roles you can serve in that require you to understand the needs and wants of different stakeholders. In this article, we define what stakeholders are and explore different examples of stakeholders you may encounter in your organization.

10. 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.

11. How can one evaluate CSR activity?

Ans :

Many companies have difficulties measuring the effect of their corporate social responsib-ility (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.

Choose the Correct Answer

1. CSR stands for ________. [b]

   (a) Corporation Social Responsibility (b) Corporate Social Responsibility

   (c) Corporate Social Resonance (d) Cooperation Social Responsibility

2. Which is not a characteristic of corporate social responsibility? [d]

   (a) Product safety (b) Consumer rights

   (c) Environmental policies (d) Price-fixing

3. What is not a characteristic of a corporate social responsibility framework? [a]

   (a) Retaining the status quo (b) Understanding society

   (c) Harnessing diversity (d) Building capacity

4. ________ the greater will be its social prestige. [c]

   (a) The more advertisement business unit will do

   (b) The more luxury items a business unit will produce

   (c) The more effectively a business unit caters to the needs of society

   (d) The more profit a business unit will earn

5. CSR is applicable to ________. [d]

   (a) Private sector (b) Public sector

   (c) NGO (d) Private and public sector both

6. Choose the below statement is true or false ________. [a]

   1. A business house that concentrates only on personal gains at the cost of social interests cannot survive for long.

   2. A firm that gives too much importance to social interests at the cost of personal gains can't flourish and must close down sooner or later.

   (a) 1. True, 2. True (b) 1. True, 2. False

   (c) 1. False, 2. True (d) 1. False, 2. False

7. CSR is ________. [c]

   (a) One time process (b) Yearly process

   (c) Continuous process (d) None of these

8. Choose the below statement is true or false ________. [c]

   1. It is not the responsibility of society to create and maintain an atmosphere that is conducive to the functioning and growth of the business.

   2. It is the responsibility of the business unit to keep social interest in mind and act accordingly.

   (a) 1. True, 2. True (b) 1. True, 2. False

   (c) 1. False, 2. True (d) 1. False, 2. False

9. The idea of trusteeship was propounded by ________. [d]

   (a) Tolstoy (b) Ruskin

   (c) Mahatma Gandhi (d) All of these

10. A business firm that neglects the expectations of society. [b]

   (a) Will earn more profit (b) Cannot grow

   (c) Will not affect business (d) A and C both

Fill in the Blanks

1. ________ is self-imposed restriction by companies on their activities.
2. The social ________ of a business by no means reduce the importance of the income objective.
3. ________ specifies the processes an organization should follow to account for its performance.
4. A ________ is intended to be a central guide and reference for day-to-day decision-making.
5. BCSD stands for ________.
6. EPAA stands for ________.
7. The concept of ________ has received growing recognition, but it is a new idea for many business executives.
8. PSU stands for ________.
9. The ________ where the belief is that the free market would take care of corporate responsibility.
10. ________ means devising corporate strategies and building a business with the society's needs in mind.

Answers

1. Corporate Social Responsibility
2. Net Income objectives
3. Accountability
4. Code of Conduct
5. Business Council for Sustainable Development
6. Economic Priority Accreditation Agency
7. Sustainable Development
8. Public Sector Units
9. Liberal Approach
10. Corporate Social Responsibility

One Mark Answers

1. Codes of Conduct.

Ans :

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.

2. Corporate Social Responsibility.

Ans :

Corporate social responsibility means devising corporate strategies and building a business with the society's needs in mind".

3. Liberal Model.

Ans :

This is the liberal approach where the belief is that the free market would take care of corporate responsibility.

4. Socially Responsible Investing.

Ans :

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.

5. Global Reporting.

Ans :

It is a multi-stakeholder; international initiative established to develop and provided globally applicable sustainability reporting guidelines.

