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G. S. IV :ETHICS, INTEGRITY AND APTITUDE

CORPORATE GOVERNANCE

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Corporate Governance

Introduction

The term ‘corporate governance’ was introduced by Robert Ian (Bob) Trickerin 1984. It implies 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 as well as, discharge of social responsibility for sustainable development of all stakeholders.

Corporate governance is concerned with the way corporate entities are governed, as distinct from the way business within those companies is managed. It also addresses the issues facing the Board of Directors, such as the interaction with top management and relationships with the owners and others interested in the affairs of the company.

Increasingly, revelations of deterioration in quality and transparency, have called for the adoption of internationally accepted ‘Best Practices’ or ‘Business Ethics’. The acceptance of these has given rise to the concept of ‘Corporate Governance’. Thus the term ‘Corporate Governance’ encompasses commitment to values and ethical business conduct to maximize shareholder’sinterests on a sustainable basis, while ensuring fairness to all stakeholders including customers, employees, and investors, vendors, government and society at large.

Over the last two decades, corporate governance has attracted a great deal of public interestworld wide because of its apparent importance for the economic health of corporations and society in general. The headlines of the previous two years, in particular, have portrayed a sad story of corporate ethics (or lack thereof), not only in India, but globally as well: WorldCom, Anderson, Merrill Lynch, Enron, Martha Stewart, Global Crossing, Qwest Communications, Tyco International, Adelphia Communications, Computer Associates, Parmalat, Putnam, Boeing, Rite Aid, Xerox.Falling stock markets, corporate failures, dubious accounting practices, abuse of corporate power, criminal investigations etc. indicate that the entire economic system upon which investment returns have depended is showing signs of stress that have undermined investor’s confidence.

Some corporations, for instance Satyam, grew dramatically in a relatively short time through acquisitions funded by inflated share prices and promises of even brighter future (many of these corporations have now failed). In others words, it seems as if the checks and balances that should protect shareholder interests were pushed to one side, driven by a perception of the need to move fast in the pursuit of the bottom line. While some failures were the result of fraudulent accounting and other illegal practices, many of these companies exhibited corporate governance risks such as conflict of interest, inexperienced directors, overly lucrative compensation, or unequal share of voting rights. In the wake of such scandals and malpractices, there has been a renewed emphasis on corporate governance.

Objectives of Corporate Governance

Corporate Governance is aimed at creating an organization which maximizes the wealth of shareholders. It envisages an organization in which emphasis is laid on fulfilling the social responsibilities towards the stakeholders in addition to the earning of profits by:

- Adequate disclosures and effective decision making to achieve corporate objectives;
- Transparency in business transactions;
- Statutory and legal compliances;
- Protection of shareholder interests;
- Commitment to values and ethical conduct of business.

Factors Influencing the Quality of Corporate Governance

- Integrity of the Management
- Ability of the Board
- Adequacy of the Process
- Quality of Corporate Reporting
- Participation of Stakeholders
- Quality of Corporate Reporting

What do we mean by Good Corporate Governance

Corporate Governance can be understood as a system of internal controls and procedures by which individual companies are managed. It provides a framework that defines the rights, roles and responsibilities of different groups – management, board, controlling shareholders, and minority or non-controlling shareholders – within an organization.

At its core, corporate governance is the arrangement of checks, balances, and incentives a Company needs to minimize and manage the conflicting interests between insiders and external shareowners.

In general, good corporate governance practices seek to ensure that:

- Board members act in the best interests of shareholders;
- The Company acts in a lawful and ethical manner in their dealings with all stakeholders and their representatives;
- All shareholders have the same right to participate in the governance of the Company and receive fair treatment from the Board and management, and all rights of Shareholders and other stakeholders are clearly delineated and communicated;
- The Board and its committees are structured to act independently from management, individuals or entities that have control over management, and other non-Shareholder groups;
- Appropriate controls and procedures are in place covering management's activities in running the day-to-day operations of the Company; and
- The Company's operating and financial activities, as well as its governance activities, are constantly reported to Shareholders in a fair, accurate, timely, reliable, relevant, complete and verifiable manner.

How well a Company achieves these goals depends, in large part, on the adequacy of the Company's corporate governance structure and the strength of the shareholder's voice in corporate governance matters, through shareowner voting rights. The success of the Board in safeguarding shareowner interests depends on these factors.

Next we discuss in detail the considerations or grounds on the basis of which one can determine whether good corporate governancepractices are being followed or not. We discuss these in the context of the Board, Management and Shareowner Rights. Even limiting the analysis in the context of these three, can give one a fairly good idea of the grounds/considerations on the basis of which to determine whether good corporate governance is being followed or not by the Company/Corporation under consideration. Here we include the considerations that form the basis of the general corporate governance practices followed all over the world (not confining ourselves to India.)

Corporate Governance Considerations

The Board

- Whether a Company's Board has, at a minimum, a majority of Independent Board Members.
- Whether the Board Members have the qualifications the Company needs for the challenges it faces.

- Whether the Board and its committees have budgetary authority to hire Independent third-party consultants without having to receive approval from management.
- Whether Board Members are elected annually, or whether the Company has adopted an election process that staggers the terms of Board Member elections.
- Whether the Company engages in outside business relationships with management or Board Members, or individuals associated with them, for goods and services on behalf of the Company.
- Whether the Board has established a committee of Independent Board Members, including those with recent and relevant experience of finance and accounting, to oversee the audit of the Company's financial reports.
- Whether the Company has a committee of Independent Board Members charged with setting executive remuneration/compensation.
- Whether the Company has a nominations committee of Independent Board Members that is responsible for recruiting Board Members.
- Whether the Board has other committees that are responsible for overseeing management's activities in select areas, such as corporate governance, mergers and acquisitions, legal matters, or risk management.

