

CORPORATE GOVERNANCE & BUSINESS ETHICS (MCM1C02)

STUDY MATERIAL

I SEMESTER

CORE COURSE

M.COM.

(2019 ADMISSION ONWARDS)



UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

CALICUT UNIVERSITY P.O, MALAPPURAM KERALA, INDIA 673 635.

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**CORE COURSE: MCM1C02: CORPORATE GOVERNANCE &
BUSINESS ETHICS**

Prepared by : ***Dr.Abdul Azeez P,***
Assistant Professor,
Dept. of Commerce,
Farook College, Calicut.

Scrutinized by : ***Dr.E K Satheesh,***
Professor,
Dept. of Commerce & Management
Studies,
University of Calicut.

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MODULE I

CORPORATE GOVERNANCE

Introduction

Corporate governance is the broad term describes the processes, customs, policies; laws and institutions that direct the organisations and corporations in the way they act, administer and control their operations. It works to achieve the goal of the organisation and manages the relationship among the stakeholders including the board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organization. Fine corporate governance is an essential standard for establishing the striking investment environment which is needed by competitive companies to gain strong position in efficient financial markets.

Good corporate governance is fundamental to the economies with extensive business background and also facilitates the success for entrepreneurship. During the last two decades the research area in finance is primarily focus on the area of corporate governance. The separation of ownership from control is the core of the agency problems facing by the firms. This leads to many issues related to efficient control for the assets of corporations in the interest of all company's stakeholders. A great research has been done in the area of corporate governance by keeping the agency related problem.

Significance

India accounts for nearly 3 per cent of world GDP and 2.5 percent of global stock market capitalization. With over 5,000 listed companies and more than 50 companies in the global Fortune 2000, India represents a vibrant mix of small and large companies that access capital from domestic and international investors to fund their growth. Many of these companies are amongst the largest employers. Moreover, a large number of small investors in India rely on corporate India's good performance so that the returns they obtain on their investments can ensure their financial security. Beyond doubt, corporate India represents a key engine that powers nation building; and nation building requires sound principles of governance, whether it is a country or a company.

As corporate India's health is critical for India's future, sound corporate governance needs to be the key enabler to manifest this reality. Corporate governance deals with the ways in which suppliers of capital to corporations, especially faceless, powerless small investors, can assure themselves of getting fair treatment as stakeholders. A promoter, or a professional manager, raises funds from equity investors either to put them to productive use or to cash out his/her holdings in the firm.

The investors need the manager's/ promoter's specialized human capital to generate returns on their funds. But how can small suppliers of capital ensure that, once they invest their funds, owners and/or professional managers will invest their money responsibly and return some of the profits generated from such investments? Corporate governance deals with the mechanisms to address this key question.

Meaning

Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Governance refers specifically to the set of rules, controls, policies, and resolutions put in place to dictate corporate behaviour. Proxy advisors and shareholders are important stakeholders who indirectly affect governance, but these are not examples of governance itself. The board of directors is pivotal in governance, and it can have major ramifications for equity valuation.

Communicating a firm's corporate governance is a key component of community and investor relations. On Apple Inc.'s investor relations site, for example, the firm outlines its corporate leadership—its executive team, its board of directors—and its corporate governance, including its committee charters and governance documents, such as bylaws, stock ownership guidelines and articles of incorporation.

Most companies strive to have a high level of corporate governance. For many shareholders, it is not enough for a company to merely be profitable; it also needs to

demonstrate good corporate citizenship through environmental awareness, ethical behaviour, and sound corporate governance practices. Good corporate governance creates a transparent set of rules and controls in which shareholders, directors, and officers have aligned incentives.

Importance

a) Increasing pace of change in market conditions like demographic, technological and market change, which require companies and their boards to be agile and quickly adapt to the changing business environment.

b) Obsessive focus on short-term performance often at the cost of long-term performance: Rather than pursuing long-term strategies, many public companies and boards dedicate significant resources to meeting quarterly earnings guidance and communicating their performance relative to this guidance. In a survey conducted by McKinsey and CPPIB in 2014, nearly half of the C-suite respondents stated that the reason for their organizations' overemphasis on short-term financial results and under emphasis on long-term value creation was the company's board.

c) Several corporate governance failures across the world and an increasingly complex regulatory environment have sharpened the focus on good governance.

d) An increasing number of passive institutional owners with small positions in a wide range of companies –raising the expectations towards, and opportunities for, larger shareholders to be active and involved as owners to ensure and support the value creation in their individual portfolio companies. What has led to this sharp rise in activism? According to Stephen Murray, president and CEO of CCMP Capital Advisors, a major private-equity firm, “The whole activist industry exists because public boards are often seen as inadequately equipped to meet shareholder interests.”

e) Increasing evidence that private equity (“PE”) owned companies outperform publicly listed ones. Directors who have served on the boards of both public and private companies add that the behaviour of the board is a key element driving superior operational performance. Compared to their public-owned company counterparts, directors in PE-owned companies are believed to spend far more time on strategy and risk management, have deeper functional and industry expertise and engage more actively in talent management. Clearly, public boards cannot (and should not) seek to replicate all elements of the PE model. Nevertheless, can public boards be structured so that their members can put more time into managing strategy, risk, talent and performance.

Definitions of Corporate Governance

1. Cadbury Committee (United Kingdom), 1992 has defined corporate governance as such: “Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditor and the management.”
2. “Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides this; it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.”
3. Definition of corporate governance by the Institute of Company Secretaries of India is as under: “Corporate Governance is the application of best Management practices, Compliance of law in true letter and spirit and adherence to ethical standards for Effective Management and distribution of wealth and discharge of social Responsibility for sustainable development of all stakeholders”.

Evolution of Corporate Governance

Many companies are managed by directors who do not own the company. Many problems have arisen due to the separation of ownership and control .e.g. directors having inadequate skills to manage their area, or awarding themselves large bonuses whilst not meeting targets. Due to the many problems which have arisen in the past, corporate governance has been developed.

Corporate governance is concerned with set of principles, ethics, values, morals, rules regulations, & procedures etc. Corporate governance establishes a system whereby directors are entrusted with duties and responsibilities in relation to the direction of the company’s affairs. The term “governance” means control i.e. controlling a company, an organization etc or a company & corporate governance is governing or controlling the corporate bodies i.e. ethics, values, principles, morals. For corporate governance to be good the manager needs to meet its responsibilities towards its owners (shareholders), creditors, employees, customers, government

and the society at large. Corporate governance helps in establishing a system where a director is showered with duties and responsibilities of the affairs of the company.

For effective corporate governance, its policies need to be such that the directors of the company should not abuse their power and instead should understand their duties and responsibilities towards the company and should act in the best interests of the company in the broadest sense. The concept of 'corporate governance' is not an end; it's just a beginning towards growth of company for long term prosperity.

Corporate governance concept emerged in India after the second half of 1996 due to economic liberalization and deregulation of industry and business. With the changing times, there was also need for greater accountability of companies to their shareholders and customers. The report of Cadbury Committee on the financial aspects of corporate Governance in the U.K. has given rise to the debate of Corporate Governance in India. Need for corporate governance arises due to separation of management from the ownership. For a firm success, it needs to concentrate on both economical and social aspect. It needs to be fair with producers, shareholders, customers etc. It has various responsibilities towards employees, customers, communities and at last towards governance and it needs to serve its responsibilities at the best at all aspects.

The "corporate governance concept" dwells in India from the Arthshastra time instead of CEO at that time there were kings and subjects. Today, corporate and shareholders replace them but the principles still remain same, unchanged i.e. good governance. 20th century witnessed the glossy of Indian Economy due to liberalization, globalization, and privatization. Indian economy for the 1st time here was together with world economy for product, capital and lab our market and which resulted into world of capitalization, corporate culture, business ethics which was found important for the existence of corporation in the world market place.

Major stakeholders of a Corporate Body



- **Internal or external**
- **Primary or secondary**
- **Direct or indirect**

Internal stakeholders are, as the name suggests, stakeholders that exist inside a business. These are stakeholders who are directly affected by a project, such as employees.

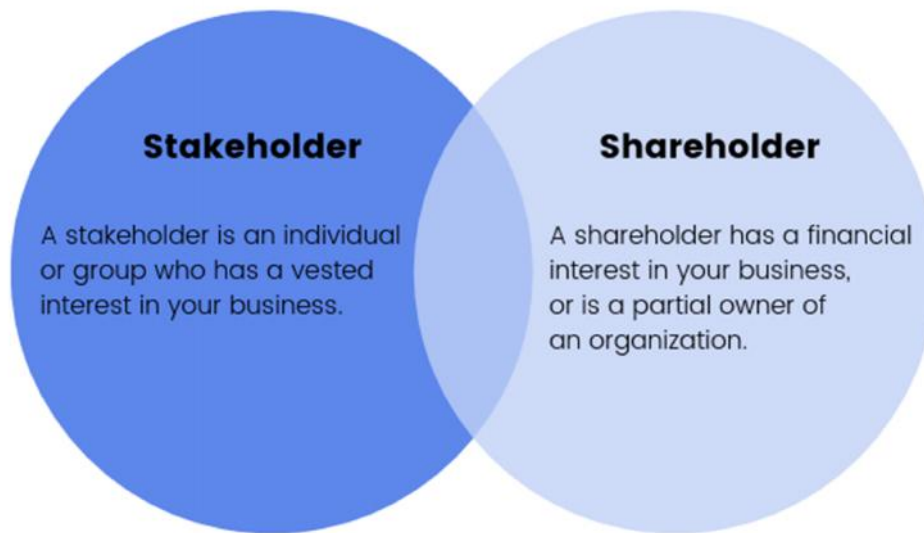
External stakeholders are those who have an interest in the success of a business but do not have a direct affiliation with the projects at an organization. A supplier is an example of an external stakeholder.

Primary stakeholders have the highest level of interest in the outcome of a project because they are directly affected by the outcome. They actively contribute to a project. These types of stakeholders include customers and team leaders.

Secondary stakeholders also help to complete projects, but on a lower, general level. These types of stakeholders help with administrative processes, financial, and legal matters.

Direct stakeholders are involved with the day-to-day activities with a project. Employees can be considered direct stakeholders as their daily tasks revolve around projects at a business.

Indirect stakeholders pay attention to the finished project outcome rather than the process of completing it. Indirect stakeholders concern themselves with things like pricing, packaging, and availability. Customers are a type of indirect stakeholder.



1. Customers. Peter Drucker defined the purpose of a company as this; to create customers. Without customers the company cannot survive so in almost all situations the customer needs have to come first. The customer can always choose to take his business to a competitor so it is essential that we continue to innovate, to offer good products and good value for money.

2. Employees. The employees are the ones who create and deliver the products or services that the customers consume. If we lose or antagonize our best employees then customer service will suffer so we need to look after them. If we want to attract and retain top talent at all levels then we have to offer terms and conditions that are attractive.

3. Shareholders. The shareholders own the company. They might well have put forward the seed capital which we need to get started so their needs are important. Ultimately the board, acting on behalf of the shareholders, can replace the CEO and the executive team. However, provided we are broadly on plan in terms of revenues and profit the shareholders are generally satisfied and will leave us alone. They will only take action when things are going badly wrong so we do not need to always act to please them.

4. Suppliers, distributors and other business partners. We need to collaborate with our partners to run the business. Many have essential skills that we lack. It is best to build good long-term relationships. However, the partners also have their own agendas and most can be replaced if they underperform or a better partner appears.

5. The local community. We want to be a good citizen with healthy links to the local community. We want to be seen as a responsible employer who is providing a good place to work. This is important but is clearly a lower priority than those above.

6. National Government and regulatory authorities. These are less important stakeholders but we want to keep on the right side of them. We want to be compliant with regulations and avoid disputes and prosecutions.

Communication mechanism of corporate organisation

Corporate communications play a key role in how investors, employees and the general public perceive a company. They often report directly to a company's chief executive officer and serve as advisers in managing a company's reputation. They help leaders prepare for media interviews, develop messages to deliver to investors and employees and suggest new initiatives to keep companies on the cutting edge of communication with their stakeholders.

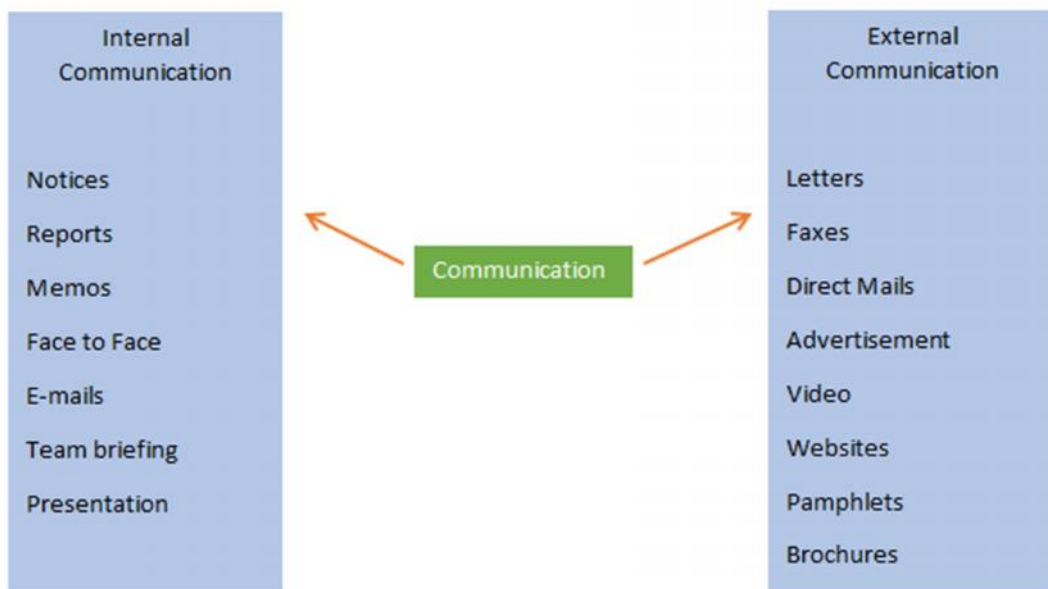
Effective corporate governance is essential if a business wants to set and meet its strategic goals. A corporate governance structure combines controls, policies and guidelines that drive the organization toward its objectives while also satisfying stakeholders' needs. A corporate governance structure is often a combination of various mechanisms.

Internal Mechanism

The foremost sets of controls for a corporation come from its internal mechanisms. These controls monitor the progress and activities of the organization and take corrective actions when the business goes off track. Maintaining the corporation's larger internal control fabric, they serve the internal objectives of the corporation and its internal stakeholders, including employees, managers and owners. These objectives include smooth operations, clearly defined reporting lines and performance measurement systems. Internal mechanisms include oversight of management, independent internal audits, structure of the board of directors into levels of responsibility, segregation of control and policy development.

External Mechanism

External control mechanisms are controlled by those outside an organization and serve the objectives of entities such as regulators, governments, trade unions and financial institutions. These objectives include adequate debt management and legal compliance. External mechanisms are often imposed on organizations by external stakeholders in the forms of union contracts or regulatory guidelines. External organizations, such as industry associations, may suggest guidelines for best practices, and businesses can choose to follow these guidelines or ignore them. Typically, companies report the status and compliance of external corporate governance mechanisms to external stakeholders.



Corporate Governance- Key concepts

The foundation to governance is the action of the individual. These actions are guided by a person's moral stance. Characteristics which are important in the development of an appropriate moral stance include the following:

Fairness

- A sense of equality in dealing with internal stakeholders.
- A sense of even-handedness in dealing with external stakeholders.
- An ability to reach an equitable judgement in a given ethical situation.

Openness/transparency

- The creation of a transparent relationship with shareholders to reduce agency costs (see later in this chapter), and the development of accounting systems and standards to facilitate this openness.
- Lack of withholding relevant information unless necessary, leading to a default position of information provision (rather than concealment).
- Transparency in strategic decision making to assist in the development of an appropriate culture within the company.

Independence

- Independence from personal influence of senior management for non-executive directors (NEDs).
- Independence of the board from operational involvement.
- Independence of directorships from overt personal motivation since the organisation should be run for the benefit of its owners.

Probity/honesty

- Honesty in financial/positional reporting.
- Perception of honesty of the finance from internal and external stakeholders.
- A foundation ethical stance in both principles- and rules-based systems.

Responsibility

- Willingness to accept liability for the outcome of governance decisions.
- Clarity in the definition of roles and responsibilities for action.
- Conscientious business and personal behaviour.

Accountability

- Accounting for business position as a result of acceptance of responsibility.

- Providing clarity in communication channels with internal and external stakeholders.
- Development and maintenance of risk management and control systems.

Reputation

- Developing and sustaining personal reputation through other moral virtues.
- Developing and sustaining the moral stance of the organisation.
- Developing and sustaining the moral stance of the accounting profession.

Judgement

- The ability to reach and communicate meaningful conclusions.
- The ability to weigh numerous issues and give each due consideration.
- The development of a non-judgemental approach to business and personal relationships.

Integrity

- Steadfast adherence to a strict moral or ethical code, high moral virtue.
- The highest standards of professionalism and probity.
- A prerequisite within agency relationships.

Objectives of Corporate Governance

- **Transparency and Full Disclosure**

Good corporate governance aims at ensuring a higher degree of transparency in an organization by encouraging full disclosure of transactions in the company accounts. Full disclosure includes compliance with regulations and disclosing any information important to the shareholders. For example, if a manager has close ties with suppliers or has a vested interest in a contract, it must be disclosed. Also, directors should be independent so that the oversight of the company management is unbiased. Transparency involves disclosure of all forms of conflict of interest.

- **Accountability**

A corporate governance structure encourages accountability of the management to the company directors and the accountability of the directors to the shareholders. Through hiring

independent directors, a company aims to create good corporate governance. The compensation of the chief executive officer has to be approved by the company directors to ensure that the compensation structure is fair and in the best interests of the shareholders. Any discrepancies in the company accounts or malfunctioning of the company are closely watched by the board of directors. The board has a right to question strategic decisions.

- **Equitable Treatment of Shareholders**

A corporate governance structure ensures equitable treatment of all the shareholders of the company. In some organizations, a particular group of shareholders remains active due to their concentrated position and may be better able to guard their interests; such groups include high-net-worth individuals and institutions that have a substantial proportion of their portfolios invested in the company. However, all shareholders deserve equitable treatment, and this equity is ensured by a good corporate governance structure in any organization.

- **Self Evaluation**

Corporate governance allows firms to evaluate their behavior before they are scrutinized by regulatory bodies. Firms with a strong corporate governance system are better able to limit their exposure to regulatory risks and fines. An active and independent board can successfully point out the loopholes in the company operations and help solve issues internally.

- **Increasing Shareholders' Wealth**

The main objective of corporate governance is to protect the long-term interests of the shareholders. Ira Millstein, in his book, "Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets," mentions that firms with strong corporate governance structures are seen to have higher valuation premiums attached to their shares. This shows that good corporate governance is perceived by the market as an incentive for shareholders to invest in the company.

