There is no need to start with any particular name or action regarding unethical businesses and practices. Everywhere we see practice of bribery, commission, offering low quality against promises of high or genuine quality, use of child labour in dhabas and so on. The whole society is running for excessive profit making without understanding the impact of these decisions. It will lead us to a point where wealth will be there but peace will not be there. We need to check this uncontrolled growth like growth of cancer cells for a sustained prosperous society. Ethical behaviour is the only way for this problem.

Ethics are principles or standards of human conduct, sometimes called morals, and, by extension, the study of such principles is sometimes called moral philosophy. In the west, ethics is regarded as a normative science and a breach of philosophy because it is concerned with the norms of human conduct as distinguished from the formal sciences such as mathematics and logic, and the empirical sciences such as chemistry and physics.

Business ethics is ethics applied to the business environment in order to study the moral and ethical issues related to it. Although business ethics can be both a normative and descriptive discipline, when it comes to corporate practice, it is essentially a normative science.

This unit gives overview of ethics, reasons for becoming ethical in business and their applications.

Meaning of the ‘Term Ethics’

The famous missionary physician and humanitarian Albert Schweitzer defined ethics as “our concern for good behavior. We feel and obligation to consider not only our own personal well-being, but also that of other human beings” this meaning is similar to the precept of the Golden Rule: Do unto others as you would have them do unto you.

The term’ ethics’ origins from the Greek word _Ethos_ meaning human character and it refers to the philosophical science that deals with the rightness and wrongness of human actions. From the very beginning, clearly from the time of Plato and Aristotle, ethics- the most general term has concerned it self with the human ‘mechanism’ of moral being or morality: the faculties of the human soul and the needs, passions, and desires of the human mind and body. According to the International Encyclopedia of Ethics, ‘Ethics is the name given to that most general study of the rightness and wrongness of human actions, including not only the determination of whether particular acts are morally permissible but also the derivation of those theories by which such a determination may be made, as well as an analysis of the meaning of the language that is peculiar to such determination and derivation’

In relation to ethics, the International Encyclopedia also defines ‘morality’ which originates from the Latin word, _Mores_, meaning traditions or folkways and refers to personally held ethical beliefs, theories of obligations, and the social elements that reinforce ethical decisions. The concept of morality is present implicitly in ancient thought or early ethical thought, the term ‘moralities’ appears in the fourth century C.E. in the writings of St. Ambrose. Morality encompasses a wide variety the sphere of morality, Ethical theories that lack a primary notion of obligation or duty, concern for the non instrumental good of other persons.

Morality recognizes the obligations that humans have in each other as a primary facto of ethical theories. The nation of the human person become very central in moral
evolution of ethics

Social conduct has evolved along with the evolution of society. When your elders tell you ‘Do not cheat’, they are referring to social code of conduct. Social conduct has developed in society over hundreds of years. The codes of conduct have been passed down from generation to generation, and there is a pattern to the evolution of such codes. Acceptable behavior is promoted and elevated as a social value, and unacceptable behavior is rejected and condemned. In ancient India, there was no moral problem with the custom of Sati—immolating the wife on the funeral pyre of the deceased husband. But society has evolved humanely and has condemned the act as unacceptable and morally reprehensible.

The laws of a country are based on the customs or moral codes of its society. Penalties are prescribed for bad actions—actions that contradict the established laws. The laws are a measure against those people who cross the limits of the code of social conduct, and ensure that good citizens are protected from the negative consequences of the law-breakers.

The object of the social codes of conduct is to maintain, promote, and elevate harmonious relationships. ‘Honors your parents’ is one such code. It maintains a peaceful relationship between parents and children and promotes respect for each other in the family. Because of its salutary effects, it is considered as one of the fundamental values to be cultivated.

Why Ethics Is a Vital Part of Management Practices

John F. Akers, former board chair of IBM, recently said that it makes good business sense for managers to be ethical. Unless they are ethical, he believes, companies cannot be competitive in either national or international markets. According to Akers:

Ethics and competitiveness are inseparable. We compete as society. No society anywhere will compete very long or successfully with people stabbing each other in the back; with people trying to steal from one another; with everything requiring notarized confirmation because you can’t trust the other person; with every little squabble ending in litigation; and with government writing reams of regulatory legislation, trying business hand and foot to keep it honest.

Although ethical management practices may not be linked to specific indicators of financial profitability, conflict is not inevitable between ethical practices and making a profit. As Akers’s statement suggests, our system of competition presumes underlying values of truthfulness and fair dealing. The employment of ethical business practices can enhance overall corporate health in three important areas: productivity, stakeholder relations, and government regulation.

Productivity The employees of a corporation constitute one major stakeholder group that is affected by management practices. When management is resolved to act ethically toward stakeholders, then employees will be positively affected. For example, a corporation may decide that business ethics requires it to make a special effort to ensure the health and welfare of its employees. To this end, many corporations have established Employee Advisory Programs (EAPs) to help employees with family, work, financial, or legal problems, or with mental illness or chemical dependency. These programs have even enhanced productivity in some corporations. For instance, Control Data found that its EAP reduced health costs and sick-leave usage significantly.

Stakeholder Relations The second area in which ethical management practices can enhance corporate health is by positively affecting “outside” stakeholders such as suppliers and customers. A positive public image can attract customers who view such an image as desirable. For example, Johnson & Johnson, the world’s largest maker of health care products, is guided by “our Credo” addressed more than 60 years ago by...
General Robert Wood Johnson to the company’s employees and stockholders and members of its community.

Government Regulation The third area in which ethical management practices can enhance corporate health is in minimizing government regulation. Where companies are believed to be acting unethically, the public is more likely to put pressure on legislators and other government officials to regulate those businesses or the enforce existing regulations. For example, in 1995, Taxes state legislators held public hearings on the operations of the psychiatric hospital industry. These hearings arose, at least partly, out of the perception that private psychiatric hospitals were not following ethical pricing practices.

A Code of Ethics

A code of ethics is a formal statement that acts as a guide for the ethics of how people within a particular organization should act and make decisions. Ninety percent of fortune 500 firms, and almost half of all other firms, have ethical codes. Moreover, many organizations that do not already have an ethical code are giving serious consideration to developing one.

Codes of ethics commonly address such issues as conflict of interest, competitors, privacy of information’s, gift giving, and receiving political contributions or business. A code of ethics recently developed by Nissan of Japan, for example, barred as Nissan employees from accepting almost all gifts or entertainment from, or offering them to, business partners and government officials. The new code was drafted by Nissan president Yoshikazu Hanawa and sent to 300 major suppliers.

According to a recent survey, the development and distributions of a code of ethics is perceived as an effective and efficient means of encouraging ethical practices within organizations. In addition, codes of conduct are also commonly used as vehicles for encouraging global ethical practices outside of organizations. Contains an excerpt from the code of conduct that Nike, Inc. use to influence the practices of global business partners, practices outside Nike.

Managers cannot assume that merely because they have developed and distributed a code of ethics, organizations members have all the guidelines they need to determine what is ethical and to act accordingly. It is impossible to cover all ethical and unethical conduct within an organization in one code. Managers should view codes of ethics as tools that must be evaluated and refined periodically so that they will be comprehensive and usable guidelines for making ethical business decisions efficiently and effectively.

Creating an Ethical Workplace

Managers commonly strive to encourage ethical practices, not only to be morally correct, but to gain whatever business advantage lies in projecting an ethical image to consumers and employees. Creating, distributing, and continually improving a company’s code of ethics is one common step managers can take to establish an ethical workplace.

Another step many companies are taking to create an ethical workplace is to appoint a chief ethics officer. The chief ethics officer has the job of ensuring the integration of organizational ethics and values into daily decisions at all organizational levels. Such officers recommend, help implement, and reinforce strategies aimed at integrating appropriate conduct throughout all phases of company operations. The characteristics designated by the Ethics officer Association that a person must have in order to be successful chief ethics officer.

Another way to promote ethics in the workplace is to furnish organization members with appropriate training. General Dynamics, McDonnell Douglas, Chemical Bank, and American Can Company are examples of corporations that conduct training programs aimed at encouraging ethical practices within their organization. Such programs do not attempt to teach managers what is moral or ethical, but to give them criteria they can use to help determine how ethical a certain action might be. Managers
can feel confident that a potential action will be considered ethical by the general public if it is consistent with one or more of the following standard:

1. The Golden rule – Act in a way you would expect others to act toward you.
2. The utilitarian principle – Act in a way that results in the greatest good for the greatest number of people.
3. Kant’s categorical Imperative- Act in such a way that the action taken under the circumstances could be a universal law, or rule, of behavior.
4. The professional ethic – Take actions that would be viewed as proper by a disinterested panel of professional peers.
5. The TV test – Managers should always ask, “Would I feel comfortable explaining to a national TV audience why I took this action?”
6. The legal test- Is the proposed action or decision legal? Established laws are generally considered minimum standard for ethics.
7. The four-way test- Managers can feel confident that a decision is ethical if they can answer “yes” to the following questions: is the decision truthful? Is it fair to all concerned? Will it build goodwill and better friendships? Will it be beneficial to all concerned?