Management

- Whether the Company has adopted a code of ethics, and whether the Company's actions indicate a commitment to an appropriate ethical framework.
- Whether the Company permits Board Members and management to use Company assets for personal reasons.
- Whether compensation paid to the Company's executives is commensurate with the executive's level of responsibilities and performance, and provides appropriate incentives.
- Whether the size, purpose, means of financing and duration of share-repurchase programs and price stabilization efforts confirm to the established standards.

Shareowner Rights

- Whether the Company permits shareowners to vote their shares to proxy regardless of whether they are able to attend the meetings in person.
- Whether Shareowners are able to cast confidential votes.
- Whether Shareowners can cast the cumulative number of votes allotted to their shares for one or a limited number of Board nominees ("cumulative voting")
- Whether Shareowners can approve changes to corporate structures and policies that may alter the relationship between shareowners and the company.
- Whether and under what circumstances Shareowners can nominate individuals for election to the Board.
- Whether and under what circumstances Shareowners can submit proposals for consideration at the Company's general meeting.
- Whether the Board and the management are required to implement proposals that Shareowners approve.
- Whether the Company's ownership structure has different classes of common shares that separate the voting rights of those shares from their economic values.
- Whether the corporate governance code and other legal statutes of the jurisdiction in which the Company is headquartered permit to take legal or seek regulatory action to protect their ownership rights.
- Whether the structure of existing or proposed takeover defenses affect the value of shares in a normal market environment and in the event of a takeover bid.

Models of Corporate Governance

Corporate governance systems vary around the world. This is because while in some cases, corporate governance focuses on the links between a shareholder and company, others focus on formal board structures and board practices and still others on social responsibilities of corporations.

Thus, there is no one model of corporate governance which is universally acceptable as each model has its own advantages and disadvantages. In support of this, consider the following models of corporate governance:

Anglo-American Model

This model is also called as 'Anglo-Saxon model' and is used as basis of corporate governance in U.S.A, U.K, Canada, Australia, and some commonwealth countries. The shareholders appoint directors who in turn appoint the managers to manage the business. Thus there is separation of ownership and control. The board usually consists of executive directors and few independent directors. The board often has limited ownership stakes in the company. Moreover, a single individual holds both the position of CEO and chairman of the board. This system (model) relies on effective communication between shareholders, board and management with all important decisions taken after getting approval of shareholders (by voting).

German Model

This is also called as 2 tier board model as there are 2 boards viz. the supervisory board and the management board. It is used in countries like Germany, Holland, France, etc. Usually a majority of shareholders are banks and financial institutions. The shareholder can appoint only 50% of members to constitute the supervisory board. The rest are appointed by employees and labour unions.

Japanese Model

This model is also called as the business network model. Usually shareholders are banks/financial institutions, large family shareholders, corporate with cross-shareholding. There is a supervisory board which is made up of the Board of Directors and a President, who are jointly appointed by shareholder and banks/financial institutions. This is rejection of the Japanese 'keiretsu'- a form of cultural relationship among family controlled corporate and groups of complex interlocking business relationship, where cross shareholding is common, most of the directors being head of different divisions of the company. Outside director or independent directors are rarely found on the board.

Indian Model

The model of corporate governances found in India is a mix of the Anglo-American and German models. This is because in India, there are three types of Corporations viz. private companies, public companies and public sectors undertakings (which includes statutory companies, government companies, banks and other kinds of financial institutions). Each of these corporations has a distinct pattern of shareholding. For e.g. in case of Private Companies, the promoter and his family have almost complete control over the company. They depend less on outside equity capital.

Historical Evidence of Corporate Governance in India

Kautilya'sArthashastra maintains that for good governance, all administrators, including the king were considered servants of the people. Good governance and stability were completely linked. If rulers are responsive, accountable, removable, recallable, there is stability. If not there is instability. These tenets hold good even today.

Kautilya's Fourfold Duties of a King

The substitution of the state with the corporation, the king with the CEO or the board of a corporation, and the subjects with the shareholders, brings out the quintessence of corporate governance, because central to the concept of corporate governance is the belief that public good should be ahead of private good and that the corporation's resources cannot be used for personal benefit.

Kautilya's fourfold duties of a king enshrined in Arthashastra are:

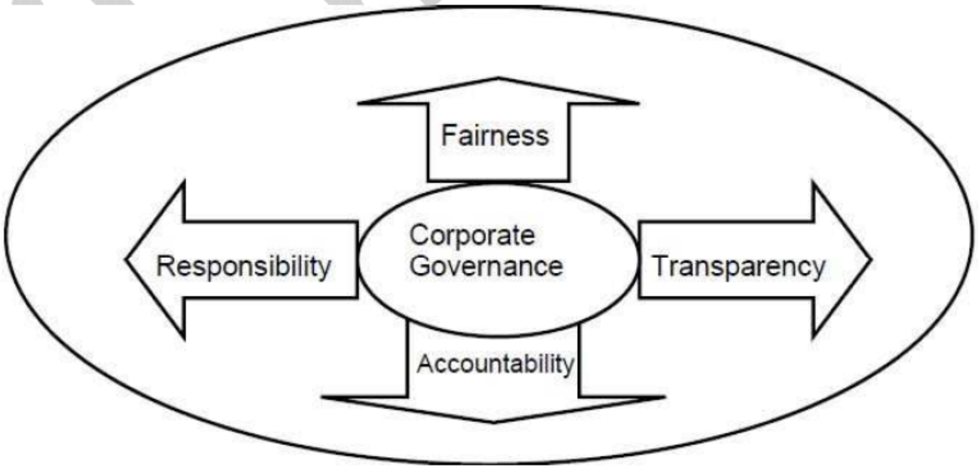
- **Raksha** – literally means protection, in the business context it can be equated with the risk management aspect.
- **Vriddhi** – literally means growth, in the corporate context it can be equated to stakeholder value enhancement.
- **Palana** – literally means maintenance/compliance, in the business context it can be equated to compliance of the law in letter and spirit.
- **Yogakshema** – literally means well being and in Kautilya'sArthashastra it is used in context of a social security system. In the business context it can be equated to corporate social responsibility.