Principles of Corporate Governance

The Cadbury Report which was released in the UK in 1991 outlined that "Corporate governance is the system by which businesses are directed and controlled." Good corporate governance is a key factor in underpinning the integrity and efficiency of a company. Poor

corporate governance can weaken a company's potential, can lead to financial difficulties and in some cases can cause long-term damage to a company's reputation. A company which applies the core principles of good corporate governance; fairness, accountability, responsibility and transparency, will usually outperform other companies and will be able to attract investors, whose support can help to finance further growth.

Fairness

Fairness refers to equal treatment, for example, all shareholders should receive equal consideration for whatever shareholdings they hold. In India this is protected by the Companies Act 2014. However, some companies prefer to have a shareholder agreement which can include more extensive and effective minority protection. In addition to shareholders, there should also be fairness in the treatment of all stakeholders including employees, communities and public officials. The fairer the entity appears to stakeholders, the more likely it is that it can survive the pressure of interested parties.

Accountability

Corporate accountability refers to the obligation and responsibility to give an explanation or reason for the company's actions and conduct.

In brief:

- The board should present a balanced and understandable assessment of the company's position and prospects;
- The board is responsible for determining the nature and extent of the significant risks it is willing to take;
- The board should maintain sound risk management and internal control systems;
- The board should establish formal and transparent arrangements for corporate reporting and risk management and for maintaining an appropriate relationship with the company's auditor, and
- The board should communicate with stakeholders at regular intervals, a fair, balanced and understandable assessment of how the company is achieving its business purpose.

Responsibility

The Board of Directors are given authority to act on behalf of the company. They should therefore accept full responsibility for the powers that it is given and the authority that it exercises. The Board of Directors are responsible for overseeing the management of the business, affairs of the company, appointing the chief executive and monitoring the performance of the company. In doing so, it is required to act in the best interests of the company. Accountability goes hand in hand with responsibility. The Board of Directors should

be made accountable to the shareholders for the way in which the company has carried out its responsibilities.

Transparency

A principle of good governance is that stakeholders should be informed about the company's activities, what it plans to do in the future and any risks involved in its business strategies. Transparency means openness, a willingness by the company to provide clear information to shareholders and other stakeholders. For example, transparency refers to the openness and willingness to disclose financial performance figures which are truthful and accurate.

Disclosure of material matters concerning the organisation's performance and activities should be timely and accurate to ensure that all investors have access to clear, factual information which accurately reflects the financial, social and environmental position of the organisation. Organisations should clarify and make publicly known the roles and responsibilities of the board and management to provide shareholders with a level of accountability. Transparency ensures that stakeholders can have confidence in the decision-making and management processes of a company.

Parties to corporate governance

The most influential parties involved in corporate governance include government agencies and authorities, stock exchanges, management (including the board of directors and its chair, the Chief Executive Officer or the equivalent, other executives and line management, shareholders and auditors). Other influential stakeholders may include lenders, suppliers, employees, creditors, customers and the community at large. The agency view of the corporation posits that the shareholder forgoes decision rights (control) and entrusts the manager to act in the shareholders' best (joint) interests. Partly as a result of this separation between the two investors and managers, corporate governance mechanisms include a system of controls intended to help align managers' incentives with those of shareholders. Agency concerns (risk) are necessarily lower for a controlling shareholder.

A board of directors is expected to play a key role in corporate governance. The board has the responsibility of endorsing the organization's strategy, developing directional policy, appointing, supervising and remunerating senior executives, and ensuring accountability of the organization to its investors and authorities. All parties to corporate governance have an interest, whether direct or indirect, in the financial performance of the corporation. Directors,

workers and management receive salaries, benefits and reputation, while investors expect to receive financial returns. For lenders, it is specified interest payments while returns to equity investors arise from dividend distributions or capital gains on their stock.

Customers are concerned with the certainty of the provision of goods and services of an appropriate quality; suppliers are concerned with compensation for their goods or services, and possible continued trading relationships. These parties provide value to the corporation in the form of financial, physical, human and other forms of capital. Many parties may also be concerned with corporate social performance. A key factor in a party's decision to participate in or engage with a corporation is their confidence that the corporation will deliver the party's expected outcomes. When categories of parties (stakeholders) do not have sufficient confidence that a corporation is being controlled and directed in a manner consistent with their desired outcomes, they are less likely to engage with the corporation. When this becomes an endemic system feature, the loss of confidence and participation in markets may affect many other stakeholders, and increases the likelihood of political action.

Issues in Corporate Governance

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

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.

MODULE II

THEORIES OF CORPORATE GOVERNANCE

There are many theories of corporate governance which addressed the challenges of governance of firms and companies from time to time. The Corporate Governance is the process of decision making and the process by which decisions are implemented in large businesses is known as Corporate Governance. There are various theories which describe the relationship between various stakeholders of the business while carrying out the activity of the business.

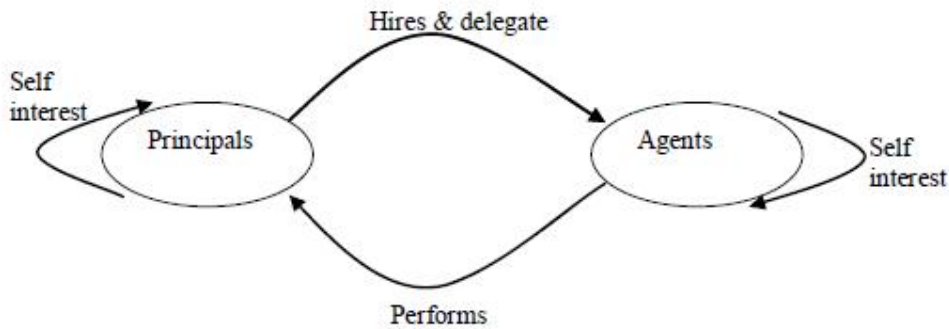
Theories of Corporate Governance

We will discuss the following theories of corporate governance:

- Agency Theory
- Stewardship Theory
- Resource Dependency Theory
- Stakeholder Theory
- Transaction Cost Theory
- Political Theory

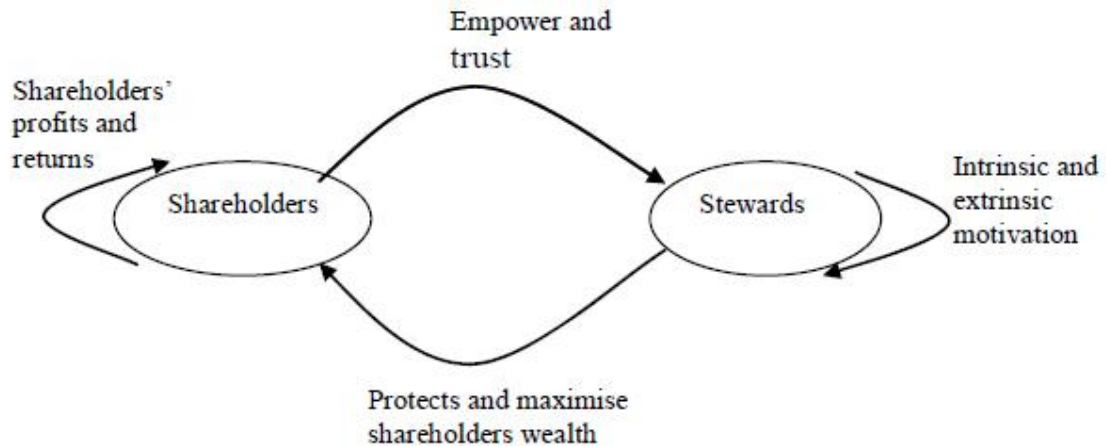
Agency Theory

Agency theory defines the relationship between the principals (such as shareholders of company) and agents (such as directors of company). According to this theory, the principals of the company hire the agents to perform work. The principals delegate the work of running the business to the directors or managers, who are agents of shareholders. The shareholders expect the agents to act and make decisions in the best interest of principal. On the contrary, it is not necessary that agent make decisions in the best interests of the principals. The agent may be succumbed to self-interest, opportunistic behavior and fall short of expectations of the principal. The key feature of agency theory is separation of ownership and control. The theory prescribes that people or employees are held accountable in their tasks and responsibilities. Rewards and Punishments can be used to correct the priorities of agents.



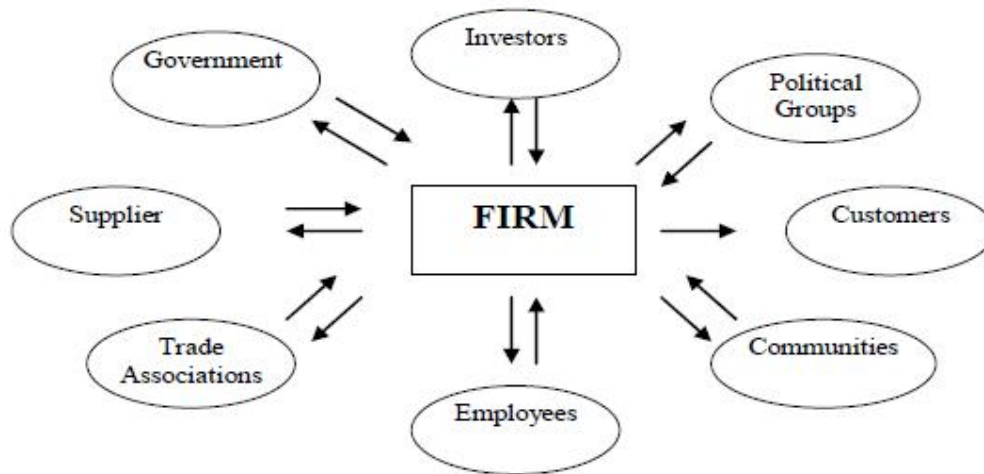
Stewardship Theory

The steward theory states that a steward protects and maximises shareholders wealth through firm Performance. Stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. The stewards are satisfied and motivated when organizational success is attained. It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. The employees take ownership of their jobs and work at them diligently.



Stakeholder Theory

Stakeholder theory incorporated the accountability of management to a broad range of stakeholders. It states that managers in organizations have a network of relationships to serve – this includes the suppliers, employees and business partners. The theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others.



Resource Dependency Theory

The Resource Dependency Theory focuses on the role of board directors in providing access to resources needed by the firm. It states that directors play an important role in providing or securing essential resources to an organization through their linkages to the external environment. The provision of resources enhances organizational functioning, firm's performance and its survival. The directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business experts, support specialists and community influentials.

Transaction Cost Theory

Transaction cost theory states that a company has number of contracts within the company itself or with market through which it creates value for the company. There is cost associated with each contract with external party; such cost is called transaction cost. If transaction cost of using the market is higher, the company would undertake that transaction itself.

Political Theory

Political theory brings the approach of developing voting support from shareholders, rather by purchasing voting power. It highlights the allocation of corporate power, profits and privileges are determined via the governments' favour

Models of Corporate Governance

Corporate form of business is generally managed by the Board of Directors and the board members are elected by shareholders. The board in turn appoints the professional managers to manage the business. Different countries have different regulations and corporate governance models differ based on these differences.

The Corporate governance models are broadly classified into following categories:

1. Anglo-American Model
2. The German Model
3. The Japanese Model
4. Social Control Model
5. Indian Model

Anglo American Model

Under the Anglo-American Model of corporate governance, the shareholder rights are recognised and given importance. They have the right to elect all the members of the Board and the Board directs the management of the company. Some of the features of this model are:

- This is shareholder oriented model. It is also called Anglo-Saxon approach to corporate governance being the basis of corporate governance in Britain, Canada, America, Australia and Common Wealth Countries including India
- Directors are rarely independent of management
- Companies are run by professional managers who have negligible ownership stake. There is clear separation of ownership and management.
- Institution investors like banks and mutual funds are portfolio investors. When they are not satisfied with the company's performance they simple sell their shares in market and quit.
- The disclosure norms are comprehensive and rules against the insider trading are tight
- The small investors are protected and large investors are discouraged to take active role in corporate governance.

German Model

This is also called European Model. It is believed that workers are one of the key stakeholders in the company and they should have the right to participate in the management of the company. The corporate governance is carried out through two boards, therefore it is also known as two-tier board model. These two boards are:

1. **Supervisory Board:** The shareholders elect the members of Supervisory Board. Employees also elect their representative for Supervisory Board which are generally one-third or half of the Board.
2. **Board of Management or Management Board:** The Supervisory Board appoints and monitors the Management Board. The Supervisory Board has the right to dismiss the Management Board and re-constitute the same.

Japanese Model

Japanese companies raise significant part of capital through banking and other financial institutions. Since the banks and other institutions stakes are very high in businesses, they also work closely with the management of the company. The shareholders and main banks together appoint the Board of Directors and the President. In this model, along with the shareholders, the interest of lenders is recognised.

Social Control Model

Social Control Model of corporate governance argues for full-fledged stakeholder representation in the board. According to this model, creation of Stakeholders Board over and above the shareholders determined Board of Directors would improve the internal control systems of the corporate governance. The Stakeholders Board consists of representation from shareholders, employees, major consumers, major suppliers, lenders etc.

Indian Model

In India there are mainly three types of companies' viz. private companies, public companies and public sector undertakings. Each of these companies has distinct kind of shareholding pattern. Thus the corporate governance model in India is a mix of Anglo-American and German Models.

Regulatory Framework of Corporate Governance

The Companies Act, 2013

The new Companies Law contains many provisions related to good corporate governance like Composition of Board of Directors, Admitting Woman Director, Admitting Independent Director, Directors Training and Evaluation, Constitution of Audit Committee, Internal Audit, Risk Management Committee, SFIO Purview, Subsidiaries Companies Management, Compliance centre etc. All such provisions of new Company Law are instrumental in providing a good Corporate Governance structure.

Few provisions are:-

1. **Section 134**, which mandates to attach a report to every financial statement by Board of Directors containing all the details of the matter including the statement containing director's responsibility.
2. **Section 177**, which requires Board of Directors of every listed company or any other class of committee to constitute an Audit Committee. It also provides the manner to constitute the committee.
3. **Section 184**, which mandates the Director disclose his interest in any company or companies, body corporate, firms, or other association of Individuals. The director is required to disclose any such interest at the first meeting of the board and if there is any change in the interest then the first meeting held after such change.

Securities and Exchange Board of India (SEBI) guidelines

SEBI is a regulatory authority established on April 12, 1992. SEBI was established with the main purpose of curbing the malpractices and protecting the interest of its investors. Its main objective is to regulate the activities of Stock Exchange and at the same time ensuring the healthy development in the financial market. In order to ensure good corporate governance SEBI came up with detailed Corporate Governance Norms.

1. As per the new rules the companies are required to get shareholders approval for RPT (Related Party Transactions), it established whistle blower mechanism, clear mandate to have at least one woman director in the Board and moreover it elaborated disclosures on pay packages.

2. Clause 35B of the Listing Agreement is being amended by the regulatory authority. Now as per the amended clause, listed companies are required to provide the option of e-voting to its shareholders on all proposed or passed at general meetings. Those who do not have access to e-voting facility, they should be provided to cast their votes in writing on Postal Ballot. There was the need to amend the provision so that the provisions of the listing agreement can be aligned with the provisions of Companies Act, 2013. By doing so an additional requirement can be provided to strengthen the Corporate Governance norms in India with respect to listed companies.
3. Clause 49 of the Listing Agreement was also amended by SEBI in order to strengthen the Corporate Governance framework for listed companies in India. The revised clause forbids the independent directors from being eligible for any kind of stock option. Whistle blower policy is also added in the revised clause whereby the directors and employees can report any unethical behaviour, any fraud or if there is violation of Code of Conduct of the company. By the amendment Audit Committee is also enhanced, now it will include evaluation of risk management system and internal financial control, will keep a check on inter-corporate loans and investments. The amendment now requires all the companies to form a policy for the purpose of determination of 'material subsidiaries' and that will be published online.

Secretarial Audit

Secretarial Audit' is introduced by Companies Act, 2013. It is a process to check compliances made by the Company under Corporate Law & other laws, rules, regulations, procedures etc. It is a mechanism to monitor compliance with the requirements of stated laws and processes. Periodically examination of work is necessary to point out errors & mistakes and to make a robust compliance mechanism system in an organization. Every company needs to comply hundreds of Laws, rules, regulations. These laws are complex and non-compliances would attract major risk to company. Periodically inspecting the records of company gives exact information whether, and if so, to what extent Company has complied with the laws applicable to the Company.

Secretarial Audit gives comfort to the regulators, stakeholders and management that company has disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes. As per section 204 of the Companies Act, 2013 read with Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, following

companies are required to obtain 'Secretarial Audit Report' from independent practicing company secretary;

- (1) Every listed company
- (2) Every public company having a paid-up share capital of Fifty Crore rupees or more; or
- (3) (b) Every public company having a turnover of Two Hundred Fifty Crore rupees or more.
- (4) Secretarial Audit is also mandatory to a private company which is a subsidiary of a public company, and which falls under the prescribed class of companies

Only a member of the Institute of Company Secretaries of India holding certificate of practice (company secretary in practice) can conduct Secretarial Audit and furnish the Secretarial Audit Report to the Company. As per Rule 8 of the Companies (Meetings of Board and its powers) Rules, 2014, Secretarial Auditor is required to be appointed by means of resolution passed at a duly convened Board meeting and resolution for appointment shall be filed with Registrar of Companies within 30 days in E-form MGT-14.

Scope of Secretarial Audit

A secretarial auditor has to check compliances by the company under the following laws and rules made there-under;

- i. The Companies Act, 2013 (the Act) and the rules made there-under;
- ii. The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there-under;
- iii. The Depositories Act, 1996 and the Regulations and Bye-laws framed there-under;
- iv. Foreign Exchange Management Act, 1999 and the rules and regulations made there-under to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- v. The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-

- a. The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
- b. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
- c. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
- d. The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999;
- e. The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
- f. The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;

Class Action

Class-action is not new to Indian jurisprudence. It is already embedded in statutes such as the CPC 1908 and the Consumer Protection Act 1986, but has been rarely invoked. Class-action gained popularity only when the Companies Act 2013 introduced it in Section 245. Concurrent with the establishment of the National Company Law Tribunal (NCLT) from June 1, 2016, class-action has also been notified and is now in force. The concept of a **class action suit** is originated in the United States. It offers a platform to investors facing common legal challenges to join hands and participate in a lawsuit. It is a cost-effective way to seek legal redress as otherwise it would be expensive for an individual shareholder to launch a lawsuit and seek compensation.

In India in August 2013 Parliament approved a long-awaited overhaul of the legislation vide the new company's law which governs Indian business world. The amended law is aimed at easing the process of doing business in the country and improving governance by making firms more accountable. The private companies, while maximizing growth, also have a greater responsibility towards society, besides balanced and sustainable growth of the country. Mr. Pilot's efforts in getting the bill passed in parliament have ushered in a new era for the company

law. A class action suit is typically a lawsuit in which a group of people file a claim before a court in which a specific class of defendants is being sued.

About 10 years back, Indian companies used to take people from India to the US and give them lower salaries compared to the local employees. Many did not comply with minimum salary norms. The other problems such as racial, sex, colour-creed discrimination added to problems. The language used for running operations at times is foul. Some smaller Indian companies are seen to be not complying with local labour laws. This is lowering the image of the big Indian companies as well. But, there the class action law suit is a powerful tool for individual workers to seek justice.