Internal Assessment (Mid Examinations)

In CIE, for theory subjects, during a semester, there shall be two mid-term examinations. Each MidTerm examination consists of two parts i) **Part – A** for 10 marks, ii) **Part – B** for 15 marks with a total duration of 2 hours as follows:

1. Mid-Term Examination for 25 marks:

   (a) Part - A: Objective/quiz paper/Short Note for 10 marks.

   (b) Part - B: Descriptive paper for 15 marks.

   Student shall have to earn 40%, i.e. 10 marks out of 25 marks from average of two mid-term examinations (I Mid-Term & II Mid-Term).

   The remaining 15 marks of Continuous Internal Assessment (out of 40) are distributed as:

2. Assignment for 5 marks. (Average of 2 Assignments each for 5 marks)

3. PPT/Poster Presentation/ Case Study/Video presentation/Survey/Field Study/Group discussion /Role Play on a topic in the concerned subject for $5+5 = 10$ marks before II MidTerm Examination.

   - The objective/quiz paper is set with multiple choice, fill-in the blanks, match the following type of questions and short notes for a total of 10 marks. The descriptive paper shall contain 5 full questions out of which, the student has to answer 3 questions, each carrying 5 marks. The student has to get minimum of 40% (on 25 marks allocated for Mid-Term examinations) on average of two Mid-Term examinations.

   - While the first mid-term examination shall be conducted on 50% of the syllabus, the second mid-term examination shall be conducted on the remaining 50% of the syllabus.

   - Five (5) marks are allocated for assignments (as specified by the subject teacher concerned). The first assignment should be submitted before the conduct of the first mid-term examination, and the second assignment should be submitted before the conduct of the second mid-term examination.

   - The average of the two assignments shall be taken as the final marks for assignment (for 5 marks). PPT/Poster Presentation/ Case Study/ Video presentation/ Survey/ Field Study/ Group discussion / Role Play on a topic in the concerned subject for $5+5 = 10$ marks before II Mid-Term Examination.

UNIT - I

Part - A

Multiple Choice Questions

1. Ethics is : [b]

   (a) Morals + reasoning (b) Morals + Values

   (c) Values + Beliefs (d) Values + Philosophy

2. Stage of maintaining the social order of Kohlberg's moral development model is in: [b]
   (a) Pre-conventional morality (b) Conventional morality
   (c) Post-conventional morality (d) None of the above

3. Codes of conduct and codes of ethics: [a]
   (a) Are formal statements that describe what an organization expects of its employees.
   (b) Become necessary only after a company has been in legal trouble.
   (c) Are designed for top executives and managers, not regular employees.
   (d) Rarely become an effective component of the ethics and compliance program.

Fill in the Blanks

4. ______ ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. **(Business)**

5. ______ as the name suggests, is application of various ethical theories and precepts to day-to-day situations. **(Applied Ethics)**

6. ______ is a conception of right and wrong behaviour, defining for us when our actions are moral and when they are immoral. **(Ethics)**

Short Notes

7. What are the various levels of Business Ethics? **(Unit-I, SQA-1)**
8. Applied Ethics. **(Unit-I, SQA-4)**
9. Functions of Business Ethics. **(Unit-I, SQA-7)**
10. Utilitarian Approach. **(Unit-I, SQA-9)**

Part - B

1. What are the various levels of Business Ethics? **(Unit-I, Q.No.12)**
2. "Business Ethics are Associated with Several myths". Explain. **(Unit-I, Q.No.13)**
3. Briefly explain Kohlberg's three stages of moral development. **(Unit-I, Q.No.15)**
4. Explain in detail Carol Gilligan's Theory. **(Unit-I, Q.No.16)**
5. What are the some common characteri- stis of code of ethics? Discuss. **(Unit-I, Q.No.17)**

UNIT - II

Part - A

Multiple Choice Questions

1. The process of implementing the objective into actual practice becomes the executivea. [b]
   (a) Function of workers (b) Function of management
   (c) Function of unions (d) labours

2. It is a multipurpose organ that manages a business and manages managers and manages work and the workers. this was stated by ________. [b]