Why is Corporate Governance Needed in India

a) The liberalization and de-regulation world over gave greater freedom in management. This demands even greater responsibilities.
b) The players in the field are many hence competition brings in its wake weakness in standards of reporting and accountability.
c) Market conditions are increasingly becoming complex in the light of global developments like WTO, removal of barriers/reduction in duties.
d) The failure of corporations due to lack of transparency and disclosures and instances of falsification of accounts/embezzlement and the effect of such undesirable practices in other companies

In light of this changed situation, corporate governance ensures:

- Better access to external finance
- Lower costs of capital – interest rates on loans
- Improved company performance – sustainability
- Higher firm valuation and share performance
- Reduced risk of corporate crisis and scandals



Characteristics of corporate governance

Evolution of Corporate Governance in Modern India

The initiatives taken by the Government of India in 1991, aimed at economic liberalization and globalization of the domestic economy, led India to initiate the reform process in order to suitably respond to the developments taking place the world over. On account of the interest generated by Cadbury Committee Report, the Confederation of Indian Industry (CII), the Associated Chambers of Commerce and Industry (ASSOCHAM) and the Securities and Exchange Board of India (SEBI) constituted Committees to recommend framework for good Corporate Governance.

Confederation of Indian Industry (CII) - Desirable Corporate Governance Code (1998)

Drawing heavily from the Anglo-Saxon Model of Corporate Governance, CII took a special initiative on Corporate Governance, the first institutional initiative in Indian Industry, to develop and promote a code for Corporate Governance to be adopted and followed by Indian companies, whether in the private sector, the public sector, banks or financial institutions, all of which are corporate entities. It laid down four ideals, which should be the guiding force of a company's philosophy on Corporate Governance:

- Transparency
- Accountability
- Disclosure
- Value Creation.

Kumar Mangalam Birla Committee

The Securities and Exchange Board of India (SEBI) set up a Committee on May 7, 1999 under the Chairmanship of Kumar Mangalam Birla to promote and raise standards of corporate governance. The recommendations of the Committee, led to inclusion of Clause 49 in the Listing Agreement in the year 2000. These recommendations, aimed at improving the standards of Corporate Governance, are divided into mandatory and non-mandatory recommendations. The said recommendations have been made applicable to all listed companies with paid-up capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the company. The ultimate responsibility for putting the recommendations into practice lies directly with the Board of Directors and the management of the company.

Naresh Chandra Committee

Naresh Chandra Committee was appointed in the year 2002 to examine various corporate governance issues. Among others, the Committee was entrusted to analyse and recommend changes, if necessary, in diverse areas such as: the statutory auditor-company relationship, so as to further strengthen the professional nature of this interface; the need, if any, for rotation of statutory audit firms or partners; the procedure for appointment of auditors and determination of audit fees; restrictions, if necessary, on non-audit fees; independence of auditing functions; measures required to ensure that the management and companies actually present true and fair statement of the financial affairs of companies; the need to consider measures such as certification of accounts and financial statements by the management and directors; the necessity of having a transparent system of random scrutiny of audited accounts; adequacy of regulation of chartered accountants, company secretaries and other similar statutory oversight functionaries; advantages, if any, of setting up an independent regulator similar to the Public Company Accounting Oversight Board in the SOX Act, and if so, its constitution; and the role of independent directors, and how their independence and effectiveness can be ensured.

N.R. NarayanaMurthy Committee Report (2003)

In the year 2002, SEBI analyzed the statistics of compliance with the clause 49 by listed companies and felt that there was a need to look beyond mere systems and procedures if corporate governance was to be made effective in protecting the interest of investors. SEBI therefore constituted a Committee under the Chairmanship of Shri N.R. Narayana Murthy, for reviewing the implementation of the corporate governance code by listed companies and issued revised clause 49 based on its recommendations.

Dr. J JIrani Expert Committee Report on Company Law (2005)

In 2004, the Government constituted a committee under the Chairmanship of Dr. J.J. Irani, Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956 with the objective to have a simplified compact law that would be able to address the changes taking place in the national and international scenario, enable adoption of internationally accepted best practices as well as provide adequate flexibility for timely evolution of new arrangements in response to the requirements of ever-changing business models. This committee recommended the formation of Limited Liability Partnership (LLP) and One Person Company in India.

The Ministry of Corporate Affairs: Corporate Governance Voluntary Guidelines, 2009

During the stakeholder's consultation under the aegis of the National Foundation for Corporate Governance, the idea of developing voluntary guidelines on corporate governance found wide support from all stakeholders. These Guidelines were drawn from the report of the Task Force of CII on Corporate Governance headed by ShriNaresh Chandra and the recommendations of the Institute of Company Secretaries of India for Strengthening Corporate Governance Framework. These guidelines sought to provide corporate India a framework to govern themselves voluntarily as per the defined standards of ethical and responsible conduct of business.

The recommendations in brief are as under:

a) Appointment of Independent Director
    - Nomination Committee

b) Duties, liabilities and remuneration of independent directors
    - Letter of Appointment to Directors
    - Fixed Contractual Remuneration
    - Structure of Compensation to NEDs

c) Remuneration Committee of Board
d) Audit Committee of Board
e) Separation of the offices of the Chairman and the Chief Executive Officer
f) Attending Board and Committee Meetings through Tele-conferencing and video conferencing
g) Executive Sessions of Independent Director
h) Role of board in shareholders and related party transactions
i) Auditor – Company Relationship
j) Independence to Auditors
k) Certificate of Independence
l) Auditor Partner Rotation
m) Auditor Liability
n) Appointment of Auditors
o) Qualifications of Auditors Report
p) Whistle Blowing Policy
q) Risk Management Framework

NASSCOM

The National Association of Software and Services Companies (NASSCOM) also formed a Corporate Governance and Ethics Committee chaired by N.R. Narayana Murthy, a leading figure in the field of Indian corporate governance reforms. The Committee issued its recommendations in mid-2010, focusing on the stakeholders in the company. The report emphasized recommendations relating to the audit committee and a whistle blower policy, and also addressed the issue of the need to improve shareholder rights.