National Company Law Tribunal

The Central Government has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013 (18 of 2013) w.e.f. 01st June 2016. In the first phase the Ministry of Corporate Affairs have set up eleven Benches, one Principal Bench at New Delhi and ten Benches at New Delhi, Ahmadabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guahati, Hyderabad, Kolkata and Mumbai. These Benches were headed by the President and 16 Judicial Members and 09 Technical Members at different locations. Subsequently more members have joined and Benches at Cuttack, Jaipur and Kochi have been set up.

To check the mismanagement in the functioning of a company, the Central government of India has set up a tribunal called the National Company Law Tribunal. The National Company Law Tribunal or NCLT is a quasi-judiciary body established in India that makes a formal judgment on a disputed matter, relating to the companies issues in India. It was set up to govern the companies registered in India. It is a successor to the Company Law Board. The government has appointed 11 benches for NCLT. Selection of members is done by a selection committee headed by the Secretary of the Corporate Affairs Ministry (MCA)

Scope of National Company Law Tribunal

The National Company Law Tribunal consolidates the corporate jurisdiction of the Appellate Authority for Industrial and Financial Reconstruction (AAIFR), the Company Law Board, Board of Industrial and Financial Reconstruction (BIFR) and the powers relating to the winding up of the company and other provisions vested in High Courts. The Company Law

Board which was set up under the Companies Act, 1956 stands dissolved with the establishment of National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT).

The following are the advantages of National Company Law Tribunal:

- It reduces the multiplicity of litigation before different forums and courts. It is a specialized court, meant only for corporates - for the companies registered in India.
- It consists of both the judiciary members as well as technical members while deciding on the matters. It has many branches spread across India.
- It will be able to provide justice at a close range.
- The time consumed for the winding up of a company is reduced.
- It disposes of cases speedily which will further help to reduce the total number of cases.
- Both NCLT and NCLAT have exclusive jurisdiction.

Powers of NCLT

- To declare the liability of members unlimited.
- De-registration of companies.
- To seek assistance of Chief Metropolitan Magistrate.
- Remedy for oppression and mismanagement.
- To freeze assets of the company.
- To investigate the ownership of the company.
- To restrict any securities related to the company.
- Conversion of Public Limited Company into Private Limited Company.
- To alter the financial year of a company, registered in India.
- To investigate or for initiating investigation proceedings

Rating Agencies

A number of rating agencies, including credit rating agencies, have developed indices to measure corporate governance performance. Among the more well-known indices are FTSE-Institutional Shareholder Services (ISS) Corporate Governance Index, Standard & Poor's Corporate Governance Scores, Dow Jones Sustainability Index and Business in the Community

Corporate Responsibility Index. Rating agencies can act as catalysts for corporate governance by either directly factoring corporate governance into their scoring systems, or complementing their financial scoring systems with corporate governance ones. Of the 30 largest European asset managers, 20 factor governance into their investments. Some commentators believe that this is starting to change the dynamics of the investor side in the corporate governance game. If the analysts do their homework properly, an index can give a thumbnail sketch of a company and how it is improving. The indices make it easier for investors to assess the quality of corporate governance. They highlight the significance of good governance and, through publicising it, put pressure on companies to respond.

Green Governance

Organizations often talk about the importance of the environment. They want to become greener, and they also want to improve the bottom line by becoming more efficient when using energy and other natural resources. ... **Green Governance** is a systematic life-cycle to help an organization drive towards overall sustainability.

The history of environmental governance in post-independent India started 25 years after Independence when the then Prime Minister, Indira Gandhi, returned from the United Nations (UN) Conference on Human, Environment and Development in Stockholm in 1972. A National Environmental Planning and Co-Ordination Committee was formed by the Prime Minister with B P Pal (FRS). In 1972, the Central Pollution Control Board was set up followed by the state boards. The department of environment came into existence on November 1, 1980 followed by state departments. Environmental laws on water (1974), air (1981) and forest conservation (1981) were passed, as also the umbrella act of Environment Protection (1986).

Good corporate governance is essentially built on three precedents — economic progress, social development and environmental improvements. Good governance ultimately fosters sustainability, creates sustainable values and helps companies achieve their values. Companies also realize long-term benefits, including reducing risks, attracting new investors and shareholders, and increasing the company's equity.

As the quest for corporate sustainability continues to improve and enhance the principles of good corporate governance, companies will feel pressured to support their efforts with transparency and public disclosure. Transparency efforts will provide information to the general

public on the relationship between corporate governance and improved sustainability. The better informed stakeholders are about the connection between corporate governance and sustainability, the more apparent the relationship will become over time. The best way to accomplish that is by implementing a board portal by Diligent, which supports all aspects of corporate governance.

Shareholders' Activism

An activist shareholder does not necessarily need to own a large equity stake in a company. A large equity stake provides the opportunity to exert a stronger influence on the company's operations. However, obtaining the required shareholding can be problematic due to the high costs associated with the move or resistance of other shareholders.

The reasons for the shareholders' activism may be financial or non-financial. The financial goals include cost-cutting, changes in the corporate or financial structure, or a spin-off from a merger. Non-financial goals may be the abandonment of operations in certain markets or the adoption of socially or environmentally friendly policies.

Forms of Shareholder Activism

Activist shareholders can avail themselves of different methods to push the desired changes within or for the company. The most common forms of shareholder activism include:

1. Shareholder resolution

This is a proposal that can be submitted by the shareholders for a vote at the company's annual meeting. Although the management of companies generally opposes the submission of shareholder resolutions, this activism method is reasonably effective at engaging the public's attention.

2. Proxy Fights

When a group of shareholders is not content with the company's management or its actions/decisions, it may persuade other shareholders to use their proxy votes to effect changes in the management. A proxy vote is a form of voting when a shareholder is not willing or is not able to attend the shareholders' meeting and delegates their voting power to a representative.

3. Publicity campaigns

An activist shareholder may use mass media to draw the public's attention to a problem or issue in a corporation. Sometimes, publicity campaigns can be used to put the pressure on the company's management.

4. Negotiations with management

Sometimes, activist shareholders can reach their goals through a simple negotiation with the corporate management.

5. Litigation

Activist shareholders can also initiate legal action against the company's management to reach their goals. However, this option is the least desirable for both parties. The litigation processes are extremely expensive and can create negative sentiments around the company.

Corporate Governance in PSUs

The PSUs exist and operate in India in three forms, firstly, the Departmental Undertakings, such as, railways, postal services, Broadcast (Doordarshan and All India Radio), etc. which are under control of some ministry of the Government and financed and controlled by any other Government Department. Secondly, the Statutory Public Corporations created by the Parliament or State Legislature by passing an Act which defines the powers, functions, management, organisational and administrative structures of such corporations, such as the Food Corporation of India, Life Insurance Corporation of India, etc.

Thirdly, the Government Companies also fall under the purview of PSU. A company is deemed to be a Government company or PSU if the Government holds 51 percent or more of its paid up capital. For example, Hindustan Machine Tools Limited, Steel Authority of India Limited, etc. Various PSUs have been awarded additional financial autonomy. These companies are public sector enterprises which have been given comparative advantages, greater freedom to compete in the global market so as to "support" them in their drive to become global giants. By financial autonomy granted by Central Govt., the PSUs are categorised under three "Ratnas", viz., Navaratnas, Maharatnas, and Mini Ratnas. Financial autonomy was initially awarded to nine PSUs as Navaratna status in 1997. In 2010, the Government established the higher

Maharatna category, which raises a company's investment ceiling from Rs. 1,000 crore to Rs. 5,000 crore. The Maharatna firms can now decide on investment of up to 15 percent of their net worth in a project, while the Navaratna companies could invest up to Rs. 1,000 crore without explicit government approval. There are two categories of Miniratnas which afford less financial autonomy.

The Board of Directors is considered as a crucial part of the corporate governance. The Board's primary role is to monitor management on behalf of the shareholders. The primary responsibility of governing a company (whether private or Government Company) is upon its Board of Directors. The Board should function as follows –

1. The Board should meet regularly, keep its control over the company and monitor the executive management of the company;
2. The Board of Directors should steer discussions properly in the meetings with regard to the affairs of the company;
3. The Board of Directors has responsibilities in the matter of employment and dismissal of the CEO;
4. The Board of Directors should provide guidance and supervise on the selection, evaluation, etc. of the senior management of the company;
5. The Board should monitor the performance of the company in the fulfilment of its business objectives, plans, and strategies. The Board also oversees to ascertain the proper management of the company;
6. The Board also ensures compliance with the applicable laws, rules, and regulations, etc.

The Central Public Sector Enterprises (CPSEs) have to comply with the corporate governance rules made from time to time by the Department of Public Enterprises under the Ministry of Heavy Industries and Public Enterprises, New Delhi. The Board of Directors of a CPSE shall have an optimum combination of Functional, Nominal, and Independent Directors. The Functional Directors are full-time operational directors responsible for day to day functioning of the enterprise. Each Board shall have an adequate number of Functional Directors on it. The Government Directors are appointed by the Administrative Ministries and are officers dealing with the concerned enterprise. The Non-Official Directors are to be drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability.

The Board to act as per the Board Charter:

A clear definition of roles and divisions of responsibilities between the Board and the management of the CPSE is necessary to enable the Board to perform its role effectively. The Board should have a formal statement of Board Charter which clearly defines the roles and responsibilities of the Board and individual directors.

Formulation and observance of the code of conduct:

The Board of Directors of a CPSE shall lay down a code of conduct for all board members and senior management of the Company. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The guidelines and policies evolved by the Central Government with respect to the structure, composition, selection appointment and service conditions of the Board of Directors and senior management personnel shall be strictly followed.

The CPSE Board of Directors is also entrusted with some moral imperatives. The Board has to ensure that the social responsibilities, needs, etc. are satisfied by the products of efforts involved in the company. It is to be ensured that safety standards prescribed for health, environmental and social security standards, human wellbeing, etc. are maintained. In this regard, the Board Members shall be alert. All Board Members are expected to act in accordance with highest standards of personal and professional integrity, honesty, and ethical conduct while conducting the business of the public enterprise. Values like equality, tolerance, respect for others, non-discrimination by race, religion, sex, caste, age, etc. to be maintained by Board Members. Further, confidentiality about the affairs of the Company should always be kept.

Corporate Governance in Banks

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Banks perform a crucial role in the economy by intermediating funds from savers and depositors to activities that support enterprise and help drive economic growth. Banks' safety and soundness are key to financial stability, and the manner in which they conduct their business, therefore, is central to economic health. Governance weaknesses at banks that play a significant role in the financial system can result in the transmission of problems across the banking sector and the economy as a whole. The primary objective of corporate governance should be safeguarding stakeholders' interest in conformity with public

interest on a sustainable basis. Among stakeholders, particularly with respect to retail banks, shareholders' interest would be secondary to depositors' interest. Corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank are carried out by its board and senior management.

RBI in India plays leading role in formulating and implementing corporate governance. The corporate governance mechanism as followed by Reserve Bank of India is based on three categories for governing the banks.

They are: (i) Disclosure and transparency,

(ii) Off-site surveillance,

(iii) Prompt Corrective Action.

1. **Disclosure and transparency:** Disclosure and transparency are the most important constituent of corporate governance. If the banks will not be disclosing their transactions to the RBI then they can operate at their whims and fancies and may vanish with the lifelong investments and savings of the people. The RBI through the requirement of routine reporting of financial transactions of the bank keeps a tab on the activities being undertaken by the banks in India. Any failure to abide by the requirements set out by RBI may lead to heavy fines being imposed along with the cancellation of the license to operate as a bank.
2. **Off-site surveillance:** RBI routinely perform an annual on-site inspection of the records of the banks but in order to promote governance in banking sector RBI in the year 1995, off-site surveillance function was initiated for domestic operations of banks. The main focus of the off-site surveillance is to monitor the financial health of banks between two on-site inspections, identifying banks which show financial deterioration and would be a source for supervisory concerns. The off-site surveillance prepares RBI to take timely remedial action before things get out of control. The first tranche of off-site returns was introduced with five quarterly returns for all commercial banks operating in India and two half yearly returns one each on connected and related lending and profile of ownership, control and management of domestic banks.

3. **Prompt Corrective Action:** RBI while promoting corporate governance in banks in India has set trigger points on the basis of CRAR, NPA and ROA. On the basis of trigger points set by RBI, the banks have to follow 'structured action plan also called mandatory action plan'. Beside mandatory action plan RBI has discretionary action plans too. The main reason for classifying the rule-based action points into Mandatory and Discretionary is that some of the actions are essential to restore the financial health of banks must be mandatorily taken by the bank while other actions will be taken at the discretion of RBI depending upon the profile of each bank.

The special nature of banking institutions necessitates a broad view of corporate governance where regulation of banking activities is required to protect depositors. Corporate governance in the banking sector is not just a formality but a dire need of society. In almost every country in the world, there is a watchdog like RBI which monitors all the transactions and activities undertaken by the banks and regulate the business of the bank by making them submit regular reports related to the business undertaken by them. However, too much pressure on the banks must not be imposed on the banks in the name of corporate governance so much so that they feel harassed in the name of governance and their efficiency suffers leading to a slowdown of financial transactions.

International Perspective of Corporate Governance

Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect. For example, companies quoted on the London, Toronto and Australian Stock Exchanges formally need not follow the recommendations of their respective codes. However, they must disclose whether they follow the recommendations in those documents and, where not, they should provide explanations concerning divergent practices. Such disclosure requirements exert a significant pressure on listed companies for compliance.

One of the most influential guidelines has been the 1999 OECD Principles of Corporate Governance. This was revised in 2004. The OECD guidelines are often referenced by countries developing local codes or guidelines. Building on the work of the OECD, other international organizations, private sector associations and more than 20 national corporate governance

codes, the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has produced their Guidance on Good Practices in Corporate Governance Disclosure. This internationally agreed benchmark consists of more than fifty distinct disclosure items across five broad categories: Auditing Board and management structure and process corporate responsibility and compliance financial transparency and information disclosure Ownership structure and exercise of control rights.

The World Business Council for Sustainable Development WBCSD has done work on corporate governance, particularly on accountability and reporting, and in 2004 released Issue Management Tool: Strategic challenges for business in the use of corporate responsibility codes, standards, and frameworks. This document offers general information and a perspective from a business association/think-tank on a few key codes, standards and frameworks relevant to the sustainability agenda. In 2009, the International Finance Corporation and the UN Global Compact released a report, 'Corporate Governance - the Foundation for Corporate Citizenship and Sustainable Business', linking the environmental, social and governance responsibilities of a company to its financial performance and long-term sustainability. Most codes are largely voluntary.

An issue raised in the U.S. since the 2005 Disney decision is the degree to which companies manage their governance responsibilities; in other words, do they merely try to supersede the legal threshold, or should they create governance guidelines that ascend to the level of best practice. For example, the guidelines issued by associations of directors, corporate managers and individual companies tend to be wholly voluntary but such documents may have a wider effect by prompting other companies to adopt similar practices.

In the United States, corporations are directly governed by state laws, while the exchange (offering and trading) of securities in corporations (including shares) is governed by federal legislation. Many U.S. states have adopted the Model Business Corporation Act, but the dominant state law for publicly-traded corporations is Delaware, which continues to be the place of incorporation for the majority of publicly-traded corporations. Individual rules for corporations are based upon the corporate charter and, less authoritatively, the corporate bylaws. Shareholders cannot initiate changes in the corporate charter although they can initiate changes to the corporate bylaws. US expansion after World War II through the emergence of multinational corporations saw the establishment of the managerial class.

The California Public Employees' Retirement System led a wave of institutional shareholder activism, as a way of ensuring that corporate value would not be destroyed by the now traditionally cozy relationships between the CEO and the board of directors. In 1997, the

East Asian Financial Crisis saw the economies of Thailand, Indonesia, South Korea, Malaysia and The Philippines severely affected by the exit of foreign capital after property assets collapsed.

MODULE III

COMMITTEES ON CORPORATE GOVERNANCE

Cadbury Committee

The Committee on the Financial Aspects of Corporate Governance, forever after known as the Cadbury Committee, was established in May 1991 by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession. The spur for the Committee's creation was an increasing lack of investor confidence in the honesty and accountability of listed companies, occasioned in particular by the sudden financial collapses of two companies, wallpaper group Coloroll and Asil Nadir's Polly Peck consortium: neither of these sudden failures was at all foreshadowed in their apparently healthy published accounts.

Even as the Committee was getting down to business, two further scandals shook the financial world: the collapse of the Bank of Credit and Commerce International and exposure of its widespread criminal practices, and the posthumous discovery of Robert Maxwell's appropriation of £440m from his companies' pension funds as the Maxwell Group filed for bankruptcy in 1992. The shockwaves from these two incidents only heightened the sense of urgency behind the Committee's work, and ensured that all eyes would be on its eventual report.

The effect of these multiple blows to the perceived probity and integrity of UK financial institutions was such that many feared an overly heavy-handed response, perhaps even legislation mandating certain boardroom practices. This was not the strategy the Committee ultimately suggested, but even so the publication of their draft report in May 1992 met with a degree of criticism and hostility by institution which believed themselves to be under attack. Peter Morgan, Director General of the Institute of Directors, described their proposals as 'divisive', particularly language favouring a two-tier board structure, of executive directors on the one hand and of non-executives on the other.

The contents of the report

The suggestions which met with such disfavour were considerably toned down come the publication of the final Report in December 1992, as were proposals that shareholders have the

right to directly question the Chairs of audit and remuneration committees at AGMs, and that there be a Senior Non-Executive Director to represent shareholders' interests in the event that the positions of CEO and Chairman are combined. Nevertheless, the broad substance of the Report remained intact, principally its belief that an approach 'based on compliance with a voluntary code coupled with disclosure, will prove more effective than a statutory code'.

The central components of the Cadbury Code are:

- that there be a clear division of responsibilities at the top, primarily that the position of Chairman of the Board be separated from that of Chief Executive, or that there be a strong independent element on the board;
- that the majority of the Board be comprised of outside directors;
- that remuneration committees for Board members be made up in the majority of non-executive directors; and
- that the Board should appoint an Audit Committee including at least three non-executive directors.

The provisions of the Code were given statutory authority to the extent that the London Stock Exchange required listed companies to 'comply or explain'; that is, to enumerate to what extent they conform to the Code and, where they do not, state exactly to what degree and why. The detail of this explanation, and the level of implied censure on companies which do not adhere to the Code, have both varied over time, but the basic 'comply or explain' principle has endured over the intervening years and become the corner stone of UK corporate governance practice.

Important recommendations of the committee include:

The separation of the chairman and CEO roles;

Full disclosure/criteria for chairman's remuneration;

No service contract beyond three years without shareholder approval;

A separate audit committee staffed exclusively by non-executive directors;

A separate remuneration committee staffed with a majority of Non-Executive Directors;

Interim financial statements with auditor discussion;

Non-Executive Directors to have full paid access to independent advice.