   (a) Hellrigel (b) Peter drucker

   (c) harold koontz (d) FW taylor

3. The process by which companies identify the most important stakeholders is called ________. [d]

   (a) Shareholder impact evaluation (b) Stakeholder importance evaluation

   (c) shareholder analysis (d) stakeholder impact analysis

Fill in the Blanks

4. ________ management comprises supervising and managing a set of predetermined processes and activities, being carried out by people. **(Production)**

5. ________ responsibility on advertisers. **(Social)**

6. ________ of people is the primary indicator of good governance of the country and well-being of its society. **(Health)**

Short Notes

7. Principle of Integrity. **(Unit-II, SQA-4)**

8. What is Ethics in Advertisement? **(Unit-II, SQA-6)**

9. Dilemma. **(Unit-II, SQA-8)**

10. Preparatory Ethics. **(Unit-II, SQA-10)**

Part - B

1. Explain various principles Related to Ethics in finance. **(Unit-II, Q.No.12)**

2. What is the role of ethics in finance an accounting professional? **(Unit-II, Q.No.15)**

3. Discuss about ethical issues in advertising. **(Unit-II, Q.No.18)**

4. Explain the various ethical issues in media reporting. **(Unit-II, Q.No.20)**

5. What are the reasons for ethical dilemma? **(Unit-II, Q.No.24)**

UNIT - III

Part - A

Multiple Choice Questions

1. An organization's ________ embraces the behavior, rituals and shared meaning held by employees that distinguishes the organization from all others. [b]

   (a) External environment (b) Culture

   (c) Dominant culture (d) Ethics

2. Components of corporate culture includes ________ [d]

   (a) Vision and values (b) Practices and people

   (c) Narrative and place (d) All of these

3. The corporate governance structure of a company reflects the individual companiesa. [d]
   (a) Cultural & economic system (b) Legal & business system
   (c) Social & regulatory system (d) All of these

Fill in the Blanks

4. Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. **(Corporate)**
5. ______ is a corporate company in which no single day has ended without fraudulent practices. **(ENRON)**
6. The purpose of agency theory is to identify points of conflict among ______ groups. **(Corporate Interest)**

Short Notes

7. Define Corporate Governance. **(Unit-III, SQA-1)**
8. Criticisms of Stakeholder Theory. **(Unit-III, SQA-4)**
9. What is Capital Market? **(Unit-III, SQA-6)**
10. Need for corporate governance. **(Unit-III, SQA-9)**

Part - B

1. What are the benefits and limitations of corporate governance? **(Unit-III, Q.No.3)**
2. Discuss in detail about Major Corporate Governance Failures. **(Unit-III, Q.No.6)**
3. Discuss about Corporate Governance in India present, past and future. **(Unit-III, Q.No.8)**
4. Discuss the role of Regulator in Corporate Governance. **(Unit-III, Q.No.20)**
5. Explain the role of government in ensuring corporate governance. **(Unit-III, Q.No.21)**

UNIT - IV

Part - A

Multiple Choice Questions

1. The process of evaluating a firm's ________ is to determine its effect on a society. [b]
   (a) Operating procedures (b) Code of conduct
   (c) Policies compliance (d) All of the above
2. The principle of "let the buyer be aware "is based on the ________ theory [c]
   (a) Capitalist (b) Consumer
   (c) Free-market (d) None of the above
3. The ________ has a code of ethics that helps organizations monitor their ads [a]
   (a) AAA (b) FTC
   (c) FDA (d) All of the above