Despite these wide-ranging developments in regulation and policy, what becomes increasingly apparent in India is that the reform process has not addressed, or effectively addressed, a key challenge at the heart of the governance problem, namely the accountability of promoters to other shareholders. Even though most listed companies have large controlling shareholders, typically a family, the regulation of related-party transactions in India is minimal. Promoters have considerable freedom of action in undertaking such transactions and are subject to only limited regulatory controls. They are also permitted to issue preferential warrants to themselves at an effective discount to the market price—something that would not be condoned in more developed markets.

In this context, relying largely on independent directors (appointed by controlling shareholders), independent board committees and greater corporate disclosure as the primary mechanisms to check abuses of power by promoters and to safeguard the interests of minority shareholders is likely to prove weak and insufficient (as indeed it did in the Satyam case). Board reform is fundamentally important, and is a major issue of concern to institutional investors, but it needs to be complemented by other regulations that directly address the relationship between controlling and minority shareholders—in other words, a proper regime for the regulation of related-party transactions.

Relationship between Corporate Governance and Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an evolving concept that is gaining importance withthe corporatesector seeing it as a business opportunity as well. Although CSR activities have received substantial attention from media and academics, the fundamental rationale behind firms' engagement in CSR still remains a puzzle. In essence, CSR can be viewed as an extension of firms' efforts to maximize shareholders' wealth but also confirmed to the basic rules of society.

The concept of CSR has been relevant since ancient ages. The evidence of this lies in Kautilya'sArthashastra, whereinYogakshema, which literally means well beingis used in the context of a social security system. In context of the present times, it can be equated to CSR.

Corporate Social Responsibility can be explained as:

- Corporate - means organized business
- Social - means everything dealing with the people
- Responsibility - means accountability between the two

While there is no single commonly accepted definition of corporate social responsibility, it can be defined as follows:

> Corporate Social Responsibility implies operating a business in a manner which meets or excels the ethical, legal, commercial and public expectations that a society has from the business. Corporate Social Responsibility is nothing but what an organisation does, to positively influence the society in which it exists. It could take the form of community relationship, volunteer assistance programmes, special scholarships, preservation of cultural heritage and beautification of cities. The philosophy is basically to return to the society what it has taken from it, in the course of its quest for creation of wealth.

According to Browin H.R., social responsibility is defined as the obligation of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of objectives and values of society. Business entity is expected to undertake those activities, which are essential for betterment of the society. Every aspect of business has a social dimension. Corporate Social Responsibility means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders. With the understanding that businesses play a key role of job and wealth creation in society, CSR is generally understood to be the way a company achieves a balance or integration of:

- economic,
- environmental; and
- social imperatives

While addressing shareholder and stakeholder expectations, CSR at the same time is generally accepted as applying to firms wherever they operate in the domestic and global economy. The way businesses engage/involve the shareholders, employees, customers, suppliers, governments, Non-Governmental Organizations, international organizations, and other stakeholders is usually a key feature of the concept. While business's compliance with laws and regulations on social, environmental and economic objectives set the official level of CSR performance, it is often understood as involving the private sector commitments and activities that extend beyond this foundation of compliance with laws.

Essentially, Corporate Social Responsibility is an inter-disciplinary subject in nature and encompasses in its fold:

1. Social, economic, ethical and moral responsibility of companies and managers,
2. Compliance with legal and voluntary requirements for business and professional practice,
3. Challenges posed by needs of the economy and socially disadvantaged groups, and
4. Management of corporate responsibility activities.

A Contract with Society

According to Sir Adrian Cadbury, the broadest way of defining social responsibility is to say that the continued existence of companies is based on an implied agreement between business and society. In effect, companies are licensed by society to provide the goods and services which society needs. The freedom of operation of companies is, therefore, dependent on their delivering whatever balance of economic and social benefits society currently expects of them. The problem for companies is that the balance of needs and benefits is continually changing and there is no generally accepted way of measuring those changes.

To start with, companies are expected to meet society's demands for goods and services, to provide employment, to contribute to the exchequer, and to operate efficiently at a profit. There is no conflict between social responsibility and the obligation on companies to use scarce resources efficiently and to be profitable an unprofitable business is a drain on society. The essence of the contract between society and business is that companies shall not pursue their immediate profit objectives at the expense of the long-term interests of the community.

Difference between CSR and Philanthropy/Charity

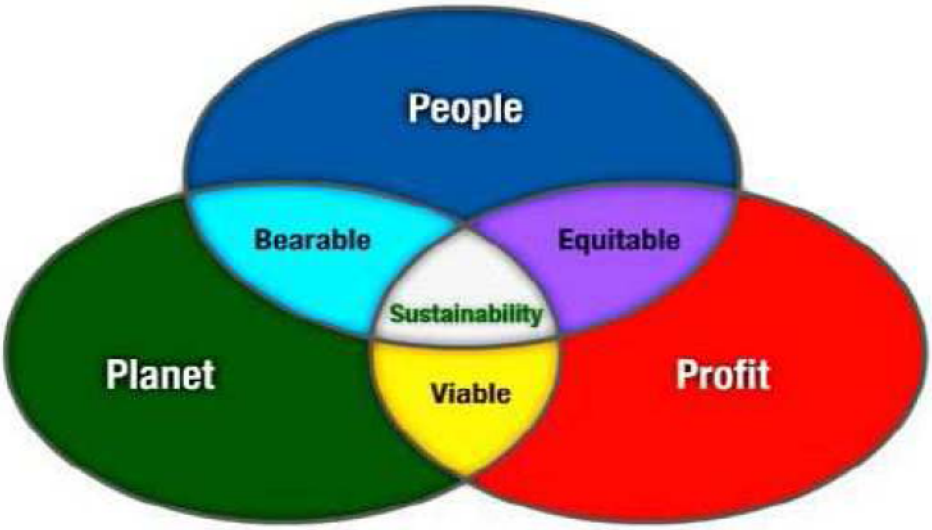
Philanthropy means the act of donating money, goods, time or effort to support a charitable cause in regard to a defined objective. Philanthropy can be equated with benevolence and charity for the poor and needy. Philanthropy can be any selfless giving towards any kind of social need that is not served, underserved, or perceived as unserved or underserved. Philanthropy can be by an individual or by a corporate. The etymological origin of the word is from Late Latin philanthropia, from Greek philanthrōpia, from philanthrōpos loving people i.e.phil- + anthrōpos human being. It is an active effort to promote human welfare. Corporate Social Responsibilty, on the other hand, is about how a company aligns their values to social causes by including and collaborating with their investors, suppliers, employees, regulators and the society as a whole. The investment in CSR may be on people centric issues and/or planet issues. A CSR initiative of a corporate is not a selfless act of giving; companies derive long-term benefits from the CSR initiatives and it is this enlightened self interest which is driving the CSR initiatives in companies.