GreensBury Committee

In January 1995 the Confederation of British Industry (CBI) established the Study Group on Directors' Remuneration under the chairmanship of Sir Richard Greenbury with a remit to identify good practice in determining directors' remuneration and to prepare a code of practice for UK PLCs. The final report of the group was published on 17 July 1995 and is usually referred to as the Greenbury report.

A report issued in 1995 by a committee under the chairmanship of Sir Richard Greenbury that developed a number of recommendations of the Cadbury Report on directors' remuneration (see Cadbury Code). It stressed the importance of a remuneration committee of non-executive directors, the provision of information on remuneration policy in the annual report and accounts, and the restriction of notice and contract periods to less than one year. The Greenbury Report released in 1995 was the product of a committee established by the United Kingdom Confederation of British Industry on corporate governance. It followed in the tradition of the Cadbury Report and addressed a growing concern about the level of director remuneration.

The committee aimed to provide an answer to the general concerns about the accountability and level of directors' pay; argued against statutory control and for strengthening accountability by the proper allocation of responsibility for determining directors' remuneration, the proper reporting to shareholders and greater transparency in the process. The report responds to public and shareholder concerns about the pay and other remuneration of company directors in the United Kingdom. The key themes addressed by the report are accountability, responsibility, disclosure, alignment of director and shareholder interests and improved company performance.

Kings Committee Report

The King Report on Corporate Governance is a booklet of guidelines for the governance structures and operation of companies in South Africa. It is issued by the King Committee on Corporate Governance. Three reports were issued in 1994 (King I), 2002 (King II), and 2009 (King III) and a fourth revision (King IV) in 2016. The Institute of Directors in Southern Africa owns the copyright of the King Report on Corporate Governance and the King Code of Corporate Governance. Compliance with the King Reports is a requirement for companies listed

on the Johannesburg Stock Exchange. The King Report on Corporate Governance has been cited as the most effective summary of the best international practices in corporate governance.

King I Report: In 1994 the first King report on corporate governance (King 1) was published, the first corporate governance code for South Africa. The key principles from the first King report covered:

- Board of directors' makeup and mandate, including the role of non-executive directors and guidance on the categories of people who should make up the non-executive directors
- Appointments to the board and guidance on the maximum term for executive directors
- Determination and disclosure of executive and non-executive director's remuneration
- Board meeting frequency
- Balanced annual reporting
- The requirement for effective auditing
- Affirmative action programs
- The company's code of ethics

King II Report: In 2002, when the Earth Summit was held in Johannesburg, King pushed for a revision of the report (King II), including new sections on sustainability, the role of the corporate board and risk management. This revised code of governance was applicable from March 2002. In addition to those types of organizations listed in King I, it was applicable to departments of State or national, provincial or local government administration falling under the Local Government: Municipal Finance Management Act, and public institution or functionary exercising a power or performing a function in terms of the constitution, or exercising a public power or performing a public function in terms of any legislation, excluding courts or judicial officers.

The key principles from the second King report covered the following areas:

- Directors and their responsibility
- Risk management
- Internal audit
- Integrated sustainability reporting
- Accounting and auditing

King III Report: In the 2009 King III report, governance, strategy and sustainability were integrated. The report recommends that organisations produce an integrated report in place of an annual financial report and a separate sustainability report and that companies create sustainability reports according to the Global Reporting Initiative's Sustainability Reporting Guidelines. In contrast to the earlier versions, King III is applicable to all entities, public, private and non-profit. King encourages all entities to adopt the King III principles and explain how these have been applied or are not applicable.

The report incorporated a number of global emerging governance trends:

- Alternative dispute resolution
- Risk-based internal audit
- Shareholder approval of non-executive directors' remuneration
- Evaluation of board and directors' performance
- IT governance
- Business Rescue
- Fundamental and affected transactions in terms of director's responsibilities during mergers, acquisitions and amalgamations.

King IV Report: King IV report was published on 1 November 2016. It Provides for a 2-year period in respect of the drafting process and another year grace period to allow organisations to implement, King IV. The Institute of Directors in Southern Africa is the custodian of the King reports and the holder of their copyrights.

Securities Exchange Commission Report

The SEC requires companies to provide the following statement disclosures relating to board composition. It is compulsory for all companies listed in United States to comply with the regulations of SEC as they regulates the capital market in US.

- which directors qualify as 'independent' under applicable independence standards; and
- for each director and nominee:
 - name, age and positions and offices held with the company;
 - term of office as a director;

- any arrangements or understandings between the director or nominee and any other person pursuant to which the director or nominee was or is to be selected as a director or nominee;
- family relationships with any director, nominee or executive officer;
- business experience and other public company directorships over the past five years;
- the particular experience, qualifications, attributes or skills that led the board to conclude that the person should serve as a director of the company; and
- whether the director or nominee has been involved in certain kinds of legal proceedings during the past 10 years.

Kumar Mangalam Birla Committee

Securities and Exchange Board of India (SEBI) in 1999 set up a committee under Shri Kumar Mangalam Birla, member SEBI Board, to promote and raise the standards of good corporate governance. 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 divided the recommendations into two categories, namely, mandatory and non-mandatory. The recommendations which are absolutely essential for corporate governance can be defined with precision and which can be enforced through the amendment of the listing agreement is classified as mandatory. Others, which are either desirable or which may require change of laws be classified as non-mandatory.

The Committee on Corporate Governance was set up on May 7, 1999 by the Securities and Exchange Board of India (SEBI) under the Chairmanship of Shri Kumar Mangalam Birla, member SEBI Board, to promote and raise the standards of corporate governance. The purpose of the committee was;

1. To 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;
2. To draft a code of corporate best practices; and
3. To suggest safeguards to be instituted within the companies to deal with insider information and insider trading.

Major recommendations of the committee are as follows.

- The board should have an optimum combination of executive and non-executive directors and at least 50% of the board should comprise of non-executive directors.
- No director should be a member in more than 10 committees or act as chairman of more than five committees in which he is a Director.
- The board of the company should set up a qualified and independent “Audit Committee”.
- Board should set up a remuneration committee to determine the remuneration packages for the executives.
- The corporate governance section of the Annual Report should make disclosures on remuneration paid to directors in all forms including salary, benefits, bonuses, stock options, pensions and other fixed as well as performance linked incentives .
- Management should assist the board in its decision-making process in respect of company’s strategy, policy, code of conduct and performance targets.
- The management should implement the policies and code of conduct of the board
- It should provide timely, accurate, substantive and material information, including financial matters and exceptions to the board, board committees and the shareholders.
- As a part of the disclosure related to management, in addition to the Director’s report, Management Discussion and Analysis Report should form part of the Annual Report to the shareholder.

The committees also took note of various steps taken by SEBI for strengthening corporate governance, some of which are:

- Stringent disclosure norms for Initial Public Offers
- Providing information in director’s reports for utilization of funds and variation between projected and actual use of funds as per the requirements of the Companies Act,
- Declaration of quarterly results

- Mandatory appointment of compliance office for monitoring share transfer process
- Timely disclosure of material and price sensitive information having a bearing on the performance of the company
- Dispatching one copy of complete balance sheet to every household and abridged balance sheet to all shareholders
- Issue of guidelines for preferential allotment at market related process
- Issue of regulations providing for a fair and transparent framework for takeovers and substantial acquisitions.

The recommendations made by Shri Kumar Mangalam Birla Committee were accepted by SEBI in December 1999, and are now enshrined in Clause 49 of the Listing Agreement of every Indian stock exchange.

Narayana Murthy Committee

With a view to further improving the standards of Corporate Governance in India, SEBI constituted a Committee under the Chairmanship of Shri N. R. Narayana Murthy, Chairman and Chief Mentor of Infosys Technologies Limited. The Committee included representatives from Chambers of Commerce as well as leading professional bodies.

The terms of reference of the Committee were:

- (a) to review the performance of Corporate Governance; and
- (b) 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.

The Committee Report is a relatively short document and contains some innovative and very useful recommendations. The Committee has made two very important mandatory recommendations:

1. It has been recommended that Audit committees of publicly listed companies should mandatorily review certain information including financial statements, draft audit report (including quarterly / half-yearly financial information), Management discussion and analysis of

financial condition, reports relating to compliance with laws and to risk management, records of related party transactions, etc.

2. All audit committee members should be financially literate, with at least one member having accounting or related financial management expertise. The term financially literate has also explained and it means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows. The Committee has provided for the qualifications or circumstances which can be considered while ascertaining as whether a member of the audit committee has accounting or related financial management expertise. Major areas of recommendation can be summarised as

- **Audit Report**

Greater stress has been laid on the role of audit reports and audit qualifications. The result of deliberation of this aspect has been that a specific responsibility is sought to be cast on the shoulders of the management. Hence, the Committee has made a mandatory recommendation to the effect that, in case a company has followed a treatment different from that prescribed in an accounting standard, then it is for the management to justify the need for such alternative treatment. The Committee requires the Management to clearly explain the alternative accounting treatment in the footnotes to the financial statements. In other words, managements will have to take responsibility of their decision to make changes in accounting norms.

- **Related Party Transactions.**

One of the major issues of small shareholders is the related party transactions entered into by company managements. Keeping in view the significance of related party transactions, the Committee has made a mandatory recommendation that a statement of all transactions with related parties should be placed before the Audit Committee for formal approval / ratification. The recommendation also states that, if any transaction is not on an arm's length basis, management should provide the explanation to the Audit Committee justifying the same. Interestingly, while putting down its mandatory recommendation in respect of related party transactions, the Committee has mentioned independent audit committee instead of just audit committee.

- **Risk Management.**

Effective procedures for minimizing risk have to be an important feature of corporate managements. It is necessary for companies to be proactive and take diligence of the ever-changing economic and political environment. Keeping these factors in view, the Committee has made a mandatory recommendation that companies should have certain procedures in place so as to inform Board members about the risk assessment and risk minimization procedures. The Committee expects the Boards to periodically review the procedures so as to ensure that executive management controls risk through means of a properly defined framework. The Committee has also recommended that the Management should place a report before the entire Board of Directors every quarter documenting the business risks faced by the company, measures to address and minimize such risks, and any limitations to the risk taking capacity of the corporation.

- **Training of Board members.**

The Committee has made a non-mandatory recommendation to the effect that 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. In addition, the directors should also be trained in respect of the responsibilities as directors and the best ways to discharge them. Even DCA has also been talking about training of independent directors. Hopefully, there will be some thrust in this direction from the leading chambers.

Jj Irani Committee

The J.J. Irani Committee was constituted by the Government of India in December, 2004 to provide recommendations to the Government in making a simplified modern law.

The main features of its recommendations pertaining to corporate governance are as follows:

(a) The (new) company law should provide for minimum number of directors necessary for various classes of companies. There need not be any limit to the maximum numbers of directors in a company. This should be decided by the companies or by its Articles of Association. Every company should have at least one director resident in India to ensure availability in case of any issue regarding accountability of the board.

(b) Both the managing director as also the whole time directors should not be appointed for more than five years at a time.

(c) No age limit may be prescribed in the law. There should be adequate disclosure of age of the directors in the company's document. In case of a public company, appointment of directors beyond a prescribed age (say) seventy years should be subject to a special resolution passed by the shareholders.

(d) A minimum of one-third of the total strength of the board as independent directors should be adequate, irrespective of whether the chairman is executive or non-executive, independent or not. A director to be independent should satisfy certain conditions laid down by the Committee.

(e) The total number of directorships, any one individual may hold, should be limited to a maximum of fifteen.

(f) Companies should adopt remuneration policies that attract and maintain talented and motivated directors and employees for enhanced performance. However, this should be transparent and based on principles that ensure fairness, reasonableness and accountability. There should be a clear relationship between responsibility and performance vis-a-vis remuneration. The policy underlying directors' remuneration should be articulated, disclosed and understood by investors/stakeholders.

(g) There need not be any limit prescribed to sitting fees payable to non-executive directors including independent directors. The company with the approval of shareholders may decide on remuneration in the form of sitting fees and/or profit related commissions payable to such directors for attending board and committee meetings, and should disclose it in its director's remuneration report forming part of the annual report of the company.

(h) The requirement of the Companies Act, 1956 to hold a board meeting every three months and at least four meetings in a year should continue. The gap between two board meetings should not exceed four months. Meetings at short notices should be held only to transact emergency business. In such meetings, the mandatory presence of at least one independent director should be required in order to ensure that only well considered decisions are taken. If even one independent director is not present in the emergency meeting, then decisions taken in such meeting should be subject to ratification by at least one independent director.

(i) Majority of the directors of the audit committee should be independent directors if the company is required to appoint independent directors. The chairman of the committee should be independent. At least one member of the audit committee should have knowledge of financial management or audit or accounts. The recommendation of the committee, if overruled by the board should be disclosed in the Directors' Report along with the reasons for overruling.

(j) There should be an obligation on the board of a public listed company to constitute a remuneration committee, comprising non-executive directors including at least one independent director. The chairman of the committee should be an independent director. The committee will determine the company's policy as well as specific remuneration packages for its managing/executive directors/senior management.

(k) The rights of minority shareholders should be protected during general meetings of the company. There should be extensive use of postal ballot including electronic media to enable shareholders to participate in meetings. Every company should be permitted to transact any item of business through postal ballot, except the items of ordinary business, viz., consideration of annual accounts, reports of directors and auditors, declaration of dividends, appointment of directors, and appointment and fixation of remuneration of the auditors.

(l) All non-audit services may be pre-approved by audit committee. An audit firm should be prohibited from rendering certain non-audit services as specified by the committee,

(m) Public listed companies should be required to have a regime of internal financial controls for their own observance. Internal controls should be certified by the CEO and the CFO of the company and mentioned in the Directors Report.

Naresh Chandra Committee Report

The thrust of this report is to suggest certain voluntary recommendations for industry to adopt. The report is structured according to the different elements of corporate governance like the Board of Directors o Non-executive and independent directors o Committees of the board o Significant related party transactions • Auditors o Independence of Auditors o Rotation of Audit Partners • Regulatory Agencies o Legal and regulatory standards o Effective and credible enforcement • External Institutions o Institutional investors o The Press.

The Task Force recommends that the Companies Act, 1956, be amended so that companies have the option of giving a fixed contractual remuneration to NEDs and independent directors, which is not linked to the net profit or lack of it. Therefore, companies should be given the option to choose between: a. paying a fixed contractual remuneration to its NEDs and IDs, subject to an appropriate ceiling depending on the size of the company.

The Task Force recognised the ground realities of India. Keeping these in mind, it has recommended, wherever possible, to separate the office of the Chairman from that of the CEO. Listed companies should have at least a three-member Audit Committee comprising entirely of non-executive directors with independent directors constituting the majority.

Listed companies should have a Remuneration Committee of the Board. The Remuneration Committee should comprise at least three members, majority of whom should be independent directors. It should have delegated responsibility for setting the remuneration for all executive directors and the executive chairman, including any compensation payments, such as retiral benefits or stock options. It should also recommend and monitor the level and structure of pay for senior management, i.e. one level below the Board. The Remuneration Committee should make available its terms of reference, its role, the authority delegated to it by the Board, and what it has done for the year under review to the shareholders in a separate section of the chapter on corporate governance in the annual report.

If a director cannot be physically present but wants to participate in the proceedings of the board and its committees, then a minuted and signed proceeding of a tele-conference or video conference should constitute proof of his or her participation. Accordingly, this should be treated as presence in the meeting(s). However, minutes of all such meetings or the decisions taken thereat, recorded as circular resolutions, should be signed and confirmed by the director/s who has/have attended the meeting through video conferencing.

Uday Kotak Committee Report

The Kotak Committee on Corporate Governance was constituted on June 2, 2017, under the chairmanship of Uday Kotak. Its primary objective was improving standards concerning corporate governance of listed companies in India. The Committee was represented by different stakeholders, including the government, the industry, stock exchanges, academicians, proxy advisors, professional bodies, lawyers, etc. It was requested to provide recommendations on

diverse issues such as ensuring independence in spirit of independent directors and their active participation in the functioning of the company, and improving safeguards and disclosures pertaining to related party transactions.

Other subjects on which the Committee was asked to make recommendations were accounting and auditing practices by listed companies, board evaluation practices, disclosure and transparency related issues and addressing issues faced by investors on voting and participation in general meetings. In a significant development, Securities and Exchange Board of India's (SEBI) board, at a meeting held in Mumbai on March 28, 2018, took important decisions on the recommendations of the Committee. The Committee submitted its report detailing several recommendations on October 5, 2017.

Comments were then invited from the public and a variety of stakeholders including from the industry, the government, global associations, institutional investors, and lawyers, among others, sent their comments. The said meeting, the capital and commodities market regulator's board considered the Committee's recommendations and the public comments. The board decided to accept several recommendations of the Committee without any modifications, including the following:

- Reduction in the maximum number of listed entity directorships from 10 to 8 by April 01, 2019 and to 7 by April 1, 2020.
- Expanding the eligibility criteria for independent directors
- Enhanced role of the Audit Committee, Nomination and Remuneration Committee and Risk Management Committee
- Disclosure of utilization of funds from QIP/preferential issue
- Disclosures of auditor credentials, audit fee, reasons for resignation of auditors, etc.
- Disclosure of expertise/skills of directors
- Enhanced disclosure of related party transactions (RPTs) and related parties to be permitted to vote against RPTs
- Mandatory disclosure of consolidated quarterly results with effect from FY 2019-20
- Enhanced obligations on the listed entities with respect to subsidiaries

Corporate Reporting Framework

Corporates focussed on providing information required under the statute under which they were incorporated, i.e., Companies Act, 2013 in respect of companies incorporated in India. These disclosures were typically required to be made in the Annual Report which is published by each company once in a year. With the evolution of Corporate Governance financial performance was required to be provided on a quarterly/half yearly basis. Further, price sensitive information was required to be disclosed immediately.

Post liberalization, with the influx of foreign institutional investors (FIIs) and corporates raising funds from outside of India, the demands of corporate reporting system has increased manifold. Global best practices and framework for corporate reporting became the guidelines for corporate reporting. The requirements of corporate reporting have been increasing horizontally and vertically. The regulations concerning corporate reporting arise principally from statute and accounting standards, with the listing requirements of Stock Exchanges being a further consideration for listed companies. Broad components of Annual Report include the following, Financial Statements with notes, Directors' Report, and Auditors' Report.

Financial Statements

Financial statements initially comprised of Profit & Loss Account, Balance Sheet, Schedules and Notes to Financial Statements. There have been continuous changes both under Company Law and the accounting standards. For that matter, both company law and accounting standards themselves have changed in recent years. Disclosure requirements under Schedule VI of Companies Act have undergone continuous revision. There has been the addition of quantitative particulars about capacities, production, etc., the inclusion of cash flow statement as part of financial statements. In addition to this, a couple of years back the Schedule VI was revamped, and a revised Schedule VI was introduced. Under the Companies Act, 2013, the disclosure requirements are mainly covered under Schedule 3.