Finally, managers can take responsibility for creating and sustaining conditions in which people are likely to behave ethically and for minimizing conditions in which people might be tempted to behave unethically. Two practices that commonly inspire unethical behavior in organizations are to give unusually high rewards for good performance and unusually severe punishments for poor performance. By eliminating such factors, managers can reduce any pressure on employees to perform unethically in organizations.

For an example for the management word illustrating how management action can be debated from an ethical viewpoint, consider recent events at Sprint, the third largest wireless provider in the United States with more than 53 million customers. The company recently sent a letter to about 1,000 customers terminating their contracts. These customers called Sprint with questions and needing help an average of 25 times a month, a rate 40 times higher than average customers. According to Sprint, these customers were too costly to maintain at a time when cost control is a high company priority. Although Sprint cancels service of customers who do not pay their bills, it is the first time the company has canceled customer contracts who call too much. Some would argue that the company is being unethical due to its selfishness in this situation while others would argue that the company is being ethical because it is acting in the best interests of stockholders. In the final analysis, management is responsible for evaluating its actions from an ethical viewpoint and maintaining those activities that are deemed ethical.

Following the Law:

In the summer of 2001, outrageous management practices were discovered at several companies including Enron, World Com, and Tyco that seemed aimed at unjustifiably maximizing the personal wealth of top managers to the detriment of the well-being of other organization stakeholders. As an example, many of these managers used inaccurate accounting reports to deceive employees, shareholders, legal authorities, the media, and the general public. These reports grossly overstated the level of company performance, allowing top managers to justify inflated salaries. Some employees were personally outraged by the deceitful management practice, and others experienced personal financial disaster after being encouraged to invest in worthless company stock and company retirement programs. Needless to say, Managers involved in such deceitful practices were prosecuted to the full extent of the law.

CLASSIFICATION OF ETHICS

Ethics is divided into descriptive ethics (which provides the scientific description of what ethics is), normative ethics (which involves both the standard normative ethical theory and also its application to particular disciplines, actions, classes of actions), and meta-ethics (which is about the methods, the meaning and the language of ethics).
**Descriptive Ethics** are scientific description of ethics. Sound logic for ethics is presented. These moral standards can be applied to human action to judge their moral character, that is, whether they are right or wrong. Examples of some of the moral standards are utility, duty, conscience, use of right means for right ends, justice, prudence, and stewardship. Just as there are several standards to measure distance, such as meter, yard, mile, etc., so also there are several standards to judge an action right or wrong.

**Normative ethics** Norms or standard are also known as values or codes. Norms set clear guidelines for social interaction in a community. Normative ethics is a subject of study wherein student study moral

Business ethics comes under this classification. Normative standards of moral judgment are applied by business managers to the business decisions they take. The ethical element is part and parcel of the integral process of decision making on a business management problem. Business ethics, therefore, deals with the application of normative standards to specific business experiences. The study of business ethics is as essentials for a businessman as the study of professional norms for a medical practitioner. We expect a doctor to diagnose correctly so that the right medication is given. There are chances that he could diagnose a simple ailment but report it as a serious one in order to exploit the patient financially. Likewise, a client places trust on a businessman for a transition and hopes that the latter does not deceive. Thus, applied ethics is strictly professional ethics.

**Meta-ethics** The Greek word meta stands for beyond. Thus meta-ethics laterally means beyond ethic, suggesting an in-depth study of the discipline. In other words, it is scientific study of the concepts of ethics in itself. You may not fine these concepts practical, because nowhere in the world will you find a perfect human being who is ideas that are considered as supra-standard, and are concept tat can be conceived as perfectly as perfection itself. We study these concepts as ultimate principal-principle such as good and evil, right and wrong. We study them just the way we study theoretical physics when dealing with the principles of gravitation, energy, or light. The character of these principles is universal in nature. For instance, if we handle ‘duty’ as an ethical principal, it would be applicable as a standard of ethical judgment in all the cases of duty. Hence, meta-ethics is a study of the general principles that govern right and wrong human actions.

**APPLICATION**

The relevance of ethics is in its application. Just as when we study the theory of relativity in physics, we ensure that the laws or principles or relativity are applied to the factors and elements being considered, so too in our study of ethics, the universal principles have to be applied to individual contexts and situations. We have to abandon the absolutism of universal principles. For instance, killing a man is wrong. But we approve the killing of the enemy in a war and the government honors the act with medals for bravery. This is due to the fact that such an act has served a higher principle, that is, the protection of countrymen. Ethics, in the practical sense, is also known as moral action and is an applied discipline that deals with a particular human action and
Introduction to Business Ethics

NOTES
also assesses to what extent it is compatible with the general principles.

BUSINESS ETHICS

The study of ethics in management can be approached from many different directions. Perhaps the most practical approach is to view ethics as catalyzing managers to take socially responsible actions. The movement to include the study of ethics as a critical part of management education began in the 1970s, grew significantly in the 1980s and is expected to continue growing in the twenty-first century. John Shad, chair of the Securities and Exchange Commission during the 1980s when Wall Street was shaken by a number of insider trading scandals, recently pledged a $20 million trust fund to the Harvard Business School to create a curriculum in business ethics for MBA students. Television producer Norman Lear gave $1 million to underwrite the Business Enterprise Trust, which will give national awards to companies and “whistle blowers…. Who demonstrate courage, creativity, and social vision in the business world.”

In business, ethics can be defined as the capacity to reflect on values in the corporate decision-making process, to determine how these values and decision affect various stakeholder groups, and to establish how managers can use these observations in day-to-day company management. Ethical managers strive for success within the confines of sound management practices that are characterized by fairness and justice. Interestingly, using ethics as a major guide in making and evaluating business decisions is not only popular in the United States but also in the very different societies of India and Russia.

Business ethics concerns itself with adhering to the social principles of the situations in which business takes place. The analysis of this definition leads us to the following discussion.

Business for Profit

It would seem that business ethics does not come within the confines of ethics. As Adam Smith (1779), the father of modern economics says: ‘People of the same trade seldom come together, even for merriment and diversion, but the conversion ends in a conspiracy against the public, or in some contrivance to raise prices,’ people find mechanism to generate the highest possible returns when conducting business. No one holds it against a worker for demanding higher wages, or a landlord for increasing the rent. Their actions are not considered illegal or unethical. Profits are the just wages for invested capital and entrepreneurship. Hence, these would not be resented and should be left alone outside the boundaries of ethics. Business is for profit; the just rewards for doing business lies in the excess returns received on the investment.

Again, as Goeth (1809) said: ‘Everything which is properly business, we must carefully separate from life.’ This is because business requires definite strategies; life must be led in freedom.

Business with Ethics

No matter how hard one tries, it is impossible to separate life from business. For a businessman, business is life. Mahatma Gandhi (1948) said, ‘it is difficult but not impossible to conduct strictly honest business. What is true is that honesty is incompatible with amassing of large fortune.’ The business world is an important part of society, as it is concerned with the livelihood of people. Business activity too is subjected to the code of conduct without any exception. People expect businessmen to possess the same rationality as any other citizen. Therefore, there is no separate business ethics for businessmen, as ethics applies to all activities of people. Consequently, we have to keep business within the bounds of ethics.

Character of Business

‘There are two fools in every market: one asks too little, one asks too much,’ so says a Russian proverb. Is there concept called balanced profit? The business in a society reflects its character. Transparency international, in its corruption perception index, gives Finland, Denmark, and New Zealand the first place with 9.4 points. India is way down
at 72, with just 3.5 point on a scale of 10. We may gloat over our cultural heritage and religious and ethical glories of the past, but we stand exposed before the world as a corrupt society. Corruption prevails in all walks in life, whether political, social or economic. If we want to improve our business, we have to improve our business behavior.

**Professional Ethics**

The aforementioned discussion may be understood through the following distinctions: ethics and business ethics. We have studied the distinction between normative and practical ethics and have established that business ethics comes under practical ethics and is applied to a particular activity.

Just as a society functions on the social codes of conduct and a country is governed by its constitution, a business is run on corporate codes. In other words, there is a professional code of conduct for any business. These codes keep evolving as other things around evolve and develop. Therefore, not only should business be defined within the confines of ethics, but it should be practiced strictly under its own professional code of conduct. This distinction helps to orient the general principles of ethics and business to particular activity. The principles, however, do not change. For instance, there is a manager who is doing very well in his career because he is both efficient and honest. To his neighbors and friends, he is not only a very successful businessman, but also a very good family man. To a question asked by a journalist on how he divided his time between his family and business despite his busy schedule, he replied, ‘Efficiently.’ ‘What is the secret of your success?’ asked the journalist. He replied, ‘Honest.’ The journalist looked inquiringly as if to say, ‘Look, business and family are separate.’ The businessman said, ‘Both efficiency and honesty work equally well at work and at home.’ Our roles may change from time to time and from place to place, but the integrity of our character should be maintained.

