

CORPORATE GOVERNANCE AND BUSINESS ETHICS

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MBA Sem-4

Corporate governance and business ethics

Unit -v

CORPORATE GOVERNANCE

INTRODUCTION

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

Many of the "definitions" of corporate governance are merely descriptions of practices or preferred orientations. For example, many authors describe corporate governance in terms of a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. However, there is substantial interest in how external systems and institutions, including markets, influence corporate governance.

Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization.

PRINCIPLES OF CORPORATE GOVERNANCE

- **Rights and equitable treatment of shareholders:** Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.
- **Interests of other stakeholders:** Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.
- **Role and responsibilities of the board:** The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the appropriate mix of executive and non-executive directors.

PRINCIPLES OF CORPORATE GOVERNANCE

- **Integrity and ethical behaviour:** Ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical and legal boundaries.
- **Disclosure and transparency:** Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

ISSUES IN CORPORATE GOVERNANCE

- Corporate governance addresses three basic issues:
- Ethical issues
- Efficiency issues
- Accountability issues

ISSUES IN CORPORATE GOVERNANCE

- Ethical issue
- This is concerned with the problem with fraud, which is becoming wide spread in capital economies. Corporation often fraudulent means to achieve their goals. They form cartels to exert tremendous pressure on the government to formulate public policy. Which may sometime go against the interests of individuals and society at large? At times corporation may resort to unethical means like bribes, giving gift to potential customers and lobbying under the cover of public relations in order to achieve their goal of maximizing long term owner value.
- Efficiency issues
- These are concerned with the performance management. Management with responsible for ensuring reasonable return on investment made by shareholders. In developed countries, individuals usually invest money through mutual, retirement, and tax fund in India. However, small shareholders are still an important source of capital for corporation is mutual funds industry is still emerging. This issues relating to efficiency relating to management is of concerned to shareholders as there is no control mechanism through which they can control the activities of the management, whose efficiency is detrimental for return on their investments.

- Accountability issues

- The management of corporation is accountable to its various stakeholders. This is emerging out of the stakeholders need for transparency of management in the conduct of business. Since the activities of a corporation influence the workers, customer and society at large, some of the accountability issues are concerned with the social responsibility that a corporation must shoulder.
- The growth of private companies.
- The magnitude and complexity of corporate groups.
- The important of institutional investors.
- Rise in hostile activities of predators.
- Insider trading.
- Litigation against directors.
- Need for restructuring of boards.
- Changes in auditing practices.

BUSINESS ETHICS DEFINITION

- “Business Ethics is generally coming to know what is right or wrong in the work place and doing what is right. This is in regard to effects of products/services and in relationship with the stake holders.” —Cater Mcnamara
- “Business ethics in short can be defined as the systematic study of ethical matters pertaining to the business, industry or related activities, institutions and beliefs. Business ethics is the systematic handling of values in business and industry.” — John Donaldson
- There is no unanimity of opinion as to what constitutes business ethics. There are no separate ethics of business but every individual and organ in society should abide by certain moral orders.

BUSINESS ETHICS

- Business ethics (also known as corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.
- Business ethics has both normative and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

BENEFITS OF GOOD BUSINESS ETHICS

- Good business ethics brings much goodwill to a company that will in the long run translate into tangible benefits. Goodwill is that intangible asset that a company has earned over her period of operation as a result of being perceived by business associates and other third parties as being transparent, reliable, straightforward, trustworthy, etc
- Note the use of the word „earned“, this means that true goodwill is earned and not purchased. Forget about the accounting goodwill here. Some of the tangible benefits that accrue a company for operating on an ethically sound business values are:



BENEFITS OF BUSINESS ETHICS

- Profitability
- The first direct dividend of ethical business operation is „profitability.“ A company that is based on sound business value is more likely to be profitable than a company operating on corrupt Practices. Going concern assured Being profitable will ensure that the company be around for at least the next twelve months. It is the desire of every business entity to be around for a longer time. Ethical business practice is the way to go if you and your business truly value going concern.
- Sustainability
- Without sustainability, investments in business will simply not yield fruit. And without running your business on sound ethical values, sustainability will not be achieved in businesses and investments.
- Competitive edge
- Quality save money is a popular belief in accounting, business and investment. You will save the cost of reworking defects borne out of using poor equipment and employment of sharp practices. Again, this will give you and you investment (business) easy access to the heart of the general public if you build your business on ethical values and principles.