Directors' Report

Directors' report initially reviewed operational and financial performance. Companies Act has been introducing a lot of additional reporting requirements like Particulars of

Employees drawing salary above a certain amount, details of energy conservation, technology absorption, foreign exchange earnings and outgo. In the recent years with lot of focus on corporate governance, Companies Act, and SEBI has introduced additional disclosures to be included as part of Directors' Reports, like:

- Directors' Responsibility Statement.
- Management Discussion and Analysis.
- Policy on nomination, remuneration, board diversity, evaluation and succession of Board members, key management personnel.
- Remuneration of Managerial Personnel.
- Internal Financial Controls concerning financial statements.
- Corporate Social Responsibility philosophy and projects, etc.

Auditors' Report

Auditors' report format has also undergone changes given Companies (Auditor's Report) Order being amended at periodic intervals. Further, Auditors are required to report on Internal Financial Controls, Corporate Governance compliance, etc. Also, an auditor is now required to include his opinion on certain matters under Companies (Audit and Auditors) Rules 2014.

Reporting of Remuneration

The Companies (Appointment and Remuneration of Managerial Personnel) Amendment Rules, 2014 issued earlier required companies to report remuneration details of every employee who earned more than Rs 60 lakh a year. In case of employees who work only part time, the new rules raise the threshold to Rs 8.52 lakh a month from Rs 5 lakh. Listed companies is exempted from providing several disclosures in the company director's report, including the explanation on the relationship between average increase in remuneration and company performance, comparison of the remuneration of key managerial personnel against the performance of the company and the key parameters for any variable component of remuneration availed by the directors.

Director's report should contain the details of the following employees: -Every employee whose remuneration is more than 60 lacks per annum for the financial year or more than 5 lacks per month, if employed for a part of the year. -If any employee holds 2% or more

of the equity shares by himself or along with his spouse and dependent children and his remuneration is more than that of managing director or whole-time director or in case of a company managed by a manager the name of such employee should be included in the statement. -Companies (Particulars of Employees) Rules, 1975 prescribes the following particulars to be included in the statement: Designation of the employee, Remuneration received, Nature of Employment (Contractual or otherwise), Qualification and experience, Date of the commencement of the employment, The age of the employee, The last employment held before joining the company, The percentage of equity share held by the employee in the company.

Service Contract of Directors

A director's service agreement is a crucial document: It sets out various rights and obligations that arise as a result of appointing a director. While having such an agreement is not a legal requirement, it creates certainty for the director and the company, allowing both parties to be protected in situations of dispute or disagreements. For many entrepreneurs, putting in place a service agreement between themselves and their own companies might appear to be an unfamiliar concept. But directors often have multiple roles. They are often depended on for the business to function and often have access to confidential information such as the state of finances, customer queries and employee issues. They may also be shareholders. In the absence of clear documentation setting out how such situations will be dealt with, it can be very difficult to separate these different roles in the event that the relationship between the Director and the business, or between two directors, breaks down.

Financial Reporting Norms

Accounting Standards are written policy documents issued by expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation, and disclosure of accounting transactions in financial statements.

Classification of Enterprises

The enterprises are classified and labeled as Level I, Level II and Level III companies. Based on this classification and the category in which they fall the Accounting standards are applicable to the enterprises.

Enterprises which fall under any one or more category below mentioned are termed as Level I Enterprises.

1. Enterprises whose equity or debt securities are listed whether in India or outside India
2. Enterprises which are in the process of listing their equity or debt securities. Board of directors' resolution must be available as an evidence
3. Banks including co-operative banks
4. Financial institutions
5. Enterprises carrying on insurance business
6. All commercial, industrial and business reporting enterprises, whose turnover not including 'other income' for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore
7. All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crores at any time during the accounting period
8. Holding and subsidiary enterprises of any one of the above at any time during the accounting period

Enterprises which fall under any one or more category below mentioned are termed as Level II Enterprises

1. All commercial, industrial and business reporting enterprises, whose turnover (excluding 'other income') for the immediately preceding accounting period on the basis of audited financial statements is greater than Rs. 40 lakhs but less than Rs. 50 crore
2. All commercial, industrial and business reporting enterprises having borrowings, including public deposits, is greater Rs. 1 crore but less than Rs. 10 crores at any time during the accounting period
3. Holding and subsidiary enterprises of any one of the above at any time during the accounting period

Enterprises which do not fall under Level I and Level II, are considered as Level III enterprises

IFRS- Needs, Significance, Use

One of the basic features of IFRS is that it is a principle-based standard, unlike US GAAP, which is rule based. IFRS involves extensive use of judgement in selection of appropriate accounting policies and alternative treatments, including at the time of adoption. Also, IFRS requires valuations and future forecasts, which will involve use of estimates, assumptions and management's judgements. It has been observed that the combination of all these factors can have a significant impact on the reported earnings and financial position of an enterprise. So far, audit committees and board of directors largely had an oversight role on accounting matters. With IFRS, this role is set to get enhanced considerably.

Therefore, in the next two years, audit committees and boards in India will have to specifically focus on how well companies are geared for the transition to IFRS. The members responsible for governance will have to spend considerable time in ensuring appropriate convergence of Indian GAAP with IFRS. They must be aware of the options available under IFRS, the choices made and the reasons for making these choices. Further, they must understand the impact of convergence on significant accounting matters and their likely effect on financial statements.

IFRS will not merely be a technical accounting conversion. Convergence will impact most business aspects, including structuring of contracts with customers and vendors, performance appraisal parameters and reward plans, and managing external investor relations and communication. Therefore, it will be imperative for governing members to have a detailed knowledge of the impact of IFRS on a company's business. How will it impact business processes, including the IT system? Is the core team leading the IFRS conversion process adequately trained or not? How will the company communicate the impact of IFRS to its investors and lenders? Will this result in any tax or regulatory issues?

Under IFRS, prior years' errors and omissions will have to be effected through restatement of previously declared results, which will be a critical change from prevailing practices in India. With IFRS, the complexities involved in preparing financial statements will increase manifold, thereby increasing the risk of errors and omissions. There is a strong likelihood that Indian companies will start restating accounts soon, much like their peers in the US do. As many as 1,538 restatements were filed in 2006 by US companies.

Usually, investors and regulators look at any restatement negatively, so audit committees and board members will need to manage and address this risk effectively. Moreover, restatements may be viewed with suspicion by tax authorities in India, who may not be able to understand the changes emanating from convergence with the IFRS reporting framework. The biggest challenge for members charged with governance will be to manage stakeholder expectations in terms of meeting targets and key performance indicators, declaring dividends and explaining variations and volatility in earnings on a quarterly basis. This is a challenging task even now, but with the arrival of IFRS, the challenge is set to assume a different dimension. Audit committees and board members should start preparing for this challenge now.

MODULE IV

ELEMENTS OF CORPORATE GOVERNANCE

Good governance has 8 major characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law. Good governance is responsive to the present and future needs of the organization, exercises prudence in policy-setting and decision-making, and that the best interests of all stakeholders are taken into account.

1. Rule of Law:

Good governance requires fair legal frameworks that are enforced by an impartial regulatory body, for the full protection of stakeholders. It will enhance the reputation of the business.

2. Transparency:

Transparency means that information should be provided in easily understandable forms and media; that it should be freely available and directly accessible to those who will be affected by governance policies and practices, as well as the outcomes resulting there from; and that any decisions taken and their enforcement are in compliance with established rules and regulations.

3. Responsiveness:

Good governance requires that organizations and their processes are designed to serve the best interests of stakeholders within a reasonable timeframe.

4. Consensus Oriented:

Good governance requires consultation to understand the different interests of stakeholders in order to reach a broad consensus of what is in the best interest of the entire stakeholder group and how this can be achieved in a sustainable and prudent manner.

5. Equity and Inclusiveness:

The organization that provides the opportunity for its stakeholders to maintain, enhance, or generally improve their well-being provides the most compelling message regarding its reason for existence and value to society.

6. Effectiveness and Efficiency:

Good governance means that the processes implemented by the organization to produce favourable results meet the needs of its stakeholders, while making the best use of resources – human, technological, financial, natural and environmental – at its disposal.

7. Accountability:

Accountability is a key tenet of good governance. Who is accountable for what should be documented in policy statements. In general, an organization is accountable to those who will be affected by its decisions or actions as well as the applicable rules of law.

8. Participation:

Participation by both men and women, either directly or through legitimate representatives, is a key cornerstone of good governance. Participation needs to be informed and organized, including freedom of expression and assiduous concern for the best interests of the organization and society in general.

Board of Directors

A corporation's business is managed under the board's oversight: The board also has direct responsibility for certain key matters, including the relationship with the outside auditor and executive compensation. The board's oversight function encompasses a number of responsibilities, including:

Approving corporate strategy and monitoring the implementation of strategic plans: The board should have meaningful input into the company's long-term strategy from development through execution, should approve the company's strategic plans and should regularly evaluate implementation of the plans that are designed to create long-term value. The board should understand the risks inherent in the company's strategic plans and how those risks are being managed.

Setting the company's risk appetite, reviewing and understanding the major risks, and overseeing the risk management processes. The board oversees the process for identifying and managing the significant risks facing the company. The board and senior management should agree on the company's risk appetite, and the board should be comfortable that the strategic plans are consistent with it. The board should establish a structure for overseeing risk, delegating responsibility to committees and overseeing the designation of senior management responsible for risk management.

Focusing on the integrity and clarity of the company's financial reporting: The board should be satisfied that the company's financial statements accurately present its financial condition and results of operations, that other disclosures about the company's performance convey meaningful information about past results as well as future plans, and that the company's internal controls and procedures have been designed to detect and deter fraudulent activity.

Allocating capital: The board should have meaningful input and decision making authority over the company's capital allocation process and strategy to find the right balance between short-term and long-term economic returns for its shareholders.

Reviewing, understanding and overseeing annual operating plans and budgets: The board oversees the annual operating plans and reviews annual budgets presented by management. The board monitors implementation of the annual plans and assesses whether they are responsive to changing conditions reviewing the company's plans for business resiliency. As part of its risk oversight function, the board periodically reviews management's plans to address business resiliency, including such items as business continuity, physical security, cyber security and crisis management.

Nominating directors and committee members, and overseeing effective corporate governance: The board, under the leadership of its nominating/corporate governance committee, nominates directors and committee members and oversees the structure, composition (including independence and diversity), succession planning, practices and evaluation of the board and its committees.

Executive Directors

The Securities Contracts (Regulation) Act, 1956, read with the rules and regulations made there under, requires every company desirous of listing its shares on a recognized Indian stock exchange, to execute a listing agreement ("**Agreement**") with such Indian stock exchange. This Agreement is in a standard format (prescribed by the Securities Exchange Board of India ("**SEBI**")), as amended by SEBI from time to time. The Agreement provides for the following further categories of Directors:

1. Executive Director;
2. Non-executive Director; and
3. Independent Director.

An Executive Director can be either a Whole-time Director of the company (i.e., one who devotes his whole time of working hours to the company and has a significant personal interest in the company as his source of income), or a Managing Director (i.e., one who is employed by the company as such and has substantial powers of management over the affairs of the company subject to the superintendence, direction and control of the Board). In contrast, a non-executive Director is a Director who is neither a Whole-time Director nor a Managing Director. Clause 49 of the Agreement prescribes that the Board shall have an optimum combination of executive and non-executive Directors, with not less than fifty percent (50%) of the Board comprising non-executive Directors. Where the Chairman of the Board is a non-executive Director, at least one-third of the Board should comprise independent Directors and in case he is an executive Director, at least half of the Board should comprise independent Directors. Where the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent Directors.

Independent Directors

The Agreement defines an "**Independent Director**" as a non-executive Director of the company who:

- a. apart from receiving Director's remuneration, does not have material pecuniary relationships or transactions with the company, its promoters, its Directors, its senior management, or its holding company, its subsidiaries, and associates which may affect independence of the Director;
- b. is not related to promoters or persons occupying management positions at the board level or at one level below the board;
- c. has not been an executive of the company in the immediately preceding three (3) financial years;
- d. is not a partner or an executive or was not a partner or an executive during the preceding three (3) years, of any of the following:
 - i. the statutory audit firm or the internal audit firm that is associated with the company, and
 - ii. the legal firms and consulting firms that have a material association with the company;
- e. is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect the independence of the Director; or
- f. he is not a substantial shareholder of the company, i.e., owning two percent (2%) or more of the block of voting shares; and

g. he is not less than twenty-one (21) years of age.

Nominee directors appointed by an institution that has invested in, or lent money to, the company are also treated as independent Directors.

Powers, Duties & Responsibilities of Directors

The term “director” in Companies Act 2013 under Section 2 (34) is defined as “a director appointed to the Board of a company” wherein Board of Directors or Board, in relation to a company, means the collective body of the directors of the company. As per Chapter XI, Section 149 of the Companies Act 2013, it is mandatory for every company to have a Board of Directors, the composition should be as follows:

1. Public Company: Minimum 3 and maximum 15 nos. of Directors; at least 1/3 rd number of Independent Directors
2. Private Company: Minimum 2 and maximum 15 nos. of Directors
3. One person Company: minimum 1 director
4. At least 1 woman director
5. At least 1 Director who has stayed in India for minimum 182 days in the previous calendar year.

The Companies Act 2013 gives recognition to the idea of Independent Director, which was earlier part of the listing agreement only. It means a director other than a whole time director or the Managing Director or a nominee director who fulfills the criteria's mentioned in Section 149. As per section 266A and 266B of the Companies Act, 1956 Director Identification Number (DIN) is a unique identification number issued to existing and/or potential directors of any incorporated company. As per Companies Act provisions every director shall be appointed by the company in general meeting, provided they have been allotted the Director Identification Number (DIN) and on submission of a declaration that he/she is not disqualified to become a director.

An additional director is appointed by the Board of Directors through the Boards vested power to hold office till next general meeting. An alternate director may be appointed by the Board of Directors to act as a Director in absence for a period of not less than 3 months and not more than the allotted period for the director for whom the replacement is.

The Board may appoint any person as a director nominated by any institution in pursuance of the provisions of any law for the time being in force or any government regulation or shareholdings, such directors are known as Nominated Directors.

As per Principle of Proportional representation the articles of a company may provide for the appointment of not less than two-thirds of the total number of the directors of a company, and such appointments may be made once in every three years and casual vacancies of such directors shall be filled as provided in sub-section (4) of section 161.

People of unsound mind, undercharged insolvent, convicted by a court of any offence and either / or imprisoned for a period of 7 years or more, convicted of the offence dealing with related party transactions under section 188.

Duties of Directors

Major Corporate Debacles of recent times like Kingfisher, Sahara, Satyam etc has again and again proved the inability of Company Act 1956 to be ineffective in upholding Corporate Governance. Every time it is the Directors who are responsible in breaking Shareholders expectation and sometimes betraying the sentiments of stakeholders under a false veil of charisma, while using the corporate mechanism to fulfill personal welfare. To meet this challenge Companies Act 2013 has been enacted almost 50 years after the last amendment. It is built on the principles of responsibility of the Board, protection of interests of the Shareholders, self- regulation and openness through disclosures. The 2013 amendment has ensured several effective measures through clearly defining liabilities and responsibilities of the Directors and penal actions on failure to follow the same.

1. A director must act in accordance with the Articles of Association of the company
2. A director must pursue the best interests of the stake holders of the company, in good faith and to promote the objects of the company.
3. A director shall use independent judgement to exercise his duties with due and reasonable care, skill and diligence.
4. A director should always be aware of conflict of interest situations and should try and avoid such conflicts for the interest of the company.
5. Before approving related party transactions, the Director must ensure that adequate deliberations are held and such transactions are in interest of the company.
6. To ensure vigil mechanism of the company and the users are not prejudicially affected on account of such use.
7. Confidentiality of sensitive proprietary information, commercial secrets, technologies, unpublished price to be maintained and should not be disclosed unless approved by the board or required by law.

8. A Director of a Company shall not assign his office and any assignment so made shall be void.
9. If a director of the company contravenes the provisions of this section such director shall be punishable with fine which shall not be less than one Lakh Rupees but which may extend to five Lac Rupees.

Responsibilities of Directors

To ensure independence and equitableness of the Board, the Companies Act 2013 also casts various responsibilities on the Directors. As per Schedule IV of the Companies Act 2013

1. Protecting and promoting interests of all and specially for Minority Stakeholders
2. Acting as a mediator in case of Conflict of Interest amongst the stakeholders
3. Assistance in forwarding independent and equitable judgement to the Board of Directors
4. Adequate attention towards related party transactions
5. Honest and impartial reporting of any unethical behaviour, violation of code of conduct or any suspected fraud in the company.

Powers of Directors

Directors should have a vision to frame policies to achieve high level of performance. To achieve high level of performance, they must set the goals of the company. They must have powers to carry on objectives of the company. Then comes duties and responsibilities of directors. Directors also have certain rights which can be exercised to protect themselves and also the interest of the company. The provisions of Companies Act and the articles of association of the company spell out rights, duties powers and responsibilities of Directors. Section 291 of the Act provides that subject to the provisions of the Act, the board of directors shall be entitled to exercise all such powers and to do all such acts and things as the company is authorized to exercise and do.

Powers which can be exercised only at Board meeting by means of passing of resolutions (Section 292)

Power to make calls on shareholders in respect of money unpaid on their shares · power to issue debentures

Power to borrow moneys otherwise than on debentures

Power to invest the funds of the company

Power to make loans.

Certain restrictions can be imposed on general powers of the Board and invariably they have to seek the approval of shareholders in the General meetings in such cases. The sections which deal with restrictions are 293, 294AA etc.

There are certain powers which can be exercised only with the approval of the shareholders and also Central Government. Eg: Sec.294AA (appointment of sole selling agents), Section 295 (Loans to Directors) etc.

Powers which can be exercised either at Board meeting or by passing a resolution by circulation as per provisions of u/s 289.

Power to appoint the first Auditor of the company within 30 days from the date of incorporation of the company (Section 224(6)).

Power to fill up casual vacancy in the office of an Auditor if such vacancy is not caused by resignation [Section 224(6)].

Power to appoint Additional Directors if the Articles permit [Section 260]. The Board can exercise certain other powers conferred by articles such as forfeiture of shares, to pay interim dividend, preliminary expenses, use of foreign seal, to capitalize profits and issue bonus shares.

Audit Committee

Audit Committee plays a critical role by ensuring the independence of an audit process. Auditing the operations of a modern corporation is an intricate and complex process that would require the understanding of the rules and judgements taken by the management while preparing financial statements. Audit Committee is formed to act as a conduit of information supplied by the management to the auditors and to insulate an auditor from the pressures of the management. Therefore, such committees are to be independent of management and have the responsibilities of deciding the work or scope, including the fixation of audit fees and the determination of the extent of non-audit services.

Formation of Audit Committee

In India, the constitution of audit committees is deemed mandatory for listed companies as stated under the Companies Bill, 2009 and the SEBI Act. The Companies Bill requires every listed company to have an audit committee that comprises a minimum of three directors with independent directors forming a majority with at least one of them with expertise and knowledge in financial management, audit or accounts. The norms to be followed while forming an audit committee according to SEBI is given below.