Business ethics, thus, professionally adheres to a code of conduct that is accordance with the normative principles.
UNIT 3 EASTERN AND WESTERN ETHICAL THOUGHT AND BUSINESS PRACTICES

INTRODUCTION

The world of political economy may be divided into two kinds of people—global fans and local fanatics. Take the example of people migrating from the East to the West. Western governments are under pressure from two groups at home—the professional establishments who are running short of personnel want to have them, but the locals protest, since they feel that their jobs will be taken away. The world is a much traversed planet, and yet there are serious cultural differences among the nations. Support for them soon forgets their supremacy and indulges in racial slurs. Western businessmen look askance at the way their Eastern counterparts conduct business and cast doubts about the integrity of the deals to be signed. There are several trade barriers, taxes, and tariffs that hinder fair trade practices. The question we will deal with is, whether it is possible to have global business ethics practices in a multicultural world, much unified and yet divided.

UNIVERSAL NORMS AND GEOGRAPHICALLY DIFFERENT CULTURES

Cultural Values

Indeed, it would seem that the universal norms are confined to the geographical hemispheres, because culture shapes our values. Cultures are geographically diverse. The European culture is different from the Asian culture, whereas the African culture is different from both the European and Asian cultures. Cultures are confined to territories. Even the old civilizations of Egypt, Mesopotamia, China, and India were geographical pockets. Each of these cultural centres developed their own ethos, where the social relations that developed were typical to their environment.

Manners – Indicator of Values

Let us specify where the ethical values get translated into good manners or etiquette. If you go to a European wedding in a Kurta Pyjama, it may be construed as being rude. Chances are that you may be thrown out for not wearing a decent dress, and for having dared to come in straight from the bed, in night clothing. Likewise, when half-clad European tourists visit Indian temples with their shoes on, they hurt the religious sentiments of the Indians. There have been instances in business where Western products have exhibited the Eastern religious symbols of gods and goddesses on their footwear or undergarments, and this has led to angry protests that have cost many lives.

It is therefore wise to understand and respect the cross-cultural differences and conduct ourselves in an appropriate and friendly manner, rather than put up the false pretence of global business ethics.

One Humanity, Many values

We can no more confine ourselves to geographical boundaries and remain isolated from the vagaries of cultural differences. The fundamental assumption of ethics in any region or culture is that human beings are endowed with the ability to be good. Man’s basic nature is oriented to the good. The aim of every human action is good, although it may not end up as such, due to the complexities of relationship and the contexts in real-life situations.

For instance, Casablanca, the classic movie set in North Africa against the background of World War II, brings out the complexities of a relationship and the choices
people have to make. Rick Blaine is the owner of a nightclub (a character essayed by Humphrey Bogart) wjp, for all the ironies of life, has to forego marrying his sweetheart Elsa (Ingrid Bergmann) in Paris. But it is even more ironical when Elsa walks into his club with her husband Victor Laszlo. Victor, a Resistance leader, is actually on the run from the Nazis. Elsa, who is still madly in love with Rick, is in a dilemma. She cannot make up her mind on whether to run with her fugitive husband, or stay back with Rick. She asks Rick to decide for her, since this dilemma is too hard for her to bear. She would do as he decides. It is a battle or Rick, too. He finally makes up his mind. He lies to Victor about his relationship with Elsa. He tells Elsa to go with her husband and so Elsa and Victor leave. Indeed, it goes with out saying that after this event both the charactrer may rue their decision. Stories such as these are not exceptional in real life, and are to be found irrespective of territorial boundaries. Noble decisions of personal sacrifice have enriched the lives of people beyond their boundaries. However, in episode, this is not the only issue. Should one tell lies to save a marriage? Is telling lies a good thing?

**Manners**

Good manners and etiquettes, although very edifying, are not the essence of ethical behaviour. Whether one holds a fork in one’s right hand or left hand is totally insignificant when compared to the value of telling the truth. Truth is appreciated beyond boundaries and all cultures have the same definition for the fundamental values such as truth, justice, love and respect.

**Universal Versus Particular Values**

The above example places before us a distinction in human behavior- universal principles and their particular values. Problems arise when we universalize our particular values as universal principles. We are formed by particular instances and exclusive cultures and pursue definite interests. This is because our beliefs are influenced by our parent and elders, by the communities we belong to and the religions we follow, our definite political convictions, our professional rules, and personal ambitions. These are causes for dreadful disagreements and even wars. Thus, we should not be surprised that the values that we hold so dear collide and we lose faith in ourselves. That is why when people say that ‘ethics is an oxymora,’ they are not to be changed as cynics.

On the other hand, the principles of right and wrong are definitely universal, only if we can rise above our individual and treasured behavior patterns. For instance, if honesty is our universal principle, then it translates into not to cheat, tell lies, or mislead. Through the practice of honesty, one’s conscience is formed, which guides with simple ‘dos’ and don’ts’ and the person turns habitually into a good person. One cannot hold a good person down, irrespective of the territorial boundaries and ideological chasms. Good leaders such as Mahatma Gandhi and Nelson Mandela have become the conscience of mankind beyond all geographical, racial, and cultural boundaries.

**Nature of values**

From the above discussion, the first distinction that we must draw is between the formal and material aspects of ethics. To have a deeper understanding of moral concepts we must go from individual or material instance of behaviour to general or formal concept. This process of thinking, form the particular to general, is known as the dialectic or Socratic method. It enables us to question particular instances- the material aspect- and by the elimination of peripheral elements we are then able to define them and apply them universally. For instance, how best do we arrive the concept of justice? Is the death penalty given to a merchant for adulterating food that lead to death od some people considered as justice? Is letting of Nick leeson, the derivatives manager whose actions saw the Baring Bank suffer total insolvency, justice? We feel outraged when corrupt corporations get away lightly for their misdeeds. For instance, McDonald’s products are charged for causing obesity and Coca Cola’s manufacturing units for environmental damage. It is true that none of the above instances serve as examples where justice is done. We see what justice is not, and through it what is meant by justice. The meaning of justice that we know is devoid of individual imperfections and therefore universal.
universal concept is an ideal, as it were, that the individual instance would like to come close to. A good man is one who comes as close as possible to this ideal, and the not-so-good one goes astray and moves farther away.

Theory and practice

In ethics, we may do well to remember the gap between theory and practice. Just as studying music with notes, meter, tune, timing, etc. does not produce a musician without actually practicing assiduously, so also, merely by learning the universal principles or ethics, one does not become a moral hero. Extraordinary people such as Mahatma Gandhi show that moral victory, though moral actions, is the greatest achievement worth having.

There are a great many professionals such as musicians, painters, editorial personnel, and architects who have excelled in their field due to highest possible standards that they have set for themselves. Have they really achieved perfection in its fullest sense? Definitely not. But they have reached a very high degree of perfection from which others can be inspired. No matter how great the practitioners or ethics are, they cannot arrive at an absolute perfection of their ideals, though they do come very close to them.

Business management is a field for practicing ethical principles. We may not reach the zenith of the ideals, but all the same, without such lofty ideals the pursuit of perfection would be meaningless. It is by practice that some of our corporations have become leaders in good governance, employee care, and customer satisfaction. Their way of doing business has changed the lives of many people. Their way of doing business has changed the lives of many people. Their presence has made a difference to community.

SUITABILITY OF EASTERN VALUES TO WESTERN BUSINESS

Western Models

Eastern values will not be helpful for Western businesses because history proves that modern business management is a Western development and has been adopted successfully by the rest of the world. There are several fundamental value theories on which the Western business is based, such as utilitarianism. This theory professes a normative value defined as ‘the greatest happiness of the greatest number’, which is quite a democratic where both the self-interest of the individuals and the welfare of the greatest number of people are legitimately pursued.

Further, facts bear that Indians who migrated to US have adopted the Western model such as market economy, competition, and self-actualization and have realized their wildest dreams of possessing wealth and property. The same is happening in India now. American management education and business models have been brought into the country and in a very short time, India has made a giant leap in economic development. The ethical dimension is concretely fulfilled by the practice of corporate social responsibility, thus helping individuals and communities alike to participate with equity and dignity in economic prosperity.

Eastern Values

It is clear from the above argument that Eastern values are really successful when applied to Western business models. Why did expatriate Indians succeed so quickly, while indigenous businessmen took scores of years to succeed, irrespective of the best of business models? Why has India suddenly made a giant leap with Western business models but Indian ethos?

Utilitarianism is a value that seeks happiness in numbers, and sacrifices the legitimate and inviolable rights of those who are not a part of the greatest number. The business models of competition, market economy, and self-actualization suit it perfectly. The entire business machinery rolls mercilessly. Those who cannot stand it must succumb to it. Only the fittest will survive!