The 3 C's of Business Ethics

- Following are the 3 C's of business ethics:
- **Compliance: (The need for compliance of rules including):**
 - Laws
 - principles of morality
 - policy of the company
- **The Contribution (Business can make to the society):**
 - The core values
 - Quality of products/services
 - Employment
 - Usefulness of activities to surrounding activities
 - QWL

The 3 C's of Business Ethics

- **The consequences of business activity:**
- Toward environment inside and outside the organisation
- Social responsibility toward shareholders, bankers, customers and employees of organisation.
- Good public image, sound activity good image

Need of business ethics

- Business operates within the society
- Every business irrespective of size exists more on ethical means or in total regards to all its social concern to survive long.
- Business needs to function as responsible corporate citizen in the country.

Objectives of business ethics

- **According to Peter Pratley– Business ethics has twofold objectives-‘it evaluates human practices by calling upon moral standards, also it may give prescription advice on how to act morally in a specific kind of situation’.**
- **Analysis and evaluation: Ethical analysis and ethical diagnosis of past events, happenings, clarifying the standards, uncover the moral values, habits of thought. How to evaluate the situation? Ethics provides rational methods for answering the present situation and related future issues. Well equipped information is a must to achieve this second objective, a careful assessment of relevant information will lead to balanced judgments.**
- **Approaches to resolve ethical dilemmas: It provides therapeutic advice when facing the present dilemmas and future dangers. Only the condition which requires a true identification of relevant stakeholder and a clear-cut understanding of crucial issues at stake.**


Scope of Business Ethics

- All the business activities come under the scope of business ethics. For the sake of convenience of understanding, all these business activities can be grouped into an order as follows:-
 - 1. Systematic issues
 - 2. Corporate issues
 - 3. individual issues

- Systematic Issues:- the systematic issues related to economics, political, legal and social in existence within which a business operates. ex. 'Bofors' issue in India
- Corporate issues:- The corporate issues refers to the ethical or moral issues and questions relating to a particular business operations. ex. Moral and ethical issues and question raised about 'Maggi'.
- Individual issues:- these related to the moral and ethical issues and question raised about the act or conduct of an individual or group of individuals in operating a business organisation. ex. 'Harshad Mehta Security Scan'

Factors Causing Unethical Behaviour

Following are the factors causing unethical behaviour:

- Competition—'Litemer and Molander' have found in their studies in 1974 that the important cause of decreasing use of ethical conduct in business is the increasing nature of competition. When managers try to meet goals and have to cut corners at that moment this acute competition at national as well as international level becomes an unavoidable reason for unethical conduct.
- There is an increasing pressure to earn more profit and to cope with the enlarged requirements and expectations of all like shareholders, customers, employees or all the categories of its stakeholders. So this becomes an important factor of unethical conduct of business.
- Ambiguous situations create the ethical dilemma to the manager and selection of an alternative which gives them higher return at the cost of losing integrity they don't think.
- Political corruption has also become a big issue now-a-days; As business cannot be aloof from politics and most of the political parties demand gifts, donations and bribes from the business men for their political gain.
- Social values and customs are not followed by new generation.
- Now-a-days people want to become rich in a short while even by doing unethical acts. Money and success becomes the important motivator behind any activity.
- People neglect the social responsibility, lack of integrity and discipline in the social values 

- Many of the business activities which involve unethical activities are objectionable, exploitative and create big problems to innocent people. A sample of these unethical conducts is shown below:
 - Encourage practices of corruption
 - False representation of returns and income statements
 - Ignore the social interest
 - Creation of acute competition
 - Political donations
 - Exploit the consumer
 - Illegal trade with enemy countries
- Exploit scarce natural resources. The points mentioned above are some real practical situations which are embedded in business organisation and are sometimes unavoidable and therefore corporate commitment to ethics is vital, it is a most valuable asset a firm can possess, which pays in long run. Following are few of the practical examples of the corporate world, where the commitment level of ethics is very high.



THANK YOU