1. An audit committee must comprise a minimum of three directors as its members.

2. Two-thirds of the total number of an audit committee's members must comprise of independent directors.
3. Every member of an audit committee must be financially knowledgeable with at least one of the members having accounting or related financial management expertise.
4. An independent director must be appointed as the Chairman of an audit committee.
5. The Chairman of an audit committee must be present at all Annual General Meetings with the purpose of answering shareholder queries.
6. The audit committee may invite executives, as it considers appropriate, to be present at the meetings held by the committee. The invitees for the meetings of the audit committee may also include the finance director, head of the internal audit and a representative of the statutory audit.
7. The Company Secretary must take up the role of being the secretary of the audit committee.

Powers of Audit Committee

Under Clause 49 (II)(C) of the Listing Agreement, an audit committee would have the following powers.

- To investigate any activity under the scope of its terms of reference.
- To search or seek information from any employee.
- To obtain any outside professional or legal advice.
- To secure the attendance of outsiders with any relevant expertise.

It should be noted that the powers mentioned above are only illustrative and not exhaustive. The auditor is required to review the terms of reference of the audit committee and check if it has been framed with inclusion to the above powers. It is mandatory and of utmost importance that the mentioned powers to be vested in an audit committee. The Board has the authority to further delegate or vest more powers to the audit committee.

Role of Audit Committee

Under Clause 49 (II)(D) of the Listing Agreement, an audit committee would have the following roles to play.

1. To have continuous oversight of the financial reporting process of the company and the disclosure of its financial information to ascertain that the financial statement is accurate, sufficient and credible.

2. To recommend the appointment and removal of external auditors, the fixation of audit fee and also, approve the payment of any other services.
3. To review the annual financial statements with the management before the submission of the same to the Board. The audit committee must primarily focus on the following:
4. To review the annual financial statements with the management before the submission of the same to the Board. The audit committee must primarily focus on the following:
 - Any changes made to the accounting policies or practices;
 - Any significant accounting entries concerning the exercise of judgements by the management;
 - Qualification in the draft audit report;
 - Major adjustments arising out the audit;
 - The going concern assumption;
 - Compliance with the accounting standards;
 - Compliance with stock exchanges and the legal requirement regarding financial statements.
 - Any related party transactions.
5. To review the adequacy of the internal control system with the management, internal and external auditors.
6. To review the adequacy of the internal audit function. This includes the review of the structure of the internal audit department, staffs and the seniority of the official who heads the department as well as reporting the structure coverage and the frequency of the internal audit.
7. To discuss any significant findings and follow-ups with the internal auditors.
8. To review the findings of all the internal investigations conducted by the internal auditors concerning matters where fraud has been suspected or in irregularity of internal control systems of material nature and informing the Board.
9. To discuss the nature and the scope of the audit with the external auditors before the commencement of the audit. This could include a discussion to ascertain any area of concern.
10. To review the financial and risk management policies of the company.
11. To review the reasons for substantial defaults in the payment to depositors, shareholders, debenture holders and creditors.
12. To carry out any other function as mentioned regarding reference of the Audit Committee.

Meeting of Audit Committee

Under Clause 49 (II)(B) of the Listing Agreement, an audit committee is required to meet three times in a year at the least. An audit committee is also expected to have these meeting with not more than four months of a lapse between two consecutive meetings. If a meeting is considered necessary by the external auditors, they may request for one.

The Finance Director, the Head of Internal Audit, and a representative of the external auditors shall generally attend the audit committee meetings. Other Board members may also have the right of attendance. However, the audit committee should meet with the external auditors without the Executive Board members at least once a year.

Board Committees

At the core of corporate governance practices is the Board of Directors which oversees how the management serves and protects the long term interests of all the stakeholders of the company. The institution of Board of Directors is based on the premise that a group of trustworthy and respectable people should look after the interests of the large number of shareholders who are not directly involved in the management of the company. The position of board of directors is that of trust as the board is entrusted with the responsibility to act in the best interests of the company.

Committees appointed by the Board focus on specific areas and take informed decisions within the framework of delegated authority, and make specific recommendations to the Board on matters in their areas or purview. All decisions and recommendations of the committees are placed before the Board for information or for approval. To enable better and more focused attention on the affairs of the Corporation, the board delegates particular matters to the committees of the board set up for the purpose. Committees review items in great detail before it is placed before the Board for its consideration. These committees prepare the groundwork for decision making and report at the subsequent board meeting.

Various committees of the Board

The following are some of the important committees of the Board-

Audit Committee

Shareholders Grievance Committee

Remuneration Committee

Risk Committee

Nomination Committee

Corporate Governance Committee

Corporate Compliance Committee

Ethics Committee

Board Meetings

Board meetings are meetings at the highest level, i.e. a meeting where board members or their representatives are present. A company is not an actual entity but a legal one so it cannot take actions and make decisions. The board of directors act as agents through which the company takes actions as well as makes decisions. For the effective functioning and management, it is imperative that board meetings be held at frequent intervals. For this, Section 173 of Companies Act, 2013 provides –

In the case of a Public Limited Company, the first board meeting has to be held within the first 30 days, since the incorporation date. Additionally, a minimum of 4 board meetings must be held in a span of one year. Also, there cannot be a gap of more than 120 days between two meetings. In the case of small companies or one person company, at least two meetings must be conducted, one in each half of the financial year. Additionally, the gap between the two meetings must be at least 90 days. In a situation where the meeting is held at a short notice, at least one independent director must be attending the meeting.

Notice of Board Meeting

The notice of Board Meeting refers to a document that is sent to all directors of the company. This document informs the members about the venue, date, time, and agenda of the meeting. All types of companies are required to give notice at least 7 days before the actual day of the meeting.

Quorum for the Board Meeting

The quorum for the Board Meeting refers to the minimum number of members of the Board to conduct a valid Board Meeting. According to Section 174 of Companies Act, 2013, the minimum number of members of the board required for a meeting is 1/3rd of a total number of

directors. At any rate, a minimum of two directors must be present. However, in the case of One Person Company, the rules of Section 174, do not apply.

Participation in Board Meeting

All directors are encouraged to actively attend board meetings and in case that's not possible at least attend the meetings through a video conference. This is so that all directors can take part in the decision-making process.

Whistle blowing and corporate governance

Whistle blowing policy is a policy through which anyone can report alleged dishonest or illegal activities or misconduct in the company directly to any person having authority or to the director or the CEO. The alleged misconduct can be classified in many ways like fraud, violation of law, threat to the interest of the stakeholders of the company, violation of a law, rule or regulation, gross mismanagement, gross waste of funds, abuse of authority and a substantial and specific danger to public health or safety. A whistle blower is an employee or ex- employee or any other stakeholder who provides information about his or her company which he or she reasonably believes provided they have evidence to support it. Whistle blower plays a very important role in contributing to the better corporate governance.

Principally there are two kind of whistle blowing:

1. Internal – report misconduct to another employee or a superior within their organization. It is often helpful to the organization or the company as it enables them to correct their discrepancies internally and relieve themselves from further embarrassment before the public.
2. External – whistle-blowers report misconduct to outside persons or entities like media or law enforcement authorities.

A whistle is blown in circumstance like:

- **Knowledge of inappropriateness** – Making proprietary software available to public, Embezzlement or redirection of funds.
- **Bad claims** – Unrealistic date projection, advertising hype, etc.
- **Knowledge of impending doom** – When you know the project is doomed for failure and can prove it, yet no one else realizes it yet.

The whistle blower must choose between the various alternatives available to blow the whistle, like to blow it anonymously, in a group, by presenting just the evidence, disclosure through internal channels, through external channels i.e. going public. Whistle blowing through external channels have colossal menace as it brings about huge exposure in public which may be detrimental.

“Effective whistleblowing is a key component in any strategy to challenge inappropriate behaviour at all levels of an organization. It is both an instrument in support of good governance and a manifestation of a more open organizational culture.” Generally, employees are the one who frequently witness situations and incidents in corporations that are immoral or unethical at an early phase but they hesitate to inform about the same to authorities due to the lack of protection as only very few corporations or organizations have whistleblower policy. Thus, if an organization seeks to enhance standards and controls for better and more effective corporate governance, it has to focus on whistleblower policy. The top five mechanisms which are vital for implementing better and effective corporate governance in any institution or organization are:

1. Independent Board of Directors.
2. Role of Auditors (Internal and Statutory) and Audit Committee.
3. Whistleblowing.
4. Shareholder Activism.
5. Fast Track Redressal Forums and Independent complaint mechanisms.

Thus, Whistleblowing is an important tool in any organization’s corporate governance strategy as it empowers employees to act on incidences of misconduct and help maintain a safe workplace, while protecting profits and reputation of the company. Whistleblowing is considered relevant and plays a critical role in implementing corporate governance practices. As more and more corporate wrongdoings are being exposed around the world, a small, but ever growing group (whistleblowers) must be thanked to bring such matters to light. Whistleblowers are employees who exercise free speech rights to challenge institutional abuses of power or illegality that betray the public trust. Their disclosure can be made either internally or externally.

EMPLOYEES AND WHISTLE BLOWING:

Employee is a person who is engaged to provide services to a company on a regular basis in exchange for remuneration and one who does not provide the service as part of an independent business. Employees are considered to be the limbs of any organization. They are the one who are involved in the management as well as complete working of the company. A company will collapse in the absence of its manpower and employees are considered to be asset to the company. They are also one of the factors of production which ensures economic advantage to the company. The employees are actually within the crime vicinity. However in most cases the employees do not respond to any unethical, immoral or illegal actions that come to the notice of the employee. They either turn a blind eye or relinquish their jobs. But there are others who bring to light discrepancies in the working of a company those are the whistle blowers who have to face the brunt for their disclosure.

Reaction towards whistle blowers:

Whistleblowers are generally considered to be selfless martyrs who face awful treatment because of their act. They are ostracized by their co-workers, discriminated against by future potential employers, fired from their organizations, resented by co-workers. They also suffer from serious contemplation of job change or personal problematic activity and mostly get involved in drinking, drugs, self-destructive behaviour.

Ethical Dilemma faced by the employee as a whistle-blower:

The employees face a dilemma as to whether to ensure his/ her own future prospect or to ensure the prospect of the company and are stuck between two competing loyalties and conflict of responsibility comes into being. Comparison and conflict of responsibilities is inherent and both the employer and the employee have responsibilities to themselves, the organization, and society, as well as to each other. The whistleblower in a way challenges this relationship by accusing the employer of having abrogated his or her responsibility, and the employer in turn claims that the employee revealing confidential matters. The relationship between the employee and the employer is based on mutual trust which should never be broken. The employee also fears of being retaliated by employer as well as others.

Treatment received by employees as whistle blower:

Countless number of incidents can be enlisted where the act of whistle blowing has been detrimental to the employees. The Enron scam was disclosed by Sherron Watkins, the vice president who wrote a letter to chairman Kenneth Lay warning him that the company's methods of accounting were improper and that Enron 'might implode in a wave of accounting scandals. She also testified before Congressional Committees from the House and Senate investigating Enron's demise. She was lauded in the press for her courageous actions for some time. She was at a better footing as her allegations were supported by Congressional reports and external auditors. However she left her job at Enron after a few months when she wasn't given much to do.

India has also witnessed many such incidents where employees played a greater role in whistle blowing and in return better corporate governance but at the same time they have also have experienced dire consequences which had to paid by the whistle blower and its family. Satyandra Kumar Dubey who was a Project Director in the Golden Quadrilateral Highway Project wrote a letter to the then Prime Minister Atal Bihari Vajpayee to alleging high level Corruption and discrepancies in the project. He had requested that his name should be kept confidential however the letter along with bio-data was forwarded right away to the Ministry of Road Transport and Highways. Soon Dubey received a reprimand and the vigilance office of NHAI officially cautioned Dubey of the consequences of writing a letter directly to the Prime minister. In the process, through connections in the NHAI and the Ministry, it is likely that the letter may have reached the criminal nexus running the highway construction projects in Bihar and was murdered. However a concocted story of he being killed by identified robbers while resisting the robbery was held after an investigation conducted by the CBI. The sole witness, a rickshaw puller went missing and two other suspects committed suicide. Later it was also alleged that Dubey's whistle blowing had to do very little with his death.

Another case of whistle blowing by the Company Secretary cum Finance Manager of Malabar Cements V. Saseendran. He was prime witness in two vigilance cases against contractor V.M Radhakrishnan and his henchmen and had also written complaint to chief minister against them about the widespread corruption in the company. However within few days he wrote another letter taking back the allegation made by him. He also quit the job with the company He was found dead along with his two sons inside their house a week after the Vigilance Department has prepared the chargesheet where involvement of former state chief

secretary and former company chairman John Mathai, including name of few officials of the company and V.M. Radhakrishnan surfaced. The case was initially dismissed as suicide unless the Kerala High Court ordered a CBI probe into the case after demands by the family of the deceased. After investigation CBI named Malabar Cements managing director Sundara Murthy, his personal secretary Surya Narayanan and businessman V.M. Radhakrishnan as accused in the suicide of V. Saseendran. This highlights the importance of the role of employee who is the best to know about the functioning of the company and the need to protect them.

On the backdrop of such set-up protection of whistle- blowers from retaliation, reprisal or even worst becomes very important and in the absence of any legislation to protect whistle blowers in India the circumstances are even more dangerous as people will not be willing to disclose mis-management.

LEGAL FRAMEWORK OF WHISTLE BLOWING:

United Kingdom:

The Public Interest Disclosure Act 1998 in UK protects employees who 'blow the whistle' about wrong doing. It makes provision for the protection of the whistle bower, the circumstances in which such disclosures are made and also protect the employee from being subjected to a detriment by their employer. Employees who are protected by the provisions may make a claim for unfair removal from office if they are dismissed for making a protected disclosure. Workers who are not employee cannot not claim unfair dismissal however, if their contract has been terminated by the employer because they made a protected disclosure, they may instead make a complaint that they have been subjected to a detriment by the employer.

This protection is subject to limited exceptions, the new provisions protect persons who work under contracts of employment like those who work personally for someone else (under a worker's contract) but are not genuinely self-employed, certain agency workers; National Health Service practitioners such as general physicians, certain dentists, pharmacists and opticians and certain categories of trainees.

United States:

Whistle bower's Act (for federal employees) provides protection Act to federal employees who blow the whistle making a disclosure verifying unlawful or offensive

government activities. The law applies to most federal executive branch employees and become applicable where a “personnel action” is taken “because of” a “protected disclosure” made by a “covered employee. The Sarbanes-Oxley Act of 2002 contains significant protections for corporate whistleblowers having various criminal, civil and administrative, provisions. It is one of the essential whistleblower protection laws. The SOX’s whistleblower protection provisions are not restricted to affording a legal remedy for wrongfully dismissed employees but it has employment-based protections for employee whistleblowers, the law contains four specific provisions directly relevant to whistleblower protection. The law requires that all public trading corporations create internal and independent audit committees. There must also be provision to file whistle blowing complaints within the company to the Audit Committee which would in turn protect the confidentiality of the discloser/ complainant.

India:

Corporations are governed by various legal provisions which provide for establishment of whistleblowing policy. These provisions are as follows:

1. Clause 49 of the Listing Agreement:

This clause has both mandatory and non-mandatory provisions. The provisions relating to whistleblowing is laid down in non-mandatory category.

i) Whistleblower Policy:

The company may establish a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud, or violation of company’s code of conduct or ethics policy. The mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for the direct access to the Chairman of the Audit Committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization. However, on 17 April, 2014, SEBI amended the Corporate Governance norms for listed companies in India which will be effective from 1st October, 2014 in order to bring the corporate governance norms in line with Companies Act, 2013.

ii) Whistleblower Policy under the Revised Clause 49:

After the amendment, now it has been made a mandatory provision. It provides:

The company is required to establish a vigil mechanism to report unethical behavior or any sort of violation of the company's code of conduct, any actual or suspected fraud. The details of the establishment of such mechanism shall be disclosed by the company on its website and in the Board's Report. It also provides for the adequate protection against victimization of the personnel who avail of the vigil mechanism.

2. Corporate Governance Voluntary Guidelines, 2009:

These guidelines provide for a set of set of good practices which may be voluntarily adopted by the Public Companies. Private companies, particularly the bigger ones, may also like to adopt these guidelines. The guidelines are not intended to be a substitute for or additions to the existing laws, but are recommendatory in nature. Chapter VI of the Voluntary Code of Corporate Governance mentions about institution of mechanism for whistleblowing. It provides that-

- (i) The companies should ensure the institution of a mechanism for employees to report concerns about unethical behavior, actual or suspected fraud, or violation of the company's code of conduct or ethics policy.
- (ii) The companies should also provide for adequate safeguards against victimization of employees who avail of the mechanism, and also allow direct access to the Chairperson of the Audit Committee in exceptional cases.

3. Companies Act, 2013, and Companies (Meetings of Board and its Powers) Rules, 2014:

The Companies Act, 2013, having been developed in the aftermath of various corporate scandals, eliminates loopholes by prescribing stricter compliance and disclosure norms than were imposed earlier. The advent of Companies Act, 2013, is a step in the direction of effective corporate governance. The Companies Act, 2013, though does not include the terminology whistleblowing; but the provisions are laid out on the concept. The separate chapter (Chapter XIV) in the Companies Act titled: "Inspection, Inquiry and Investigation" deals with the various

aspects of the concept whistleblowing. Section 206 to Section 229 of the Companies Act provides new procedure for inspection, inquiry and investigation of company affairs. Section 211 of the Companies Act provides for establishment of Serious Fraud Investigation Officer (SFIO).

According to Companies Act, 2013, whistleblowing is not just voluntary act of the person willing to do so, but actually it is the duty, right and responsibility of the person to assist in company affairs. The joint reading of Section 177 (9) and Draft rule no. 12.5 of the Companies Act, 2013, and the Companies (Meetings of Board and its Powers) Rules, 2014, has made it mandatory for following to establish a vigil mechanism for directors and employees to report their genuine concerns:

- (a) Listed companies;
- (b) Companies that accept deposits from public; and
- (c) Companies which have borrowed money from banks or public financial institutions in excess of rupees 50 crores;

MODULE V

BUSINESS ETHICS

Meaning

Ethics is the branch of philosophy concerned with the meaning of all aspects of human behaviour. Theoretical ethics, sometimes called normative ethics, is about delineating right from wrong. It is supremely intellectual and, as a branch of philosophy, rational in nature. It is the reflection on and definition of what is right, what is wrong, what is just, what is unjust, what is good, and what is bad in terms of human behaviour. It helps us develop the rules and principles (norms) by which we judge and guide meaningful decision-making.

Business ethics, also called corporate ethics, is a form of applied ethics or professional ethics that examines the ethical and moral principles and problems that arise in a business environment. It can also be defined as the written and unwritten codes of principles and values, determined by an organization's culture, that govern decisions and actions within that organization. It applies to all aspects of business conduct on behalf of both individuals and the entire company. In the most basic terms, a definition for business ethics boils down to knowing the difference between right and wrong and choosing to do what is right.