Advantages of CSR

Business cannot exist in isolation; business cannot be oblivious to societal development. The social responsibility of business can be integrated into the business purpose so as to build a positive synergy between the two.

- CSR creates a favourable public image, which attracts customers. Reputation or brand equity of the products of a company which understands and demonstrates its social responsibilities is very high. Customers trust the products of such a company and are willing to pay a premium on its products. Organizations that perform well with regard to CSR can build reputation, while those that perform poorly can damage brand and company value when exposed. Brand equity, is founded on values such as trust, credibility, reliability, quality and consistency.

- Corporate Social Responsibility (CSR) activities have its advantages. It builds up a positive image encouraging social involvement of employees, which in turn develops a sense of loyalty towards the organization, helping in creating a dedicated workforce proud of its company. Employees like to contribute to the cause of creating a better society. Employees become champions of a company for which they are proud to work.
- Society gains through better neighbourhoods and employment opportunities, while the organisation benefits from a better community, which is the main source of its workforce and the consumer of its products.
- Public needs have changed leading to changed expectations from consumers. The industry/business owes its very existence society and has to respond to needs of the society.
- The company's social involvement discourages excessive regulation or intervention from the Government or statutory bodies, and hence gives greater freedom and flexibility in decision-making.
- The internal activities of the organisation have an impact on the external environment, since the society is an inter-dependent system.
- A business organisation has a great deal of power and money, entrusted upon it by the society and should be accompanied by an equal amount of responsibility. In other words, there should be a balance between the authority and responsibility.
- The good public image secured by one organization by their social responsiveness encourages other organizations in the neighborhood or in the professional group to adapt themselves to achieve their social responsiveness.
- The atmosphere of social responsiveness encourages co-operative attitude between groups of companies. One company can advise or solve social problems that other organizations could not solve.
- Companies can better address the grievances of its employees and create employment opportunities for the unemployed.
- A company with its —ear to the ground through regular stakeholder dialogue is in a better position to anticipate and respond to regulatory, economic, social and environmental changes that may occur.
- Financial institutions are increasingly incorporating social and environmental criteria into their assessment of projects. When making decisions about where to place their money, investors are looking for indicators of effective CSR management.
- In a number of jurisdictions, governments have expedited approval processes for firms that have undertaken social and environmental activities beyond those required by regulation.



3 P's of CSR

Law in India and CSR

The laws in India takes care of the basic CSR through various legislations under labour laws such as Factories Act, ESI Act, Workmen's Compensation Act, 1923, Contract Labour (Regulation an Abolition) Act, 1970, Equal Remunerations Act, The Minimum Wages Act, 1948, Employees' Provident Fund and Miscellaneous Provisions

Act 1952, environment protection laws such as The Water (Prevention and Control of Pollution) Act, 1974,(Prevention and Control of Pollution) Act, 1981 and Environment Protection Act, 1986

Factors Influencing CSR

Many factors and influences, including the following, have led to increasing attention being devoted to CSR:

- Globalization coupled with focus on cross-border trade, multinational enterprises and global supply chains is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things.
- Governments and intergovernmental bodies, such as the United Nations, the Organisation for Economic Co-operation and Development and the International Labour Organization have developed compacts, declarations, guidelines, principles and other instruments that outline social norms for acceptable conduct.
- Advances in communications technology, such as the Internet, cellular phones and personal digital assistants, are making it easier to track corporate activities and disseminate information about them. Nongovernmental organizations now regularly draw attention through their websites to business practices they view as problematic.
- Consumers and investors are showing increasing interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues.
- Numerous serious and high-profile breaches of corporate ethics have contributed to elevated public mistrust of corporations and highlighted the need for improved corporate governance, transparency, accountability and ethical standards.
- Citizens in many countries are making it clear that corporations should meet standards of social and environmental care, no matter where they operate.
- There is increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that corporate social responsibility addresses.
- Businesses are recognizing that adopting an effective approach to CSR can reduce risk of business disruptions, open up new opportunities, and enhance brand and company reputation.

Corporate Social Responsibility Voluntary Guidelines, 2009

Ministerial recommendatory initiative Corporate Social Responsibility Voluntary Guidelines, 2009 recognizes that CSR is not philanthropy and CSRactivities are purely voluntary- that companies would like to do beyond any statutoryrequirement or obligation. It is recognized world over that integrating social,environmental and ethical responsibilities into the governance of businesses ensuretheir long term success, competitiveness and sustainability. This approach alsoreaffirms the view that businesses are an integral part of society, and have a criticaland active role to play in the sustenance and improvement of healthy ecosystems, infostering social inclusiveness and equity, and in upholding the essentials of ethicalpractices and good governance.