The entire Indian ethos revolves around the single value of karuna or compassion. It is the principal which unites people into a society in which the individual is brought up in a culture to care for the community, and the community makes it its responsibility.
to take care of the individual. This is dual character of the Indian ethos, where both the individual and the community are two inseparable parts of one reality. This is also reflected in the Indian theology, where the Atman or the soul and the Paramatman or the Almighty God, although dual in their manifested nature, are actually one entity. Thus, the ethics of are stems from the depths of spirituality. Such a value suits both the East and the West.

Social Dilemma

It now becomes obvious that utilitarianism does present an ethical dilemma, when an individual’s personal interest clashes with the social interest. A young man’s personal duty may be to stay home and look after his ailing mother, but the larger interest for which he would be called upon to do his duty would be to join the army to defend the country.

One the other hand, it is a fact that the Indian cultural trappings were not business friendly. Indians have experienced the scourges of the caste system, the mindset, and an undesirable attitude toward dignity of labor. It is the socialist revolution form the West the shook the foundations of the Indian society, more than any economic benefits from the colonial regime that introduced the Western business models and education.

Presently, movement is sweeping across the world towards an integration of business models and social value systems. The concept of an integrated business is taking shape. Multinational companies are striving to see a common ground where both their employees and customers come to share one culture. American food chains in India have adapted to Indian palate, but have successfully introduced their efficient and effective management practices.

Integrated Business

From the above discussion, we may deduce the fundamental aspirations in the man for integration and unity. There are business values and busi9ness models. Business values are the guiding principles of business models.

What is the place of business values in a free-market economy? This is an obvious question that some suggest should preclude any value system because market forces will determine our action. Such a laissez- faire attitude may actually do more harm than good. Without a legitimate regulation that bespeaks of the responsibility of every member of a society and all its civic bodies, there is going to be a political, economic, and social chaos.

Business is done with people; if business has to exist, than it must co-exist with people and should be beneficial to them. Business models work fairly within the context of values that maintain harmonious relationships, such as justice, fair means to attain set goals, prudence, and good citizenship.

The welfare to civil society is the goal of government. It is within its rights to regulate business, as people man date it. Business must submit itself to the will of the people, which is supreme.

DO INDIAN VALUES HINDER BUSINESS

Caste System

It would seem that indinan values are hindrance to business practices. The image of Indian businessman, whose caste in ancient India was known as Vaisya, has been a negative one. Manu, the lawgiver, spoke of businessman as ‘deceivers in open day light’ and equated them to the Sudras, the lowest caste. The Indian society further battered their image. The trade mane of bania, the businessman, become synonymous with that of a black-marketere, exploiter of the employees, shady dealer, and adulterator, in other words, the businessman was ready to sell his soul for profit. The image of the businessman in India is taking a beating even today when small investors are deceived in the stock market. Hence, there must be something in the Indian social fabric that makes business a stranger to the principles of ethics.
Negative Image

We often read about shipped cargo being rejected abroad for substandard quality. Recently, in the last quarter of 2008, Ranbaxy, the reputed pharmaceutical company, faced an embarrassing situation when US banned some drugs that were exported by company. The garment industry has also been at the receiving end. There is a persistent, negative image of Indians in general, and their businesses in particular, as being dishonest, corrupt, substandard, unprofessional, and having no value for time, which is so fundamental to business. It further shows that others cannot trust us- and trust is the cornerstone of business.

Understandably, one may defend Indian values by saying that there is nothing wrong with them; it is the people who do not practice it that are at fault. Yet, when is it in those values that is so difficult of some to practice, while others have no difficulty in abiding?

Augmentation of Values

The above argument is a confusion of categories, case of mistakeing material for virtual. There are social, cultural, and historical reasons for the deterioration of the Indian businessman’s character; moral values are not the cause for its loss.

We have established earlier that expatriate Indians have succeeded in the West because they got opportunities and the business models of the West of function. These successful businessmen vouchsafe for the fact that the real secret of their success was the family values that they had imbibed in India. Opportunity and business models were both not created by our political economy. However, one the economic reforms started, the indigenous businessman took the initiative to adopt new business models in an environment of great opportunity. India has become the second fastest growing economy, globally. Today, the Indian corporate sector is keen on its social responsibility and has been investing in people’s projects, and conducts it programme efficiently. China is the only country that is ahead of India. However, it is to be noted that China had started its reforms about two decades before India did. We must also remember that both these countries have much of their ethical values in common.

One of the outstanding values that Indian possess is patience. The West considers it as procrastination and laziness. But with the right environment, this quality has borne fruits and Indians have become unstoppable globally. Spirituality is another unmistakable value of the Indians, which even the worst critics admit that Indians possess in abundance. Today, many Western companies acknowledge that spiritual anchoring gives purpose and direction to business.

Finally, let us review a contrast of values and businesses that are closer home. While industry and commerce are marching ahead, it is agriculture that is lagging behind. Is it because our farmers are low on moral values, or is it because of the faulty policies that our successive government have been dishing out? Given the some opportunities and models of free-market enterprise as commerce and industry, our rural areas too will become the perfect examples of balance development.

Thus, Indian values and western business models are the right ingredients for a successful and value-based business management.

Clash of Cultures

The contemporary debate on the clash of cultures put forth the challenges of the integration of cultures rather than their clashes. Conflicts originate when people’s views differ. For instance, the value of honesty is not questioned but what constitutes honesty in a given instance is debated upon. Again, no one objects to clothing that is modest. Problems arise when a piece of clothing offends the sentiments of the people because it conflicts with their culture. In Turkey, the Islamic dress is forbidden in the Parliament House, to symbolize that is a secular state. France has forbidden religious those riding two-wheelers to wear helmets. The Sikhs often have to fight for their religious right to were the turban.
Values Withstand Challenges

From the above discussion we may draw the following conclusions. It is a fact that political and economic realities have brought people of different cultures together. Their coming together has made them realize that are different. Conflicts arise when each group tries to dominate the rest. Political, regional, ethnic, and religious aspects get involved in a very complex way. The above conflicting situations challenge us to rethink our actions and not revise our values. The changed world needs to have a new attitude, not a new value.

Successful businesses have successful values. The Indian values are no exception.

PROGRESSIVE BUSINESS DRAMA

Values are static

It appears that it is possible to have progressive business ethics because ethical values are static. Progressive means developing from small to large, or form simple to complex. Just as in a biological process. But business ethics deals with the social behavior of the people doing business. Business is a social activity of human interaction that involves economic. Definite standards are set. The integrity of the goods and services of the customers, as well as the employer-employee relationships, can be strictly and quantitatively maintained. There can be no discrepancy in the quantity of a kilogram of grain. If a doubt still prevails, it can be solved by referring to the standard of weights and measures.

Secondly, as the age old cliche goes, ‘the business of business.’ We have to avoid all ambiguous situations and ethical dilemmas. Many detractors of the above business dictum consider it a ‘license to kill, as it were. The dictum, however, simply states that business must be done the way it is meant to be done. One must follow the exact business rules which are laid down, just the way rules are laid down for any sport. One does not keep on changing the rules of the game as the game progresses. If we allow this happen in business, people will manipulate it to such an extent that the business will die.

Hence, it is important that the code are already established in business ethics. Managers learn these code as a part of their terms and conditions of employment in an organization. Entrepreneurs have their set of codes enshrined in the Companies Act, according to which, companies come into existence as artificial, moral persons before the law. Thus, business ethics cannot be progressive. If a business has to be successful, the business ethics it holds has to be static.

Values Are Dynamic

It is fallacious to assert that business ethics is static. One the contrary, the discipline is extremely dynamic in nature and allows progress in a world of heightened business interaction. In business ethics, we deal with the practical concepts of good behavior in a given situation. Knowledge is not static. It is the awareness or familiarity gained by experience. The data we deal with are the business practices- the real cases, where business decisions have led to beneficial or harmful results. We try to com in conclusions and determine the morality of the entire process through analysis. Business ethics is a process-oriented discipline.

Code Based on Values

In the earlier argument about progressive thought in business ethics, professional codes have been proposed as an alternative. The progressive thought is not contrary to the codes. The codes have been deiced from the fundamental values to suit particular professions. While doing so, the quantifiable activity is a logical conclusion. A grocer has to conform to the standard of weights, as it is a part of the professional code of
conduct. It is deduced from the value of honesty. Thus, the antagonist who argues that business ethics is not progressive fails to see the progress made in detail.

The assertion that managers have to learn the codes of conduct from the terms and conditions of employment is true. It is also true that these codes lay down boundaries within which business person conducts himself/herself. Just as in any sport that is extremely competitive, a sportsperson can excel depending on his/her competency in the field, so also in any business a good businessperson can excel because he/she strictly abides by its codes.