There are three parts to the discipline of business ethics: personal (on a micro scale), professional (on an intermediate scale), and corporate (on a macro scale). All three are intricately related. It is helpful to distinguish among them because each rests on a slightly different set of assumptions and requires a slightly different focus in order to be understood. Ethics are a central concern for businesses, organizations, and individuals alike. Behaving in a way that adds value without inappropriate conduct or negative consequences for any other group or individual, organizational leaders in particular must be completely aware of the consequences of certain decisions and organizational trajectories, and ensure alignment with societal interests. There are many examples of ethical mistakes in which organizational decision makers pursued interests that benefited them at the cost of society. The 2008 economic collapse saw a great deal of poor decision-making on behalf of the banks. The Enron scandal is another example of individuals choosing personal rewards at the cost of society at large. These types of

situations are extremes, but they highlight just how serious the consequences can be when ethics are ignored.

There are four schools of thought that are useful for framing future strategic decisions to ensure ethical behaviour. These perspectives are utilitarian, deontological, virtuous, and communitarian approaches.

Utilitarian Approach

Perhaps the cleanest and simplest perspective on ethical behavior, a utilitarian will always ask one question: what is the ideal outcome for the highest number of people? This approach simply considers the impact of one's actions on others, and tries to ensure that the best outcome for the most people is what ultimately occurs. While this outcome-based reasoning is quite useful, it has one fatal flaw. The definition of 'best' when discussing what's best for the most people can become quite subjective. As a result, when utilizing this ethical reasoning to make decisions, it is important to set terms and create definitions that enable the reasoning to have applicable and measurable logic. Simply put, one must ensure they define their terms, and what they mean by good, when pursuing this ethical line of reasoning.

Deontological Approach

Popularized by Emmanuel Kant, the central term in this point of view is duty. Kant disliked the concept of utilitarianism for one simple reason: the ends should not justify the means. Indeed, Kant's ethical argument is that moral maxims of respect for one another and appropriate behavior serve as a groundwork for all ethical reasoning. It is these core concepts which can never be sacrificed for the greater good.

Virtue Ethics

Popularized by Greek philosophers such as Aristotle, this point of view assumes that virtue is a central benchmark for all ethical behavior. What is meant by virtue in this context is a desire to perform a certain act as a result of deep contemplation on the value of that act. To make this act virtuous is to perform it with excellence. As a result, we have a deep contemplation of the value of a certain behavior or decisions, which we apply great practice and consideration. Following this, we can approach the perfect execution of that act or behavior through our rational minds. In this school of ethical thought, it is similarly important to discard

the justification of a means by the ends of that means. Which is to say this an act should be performed because it is desirable in and of itself, and not for the sake of something else. Each behavior is therefore considered carefully, rationally and virtuously to ensure it is valid, beneficial, and valuable.

Communitarian Ethics

In this perspective, the individual decision-maker should ask about the duties owed to the communities in which they participate. This is a relatively simple frame of reference, where the individual decision maker will recognize the expectations and consequences of a given decision relative to the needs, demands and impacts of a certain preferred community.

Nature of Business Ethics

The characteristics or features of business ethics are:

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

- **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.
- **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.

Scope & Importance of Business Ethics

Ethical problems and phenomena arise across all the functional areas of companies and at all levels within the company.

1.Ethics in Compliance

Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law. An ethical climate in an organization ensures that compliance with law is fuelled by a desire to abide by the laws. Organizations that value high ethics comply with the laws not only in letter but go beyond what is stipulated or expected of them.

2.Ethics in Finance

The ethical issues in finance that companies and employees are confronted with include:

- In accounting – window dressing, misleading financial analysis.
- Related party transactions not at arm's length
- Insider trading, securities fraud leading to manipulation of the financial markets.

3.Ethics in Human Resources

Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

The issues of ethics faced by HRM include:

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.
- Issues surrounding the representation of employees and the democratization of the workplace, trade unionization.
- Issues affecting the privacy of the employee: workplace surveillance, drug testing.

4. Ethics in Marketing

Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements
- Content of advertisements.
- Children and marketing.
- Black markets, grey markets.

5. Ethics of Production

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.

- Defective, addictive and inherently dangerous products and
- Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.
- Ethical problems arising out of new technologies for eg. Genetically modified food.

Role of Ethics in Business

More and more companies recognize the link between business ethics and financial performance. Companies displaying a “clear commitment to ethical conduct” consistently outperform companies that do not display ethical conduct.

1. Attracting and retaining talent

People aspire to join organizations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to taking care of its employees will be rewarded with employees being equally dedicated in taking care of the organization. The ethical climate matter to the employees. Ethical Organizations create an environment that is trustworthy, making employees willing to rely, take decisions and act on the decisions and actions of the co-employees. In such a work environment, employees can expect to be treated with respect and consideration for their colleagues and superiors. It cultivates strong teamwork and Productivity and support employee growth.

2. Investor Loyalty

Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits. Relationship with any stakeholder, including investors, based on dependability, trust and commitment results in sustained loyalty.

3. Customer satisfaction

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases/orders and enduring relationship of mutual respect is essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices. When a company because of its belief in high ethics is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration. Such companies are also guided by their ethics to survive a critical situation. Preferred values are identified ensuring that organizational behaviours are aligned with those values. An organization with a strong ethical environment

places its customers' interests as foremost. Ethical conduct towards customers builds a strong competitive position. It promotes a strong public image.

4. Regulators

Regulators eye companies functioning ethically as responsible citizens. The regulator need not always monitor the functioning of the ethically sound company. The company earns profits and reputational gains if it acts within the confines of business ethics. To summaries, companies that are responsive to employees' needs have lower turnover in staff.

- Shareholders invest their money into a company and expect a certain level of return from that money in the form of dividends and/or capital growth.
- Customers pay for goods, give their loyalty and enhance a company's reputation in return for goods or services that meet their needs.
- Employees provide their time, skills and energy in return for salary, bonus, career progression, and learning.

Law and ethics

In simple terms, the **law** may be understood as the systematic set of universally accepted rules and regulation created by an appropriate authority such as government, which may be regional, national, international, etc. It is used to govern the action and behavior of the members and can be enforced, by imposing penalties.

The law is described as the set of rules and regulation, created by the government to govern the whole society. The law is universally accepted, recognized and enforced. It is created with the purpose of maintaining social order, peace, justice in the society and to provide protection to the general public and safeguard their interest. It is made after considering ethical principles and moral values. The law is made by the judicial system of the country. Every person in the country is bound to follow the law. It clearly defines what a person must or must not do. So, in the case of the breach of law may result in the punishment or penalty or sometimes both.

By ethics, we mean that branch of moral philosophy that guides people about what is good or bad. It is a collection of fundamental concepts and principles of an ideal human character. The principles help us in making decisions regarding, what is right or wrong. It informs us about how to act in a particular situation and make a judgment to make better

choices for ourselves. Ethics are the code of conduct agreed and adopted by the people. It sets a standard of how a person should live and interact with other people.

BASIS FOR COMPARISON	LAW	ETHICS
Meaning	The law refers to a systematic body of rules that governs the whole society and the actions of its individual members.	Ethics is a branch of moral philosophy that guides people about the basic human conduct.
What is it?	Set of rules and regulations	Set of guidelines
Governed By	Government	Individual, Legal and Professional norms
Expression	Expressed and published in writing.	They are abstract.
Violation	Violation of law is not permissible which may result in punishment like imprisonment or fine or both.	There is no punishment for violation of ethics.
Binding	Law has a legal binding.	Ethics do not have a binding nature.

Ethics & Values

Ethics and Values together lay the foundation for sustainability. While they are sometimes used synonymously, they are different, wherein **ethics** are the set of rules that govern the behaviour of a person, established by a group or culture. **Values** refer to the beliefs for which a person has an enduring preference. Ethics and values are important in every aspect of life, when we have to make a choice between two things, wherein ethics determine what is right, values determine what is important. In the world of intense competition, every business entity work on certain principles and beliefs which are nothing but the values. Likewise, ethics is implemented in the organisation to ensure the protection of the interest of stakeholders like customers, suppliers, employees, society and government.

The fundamental differences between ethics and value are described in the given below points:

1. Ethics refers to the guidelines for conduct, that address question about morality. Value is defined as the principles and ideals, which helps them in making the judgement of what is more important.
2. Ethics is a system of moral principles. In contrast to values, which is the stimuli of our thinking.
3. Values strongly influence the emotional state of mind. Therefore it acts as a motivator. On the other hand, ethics compels to follow a particular course of action.
4. Ethics are consistent, whereas values are different for different persons, i.e. what is important for one person, may not be important for another person.
5. Values tell us what we want to do or achieve in our life, whereas ethics helps us in deciding what is morally correct or incorrect, in the given situation.
6. Ethics determines, to what extent our options are right or wrong. As opposed to values, which defines our priorities for life.

Ethical principles in business

1. HONESTY. Be honest in all communications and actions. Ethical executives are, above all, worthy of trust and honesty is the cornerstone of trust. They are not only truthful, they are candid and forthright. Ethical executives do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means and when trust requires it they supply relevant information and correct misapprehensions of fact.

2. INTEGRITY. Maintain personal integrity. Ethical executives earn the trust of others through personal integrity. Integrity refers to a wholeness of character demonstrated by consistency between thoughts, words and actions. Maintaining integrity often requires moral courage, the inner strength to do the right thing even when it may cost more than they want to pay. They live by ethical principles despite great pressure to do otherwise. Ethical executives are principled, honorable, upright and scrupulous. They fight for their beliefs and do not sacrifice principle for expediency.

3. PROMISE-KEEPING. Keep promises and fulfill commitments. Ethical executives can be trusted because they make every reasonable effort to fulfill the letter and spirit of their promises

and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalize non-compliance or create justifications for escaping their commitments.

4. LOYALTY. Be loyal within the framework of other ethical principles. Ethical executives justify trust by being loyal to their organization and the people they work with. Ethical executives place a high value on protecting and advancing the lawful and legitimate interests of their companies and their colleagues. They do not, however, put their loyalty above other ethical principles or use loyalty to others as an excuse for unprincipled conduct. Ethical executives demonstrate loyalty by safeguarding their ability to make independent professional judgments. They avoid conflicts of interest and they do not use or disclose information learned in confidence for personal advantage.

5. FAIRNESS. Strive to be fair and just in all dealings. Ethical executives are fundamentally committed to fairness. They do not exercise power arbitrarily nor do they use overreaching or indecent means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties. Ethical executives manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity. They are open-minded; willing to admit they are wrong and, where appropriate, they change their positions and beliefs.

6. CARING. Demonstrate compassion and a genuine concern for the well-being of others. Ethical executives are caring, compassionate, benevolent and kind. They understand the concept of stakeholders (those who have a stake in a decision because they are affected by it) and they always consider the business, financial and emotional consequences of their actions on all stakeholders. Ethical executives seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

7. RESPECT FOR OTHERS. Treat everyone with respect. Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin. Ethical executives adhere to the Golden Rule, striving to treat others the way they would like to be treated.

8. LAW ABIDING. Obey the law. Ethical executives abide by laws, rules and regulations relating to their business activities.

9. COMMITMENT TO EXCELLENCE. Pursue excellence all the time in all things. Ethical executives pursue excellence in performing their duties, are well-informed and prepared, and constantly endeavour to increase their proficiency in all areas of responsibility.

10. LEADERSHIP. Exemplify honour and ethics. Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.

11. REPUTATION AND MORALE. Build and protect and build the company's good reputation and the morale of its employees. Ethical executives understand the importance of their own and their company's reputation as well as the importance of the pride and good morale of employees. Thus, they avoid words or actions that might undermine respect and they take affirmative steps to correct or prevent inappropriate conduct of others.

12. ACCOUNTABILITY. Be accountable. Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

Ethics in business functional areas

Just as different functions in the human body are performed and regulated by different organs, different functions within a business are performed and controlled by different parts of the business. One of the reasons for separating business operations into functional areas is to allow each to operate within its area of expertise, thus building efficiency and effectiveness across the business as a whole. The key functional areas of a business are the following:

- Management
- Operations
- Marketing
- Accounting
- Finance

Management

The primary role of managers in business is to supervise other people's performance. Most management activities fall into the following categories:

- **Planning:** Managers plan by setting long-term goals for the business, as well short-term strategies needed to execute against those goals.

- **Organizing:** Managers are responsible for organizing the operations of a business in the most efficient way, enabling the business to use its resources effectively.
- **Controlling:** A large percentage of a manager's time is spent controlling the activities within the business to ensure that it's on track to achieve its goals. When people or processes stray from the path, managers are often the first ones to notice and take corrective action.
- **Leading:** Managers serve as leaders for the organization, in practical as well as symbolic ways. The manager may lead work teams or groups through a new process or the development of a new product. The manager may also be seen as the leader of the organization when it interacts with the community, customers, and suppliers.

Operations

Operations is where inputs (factors of production) are converted to outputs (goods and services). Operations is like the heart of a business, pumping out goods and services in a quantity and of a quality that meets the needs of the customers. The **operations manager** is responsible for overseeing the day-to-day business operations, which can encompass everything from ordering raw materials to scheduling workers to produce tangible goods.

Marketing

Marketing consists of all that a company does to identify customers' needs and design products and services that meet those needs. The marketing function also includes promoting goods and services, determining how the goods and services will be delivered, and developing a pricing strategy to capture market share while remaining competitive. In day's technology-driven business environment, marketing is also responsible for building and overseeing a company's Internet presence (e.g., the company Web site, blogs, social media campaigns, etc.). Today, social media marketing is one of the fastest growing sectors within the marketing function.

Accounting

Accountants provide managers with information needed to make decisions about the allocation of company resources. This area is ultimately responsible for accurately representing the financial transactions of a business to internal and external parties, government agencies, and owners/investors. **Financial Accountants** are primarily responsible for the preparation of

financial statements to help entities both inside and outside the organization assess the financial strength of the company. **Managerial accountants** provide information regarding costs, budgets, asset allocation, and performance appraisal for internal use by management for the purpose of decision-making.

Finance

Although related to accounting, the finance function involves planning for, obtaining, and managing a company's funds. **Finance managers** plan for both short- and long-term financial capital needs and analyze the impact that borrowing will have on the financial well-being of the business. A company's finance department answers questions about how funds should be raised (loans vs. stocks), the long-term cost of borrowing funds, and the implications of financing decisions for the long-term health of the business.

Ethics is vital in all the functional areas irrespective of its functions. The top management should devise and monitor the implementation of ethical code for all the functional areas. Integration of functional areas is the basic necessity in this regard.

Management of Quality

Quality management consists of four key components, which include:

- **Quality Planning** – The process of identifying the quality standards relevant to the project and deciding how to meet them.
- **Quality Improvement** – The purposeful change of a process to improve the confidence or reliability of the outcome.
- **Quality Control** – The continuing effort to uphold a process' integrity and reliability in achieving an outcome.
- **Quality Assurance** – The systematic or the planned actions necessary to offer sufficient reliability that a particular service or product will meet the specified requirements.

The aim of quality management is to ensure that all the organization's stakeholders work together to improve the company's processes, products, services, and culture to achieve the long-term success that stems from customer satisfaction. The process of quality management involves a collection of guidelines that are developed by a team to ensure that the products and services that they produce are of the right standards or fit for purpose. The process starts when the organization sets quality targets to be met and which are agreed upon with the customer.

The organization then defines how the targets will be measured. It then takes the actions that are required to measure the quality. They then identify any quality issue that arises and initiates improvements. The final step involves reporting the overall level of the quality achieved. The process ensures that the products and services produced by the team match the customers' expectations.

The quality improvement methods comprise three components: product improvement, process improvement, and people-based improvement. There are numerous methods of quality management and techniques that can be utilized. They include Kaizen, Zero Defect Programs, Six Sigma, Quality Circle, Taguchi Methods, the Toyota Production System, Kansei Engineering, TRIZ, BPR, OQRM, ISO, and Top Down & Bottom Up approaches among others. A model example of great quality management is the implementation of the Kanban system by Toyota Corporation. Kanban is an inventory control system that was developed by Taiichi Ohno to create visibility for both the suppliers and buyers to help limit the upsurge of excess inventory on the production line at any given point in time. Toyota used the concept to execute its Just-in-time (JIT) system, which helps aligns raw material orders from suppliers directly with the production schedules. Toyota's assembly line rose in efficiency and the company received enough inventories at hand to meet customer orders as they were being generated.

Principles of Quality Management

There are several principles of quality management that the International Standard for Quality Management adopts. These principles are used by top management to guide an organization's processes towards improved performance. They include:

1. Customer Focus

The primary focus of any organization should be to meet and exceed the customers' expectations and needs. When an organization can understand the customers' current and future needs and cater to them, it results in customer loyalty, which in turn increases revenue. The business is also able to get new customer opportunities and satisfy them. When business processes are more efficient, quality is higher and more customers can be satisfied.

2. Leadership

Good leadership results in an organization's success. Great leadership establishes unity and purpose among the workforce and shareholders. Creating a thriving company culture provides an internal environment that allows employees to fully utilize their potential and get actively involved in achieving its objectives. The leaders should involve the employees in setting clear organization goals and objectives. It motivates employees, who can significantly improve their productivity and loyalty.

3. Engagement of People

Staff involvement is another fundamental principle. The management engages staff in creating and delivering value whether they are full-time, part-time, outsourced or in-house. An organization should encourage the employees to constantly improve their skills and maintain consistency. This principle also involves empowering the employees, involving them in decision making and recognizing their achievements. When people are valued, they work to their best potential because it boosts their confidence and their motivation. When employees are wholly involved, it makes them feel empowered and accountable for their actions.

4. Process Approach

The performance of an organization is crucial according to the process approach principle. The approach emphasizes on achieving efficiency and effectiveness in the organizational processes. The approach entails an understanding that good processes result in improved consistency, quicker activities, reduced costs, waste removal and continuous improvement. An organization is enhanced when leaders can manage and control the inputs and the outputs of an organization, as well as the processes used to produce the outputs.

5. Continuous Improvement

Every organization should come up with an objective to be actively involved in continuous improvement. Businesses that improve continually experience improved performance, organizational flexibility and increased ability to embrace new opportunities. Businesses should be able to create new processes continually and adapt to new market situations.

6. Evidence-based Decision Making

Businesses should adopt a factual approach to decision-making. Businesses that make decisions based on verified and analyzed data have an improved understanding of the marketplace. They are able to perform tasks that produce desired results and even justify their past decisions. Factual decision making is vital to help understand the cause-and-effect relationships of different things and even explain potential unintended results and consequences.

7. Relationship Management

Relationship management is about creating mutually beneficial relations with supplier and retailers. Different interested parties can impact the company's performance. The organization should manage the supply chain process well and promote the relationship between the organization and its suppliers to optimize their impact on the company's performance. When an organization manages its relationship with interested parties well, it is more likely to achieve sustained business collaboration.

Corporate excellence

The term Excellence literally means the quality of being outstanding or extremely good. The achievement of corporate excellence is the most important objective of every organization. Corporate governance is the one and only route to achieve corporate excellence. Corporate excellence refers to a transformation from the status of a good company to the status of a great company. The essence of corporate excellence is to have a competitive advantage over other firms in the industry. Corporate excellence is about developing and strengthening the management system and process of a company to improve performance and create value for stakeholders.