The CSR activity that a company pursues must be aligned to the business of the company; this ensures that such CSR also contributes to the growth of the company on a wider scale. It is not about pursuing an activity of CEO‘s interest but should be relevant to company‘s business. CSR is a much more holistic approach to business, which is designed to enhance corporate success because of its relevance, rather than represent something unconnected to an organization‘s core business. This is a win-win model.

The Companies Bill 2012

In terms of the amendment made to Clause 135 of the Companies Bill, 2012, the words ‘must make every endeavor’ has been substituted by the word ‘shall’, thereby making CSR a mandatory legal requirement, despite not establishing penalties for non-compliance except for a disclosure for noncompliance in the board of directors’ report.

With the above amendment, India has ushered in sweeping changes with regard to how corporations are governed, audited and held accountable in India. Prior to the amended CSR clause, the MCA, had adopted a midway approach, short of making CSR mandatory, by prescribing that companies 'must make every endeavor' to ensure that they spend a minimum amount on activities pursuant to their CSR policy. It is felt that India's mandatory CSR may not be ideal, but it is, in some sense, an innovation born of economic necessity. It may be the first in a new wave of 'creative capitalist' solutions to solve the problem of growing inequality in the wake of rapid economic growth.

Some CSR Reporting Frameworks

The AA 1000

This framework, developed by the Institute of Social and Ethical Accountability, provides a standard for social and ethical accounting, auditing and reporting, including mandatory external verification and stakeholder engagement.

The Social Accountability: SA 8000

It is an international standard for social accountability initiated by Council on Economic Priority Accreditation Agency (CEPAA) conventions, the Universal Declaration on human rights and the Child. SA 8000 seeks to provide transparent, measurable and verifiable performance standards in the areas of child labour; forced labour; health and safety; compensation; working hours; discrimination; discipline; free association and collective bargaining; and management systems.

ISO 26000

It is the international standard giving guidance on social responsibility and is intended for use by organizations of all types both public and private sectors, in developed and developing countries.

The Good Corporation Global Standard of Corporate Social Responsibility Developed by the Institute of Business Ethics

This covers fairness to employees, suppliers, customers and providers of finance; contributions to the community; and protection of the environment. Company performance is assessed annually by an independent verifier.

The UN Global Compact

The Global Compact is a voluntary corporate citizenship initiative with two objectives: "Making the Global Compact and its principles part of business strategy and operations. Facilitating cooperation among key stakeholders and promoting partnerships in support of U.N. goals.

Tata Steel: A Company that also makes Steel

J R D Tata the Chairman of the Tata Group believed that, "to create good working conditions, to pay the best wages to its employees and provide decent housing to its employees are not enough for the industry, the aim of an industry should be to discharge its overall social responsibilities to the community and society at large, where industry is located." Guided by this mandate, Tata Steel has for decades uses its skills and resources, to the extent it can reasonably afford, to give back to the community a fair share of the product of its efforts. It was the first to establish labour welfare practices, even before these were made statutory laws across the world. In The Company also instituted an eight-hour workday in 1912, free medical aid in 1915, a Welfare Department in 1917, leave withpay, Workers Provident Fund and Workmen's Compensation in 1920 and Maternity Benefit for ladies in 1928.

NESTLE -- Moga Milk Factory

The Company started milk collection in Moga in 1961 with a collection of 511 Kgs of milk from 180 farmers. It has substantially expanded its operations with over 85,000 farmers in its own milk district. Nestlé uses local raw materials and develops local resources wherever possible. Milk Collection Centres with farm cooling tanks to preserve the quality of milk were established by the Company. Besides this, milking machines were provided to the farmers maintaining large dairy farms. Farmers were advised on good breeding and feeding practices, and on the health of dairy herds. Techniques for increasing milk yields at the farm were introduced. Nestlé has invested in Chilling Centres and Farm Cooling Tanks. In addition to this, the Company provides assistance to farmers in the areas of cattle feed, quality fodder seeds, veterinary medicines and mineral mixture and procurement of bank loans.

By working very closely with the farmers of the Moga Milk District and local administrators, Nestlé has helped to raise the quality and hygiene of the milk produced there and improve the health and life style of the farmers and other residents. Its contribution to the creation of prosperity on an on-going and sustainable basis has not only transformed Moga into a prosperous and vibrant milk district today, but also a thriving hub of industrial activity.

ITC - "e-Choupal"

ITC‘s Agri Business Division, one of India‘s largest exporters of agricultural commodities, has conceived e-Choupal as a more efficient supply chain aimed at delivering value to its customers around the world on a sustainable basis. e-Choupal‘ model unshackles the potential of Indian farmer who has been trapped in a vicious cycle of low risk taking ability - low investment - low productivity - weak market orientation - low value addition - low margin - low risk taking ability. This made him and Indian agribusiness sector globally uncompetitive, despite rich & abundant natural resources. e-Choupal‘ leverages Information Technology to virtually cluster all the value chain participants, Real-time information and customized knowledge provided by e- Choupal‘ enhance the ability of farmers to take decisions and align their farm output with market demand and secure quality & productivity. The aggregation of the demand for farm inputs from individual farmers gives them access to high quality inputs from established and reputed manufacturers at fair prices. As a direct marketing channel, virtually linked to the mandisystem for price discovery, e- Choupal‘ eliminates wasteful intermediation and multiple handling. Thereby it significantly reduces transaction costs. Launched in June 2000, 'e-Choupal', has already become the largest initiative among all Internet-based interventions in rural India. 'e-Choupal' services today reach out to over 4 million farmers growing a range of crops soyabean, coffee, wheat, rice, pulses, shrimp in over 40,000 villages through 6500 kiosks across ten states (Madhya Pradesh, Haryana, Uttarakhand, Karnataka, Andhra Pradesh, Uttar Pradesh, Rajasthan, Maharashtra, Kerela and Tamil Nadu).

Friedman‘s formulation that "The business of business is business" has outlived its utility, and social responsibility and being a good corporate citizen are the buzzwords today. In the long run, those organizations or group of persons who do not exercise power in a way which society considers responsible will tend to lose it.