**Business Drama**

We saw earlier that progressiveness viewed variously – as a natural development as is exemplified in nature, or as to do with the intellectual understanding of a concept through analysis.

It appears as though the term ‘dharma’ has not been used on purpose in the above debate. The classical way to seek our aim in life or purushartha, is a fourfold pursuit. Wealth or artha, physical love or kama, righteousness or dharma, and spiritual liberation or moksha are the four pursuits of perfection our lives. Dharma is, in fact, an all-pervading concept to these pursuits- the guide to goals, the regulator of action, the principle of good character of sucharita, the source of virtue or guna. Whether it is the acquisition of wealth or the nurturing of physical love or the transcendental pursuit, each is exercised according to dharma applicable to it, thus, dharma is a comprehensive governing phenomenon that embodies the spiritual virtues, as well as the physical laws and codes.

If business ethics is understood under the concept of dharma, then most of the confusion between ethical values and the laws of the state, and the precepts of society and the codes of the corporate world, could be eliminated. In the Upanishads, dharma is clearly interpreted in terms of the virtues that should be practice. These are ahimsa (non-violence), satya (truth), asteya (non-stealing), brahmacharya (continence), maître (friendship), dharma (professional duty), karuna (compassion), dama (self-control), and saucha (cleanliness).

Any individual, professional, corporation, or association can make one of the above values the focal point of their business. The rest of the values will fall in place automatically. Mahatama Gandhi made the first virtue, ahims, the central point of his leadership. We see how the rest of the values such as satya, bharmacharya, saucha etc. fell in line and aided the freedom movement.

When one adheres to one of the virtues, an apparently insolvable dilemma is resolved. For instance, Arjuna was in a dilemma about going against his own people. But his teacher and charioteer, Krishna, told him that it is the dharma of a soldier to put up a good fight and not to worry about the outcome. We expect soldiers to wield guns and not play the fiddle; we expect teachers to impart good education; we expect doctors to treat with care; we expect businessmen to conduct commerce with fairness to all the parties involved. Likewise, people expect that the business dharma is followed in business transitions.

**Dharma – the Fundamental Principle**

Dharma is ultimate principle to all that is and that acts. It is not to be construed as a tenet of Hinduism because the concept of part and parcel of all the religions, communities, and regions of practically the whole of Asia. It refers primarily to the natural law that states that every thing exist because of this principle. Social principles also have their basis in the natural order.
UNIT 4 INDIAN ETHOS IN MANAGEMENT

Tat-Tvam-Asi

The IEM (Indian Ethos in Management) has three basic principles: Tat-Tvam-Asi - you are that (the Supreme). Each one of us have immense potential. Mahatma Gandhi, Sunil Gavaskar, Satyajit Ray, Kantibhai Shroff – all of them proved their genius in their respective fields (politics, cricket, film, industry). If we ask ourselves whether they were all born genius, were they all very brilliant as students, were they all born in rich families, - the answer is ‘No’. Everybody may not be a born genius but everybody can become a genius.

We were born with a supercomputer (our brain), a stereo system (the ears), audiovisual unit and the best camera (the eyes). Are we using these to their full capacity?

Based on this principle, IEM redefines management concepts. Management is not ‘getting things done by others’ but ‘helping ordinary people to produce extra-ordinary results’. Productivity of men’s capacity is more important than plant capacity.

At thane, the owner of a company asked us to demonstrate this. We took up a small unit of his production department. Asking the supervisors and managers to leave the place, we conversed with the workman who have studied only upto class six or eight. The conversation went on the following lines:

Author: ‘What are you doing here?’
Workers: “we are making plates”.

Author: ‘How is it being done?’

The workers showed us the method. it was a very simple process. They place metal plates on the grooves of a conveyer belt. The belt moved though a machine which processed the plates. And the processed plates come out through another belt.

Author: ‘How many plates are you making here?’
Workers: “62 plates per hour on an average.”
Author: ‘can’t you make more plates?’
Workers: “yes, we can go up to 70.”
Author: ‘But if I need 80’
Workers: “No, it can not be done.”
Author: ‘Why?’

Workers: “Capacity of the machine is 70.”

When we insisted on eighty, the workers said: “this can never be done.” Then we said: ‘Why don’t you discuss among yourselves and suggest us how we can go for eighty?’

They agreed and started discussing among themselves. After sometime they come out with a solution: “yes, it is possible to make eighty plates. The gear of the machine is to be changed to increase the speed. And the gears attached to the belts are to be synchronized with the speed of the new gear.”

They did it themselves, and the machine started producing ninety-two plates per hour. The owner of the company was quite surprised. But when we explained the difference between machine-capacity and men-capacity he was highly impressed.

Al Dewas (MP) in a MSI we gave full freedom to the workmen to work out a project.
They were to identify the bottleneck, find out the solution, set objectives, decide the action-steps, and work out the solution with the available resources. They decided to increase the production by 30 per cent in one month. When they were discussing among themselves, the author called one manager (who was not participating but was present as an observer) and asked whether the target set by workmen was realistic. “they should have set 12-14 percent.” Then the same question was put to another manager. According to him an increases of maximum 15 percent would be possible. However, we allowed the workmen to go ahead with 30 percent increase. Ultimately they could achieve 23 percent.

**In the recent switch-over to electronic telephone exchange in an Alloy Steels Plant (under SAIL) in West Bengal, the basic work was explained to three workmen who were subsequently to plan and execute the changeover independently.** It was suggested that the workmen would do this without the help of any manager of supervisor. As the job involved a considerable amount of cable dressing and laying, and on line connections without shutdown of the existing exchange, 5 percent error was allowed. Amazingly, the entire job was completed with zero error.

This is how IEM can solve one of the great problems Indian industry is facing. What is going on in the name of modernization? The companies are importing hi-tech machinery from the west. Today they may have enough capital to do so but what may happen to this new hi-tech machinery after three of four years? The technology may become obsolete. Should we invest again it import the newer technology? Most of the Indian companies cannot afford to do that.

So, modernization of men is more important than modernization of plant. At Dewas, in Kuber Lighting, the workers themselves had developed a machine which cost one-twelfth of the German machine they have been using.

**Holistic Approach**

The next principle of IEM is Advaita the non-dual or the holistic approach.

Generally a management trainer considers the participants in the class as managers. A participant is a manager no doubt, but he has other roles to play as well. He is a father, a husband, a friend, a relative, and above all a citizen. IEM suggests a balance across all these roles, to see a person in his totality.

It is possible that a manager who can motivate 200 workers in the factory, may find difficult to motivate his two children at home. He is aware of all the motivational theories but it looks as if nothing works at home. And if his home is disturbed it is bound to affect his performance in the office. Today men have become one-dimensional-beings. This is creating a grave problem in the society. Holistic approach can solve it.

Secondly, in planning, specially in Management by Objectives (MBO) technique, one is to first set the objective or goal. But the question is: Whose Goal is it? An employee may not feel interested in it. An automobile company, in Central India, set an objective during its initial years which ultimately could not be achieved. When a team talked to all the levels of employees, they found that the workers felt that the goal was thrust upon them which they did not like. Next year, all the workers were involved in setting the objective, and the company could easily achieve it.

Here is an important pointer. Can a company grow or make profit at the cost of society? If it goes on exploiting the society, the people would hit back. One’s knowledge or experience or experience or skill makes sense when the society needs it. Similarly growth comes only when a company does what is in the interest of the society it serves. Health of a company does not depend upon the economy or productivity but on one important aspect that is, how best it can satisfy the customers. In helping the society achieve its goal a company also seeks to maximize its personal interest. This is an application of holistic principle - atmano-moksharanth jagat-hitaya-ca (for one’s own emancipation or development and for the good of the humanity) everybody and each company should work. The purpose is to transform the external forces into friend and helpers. The more closely a company concentrates on any of the problems of the society,
the better it is able to solve its own problems. (this is discussed in detail in the chapter, Ethical Values Pay Better Dividends).

So before setting the objective, a company must research on social objectives, focus on a particular problem or goal of the society, and then incorporate its own objective.

Excel industries, producer of chemicals and fertilizers, realized that farmers were disillusioned with chemical fertilizers as it eroded the soil and spoilt the taste of vegetables. Excel started making manures, treating garbage with microbes and thus helped the society to solve two problems at the same time. This is holistic approach.

In the second chapter of the Gita, Sri Krishna taught Arjuna two things – characteristics of a ‘Sthita-prajna’ (i.e. emotional stability) and ‘darshan’ (healthy philosophy of life).

If your subordinate officer does not have emotional stability he man dampen the team-spirit. As ups and downs are very common in business it is very important to keep cool. Your knowledge, experience, or skill may not be of much use when you are emotionally perturbed. So a manager must pick up the skill of coping with frustration and worries.

If your subordinate officer does not have a healthy philosophy of life, he may use your department or organization to serve his petty interest.