Fill in the Blanks

4. OECD stands for ______. **(Organization for Economic Cooperation and Development)**

5. ______ includes a group of people who are referred as directors. **(Board)**

6. Dual board structure is also known as ______ board structure. **(Two-tier)**

Short Notes

7. Cadbury Committee on Corporate Governance, 1992 **(Unit-IV, SQA-2)**

8. Define Director. **(Unit-IV, SQA-6)**

9. Role of Directors. **(Unit-IV, SQA-8)**

10. Who are auditors **(Unit-IV, SQA-10)**

Part - B

1. Explain in detail about Global Reporting Initiative. **(Unit-IV, Q.No.1)**

2. Explain the major recommodations of Kumara Mangalam Birla Committee Report. **(Unit-IV, Q.No.6)**

3. Explain briefly about various Corporate Governance Committees. **(Unit-IV, Q.No.11)**

4. What are the Duties & Responsibilities of Board of Directors ? **(Unit-IV, Q.No.20)**

5. Comment on governance ratings by giving merits and demerits. **(Unit-IV, Q.No. 27)**

UNIT - V

Part - A

Multiple Choice Questions

1. Which is not a characteristic of corporate social responsibility? [d]

   (a) Product safety (b) Consumer rights

   (c) Environmental policies (d) Price-fixing

2. What is not a characteristic of a corporate social responsibility framework? [a]

   (a) Retaining the status quo (b) Understanding society

   (c) Harnessing diversity (d) Building capacity

3. CSR is applicable to ______. [d]

   (a) Private sector (b) Public sector

   (c) NGO (d) Private and public sector both

Fill in the Blanks

4. ________ is self-imposed restriction by companies on their activities.

(Corporate Social Responsibility)

5. A ________ is intended to be a central guide and reference for day-to-day decision-making.

(Code of Conduct)

6. The concept of ________ has received growing recognition, but it is a new idea for many business executives. **(Sustainable Development)**

Short Notes

7. Nature of CSR. **(Unit-V, SQA-2)**
8. Explain the Importance of CSR. **(Unit-V, SQA-3)**
9. Is CSR an essential features of modern business. **(Unit-V, SQA-4)**
10. Statist Model. **(Unit-V, SQA-6)**

Part - B

1. Explain the various models for implementation of CSR. **(Unit-V, Q.No.8)**
2. What are the advantages and dis- advantages of corporate social responsibility? **(Unit-V, Q.No.11)**
3. Broadly discuss the scope of corporate social responsibility. **(Unit-V, Q.No.9)**
4. Explain briefly about Core - BCSD India. **(Unit-V, Q.No.14)**
5. Explain about social responsibility and Indian Corporations. List out the different social responsibility functions performed by Indian Companies. **(Unit-V, Q.No.16)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A I - Year I - Semester Examination **R22**

MODEL PAPER - I

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] **[Max. Marks : 60**

Note : This question paper contains two parts **A** and **B**.

Part A is compulsory which carries 10 marks. Answer all questions in **Part A.**

Part B consists of 5 Units. Answer any **One** full question from each unit.

Each question carries 10 marks and may have a, b, c as sub questions.

PART - A (10 × 1 = 10 Marks)

ANSWERS

1.	(a)	Define Ethics	**(Unit - I, SQA - 2)**
	(b)	Applied Ethics	**(Unit - I, SQA - 4)**
	(c)	Professional Ethics	**(Unit - II, SQA -1)**
	(d)	Ethical Dilemma	**(Unit - II, SQA - 9)**
	(e)	Define Corporate Governance.	**(Unit - III, SQA - 1)**
	(f)	Problems encounted in corporate governance.	**(Unit - III, SQA - 5)**
	(g)	OECD Principles	**(Unit - IV, SQA - 1)**
	(h)	Role of Directors.	**(Unit - IV, SQA - 8)**
	(i)	Corporate Social Responsibility.	**(Unit - V, SQA - 1)**
	(j)	Who are the stakeholders of a corporation?	**(Unit - V, SQA - 9)**

PART - B (5 × 10 = 50 Marks)