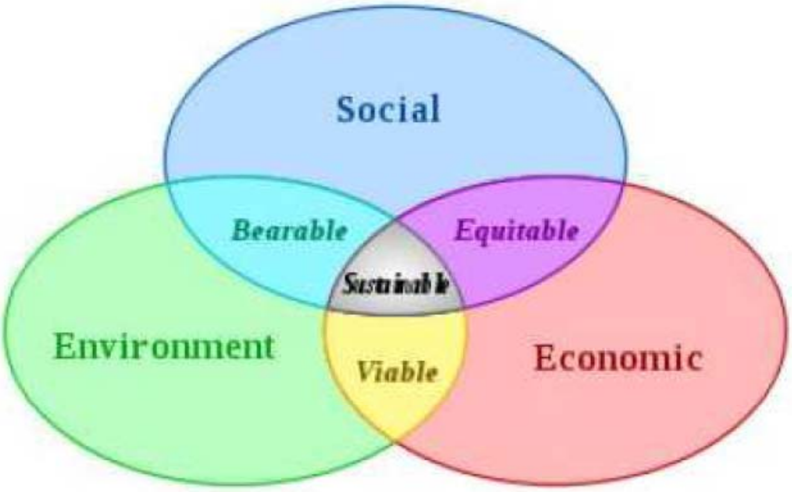
Corporate Sustainability

When we walk upon Mother Earth we always plant our feet carefully because we know the faces of our future generations are looking up at us from beneath the ground. We never forget them. One of the fundamental characteristics of a corporate is perpetuity. In the eyes of law, it is treated as a separate legal entity which can hold assets and bear liabilities, can sue and be sued.

What is Corporate Sustainability?

Corporate sustainability indicates a new philosophy, as an alternative to the traditional growth and profit-maximization model, under which sustainable development comprising environmental protection, social justice and equity, and economic development are given more significant focus while recognizing simultaneous corporate growth and profitability.

Corporate sustainability encompasses strategies and practices that aim to meet the needs of stakeholders today while seeking to protect, support and enhance the human and natural resources that will be needed in the future. Corporate sustainability leaders achieve long-term shareholder value by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks.



Three key aspects of sustainable Development

Thomas Dyllick and Kai Hockerts in Beyond the Business Case for Corporate Sustainability define Corporate Sustainability as, "meeting the needs of a firm'sdirect and indirect stakeholders (such as shareholders, employees, clients, pressuregroups, communities, etc.) without compromising its ability to meet the needs offuture stakeholders as well."

Concern towards social, environmental and economical issues, i.e., covering all the segments of stakeholders, are now basic and fundamental issues which permits a corporate to operate in long run sustainably. Following key drivers need to be garnered to ensure sustainability

- Internal Capacity Building strength – in order to convert various risks into competitive advantage.
- Social impact assessment – in order to become sensitive to various social factors, like changes in culture, living habits etc.
- Repositioning capability through development and innovation. Crystallisation of all activities to ensure consistent growth
- Corporate sustainability is a business approach creating shareholder value in long run.

These may be derived by converting risks arising out of economic, environmental and social activities of a corporate into business opportunities keeping in mind the principles of sustainable development. In 1999 Elkington developed the concept of the Triple Bottom Line which proposed that business goals were inseparable from the societies and environments within which they operate. While short-term economic gain could be chased, a failure to account for social and environmental impacts would make those business practices unsustainable. While each of the three pillars of sustainability i.e., economic, social and environment is independently crucial and urgent in the shortrun, but in order to reach the goal of sustainability in the long-run, the three pillars must be satisfied simultaneously. The Triple Bottom Line is made up of "Social, Economic and Environmental" aspect and indicated by the phrase "People, Planet, Profit" phrase.

Corporate Sustainability in India

The Indian government has played an important role in setting the rules of the game in relation to business' role in sustainable development. The latest 5 year plan, covering 2012-17, includes several aspects of sustainability, as well as inclusive growth. Health, infrastructure, and literacy are high priorities, as is a target growth rate of 9 percent or more. The plan also includes strategies for climate change adaptation, and better waste and water management. On the socio-economic side, the government is committed to investing in rural infrastructure and agricultural productivity, while also seeking to spur job creation through investment in micro-enterprises, education and training.

Critical Mass of Civil Society, but Limited Coherence

Indian civil society, in contrast to China's, is fully grown. In total, there are over 3 million NGOs in India, many of which tend to be skeptical of business. This large community of actors is very local, fragmented, and hampered in its potential for positive impact by a lack of coordination and resources. For some, an analogy to the NGO sector being akin to, "1000 flowers blooming," represents huge opportunity for civil society to innovate and explore new models of collaboration with business. To others, this situation creates chaos which will never settle, thus hindering panIndian movements which could solve seemingly intractable problems.

Limited Market Pressure

In India, evidence of nascent investor pressure for sustainable investment can be seen in a recent ESG (environmental, social, and corporate governing) index on India's national stock exchange. The index, which was launched with support from Standard &Poor's and the International Finance Corporation, tracks 50 of the best performing stocks. Indian companies that are looking to list on foreign stock exchanges are particularly attentive to investor expectations on corporate responsibility practices. Also, there is growing interest in ESG risks and opportunities among India's foreign institutional investors, who include major investment banks and large pension funds.

From the research, it is apparent that awareness about CS is low among consumers, who seem very price sensitive - only a few are willing to pay a premium for more sustainable products. An exception is the rise of energy efficiency labeling which has been embraced by many Indians due to its more immediate cost benefits.

Characteristics of an Indian Approach to Corporate Sustainability

- Confronting local challenges to acquire license to operate operateIndia's "approach" to CS is anchored towards addressing social issues, such as social injustice and poverty, at the local level. Health and education infrastructure gaps continue to be profound in the poorest Indian states (those in the center and north of the country), and traditional business houses, including the TATA Group are expected by society to take on a paternalistic role to fill them. Thus, CS programming typically has health and education at its core and is what one might call, "development focused". Companies are exploring ways to realize operational efficiencies in their approach to giving back to, and developing, local communities. For example, a number of India's large utility companies have created their own corporate foundations as part of a disintermediation strategy to work directly with grantees in specific locales versus going through an intermediary organization.

