

**GS FOUNDATION
BATCH FOR CSE (2023-24)**

ETHICS IN GOVERNANCE - HANDOUT 10

**Strengthening moral & ethical values
governance + corporate governance + case
studies**

Public Service Values & Ethics in Public Administration

- Concept of Public Service
- Public Service Values
- Status & Problems
- Ethical Concerns & Dilemmas in government in government & private institutions
- Laws, Rules, Regulations & Conscience as a source of Ethical Guidance
- Accountability & Ethical Governance
- Strengthening Moral & Ethical Vales in Governance
- Ethical Issues in international Relations & Funding
- Corporate Governance

Public Service Values & Ethics in Public Administration

Corporate Governance

Definition

- ✓ Corporate governance is a system of rules, practices & process by which a company is directed & controlled balancing the interest of all the stakeholders.
- ✓ Corporate governance is the way a company is organized and managed to ensure that all financial stakeholders receive a fair share of the company's earnings and assets.
- ✓ Balance -> Profit Maximization + Shareholders Welfare
- ✓ Real Owners [Shareholders]
- ✓ Board of Directors – Responsible for preparation of Financial Records.
- ✓ Stakeholders – [Shareholders, Managers, Board of Directors, Employees, Customers, Creditors, Suppliers & Community etc.]
- ✓ Companies Act, 2013

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Principles of Corporate Management

- ✓ Accountability of Management [Shareholder & Stakeholder]
- ✓ Transparency [Basic operations & integrity in financial reports]
- ✓ Mandatory inclusion of Independent directors
- ✓ Adherence to laws & rules
- ✓ Code of Conduct [Employees & Directors]
- ✓ Mechanism of open dialogue [Management & stakeholders]
- ✓ Accountability [Interest of small shareholders & fairness]

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Corporate Governance: Provisions of Companies Act, 2013

- National Financial Reporting Authority
 - ✓ Formulate Accounting & Auditing standards
 - ✓ Monitor compliance
 - ✓ Quality of Auditors, Accountants etc.
- Audit & Auditors
 - ✓ Appointed after first annual general meeting [Board of Directors]
- Directors
 - ✓ Company's Strategic objectives & Policies
 - ✓ Monitoring progress towards achieving the objectives & policies
 - ✓ Appointing members of senior management
 - ✓ Minimum 1/3rd Independent directors [Custodian]
- Audit Committees [Independent Directors]
 - ✓ All public companies paid up capital 10 crores or more
 - ✓ All public companies having a turnover of Rs.100 crore or more
- Class Action [All persons of same class get benefit]
 - ✓ suit can be filed against company or directors for fraudulent, unlawful or wrong commissions
 - ✓ Against auditors for misleading statement
- ✓ Corporate Social responsibility

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Corporate Social Responsibility

- Mandatory for companies [Criteria]
 - ✓ Net worth 500 crores
 - ✓ Net turn over 1000 crores
 - ✓ Net profit 5 crores
- 2 percent of profit for social development
- Scope of areas
- Penalty for non-compliance
 - ✓ transfer of money to any fund mentioned in schedule 7 of the act [e.g. PM relief Fund]
 - ✓ Non-compliance [Fine or Imprisonment (3 years)]; Amendment in 2020 made it only civil offence

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Moral Integrity & Professional efficiency in Corporate Governance

- Moral Integrity – refers to adherence of ethical principles, values and honesty in business practices.
- Provisions under companies Act, 2013
 - ✓ Class Action suit
 - ✓ Whistle blower protection
 - ✓ Corporate Social Responsibility
 - ✓ Independent Directors
- Examples
 - ✓ Inclusive & safe work environment for all [Tata Steel Initiative] – LGBT+ included in their hiring policy
 - ✓ Wipro Commitment to carbon reduction Plan [net zero carbon across value chain by 20140]
- Professional Efficiency
 - ✓ Effective Decision making [well informed & timely decisions]
 - ✓ Transparent Financial Reporting
 - ✓ Risk Mitigation Plan [ICICI, HDFC etc.]
 - ✓ Sustainable Diversification & Innovation

Case Study – Corporate Governance

Prabhat was working as Vice President (Marketing) at Sterling Electric Ltd., a reputed multinational company. But presently the company was passing through the difficult times as the sales were continuously showing downward trend in the last two quarters. His division, which hitherto had been a major revenue contributor to the company's financial health, was now desperately trying to procure some big government order for them. But their best efforts did not yield any positive success or breakthrough.