2.	(a)	How business ethics is considered a ‘management discipline’?	**(Unit - I, Q.No. 9)**
		OR	
	(b)	Briefly explain Kohlberg’s three stages of moral development.	**(Unit - I, Q.No. 15)**
3.	(a)	Explain in detail about various aspects related to the working conditions of an employee dealing in product or production process.	**(Unit - II, Q.No. 4)**
		OR	
	(b)	What is the role of ethics in finance an accounting professional.	**(Unit - II, Q.No. 15)**
4.	(a)	What are the benefits and limitations of corporate governance.	**(Unit - III, Q.No. 3)**
		OR	
	(b)	What is Stewardship Theory in corporate governance.	**(Unit - III, Q.No. 14)**

5. (a) Explain in detail about Global Reporting Initiative. **(Unit - IV, Q.No. 1)**

OR

(b) Explain briefly about various Corporate Governance Committees. **(Unit - IV, Q.No. 11)**

6. (a) Explain the various models for implementation of CSR. **(Unit - V, Q.No. 8)**

OR

(b) What are the advantages and dis- advantages of corporate social responsibility? **(Unit - V, Q.No. 11)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A I - Year I - Semester Examination **R22**

MODEL PAPER - II

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] **[Max. Marks : 60**

Note : This question paper contains two parts **A** and **B**.

Part A is compulsory which carries 10 marks. Answer all questions in **Part A.**

Part B consists of 5 Units. Answer any **One** full question from each unit.

Each question carries 10 marks and may have a, b, c as sub questions.

PART - A (10 × 1 = 10 Marks)

ANSWERS

1.	(a)	What are the various levels of Business Ethics?	**(Unit - I, SQA - 1)**
	(b)	The Fairness or Justice Approach	**(Unit - I, SQA - 10)**
	(c)	Marketing Ethics.	**(Unit - II, SQA - 2)**
	(d)	Ethical issues in media reporting	**(Unit - II, SQA - 7)**
	(e)	Corporate Governance in India	**(Unit - III, SQA - 2)**
	(f)	Need for corporate governance	**(Unit - III, SQA - 9)**
	(g)	Cadbury Committee on Corporate Governance, 1992	**(Unit - IV, SQA - 2)**
	(h)	Define Director	**(Unit - IV, SQA - 6)**
	(i)	Nature of CSR	**(Unit - V, SQA - 2)**
	(j)	Scope of CSR	**(Unit - V, SQA - 7)**

PART - B (5 × 10 = 50 Marks)

2.	(a)	Write in detail about the various principles of business ethics.	**(Unit - I, Q.No. 17)**
		OR	
	(b)	What are the various levels of Business Ethics?	**(Unit - I, Q.No. 12)**
3.	(a)	"Marketing professional should practice ethical behavior" discuss this statement by considering the pragmatic reasons for ethical behavior.	**(Unit - II, Q.No. 7)**
		OR	
	(b)	Explain any four ethical issues in advertisement.	**(Unit - II, Q.No. 18)**
4.	(a)	Discuss the problems encounted in corporate governance.	**(Unit - III, Q.No. 16)**
		OR	
	(b)	Discuss in detail about Major Corporate Governance Failures.	**(Unit - III, Q.No. 6)**

5. (a) Discuss in detail Structure of the Board. **(Unit - IV, Q.No. 15)**

OR

(b) Briefly describe the Rating Criteria used by CRISIL and CARE. **(Unit - IV, Q.No. 29)**

6. (a) Broadly discuss the scope of corporate social responsibility. **(Unit - V, Q.No. 9)**

OR

(b) Explain briefly about Core - BCSD India. **(Unit - V, Q.No. 14)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A I - Year I - Semester Examination **R22**

MODEL PAPER - III

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] **[Max. Marks : 60**

Note : This question paper contains two parts **A** and **B**.

Part A is compulsory which carries 10 marks. Answer all questions in **Part A.**

Part B consists of 5 Units. Answer any **One** full question from each unit.

Each question carries 10 marks and may have a, b, c as sub questions.