- Although national, cross-sectoral, attention has recently been focused on anticorruption (catalyzed by campaigner Anna Hazare), such "pan-Indian" movements are rare—far more common are local, often bilateral initiatives which seek to address specific local challenges through corporate giving and partnerships. Invariably these initiatives and programs are driven by Indian companies' desire to acquire local license to operate. Environmental concerns, especially in relation to energy generation and water use/availability appear to be an increasingly important component of the Indian CS agenda. As with social issues, they tend to be viewed through the prism of acquiring local license to operate.

- Business innovations for those in the lowest socio Business innovations for those in the lowest socio ovations for those in the lowest socio-economic strata economic strata economic strata. There is a transition taking place in the discourse relating to CS in India. Key opinion leaders from TERI, the Confederation of Indian Industries, and TATA Group, among others, are discussing the value of "transformative CSR" and the need to "leapfrog" to transformative solutions, which can unleash India's competitive potential in relation to bringing new sustainable solutions to market.

- One can point to a number of companies (both domestic and international) which are taking this advice on board by exploring new business opportunities which focus on product and process innovations for the poorest socio-economic strata. For example, Unilever's Purell solution was developed as a domestic non-electrical water purifier and now delivers clean drinking water in a cost effective manner, while also reducing the incidence of water-borne illness. This product innovation has also been "blown back" to more developed markets. In this sense, India incubated a sustainability product and process innovation which has application in other markets outside India. Additionally, the agricultural equipment provider, Mahindra & Mahindra, has developed an initiative called, "Spark the Rise." This was launched as an online platform for ordinary people to drive positive change among rural communities in India—participants suggest ideas relating to technology, infrastructure and transportation, energy, agriculture and rural development, and social entrepreneurship, through a web portal. "The commons" vote on the best idea each month, and the best "sparks" receive funding and resources from Mahindra & Mahindra. There is recognition that if this can be scaled up, then it will be a very powerful model—the scaling can come from its very model since internet penetration in India is increasing rapidly, in conjunction with mobile phone penetration.

Corporate Sustainability Strategies: A Siemens Case Study

Siemens is one of the world's most prominent companies and Europe's largest technology conglomerate. With 430,000 employees, $77 billion in revenue and industrial manufacturing, the company naturally has a major impact on greenhouse gases emissions emitting 4.53 million tons CO_2e.

Siemens has acknowledged the importance of climate change as one of the most important challenges facing humanity, alongside world poverty and access of all people to proper sanitation and energy. This perspective has helped the company's manufactured products eliminate 15 times the company's total emissions. Investing €2 billion annually in research and development, Siemens has a hefty 30,000 environmental technology patents and offers efficient solutions that better combat climate change.

The company's goal is to become a leader in climate change reduction by improving the performance of customers through efficient products. In fact, it has proclaimed to media that it has the most environmentally-friendly industrial technologies portfolio. Further, Siemens has publicly embraced the need to address climate change and energy efficiency into its operations, communications, cross functional boards, product development and its membership at non-governmental organizations. Beyond this, Siemens has set tangible targets for the future: its leadership expects by 2011 a 20% increase in energy efficiency and a 20% reduction of global carbon dioxide emissions. Given the company's size, global research and industrial technology solutions, the company has a strong platform to impact climate change.

Confronting Corruption in the Workplace: Time to leave your job

Ms A recently completed her master's degree and was extremely excited to be hired for her dream job working for the local county government. During her first year, she began to notice that funds from grants were being mismanaged and misallocated. Some of her coworkers were also using county-owned materials, including cars, for personal business.

However, Ms A was most shocked by the hiring practices she witnessed at the office. Prospective applicants were supposed to take exams that were proctored by government employees. The results of these exams determined whether or not the applicants were hired and what they were hired for. Jenny began to notice that the proctors were allowing applicants to cheat on the tests because the applicants had already been chosen for the job. Many of these pre-chosen applicants were friends of current employees.

Ms A reported what she witnessed to Mr B, the department's business manager, who was second-in-command to the department head. Mr B told her, "You heard nothing, you saw nothing, you say nothing." Ms A was absolutely shocked; not only by the corruption, but that it was deliberately being swept under the rug.

Ms A felt trapped. She really needed the job to pay off loans from graduate school, and she loved the actual content of the work she was doing. She was also concerned that it would look bad to leave her first job out of school in less than a year, as well as tarnish future chances to work in government. On the other hand, she felt extremely uncomfortable in her work environment due to the culture of corruption.

This case study comes under whistle blowing policy of corporate governance. In such conditions you are left with either to be partner in corruption and enjoy your share or become a whistle blower.

Corporate Liability

The factory fire in recent times killed 12 people. This horrible incident raises once again the dilemma of who bears responsibility in such a tragedy. As we examine this case, we have singled out specific players who might bear significant responsibility for this particular event. The government has the dual responsibility of taking care of its citizens as well as maintaining its economy by supporting the $20 billion a year industry that serves as 80% of its total export earnings. The workers, mostly women, earn as little as $37 per month and depend on the government for their safety. In this case, there are also implications of arson to further political interests of specific parties. Additionally, the owner of the factory constructed five more illegal floors beyond the original structure, and the factory location was in an area that large vehicles, specifically fire trucks, could not easily enter. Major international retailers have often been criticized for not taking responsibility for their subcontractors; companies whose products were produced at this particular factory include major retailers such as Walmart and Sears.

Hence, it is the government's responsibility to enforce safety regulations and bring these factories up to date, and should make norms more stringent so that multinational corporations that use these factories should ensure the safety of their supply chain employees.

This case study comes under absolute liability in corporate governance.

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