Data may be objective but decision is subjective. You can draw different conclusions from the same set of data. It is only a detached mind that helps one to make a better decision. We can always offer better solutions to someone else’s problem. Because, here we are detached. When we are ourselves facing the problem we are confused. So a manager has to develop a detached mind in taking decision. At the same time we need to recognize the difference between detachment and indifference.

So, alongwith functional skill, life-skill must be learnt by all the people.

Subjectivity is as Important as Objectivity

The third principle of IEM is the sukshma where subtle, subjective, intangible factor are equally important as sthula or concrete, objective, tangible factors.

In Hinduism, a Devi (Goddess) has three eyes. The significance of the third eye is that is can see even that which the normal two eyes cannot; it can see the invisible.

A manager must develop his third eye – vision, foresight, and insight.

General books on commerce and management suggest that capital is the most important factor in business. But we all know that the loan-mela organized by Nationalized Banks has failed where not even five percent of the people who got loans, could set up their business. On the other hand, we also know that successful companies like Peerless, Reliance and Jet started their business on a meager scale of investment. This shows that there is something more important than capital. In the 16th chapter of the Gita Sri Krishna gave a long list of ‘daivi sampad’ (divine qualities). The first of these qualities is ‘abhayam’ (courage, fearlessness) and the second is ‘sattva-samshuddhi’ (a clear mind) if one does not have the courage is taking risk, what shall he do even with a huge capital? And then he needs a clear mind, an unbiased mind to perceive the reality. So courage, vision and social awareness are as important as machine- marterials-money. Japan does not have coal, petroleum, or sukshma is more powerful than sthula. Inner resources are more powerful than external resources.

In product innovation one has to focus more one the sukshma. on is to take care of the basic problem and solve the current problems (both of these are sukshma) while the product or the existing solution (both ‘sthula’) are secondary.

The approach to product innovation should be focused on solving the basic problem in a better way to solve the current problem.

In business the attempt to have more market share (sthula) is fine but building up to future (sukshma) is more important. See how Swiss watches lost the market to Japanese quartz. In India HMT watches were selling like hot cakes and the quality was
Indian Ethos in Management

world class. But Titan swept later because it focused on aesthetic values (sukshma).

While identifying the problem with a product or a system, generally the companies look for objectives problem which is sthula. But IEM suggests three other areas which are sukshma are more important. These three problems are subjective, acute, and emerging.

Let us take the case of students. Their objective problem is to get 90 per cent marks in the examination. Subjective problem is lack of concentration. Uncertain future is the acute problem as they do not know whether they will get a job even after passing out successfully. And the emerging problem is utter confusing because of erosion of values and fas changing society. The some applies to the target groups with any product or service: only we are to notice the specific forms.

After liberalization, India is producing different models of cars. But there is still not a people’s car, that a lower middle class family can afford. Secondly, whereas the present stock of petroleum in the world is estimated to last for another 40 to 50 years, in India it is expected to last for only 20 years. With the price of petrol increasing steadily it is time to manufacture battery-driven or solar cell driven cars. An automobile company, at present cars which are small and can meet the budget of even lower middle class family. This type of cars could also solve other problems like parking space, consumption or petrol, expenses, pollution etc.

Sthula-sukshma principle can be applied in self-motivation. Generally an employee thinks that his company affers him only salary and perks. If the pay scale is not according to his satisfaction, hi gets frustrated. However, he misses to notice a very important factor – the invisible opportunities hi is getting from the company. He can pick up many sills, can learn hoe to run a business, can develop himself, can have many contacts, etc. (We shall discuss this in detail in the chapter on Self- Motivation).

Today MIS and IT have become very important factors for any company. E-mail is picking up very fast. Pagers are now very common. Market reports are in plenty. All these things along with the media, gave rise to information explosion. Decision- making is the most important thing for an industrialist or a manager. For this they need more data. But we should also realize that data may be objective but decision could be subjective. You can draw different conclusions from the same set of data. So it is quality of mid (sukshma) which is more important than data (sthula).

Indian or Universal?

Are they not universal values? Some Japanese and American management gurus too preach these principles. Then why do you call these Indian?

Yes these are universal and can be applied in any country. Yet we call these Indian because these ideas originated in India, before the birth of Newton, all the three laws motion were in operation. Yet these are called Newtonian because he discovered these. It is the some with Indian management principles.

But when we look at the West, we see there is a distinct characteristic in their approach. Take the case of sukshma-sthula principle. In the west emphasis is given to sthula aspect in the name of objectivity, scientific approach, quantification etc., while in India it is the sukshma which is more important.

If we look at the holistic approach the West is interested in analysis which is called the Cartesian approach, classification, understanding the parts. India gives importance to synthesis, common characteristics, and knowing the whole first.

Western psychologists, specially in management training programmes, ask the participants to fine out their positive and negative pints, while Indian approach is to highlight the positive points amritasya putrah. According to Indian view negative points are not important unless one particular negative point becomes the bottleneck in one’s development. This is the difference between Indian.meditational classes, based on IEM, and the Western sensitivity lab.
## Management Concepts Redefined

<table>
<thead>
<tr>
<th>Term</th>
<th>General Definition</th>
<th>IEM-Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>Getting things done by others</td>
<td>Helping ordinary people to produce.</td>
</tr>
<tr>
<td>Productivity</td>
<td>Related to plant capacity</td>
<td>Related to men's capability.</td>
</tr>
<tr>
<td>Planning</td>
<td>MBO</td>
<td>MBS (strategy)</td>
</tr>
<tr>
<td>Leadership</td>
<td>Produce results</td>
<td>Produce performers. Help the subordinates to develop leadership quality.</td>
</tr>
<tr>
<td>Effective supervision</td>
<td>Concern for task and people</td>
<td>The growth of subordinates in their workplace.</td>
</tr>
<tr>
<td>Motivation</td>
<td>Maslow's theory of needs</td>
<td>Self-motivation. By helping subordinates to have ananda (creative joy) and mukti (autonomy) in their work.</td>
</tr>
<tr>
<td>Resources</td>
<td>External</td>
<td>Inner.</td>
</tr>
<tr>
<td>Profitability</td>
<td>In terms of money</td>
<td>In terms of good image, credibility, trust of customers.</td>
</tr>
<tr>
<td>Hygiene factor</td>
<td>Job enrichment</td>
<td>Mind enrichment.</td>
</tr>
<tr>
<td>Marketing</td>
<td>Customers competition</td>
<td>Through co-operation by plying complementary role</td>
</tr>
<tr>
<td>System</td>
<td>Set to interrelated elements working as a whole. (Hardware aspct)</td>
<td>Pattern of particular human response expressed through organizational functioning. (Software aspect)</td>
</tr>
<tr>
<td>Structure</td>
<td>Hierarchical</td>
<td>Organic evolution.</td>
</tr>
<tr>
<td>Quality</td>
<td>QC, TQM, ISO</td>
<td>Simpler method; concentrate on immediate supplier and customer.</td>
</tr>
<tr>
<td>Growth</td>
<td>Turnover</td>
<td>Coordinating private and public benefits.</td>
</tr>
<tr>
<td>Man-placement</td>
<td>According to academic qualification</td>
<td>More stress on natural inclination: jnana/bhakti/yoga/karma orientations.</td>
</tr>
<tr>
<td>Job-satisfaction</td>
<td>Hygiene facto</td>
<td>Through innovation: uniqueness, troubleshooting, extraordinary result,</td>
</tr>
<tr>
<td>Training</td>
<td>Functional skill (development sill to some)</td>
<td>Healthy philosophy of life, emotional stability, functional skill. Yoga-combination of jnana (intellect), bhakti (feeling) and karma (action).</td>
</tr>
</tbody>
</table>
UNIT 5 CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION

Our objectives in this chapter are pointed towards the sharpening of the universal principal of conscience. Conscience is a personal standard of judgment that one develops in the environment of one’s own world, with the entire cultural, religious, economic, and political milieu. Corporations too are persons, albeit artificial, but consist of real people and relate to real people. It is within this context that we shall delineate our subject under the four lead concepts mentioned above.

The horrors and excesses of the East India Company, which are earlier glimpsed through the trial of Warren Hastings, should provide all Indians with sufficient ideological and moral reasons to believe and advocate the philosophy and practice of corporate social responsibility (CSR). For those who have doubts, the following chapter is an endeavor to persuade, not to prove, the validity of CSR.

Below are the parameters and results of a recent Forbes online polling on CSR. The voting issue was: Can public companies save the world?

(a) Yes, though corporate social responsibility programmes. (39%)
(b) Yes, through environmental initiative. (11%)
(c) Yes, by maximizing profits. (3%)
(d) No, companies are inherently evil. (4%)
(e) No, companies do not have social obligations. (3%)
(f) No, the world’s problems are intractable. (2%)
(g) Maybe they can do a limited amount of good. (13%)
(h) They shouldn’t try to save the world. (1%)
(i) They already are, by employing people and by innovating. (20%)
(j) I don’t know. (5%)

We live in a free and open world where the lenses of TV cameras are omnipresent. Media news teams, constantly competing to be the first of break of story, dig up on everything: from common people’s stories to corporate indiscretions. Corporate executives and their lifestyles, employees and their plight, and products and services are under constant media glare. Though corporations will want to only benefit from the media and hide misdeeds, nothing can escape media attention.