PART - A (10 × 1 = 10 Marks)

ANSWERS

1. (a) Business Ethics **(Unit - I, SQA - 5)**

(b) Functions of Business Ethics **(Unit - I, SQA - 7)**

(c) Ethics in HRM **(Unit - II, SQA -3)**

(d) Principle of Objectivity **(Unit - II, SQA - 5)**

(e) What is an agency theory **(Unit - III, SQA - 3)**

(f) Meaning of Agency **(Unit - III, SQA -10)**

(g) Hampel Committee, 1995 **(Unit - IV, SQA - 3)**

(h) Disqualification of directors **(Unit - IV, SQA - 7)**

(i) Explain the Importance of CSR **(Unit - V, SQA - 3)**

(j) Statist Model **(Unit - V, SQA - 6)**

PART - B (5 × 10 = 50 Marks)

2. (a) "Business Ethics are Associated with Several myths". Explain. **(Unit - I, Q.No. 13)**

OR

(b) 'Explain in detail Carol Gilligan's Theory**.** **(Unit - I, Q.No. 16)**

3. (a) Explain any four ethical issues in advertisement. **(Unit - II, Q.No. 12)**

OR

(b) What are the reasons for ethical dilemma? **(Unit - II, Q.No. 24)**

4. (a) Describe the Stakeholder Theory in corporate governance. **(Unit - III, Q.No. 15)**

OR

(b) Explain the role of government in ensuring corporate governance. **(Unit - III, Q.No. 21)**

5. (a) Elicit the recommendations of Cadbury Committee Report. **(Unit - IV, Q.No. 3)**

OR

(b) Discuss briefly about SEBI Guidelines of Clause 49. **(Unit - IV, Q.No. 10)**

6. (a) Explain briefly about Ethics and Social Responsibility of Business. **(Unit - V, Q.No. 15)**

OR

(b) What are the major obstacles to CSR activity in India? **(Unit - V, Q.No. 21)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA I - Semester Examinations

January - 2020

R19

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 2 Hours] [Max. Marks : 75

Note : This question paper contains two Parts A and B.
Part A is compulsory which carries 25 marks. Answer all questions in Part A.
Part B consists of 5 Units. Answer any one full question from each unit.
Each question carries 10 marks and may have a, b, c as sub questions.

ANSWERS

PART-A (5 × 5 = 25 Marks)

1. (a) What are the various Levels of Business Ethics? **(Unit-I, SQA-1)**

   (b) Define Professional Ethics. **(Unit-II, SQA-1)**

   (c) Write a short note on Corporate Governance in India. **(Unit-III, SQA-2)**

   (d) List out the responsibilities of Directors. **(Unit-IV, SQA-9)**

   (e) Discuss the Scope of CSR. **(Unit-V, SQA-7)**

PART-B (5 × 10 = 50 Marks)

2. Elaborate the Five Myths about Business Ethics. **(Unit-I, Q.No. 13)**

OR

3. Discuss the stages of Moral development with a view of Carol Gilligan's Theory. **(Unit-I, Q.No. 16)**

4. What is the role of Ethics in Finance and Accounting Professionals? **(Unit-II, Q.No. 15)**

OR

5. Define Dilemma and what are the reasons for Ethical Dilemmas. **(Unit-II, Q.No. 22, 24)**

6. Give a detail note on Stewardship Theory. **(Unit-III, Q.No. 14)**

OR

7. Elicit the recommendations of Cadbury Committee Report? **(Unit-IV, Q.No. 3)**

8. List the functions and Structure of the Board. **(Unit-IV, Q.No. 14, 15)**

OR

9. Comment on Governance Ratings by giving Merits and Demerits. **(Unit-IV, Q.No. 27)**

10. Explain the relation between Ethics and Social Responsibility of Business. **(Unit-V, Q.No. 15)**

OR

11. Social Responsibility and Indian Corporations - Discuss. **(Unit-V, Q.No. 16)**

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 ? **(Unit-I, Q.No. 18)**
2. What are some common characteristics of codes of ethics ? Discuss **(Unit-I, Q.No. 17)**
3. "Marketing professional should practice ethical behavior" Discuss this statement by considering the pragmatic reasons for ethical behavior. **(Unit-II, Q.No. 7)**
4. "Governance is more than just Board processes and procedures" Discuss the statement in view of the OCED principles of corporate governance. **(Unit-IV, Q.No. 2)**
5. Why is it necessary that corporate governance is more important in banking companies that in others ? Discuss, substantiate your answer with suitable examples. **(Unit-III, Q.No. 22)**
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-IV, Q.No. 11)**
7. Is CSR an essential feature of modern business ? Discuss the various models for implementation of CSR. **(Unit-V, Q.No. 6, 8)**
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. 7, 19)**