His was a professional company and his local bosses were under pressure from their London-based HO to show some positive results. In the last performance review meeting taken by the Executive Director (India Head), he was reprimanded for his poor performance. He assured them that his division is working on a special contract from the Ministry of Defence for a secret installation near Gwalior and tender is being submitted shortly

He was under extreme pressure, and he was deeply perturbed. What aggravated the situation further was a warning from the top that if the deal is not clinched in favor of the company, his division might have to be closed and he may have to quit his lucrative job.

There was another dimension which was causing him deep mental torture and agony. This pertained to his personal precarious financial health. He was a single earner in the family with two school-college going children and his old ailing mother. The heavy expenditure on education and medical was causing a big strain to his monthly pay packet. Regular EMI for housing loan taken from bank was unavoidable and any default would render him liable for severe legal action.

Case Study – Corporate Governance

In the above backdrop, he was hoping for some miracle to happen. There was sudden turn of events. His secretary informed that a gentleman-Subhash Verma wanted to see him as he was interested in the position of Manager which was to be filled in by him in the company. He further brought to his notice that his CV has been received through the office of the Minister of Defence.

During interview of the candidate-Subhash Verma, he found him technically sound, resourceful and experienced marketeer. He seemed to be well-conversant with tendering procedures and having knack of follow-up and liaising in this regard. Prabhat felt that he was better choice than the rest of the candidates who were recently interviewed by him in the last few days.

Subhash Verma also indicated that he was in possession of the copies of the bid documents that the Unique Electronics Ltd. would be submitting the next day to the Defence Ministry for their tender. He offered to hand over those documents subject to his employment in the company on suitable terms and conditions. He made it clear that in the process, the Sterling Electric Ltd. could outbid their rival company and get the bid and hefty Defence Ministry order. He indicated that it will be win-win situation for both-him and the company.

Case Study – Corporate Governance

Prabhat was absolutely stunned. It was a mixed feeling of shock and thrill. He was uncomfortable and perspiring. If accepted, all his problems would vanish instantly, and he may be rewarded for securing the much-awaited tender and thereby boosting company's sales and financial health. He was in a fix as to the future course of action. He was wonder-struck at the guts of Subhash Verma in having surreptitiously removing his own company papers and offering to the rival company for a job. Being an experienced person, he was examining the pros and cons of the proposal/situation, and he asked him to come the next day.

- (a) Discuss the ethical issues involved in the case.
- (b) Critically examine the options available to Prabhat in the above situation.
- (c) Which of the above would be the most appropriate for Prabhat and why?

Case Study – Corporate Governance

Approach

- Subject matter
- Stakeholders
- Ethical Issues
- Directives

Subject matter –

- Corporate Governance

Stakeholders –

- Prabhat & his Family,
- Employees,
- Sterling Electric Ltd. & Unique Electronics Ltd.,
- Defence Ministry,
- Mr. Subhash Verma

Case Study – Corporate Governance

Ethical Issues –

- Company's warning to close the division if the deal is not sealed
- Breach of trust by Mr. Subhash Verma
- Appoint or not to Appoint Mr. Subhash Verma?
- Can Mr. Verma be trusted?

(a) Discuss the ethical issues involved in the case.

(b) Critically examine the options available to Prabhat in the above situation.

1. Appoint Mr. Verma as the Manager on suitable terms & get the tender information
2. Appoint Mr. Verma as the Manager with an ulterior motive to terminate him after some time.
3. Consult the executive head (India) and act accordingly
4. Politely turn down Mr. Verma's offer and blacklist his profile in Co-ordination with the HR Department.

(c) Which of the above would be the most appropriate for Prabhat and why?

Practice : Case Study - 2

- A reputed food company based in India gets approval to export food product to International Market.
 - After their initial success they also announce to sell the product for domestic market with same quality & health standards.
 - Approval for the same is also given by the competent authority
 - There are chances for the company to increasing their market share & to make huge profit
 - Under such circumstance a random sample checking found the products to be in deviance of the approval sanctioned & not meeting the health standards
 - Its also found the company has been selling the rejected exports products in the domestic market which has seriously affected the reputation & Profitability of the company.
- (a) What action do you visualize should be taken by the competent authority against the food company for violating the laid down domestic food standard and selling rejected export products in domestic market?
- (b) What course of action is available with the food company to resolve the crisis and bring back its lost reputation
- (c) Examine the ethical dilemma involved in the case.