A daily dose of corporate news is a part of modern life, as corporations have a tremendous impact on our lives. We depend on corporations, and corporations in turn depend on us. Corporations, however, are manned by people, and we expect these people to behave with conscience, just as we expect our neighbors, friends, or coworkers to do so. The answer to the question, what is a corporation, is then settled. A corporation is a part of our community; it ought to be a good citizen. Thus, companies are by the people, for the people. Our model of the republic, adapted early in the book, is apt. the republic confers not only rights but also duties, and duties are responsibilities.

CSR in not philanthropy. Philanthropy is almsgiving on a large scale. CSR is taking the responsibility to empower people both socially and economically. Though empowering the people is the responsibility of the government, we must remember that the government is already a republic; it is a corporation at the national level. The government is under the charter of the people, governing the country with the ascent of the people, and business corporations are a part of larger whole that includes the government. Just as a citizen has duties, so also the group of citizen who from a business corporation has duties. Corporations do not exist in a vacuum. They exist within society and are under the low of land.
Corporations who advocate that the business of corporations is to seek profits and increase shareholder value do not act like full-fledged members of society, with duties and responsibilities.

The new world need a new world order. Narrow-minded corporations seeking their own profit cannot survive today’s competitive market conditions. Corporations need to be broad-minded and reach out to the communities they function in.

UNDERSTANDING CSR

Corporate social responsibility, though a heavy terminology, is self-explanatory when broken down into individual terms. Corporate refers to the corporations, a legal entity created with the objective of profit. Social refers to the community of people among whom and for whom the corporations runs its business and depends on for its monetary returns. Responsibility is the trait of being answerable.

Definition of CSR

In the above definition of CSR, we could use the terms ‘company’, ‘firm’ or ‘group’ instead of ‘corporation’. A business organization with two or more owners can be registered as a company. They organization could start more companies to diversify into other areas of business, and thus form a group. Sometimes the word family is used for a group of companies. Thus, we have the TATA family, the Reliance family, the Infosys family, and the Sahara family. The companies that come in existence later within the group are known as the sister companies. The first company of the group is called the mother company. This demonstrates that corporations unconsciously perceive themselves as a family of people, and function in society accordingly. We may thus define CSR as one’s duty towards others.

Let us make the term company more clear. The word is formed from the two Latin terms cum and pains, and literally means breaking bread. Breaking bread is a figurative phrase for sharing a meal. CSR is precisely that, that is, to share one’s wealth with others. For modern corporations, wealth and welfare go hand in hand.

Having understood the contextual meaning of CSR, let us define it as follows:

(a) CSR is the firm’s concerning itself with the interests of society.

(b) CSR is the dual duty of a firm towards its shareholders and stakeholders.

(c) CSR assesses the impact of the actions of the company on not only its shareholders, but also its employees, customers, communities, and the environment.

(d) CSR is the moral arm of corporate governance.

Conflicting Outlooks on CSR

Corporate governance serves the shareholders as well as the stakeholders. The role of the shareholders is quite obvious. Whereas the stakeholders are often questioned as to why they should be treated at par with the shareholders. However, without the stakeholders, the logic of business is futile. For, the stakeholders are the employees, the suppliers, the marketers, and the customers; and all of them, including the shareholders, from the community. If the community at large is served, the company has the benefit of serving its shareholders, immediate stakeholders, and distant stakeholders.

Shareholders outlook — Conservative thinkers such as Milton Freedman strictly follow the theory proposed in The Wealth of Nations by Adam Smith, and propose that the business of business is business. The only business of a corporation is to perform its fundamental duty, which is to conduct business efficiently and justify it with profits, which is the return on investments of the shareholders. The best from of CSR for a company is to provide the best of products and services to its customers. Its is wise to leave social duties to those who are entrusted with it, such as the government and other institutions within the community. Business institutions should not meddle in the business of others. Adam Smith’s view was that a business entrepreneur puts to work his capital with his own interests in mind. The actually does not know how beneficial he has been to the
people at large, but what he does know is how secure his interests are. He works on the
givens of the market and the price, and becomes a part of a phenomenon is society, of
which he has no idea. It is possible that good things may happen because of his activity,
but that was not his direct intention.

Stakeholder outlook – In contrast to the above view, what we must realize is that
we have come a long way in history since Adam Smith’s world and the guidance of the
“invisible hand”. If the law of reason tells us that if things happen, they do happen for a
reason. All human activity has a moral dimension because they proceed from one’s
intentions or free will. Business decisions are highly moral decisions, as they affect the
lives of people.

We must also realize that we have travelled a long way from the pure agency
theory. Presently, what is essential for corporations is accountability. Profitability is a
very narrow view of business, and that businesses must be measured by their profits
sounds crude unless those profits are utilized in the larger interest of society. Business
corporations must realize that not-for-profit organizations are increasing in numbers all
around the globe and are generating more wealth than corporations. Not-for-profits are
profitable to their management, employees, suppliers, and the receivers of their products
and services. Not-for-profits are also in the same business as for-profits, such as
manufacturing, co-operative banking, healthcare, and education. Hence, when
corporations are pointed out their duties in society, they cannot afford to say that their
business is to only run a business. In the new world order, everyone is in some business,
whether profit-oriented or not. Stakeholder ship is the new principle of business operation.

MORAL ARGUMENTS FOR CSR

We cannot see the woods for trees when we are bombarded with the imperatives of
CSR. The entire media appears to come down on those companies who are not known
much for CSR. Corporations, it appears, are sometimes forced into CSR because insiders
and strategy consultants tell them that it is in vogue, and it is a very good strategy. If Bill
and Melinda Gates have gone in for founding the largest non-profit foundation for
healthcare, then others cannot be left behind. The CSR activities of the company make
those CEOs who put the mantra of ‘giving back to society’ highly visible. Then, there are
impressive and famous foundations such as Fords and Carnegie, and, in India, the Birla
trusts, the TATA charitable institutions, etc. However, for-profit institutions are a sine
qua non for the economic well-being of a society. All these catapult the corporations as ‘
good corporate citizens’. Can there be a reasonable and convincing argument in favor of
CSR in such a confused scenario? Let us now discuss why CSR is relevant, and therefore
desirable.

CSR is natural — There is a relationship of dependence between corporations and
communities. Corporations are, in fact, creatures of the community. Corporations are
formed and given a legal existence through real persons, who have also made sure that
the corporations will have permanency of existence beyond the biological lives of its
members. Therefore, it behoves that corporations work naturally for the community.
Thus, CSR is a natural response to community.

Profit is no sin — In general, the perception that is steeped with socialistic ideology
or some religious ideology that profits are inherently bad is an untenable argument. If
wage can be just and moral for the worker, and rent to the property owner, then profits
are just rewards for the investor’s capita. After all, the capital is earned by its owner.
Further, it takes all the skills of the entrepreneur and an enormous risk to venture into
business. In this way, profits are just and fair rewards.

The egalitarian ideal – If business has to grow, it needs investment, future
investments come form profit, loans, and borrowings. It is fair to reward shareholders.
However, with growth in business, it is possible for corporations to participate in
community building, and this egalitarianism creates a social market economy.

CSR as Duty

Corporations cannot say that their business is only to attend to their own business
and earn profits for shareholders. It is the community that supplies the infrastructure, employee, and security, legal protection, and several other services, both tangible and intangible, and corporations cannot ignore this fact. On the contrary, corporations are guilty of misusing natural and human resources, polluting the environment, and causing various crises in society. It is the duty of corporations to mitigate the damages that they have done, stop perpetrating further damage to the environment, give equal pay for equal work without gender discrimination, maintain safety and security at the workplace, and maintain confidentiality. There are the first and essential duties of CSR. Further, though philanthropy and social work are welcome, it is a good CSR programme that will help corporations reap rich rewards by building a better brand, perhaps at costs lesser than what is spent on advertising and marketing. Thus, CSR is not a favour done to society. It is a bounden duty to be performed.

**CSR with Conscience**

People live by their conscience. Corporations, which are association of the people, have collective conscience, whereby all their decisions express this moral quality. Thus, for instance, letting out untreated effluents, paying unjust wages. Rigging the price, giving false information, deceiving the market regulator, etc are sins against conscience. In a similar fashion, the behavior in the community exhibits the conscience of corporation. CSR is a visible image of the conscience of the corporation.

**Conclusion: One Ethics for all**

Corporations are not exceptions to morality. They cannot have a separate set of moral rules. They only difference between individual human beings and corporation is that the latter earns an even greater and collective responsibility of their actions.