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. 12)**

   (b) Briefly describe the three Functions of Business Ethics. **(Unit-I, Q.No. 8)**

2. (a) What is Moral Development? **(Unit-I, Q.No. 14)**

   (b) Briefly explain Kohlberg's 3-Stages of Moral Development. **(Unit-I,Q.No. 15)**

3. What is ethics in Advertisement? Explain any four ethical issues in Advertisement. **(Unit-II, Q.No. 17, 18)**

4. What is Ethical Dilemma in Workplace? Given an example. What is the nine steps for resolving it? **(Unit-II, Q.No. 22)**

5. Briefly explain the Corporate Governance prevailing in

   (a) Public Sector; and **(Unit-IV, Q.No. 12)**

   (b) Private Sector India **(Unit-IV, Q.No. 12)**

6. (a) What is Corporate Governance Rating ? **(Unit-IV, Q.No. 26)**

   (b) Briefly describe the Rating Criteria used by CRISIL and CARE. **(Unit-IV, Q.No. 29)**

7. (a) How can one evaluate CSR activity? **(Unit-V, Q.No. 20)**

   (b) What are the major obstacles to CSR activity in India ? **(Unit-V, Q.No. 21)**

8. (a) Broadly discuss the scope of Corporate Social Responsibility (CSR). **(Unit-V, Q.No. 9)**

   (b) What are the steps involved in attaining CSR ? **(Unit-V, Q.No. 10)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA I - Semester Examinations

R19

May - 2022

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : 3 Hours] [Max. Marks : 75

Note: Answer any **FIVE** Questions

All questions carry equal marks

ANSWERS

1. (a) What is 'utilitarian ethical theory' ? **(Unit-I, Q.No. 3)**

   (b) How business ethics is considered a 'management discipline' ? **(Unit-I, Q.No. 9)**

2. (a) What are the views of Thomas Hobbles on ethics? **(Unit-I, Q.No. 4)**

   (b) Explain how being ethically right as a manager can be fulfilling to oneself. **(Unit-I, Q.No. 11)**

3. (a) What is the contribution of Ralph Nader through consumer movement to 'ethical marketing'? **(Unit-II, Q.No. 8)**

   (b) What are the sources of ethical dilemma? **(Unit-II, Q.No. 25)**

4. (a) What are the contentious issues in 'advertising ethics'? **(Unit-II, Q.No. 18)**

   (b) What the implication of protection of 'whistle blower' in ethical practices in business? **(Unit-II, Q.No. 3)**

5. (a) What are the requirements on training of 'independent directors' of the board according to Naresh Chandra Committee ? **(Unit-IV, Q.No. 7)**

   (b) What are the elements of OECD principles on disclosure and transparency? **(Unit-IV, Q.No. 2)**

6. (a) Critically examine the role of SEBI as regulator of Indian capital market. **(Unit-III, Q.No. 20)**

   (b) What are the criticisms of 'Stakeholder model'? **(Unit-III, Q.No. 15)**

7. (a) What is the requirement on 'percentage of independent directors' in the Board of Directors of a company? Elaborate. **(Unit-IV, Q.No. 17)**

   (b) What are the liabilities of Director of a company ? **(Unit-IV, Q.No. 21)**

8. (a) Who are the stakeholders of a corporation? **(Unit-V, Q.No. 17)**

   (b) Discuss in detail CSR as a business strategy for sustainable development. **(Unit-V, Q.No. 19)**