



BUSINESS ETHICS AND CORPORATE GOVERNANCE COURSE Code: 4T1

Unit IV

PROGRAMME EDUCATIONAL OBJECTIVES: PEO

- Will be recognized as a creative and an enterprising team leader.
- Will be a flexible, adaptable and an ethical individual.
- Will have a holistic approach to problem solving in the dynamic business environment.

Course Objectives Of BECG

- CO1
- Student learner should be able to contrast the underlying theory of Ethics that is governing the organization under study.
- CO2
- Student learner should be able to design a Code of Ethics for professional behavior within an organization.
- CO3
- Student learner should be able to identify the possible ethical concerns which may be faced by an organization in given situation.

Course Objectives Of HROB

- CO4
- Student learner should be able to analyze a given situation and assess the negative impact it may have on society.
- CO5
- Student learner should be able to identify the various issues that may arise in the domains of Marketing, Finance, HRM, and Environment in a given organization/situation and suggest corrective action

*Role of Ethics in
Corporate Governance*

What is corporate governance?

Corporate Governance is concerned with **holding the balance** between economic and social goals and between individual and communal goals.

The corporate governance framework is there to **encourage the efficient use of resources** and equally to require **accountability for the stewardship** of those resources.

The aim is to **align** as nearly as possible the **interests of individuals, corporations and society**

- Sir Adrian Cadbury

What is corporate governance?

Contd...

- The primary purpose of corporate leadership is to **create wealth legally and ethically**.
- This translates to bringing a high level of satisfaction to five constituencies -- **customers, employees, investors, vendors and the society-at-large**.
- The *main objective* of every corporate body is to ensure **predictability, sustainability** and **profitability** of revenues year after year.
- - **N R Narayana Murthy**

History of Corp Gov in India

- Unlike South-East and East Asia, the corporate governance initiative in India was not triggered by any serious nationwide financial, banking and economic collapse
- Also, unlike most OECD countries, the initiative in India was initially driven by an industry association, the Confederation of Indian Industry
 - In December 1995, CII set up a task force to design a voluntary code of corporate governance
 - The final draft of this code was widely circulated in 1997
 - In April 1998, the code was released. It was called *Desirable Corporate Governance: A Code*
 - Between 1998 and 2000, over 25 leading companies voluntarily followed the code: Bajaj Auto, Hindalco, Infosys, Dr. Reddy's Laboratories, Nicholas Piramal, Bharat Forge, BSES, HDFC, ICICI and many others

History of Corp Gov in India

- Following CII's initiative, the Securities and Exchange Board of India (SEBI) set up a committee under Kumar Mangalam Birla to design a mandatory-cum-recommendatory code for listed companies
- The Birla Committee Report was approved by SEBI in December 2000
- Became mandatory for listed companies through the listing agreement, and implemented according to a rollout plan

History of Corp Gov in India

- Following CII and SEBI, the Department of Company Affairs (DCA) modified the Companies Act, 1956 to incorporate specific corporate governance provisions regarding independent directors and audit committees
- In 2001-02, certain accounting standards were modified to further improve financial disclosures. These were:
 - Disclosure of related party transactions
 - Disclosure of segment income: revenues, profits and capital employed
 - Deferred tax liabilities or assets
 - Consolidation of accounts
- Initiatives are being taken to (i) account for ESOPs, (ii) further increase disclosures, and (iii) put in place systems that can further strengthen auditors' independence

Fundamental Objective of Corporate Governance

- Enhancement of Shareholder Value, keeping in view the Interests of other Stakeholders
- CG a Way of Life rather than a Code

Constituents of Corp Gov

- The Board of Directors
 - Pivotal role
 - Accountable to stakeholders
 - Directs management
- The Shareholders & Stakeholders
 - To participate in appointment of directors
 - To hold the BoD accountable for governance through proper disclosures
- The Management
 - To act on the direction of the BoD
 - To provide requisite information to the BoD for decision making
 - To implement and monitor control systems

Theories of Corporate Governance

Agency Theory

- Shareholders are the 'Principals'
- Directors and Managers need to be monitored as their motives differ from that of shareholders

Stewardship Theory

- Assumptions –
 - Steward is a person who manages other's property and financial affairs and is entrusted with the responsibility of proper utilization and development of organization's resources

Stakeholder Theory

- The purpose of the firm is to create wealth or value for its stakeholders by covering their stakes into goods and services.
- The conception of the company is a set of relationship rather than a series of transactions, in which managers adopt an inclusive concern for all stakeholders

Property Right Theory

- Property rights are a set of rules and guidelines that help people (investors) from reasonable expectations about control over assets
- These can be law, administrative arrangement, social norms etc
- How will it help –
 - To understand the type of firm
 - Specific CG mechanisms available to the firm

Models of CG

Anglo American	German	Japanese
Share holders	Shareholders and employees /unions	Shareholders and banks
Elects	Elects	Elects
Board of Directors	Supervisory Board	Supervisory Board appoints President And President
Appoints	Appoints	Appoints
Officers/Executive	Management Board	Executive Board
Manage	Manage	Manage
Company	Company	Company
Indian Model = Anglo American Model +German Model		

Anglo American Model

- Wide spread shareholding
- Separation of ownership and management
- Professional managers
- Single board structure
- Focus on mainly on Shareholders

Contt...

- In the case of German model employees have a role
- Where as in Japanese Banks/financial institutions have a role in the board as stake holders

References

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- Ethics in Business & Management - R. P. Banerjee (Himalaya Publication)
- Business Ethics. by Crane – Pub. By Oxford Press
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- Business Ethics & Corporate Governance, by A.C.Fernando