The key elements of corporate excellence is transparency projected through a code of good governance which incorporate a system of checks and balances between key players boards, management, auditors, shareholders and others. Good Corporate Governance is a source of competitive advantage and a critical input for achieving excellence in all productive, economic and social pursuits. A company's most valuable asset is the goodwill it enjoys with its stakeholders, which can only be earned by actions, not demanded. The European Foundation for Quality management (EFQM) defines excellence in business as "outstanding practices in managing the organization and achieving results, all based on a set of eight fundamental concepts. These concepts are value addition for customers, creating sustainable future, developing organizational capability, harnessing creativity and innovation, leading with vision,

inspiration and integrity, managing with ability, succeeding through the talent of the people and sustain outstanding results.”

Corporate governance plays most important role in every organization. It provides a structure through which the objectives of a company are set and how they are achieved and monitored. A good governance practice enhances the efficiency of corporate sector and helps achieving excellence in all areas in the organization. The following are the key points for achieving and maintaining corporate excellence in an organization with the help of good corporate practices.

1. Monitoring the Performance

Excellent companies adopt effective and consistent strategies for monitoring and evaluating performance of the organization. Corporate governance is sets of rules and guidelines for monitoring and evaluating performance of the organization. Monitoring of governances by the broad also includes continuous review of the internal structure of the company to ensure that there are clear lines of accountability and responsibility for management throughout the organization.

2. Inculcate Moral Values and Principles in Business

Corporate governance regulations are based on moral values and principles than law and it helps to the business identify, analysis the different moral issues involved. It is essential that the organization’s guiding ethics and code of conduct are clearly understood and followed by each and every members of the organization and communicated to all stakeholders. These moral values, principles and code of conduct help the organization to become an excellent company.

3. Fair and Equitable Treatment of Shareholders

Corporate governance frameworks ensure the fair and equitable treatment of all shareholders including minority shareholders. There should be no discrimination between shareholders. All shareholders have opportunity to obtain effective redress for violation of their rights. Fair and equitable treatment of shareholders helps an organization to excel in all functional areas.

4. Transparency and Full Disclosures

Transparency and full disclosures are the basic principles of corporate governance and essential ingredients for achieving excellence in an organization. Corporate governance aims at ensuring a higher degree of transparency in an organization by ensuring full disclosure of all material matters regarding the business ,including the financial statement ,performance, ownership, and governance of the company.

5. Fair and Equitable Treatment of Employees and Workers

Fair and equitable treatment of employees and workers is the important tool for excellence in an organization. It ensures equal opportunity in all aspects of employment regardless of race, colour, religion, sex, nationality, age, marital status, disability, etc. The goal of corporate governance is to avoid all kinds of discrimination, harassment, and ill-treatment of the workforce.

6. Strong Internal Control

Excellent companies built a concrete and strong internal control system for its outstanding performance and it is the mechanism for reducing mismanagement and fraud. Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity in achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations.

7. Safeguard the Interest of All the Stakeholders

Corporate governance framework adopts effective, consistent, friendly measures and strategies to safeguard the interest of all the stakeholders. It protects and respects the rights of all stakeholders. Corporate governance mechanisms are usually established for safeguarding and protecting interest of all the stakeholders

8. Reduce Misconduct and Frauds

Strong corporate framework reduces misconduct and fraud and it is the path way to corporate excellence. The corporate misconduct stretches beyond malpractices in accounting, reporting, operations etc. Corporate governance attempts to implant moral values and principles in business.

Corporate culture

Among the many factors that affect an organization's ability to innovate, compete, and engage employees and customers is corporate culture. Corporate culture is the amalgamation of values, vision, mission, and the day-to-day aspects of communication, interaction, and operational goals that create the organizational atmosphere that pervades the way people work. It's hard to define and even harder to get right. No amount of modern furnishings, stocked kitchens, happy hours, or young, hip workers can create a corporate culture.

Corporate culture is, above all else, the most important factor in driving innovation. So the question on the minds of business leaders should be how to create an effective corporate culture. If corporate culture can make the difference in performance, innovation, and employee development and retention, then what is the bottom line for fostering that organizational

environment? The fact of the matter is that, at the most basic level, an organization is simply a group of individuals working towards a goal—the generation of corporate culture, therefore, stems from the individuals who make up the organization, from leadership to the front-line workers.

Components of a Corporate Culture

1. Vision: A great culture starts with a vision or mission statement. These simple turns of phrase guide a company's values and provide it with purpose. That purpose, in turn, orients every decision employees make. When they are deeply authentic and prominently displayed, good vision statements can even help orient customers, suppliers, and other stakeholders. Nonprofits often excel at having compelling, simple vision statements. The Alzheimer's Association, for example, is dedicated to "a world without Alzheimer's." And Oxfam envisions "a just world without poverty." A vision statement is a simple but foundational element of culture.

2. Values: A company's values are the core of its culture. While a vision articulates a company's purpose, values offer a set of guidelines on the behaviors and mindsets needed to achieve that vision. McKinsey & Company, for example, has a clearly articulated set of values that are prominently communicated to all employees and involve the way that firm vows to serve clients, treat colleagues, and uphold professional standards. Google's values might be best articulated by their famous phrase, "Don't be evil." But they are also enshrined in their "ten things we know to be true."

3. Practices: Of course, values are of little importance unless they are enshrined in a company's practices. If an organization professes, "people are our greatest asset," it should also be ready to invest in people in visible ways. Wegman's, for example, heralds values like "caring" and "respect," promising prospects "a job [they'll] love." And it follows through in its company practices, ranked by Fortune as the fifth best company to work for. Similarly, if an organization values "flat" hierarchy, it must encourage more junior team members to dissent in discussions without fear or negative repercussions. And whatever an organization's values, they must be reinforced in review criteria and promotion policies, and baked into the operating principles of daily life in the firm.

4. People: No company can build a coherent culture without people who either share its core values or possess the willingness and ability to embrace those values. That's why the greatest firms in the world also have some of the most stringent recruiting policies.

5. Narrative: Marshall Ganz was once a key part of Caesar Chavez's United Farm Workers movement and helped structure the organizing platform for Barack Obama's 2008 presidential campaign. Now a professor at Harvard, one of Ganz's core areas of research and teaching is the power of narrative. Any organization has a unique history — a unique story. And the ability to unearth that history and craft it into a narrative is a core element of culture creation. The elements of that narrative can be formal — like Coca-Cola, which dedicated an enormous resource to celebrating its heritage and even has a World of Coke museum in Atlanta — or informal, like those stories about how Steve Jobs' early fascination with calligraphy shaped the aesthetically oriented culture at Apple. But they are more powerful when identified, shaped, and retold as a part of a firm's ongoing culture.

6. Place: Why does Pixar have a huge open atrium engineering an environment where firm members run into each other throughout the day and interact in informal, unplanned ways? Why does Mayor Michael Bloomberg prefer his staff sit in a “bullpen” environment, rather than one of separate offices with soundproof doors? And why do tech firms cluster in Silicon Valley and financial firms cluster in London and New York? There are obviously numerous answers to each of these questions, but one clear answer is that place shapes culture. Open architecture is more conducive to certain office behaviours, like collaboration. Certain cities and countries have local cultures that may reinforce or contradict the culture a firm is trying to create. Place — whether geography, architecture, or aesthetic design — impacts the values and behaviours of people in a workplace.

Managing cultural diversity in Organisation

The Oxford Dictionary defines cultural diversity as “the existence of a variety of cultural or ethnic groups within a society.” Culture is considered to be the underlying values that direct how people behave. Cultural diversity in the workplace is a result of practices, values, traditions, or beliefs of employees based on race, age, ethnicity, religion, or gender. Economic globalization is one of the driving forces of cultural diversity in the workplace. The modern workforce is made up of people of different genders, ages, ethnicity, religions, and nationalities. Employers have realized that workforce diversity provides both material and intangible benefits. In order for employers to reap the benefits of cultural diversity in the workplace, they must communicate their commitment to addressing the challenges of a

diverse workforce. Employers must be seen to be celebrating their employees' diversity to avoid workplace issues, like awkwardness and hostility.

The following are some of the different types of diversity in the workplace:

- Education – There can be tension between employees who have undertaken the academic route to employment and those whose experience is of a vocational nature. This cultural difference could result in a conflict where it's disputed whether practical or theoretical experience will help the company achieve maximum growth.
- Ethnicity – This type of cultural diversity at work can be apparent when there are language barriers or a difference in how business is carried out. Some companies have specialist ethnic groups like the Hispanic Chamber of Commerce for under-represented communities.
- Generations – Generation X, millennials, and traditionalists are some of the different generations that make up a diverse workforce. This type of diversity is characterized by differences in how work is viewed. For example, millennials are known for seeking flexibility in their work and doing jobs that align with their personal values.
- Gender – According to the Bureau of Labor Statistics, nearly 36% of women had a bachelor's degree by the age of 31 in comparison to 28% of men. However, research by the Pew Research Centre found that, in 2017, women earned 82% of what men earned. As well as pay disparities, women also face other workplace issues such as harassment.
- Religion – Various religious beliefs may be over in the workplace, for example, different dress, dietary requirements, and requesting particular days off. However, religion may be more understated, for instance, how the person interacts with their team members.

- Lesbian, Gay, Bisexual, and Transgender (LGBT) – The LGBT community is made up of distinct groups who have unique needs and experiences. Companies need to bear this in mind when creating LGBT strategies in order to address this group's needs.
- Workers with disabilities – This group is very diverse in relation to the challenges they face and their needs. The range of disabilities can include vision, learning, and mental health. As a result, companies need to ensure that their diversity and inclusion programs recognize and make provision for the wide spectrum of disabilities.

Workplace issues involving cultural diversity

- Conflict – This occurs when discrimination, prejudice, lack of respect, and racism are allowed to fester in a workplace. Intolerant attitudes can turn into open conflict if companies don't take the correct steps to show that any type of discrimination won't be tolerated.
- Harassment – This issue can present itself in a diverse workplace where leaders fail to recognize the signs and deal with perpetrators. Training should be provided as to what constitutes harassment. Employees who harass others should be dealt with according to company procedures. Like all the other issues arising from diversity in the workplace, harassment can have a devastating effect on employees and the company as a whole. Uber is an example of a company that has suffered damage as a result of harassment claims.
- Disregarding needs – Some companies ignore the needs of disabled employees by failing to provide them with the necessary equipment to access all facilities and to undertake their jobs. Employers need to lead the way in creating a comfortable workplace for all of its employees, irrespective of whether they have a disability.

Managing diversity in the workplace

- Create written policies – Companies should include their policy in relation to diversity in their employee handbook. The policy should contain information about non-discrimination laws, the code of conduct and the compensation and benefits policy.
- Provide sensitivity training – Employees should be provided with sensitivity training to create a better workplace culture. Sensitivity training can help employees to value views that are different, understand words, and actions that cause offense and what needs to be done if they've been offended.
- Impose a zero-tolerance policy – After employees have received the handbook and training about diversity issues, the company needs to set the tone about how violations will be dealt with. Employees should be aware that inappropriate behavior will not be tolerated and every reported incident will be taken seriously.

The advantages of cultural diversity

- Innovation – Where everyone in a company is from the same background, they're likely to have similar ideas. In order to remain competitive, companies need new ideas and concepts. A diverse workforce brings unique perspectives on how to solve problems and innovate to gain a competitive edge.
- Respect – A diverse workforce enables team members to appreciate the differences in others because of the positive contribution that different people bring. Where co-workers are open to learning from each other, they appreciate that diversity enables them to function better as a team. Therefore, gain a mutual respect for colleagues who are different.
- Reputation – A commitment to diversity demonstrates that a company values fairness and equality. These characteristics have a positive effect on its reputation with suppliers and consumers. A company that openly recruits the best candidates for a job,

irrespective of which group they are in, will gain customer loyalty and a good reputation.

- **Productivity** – The diversity of a company is an indication of how productive its employees will be. The Forbes Global Diversity and Inclusion Fostering Innovation Through a Diverse Workforce report found that 77% of companies used productivity as a measure to gauge the success of diversity programs. Respondents in the Forbes research advised that their companies have experienced an increase in productivity due to a diverse workforce.
- **Growth** – Where a company has a diversified workforce, they position themselves to build relationships with people from different cultures. Diverse employees can advise the companies about the best strategies to use to gain new customer bases. Employees who speak different languages and are aware of the cultural norms of international markets can be vital to a company's growth.
- **Recruitment** – Research shows that 67% of job seekers advised that a company's diverse workforce is a key factor when evaluating job offers. These findings demonstrate that diversity is a key aspect when recruiting the best talent. Job seekers are aware of the importance of a diverse workforce and want to be part of a company that will value and appreciate their difference.
- **Compliance** – Companies need to comply with both federal and state laws that ban them from carrying out discriminatory practices. Promoting a diverse workplace where everyone is respected helps companies to obey the law and also ensures that every employee is treated with the respect he or she deserves.

Building corporate image

Corporate Image is simply the image of the creator of your products. That could be you, your company, or any group within your organization. If you are having trouble with understanding that a group within your organization may have a corporate image, a few examples are in order. Lockheed Martin's Advanced Development Programs is called the

Skunk Works. It has an image of creating radical innovation within the organization. Boeing has a similar group known as Phantom Works. Groups within the U.S. Military also have corporate images. The one that many have heard of is Seal Team Six.

It governs the way the rest of the world thinks about you. The right image creates a bond of trust between you and the marketplace, enables you to achieve your goals, and boost your earnings. The wrong one can block attainment of your goals and deplete your bank account. If you don't create the image you want for yourself or your company, the marketplace will create one for you. Since many in the marketplace (especially competitors) have their own agenda, it is unlikely they will brand you with a corporate image that is as favourable as the one you would create for yourself. By beating them to the punch, you plant your desired corporate image in buyer brains before your detractors can.

Creating a Corporate Image

Creating an effective corporate image involves the following steps.

1. **Mission Statement.** Create a mission statement that makes it clear (1) What your company does, (2) Who the target audience is, and (3) What makes your company unique.
2. **Corporate Identity tools.** Create corporate identity tools that include (1) Name, (2) Logo, (3) Slogan, (4) Colors, (5) Type fonts, (6) Mascots, and (7) Jingles.
3. **Training.** Train your employees and other internal stakeholders on your mission and corporate identity tools so they can transmit them via their word-of-mouth pyramids and social media circles.
4. **Promotion.** Promote your mission and corporate identity tools to people outside your company using traditional, online, and social media. You put them on business cards, letterhead, signs, company vehicles, packaging, brochures, and all corporate communications.
5. **Measuring results.** Using your marketing information system, you need to measure how effectively your corporate image is working.
6. **Corrective action.** Using the same system, you need to make necessary adjustments to the above if they are not working according to plan.

Protection of Corporate Image

Once you craft your corporate image, you need to protect it. The more successful you are, the more jealous competitors, angry customers, and those with an agenda will attack you. You have to be prepared with the following three sets of procedures.

1. **Rumor Procedure.** If what others say is not true, you should employ the following three steps of the rumor procedure (1) Don't publicize the rumor, (2) Promote the opposite of what the rumor says without mentioning the rumor, and (3) Provide undeniable and verifiable proof to support (2).
2. **Fact Procedure.** If you did something wrong, you should employ the following fact procedure (1) Admit and apologize, (2) Limit the scope (or put the mistake in perspective), and (3) Propose a solution so the mistake is unlikely to reoccur.
3. **Turn negatives into positives.** On a transactional basis, misunderstandings and other negative situations will occur between you, your company, and your target audience. You need to do what you can to turn these into positives to (1) neutralize the negative before it turns into a conflagration that does serious damage to your image and (2) develop a closer relationship with the person (or people) that feel "wronged" by your company.

Knowledge workers & knowledge management

The term "knowledge worker" was first coined by Peter Drucker in his book, *The Landmarks of Tomorrow* (1959). Drucker defined knowledge workers as high-level workers who apply theoretical and analytical knowledge, acquired through formal training, to develop products and services. He noted that knowledge workers would be the most valuable assets of a 21st-century organization because of their high level of productivity and creativity. They include professionals in information technology fields, such as programmers, web designers, system analysts, technical writers, and researchers. Knowledge workers are also comprised of pharmacists, public accountants, engineers, architects, lawyers, physicians, scientists, financial analysts, and design thinkers.

The term 'knowledge worker' is somewhat controversial. Some people are uncomfortable saying that some workers use knowledge, and others don't – for example, "Our marketing team members are knowledge workers, and our production staff are not." Statements like this may create the impression that some jobs (and people) are better than others. On the other hand, you could say that all work is knowledge work, to a greater or lesser degree.

Thomas Davenport, who has studied knowledge workers for more than a decade, offers a commonly used definition of the term: “Knowledge workers have high degrees of expertise, education, or experience, and the primary purpose of their jobs involves the creation, distribution or application of knowledge.” At its most basic level, knowledge work is often the source of new ideas. So, to get the most from your knowledge workers, and to create an environment where new ideas can flow and flourish, follow some of these basic leadership and management practices. They will help to build trust, and improve the link between the work the knowledge workers do and the organization's success. This may help to create the competitive advantage.

Characteristics of Knowledge Workers

Factual and Theoretical Knowledge

Knowledge workers undergo several years of formal training to master the information needed to perform certain specialized roles. At a minimum, most knowledge-based positions require a college degree and their learning process is continuous even after being hired. For example, a pharmacist requires factual and theoretical knowledge of various medications before they can dispense medications and advise patients on the use of prescriptions and over-the-counter drugs. Likewise, a sales manager must possess knowledge of his/her customer's preferences and factual information about the products sold by the company.

Accessing and Applying Information

Knowledge workers must know how to identify important information from a large database of information that they need to be familiar with. They should be in a position to weed out less important information and focus on essential information that will help them solve problems, answer questions, and generate ideas. Knowledge workers use analytical reasoning and relevant judgment to address customer service issues and new situations.

Communication Skills

Knowledge work involves frequent communication between the knowledge worker and customers, co-workers, subordinates, and other stakeholders. They must be able to speak, read, and write, and hold discussions with workmates and deliver a presentation when needed. Modern organizations emphasize quality customer service and continuous product improvements that bring knowledge workers closer to the customers. Good communication skills enable knowledge workers to work closely with other workers in decision-making, goal setting, and brain-storming sessions.

Motivation

Knowledge work requires continuous growth, due to the need to keep up with technological developments. Workers must be interested in finding new information and applying it in their work. With new technologies being released every day, they must improve their skills to handle complex tasks and integrate the latest technologies into their work.

Challenges and Opportunities

The demand for employees who are qualified to perform specialized roles presents both challenges and opportunities. One of the challenges relates to the hiring and retention of knowledge workers. With a looming shortage of knowledge workers, employers are forced to look for more effective ways of hiring the best talents and retaining them for a long period of time. Unlike baby boomers who stick to one organization for a long period, millennial workers, who are the majority of knowledge workers today, often serve in one organization for just a short period of time before moving to a more rewarding role in another organization. Employers are forced to offer higher salaries and an appealing work environment, and to treat these employees more as co-workers rather than as subordinates.