Corporation with CSR show that are conscious about the community they live in. since they have both collective manpower, as well as economic strength, they could take up leadership roles in society and become motivators for the people in the common mission of a better life for all.

Thus, CSR makes companies realize the common good. It is this sense of common good that makes us human beings and gives us a broader vision to understand and solve human problems.

**ISSUES IN CSR**

Peter Drucker had predicted that the twenty-first century would belong to the social sector organization. The financial crisis of 2008 has taught the world a hard lesson for not taking sufficient interest in the social economy. It is due to the work of the social service organizations, no-governmental agencies, and not-for-profit organizations that there is some sense of sanity in the world, and people are able to cope with crises. Now there are some more positive signs. Corporate governance is taking hold, and a more active CSR will help in all the issues that humanity faces—form environmental problems to healthcare, form employment to standards of living.

**Trusteeship**

A corporation is created under a trusteeship. Individual shareholders are not the owners of a corporation as in the sense of owning a private property. The law has it that shareholders are merely residual claimants. Moreover, managers are not agents of shareholders, but rather stewards who exercise fiduciary duty. Thus, the idea of trusteeship adopts a realistic philosophy of the corporations as social institutions.

A corporation is a public person. When a corporation fails, it is a public that takes it up as its own and saves it. We have seen in numerous instances of financial crises around the world how government have relied and tried to save corporations with taxpayers’ money. If the respective communities had also adopted a hardened attitude that the business of business is to do profitable business only, these corporations would have folded up immediately. The shutdowns would have been disastrous, leaving employees with no shelter or livelihood. Hence, corporations are social institutions and ultimately
NOTES

belong to the people, who rescue them with their hard earned money. Hence, CSR is not charity done by corporations to the community. It is fair to say that it is the community that show charity toward corporations.

Corporate Governance

The issue of trusteeship logically leads to good corporate governance. Corporate financial scandals can seriously hurt its stakeholders. People expect corporations to be mature, responsible, transparent, and accountable. Just as ordinary citizens serve the country in myriad ways—electing a government, and demanding accountability form it, paying taxes and taking care of the entire country and its needs, from economics to defense, from health and education to cultural activates—so too corporations should serve the community. Corporations do no one a favor by being good corporate citizens. It is their duty to do so, and corporate governance is a worthy instrument to do it with.

CSR and State Partnership

Non-governmental agencies are citizens’ initiatives to help the government with the ever growing rage of social issues. Similarly, there are working partnerships between the government and the corporations who form CSR foundations and help the social causes of the people.

The Infosys CSR case at the end of the chapter shows us a good example of state corporation partnership. Government hospitals get annexes and modern equipment donated by corporations. Likewise, school libraries get refurbished, mid-day meal programs supported, rehabilitation of people in times of disaster coordinated, and several other social causes supported. Such cooperation between corporations and the government will double up the efforts and bring speedy solutions.

CSR and Citizen PARTNERSHIP

Similar to the partnership between the state and the corporations, partnerships have been formed between NGOs or non-profit organizations and corporations for effective solution in healthcare, education, and women’s empowerment. Poverty and the illiteracy of the masses in India have presented corporations with a challenge. Hey see an opportunity for the future in his challenge: it is form these masses that more corporations will arise, more human resources will be created, and a better world will be formed.

There is now a positive trend in India, where we see that all corporations, whether big or small, have some item of CSR on their agenda. The idea that shareholders will grudge a portion of the profits that will go towards these activities is outdated. Investors are happy that their firms are taking leadership role in society on their behalf.

CSR Trends in India

‘Wealth is not to be earned for the purpose of self-indulgence or of satisfaction of greed. Wealth should be treated as the citizen’s instrument of helpfulness. The word is not just helpfulness but helpfulness combined with a sense of duty’ said Thiruvallvar, India’s ancient sage, in his work Kural, which is considered as one of the best guides to the art of living. In 2001, the Tata Energy and Research Institute (TERI) undertook a survey of CSR in India. It found that Indian corporations were quite spirited about community services, although their models were different. Some had adopted the Gandhian method of voluntary commitment to welfare, particularly rural welfare. Others were more statist, like Nehru, for a centralized model. Some corporations were quite conservative and insisted that good business is CSR. An overwhelming majority were for the stakeholder model. The following were the main concerns expressed by all the corporations:

(a) Environmental pollutions
(b) Good quality products and services at affordable process
(c) Faith in the NGOs carry out the work of welfare
Triple Bottom-line Approach to CSR

On of the most recommended approaches to CSR is the triple bottom line. This was proposed by John Ellington in 1997, an is known by its acronym TBL. Previously, there was only one bottom line for corporations, to rap profits for shareholders. But CSR has three of them – shareholders, environment, and social. Thus, there come the system of environmental management, which has taken the central role in industry and social auditing. Now there are parameters on which companies can measure themselves for CSR and its reporting practices. In this manner, corporations are encouraged to be members of the community and responsible citizens.

DEVELOPMENT OF CORPORATE CONSCIENCE AS MORAL PRINCIPLE OF CSR.

It is puerile to define conscience as an intermittent inner voice that declares us guilty on hindsight, when we have don something wrong. Its is equally puerile to state that conscience is an inbuilt moral cop waiting to catch us if we falter. It is also negative to say that conscience is an unbending normative faculty that society cleverly uses to subjugate its people.

Conscience is a faculty that represents the nature of person in hi/her voluntary actions. It is a moral compass that each person develop in a given social environment, where hi/she learns to live and become conscious about the deliberate choices to be made while journeying through life, building and understanding human relationships, realizing the fundamental values of truth, trust, compassion, justice, and the like, and being sensitive to issues concerning general human conditions. It concerns all our voluntary actions, actions for which we are responsible, and such responsibility is fulfilled through a steady development of moral actions, which forms is us good habits. Habits are those repeated acts, which when repeated as often as possible, become second nature. This second nature can be safely called the formation of a good conscience. The formation of a good conscience goes through an empirical process of learning, development, and progress, depending on the demands made on it. With a well-formed conscience, a person does not need to go through the arduous tasks of deliberation in each case, amid difficult moral choices. Thus, it becomes clear that good education in moral values is a precondition for a well formed conscience. It epitomized fundamental values existing in our society and demands the practice of those values that represent individual character on a daily basis. Individuals reflect upon what kind of persons they ought ot be, what goals merit pursuit, and how they should relate to other people. In a specialized world, people obtain competence in their chosen fields and become professionals, whether in academic, science, business, or any other vocation of life. These professional bear even greater responsibility to understand the ethical and legal requirements of thir chosen profession, and become prudent in making thir choices, and perceptive in recognizing and resoling ethical conflicts.

We have advocated conscience as one of the standard of moral judgment. For professional, conscience is a I constant and personal guide. Conscience is the moral system that we build within us as we grow up in a multilayer environment. Its judgment is indeed vary subjective. Though peculiar to person, tit reflects what is objectively acceptable or not acceptable in society. Hence, it is an objective judgment because society has first influenced it. is subjective because an individual makes it. It is again objective because the person is a part of the society from where the knowledge of such judgments has come. Corporations are also guided by the people whose decisions represent the minds of the corporations. Thus, corporations are capable of making conscientious judgment. Let us delineate the corporate conscience.

Corporate Conscience

Do corporations have a conscience that can be mapped through their works? The financial times of 20 April 2002 had the following title for its editorial : ‘corporate social responsibility —CII and FICCI must speak out on Gujarat’. The alleged silence of the confederation of Indian Industry and the Federating of Indian Charmers of Commerce
Corporate Social Responsibility

NOTES

and Industry corroborated the general belief that corporations care more about profits than people. The editorial noted that although on a person core, the tycoons of the industry were perturbed, they did not want to make their feelings public. Obviously, the did not want to displease their political bosses, with whom they dined and wined and did business. The paper was concerned. ‘ after all, business has been hut badly in Gujarat. No only has it been directly hurt by the targeted destruction of shops, factories, and premises, but also by the reckless looting of shops and the prolonged imposition of curfew thereafter, in many parts. Political parties have protested; the media has spoken mind out; non-governmental organizations have been pro-active. Surely it is time for the corporate sector to do its bit too’. When fingers were pointed at the industry, and thousands of crores of rupees of business was lost, they took some notice and issued protest resolutions; otherwise, it was business as usual. The Gujrat carnage, sparked by the Godhara railway arson, and the dereliction of the CSR by the industry, amply exhibited that Indian corporations lacked conscience.
CODE OF CONDUCT FOR CORPORATE GOVERNANCE

The model code of conduct for code of conduct for directors & senior management:

The members of the Board of Directors acknowledge and accept the scope and extent of their duties as Directors. They have a responsibility to carry out their duties in an honest and businesslike manner and within the scope of their authority, as set forth in the laws of India as well as in the Memorandum and Articles of Association of the Company. They are entrusted with and are responsible for the oversight of the assets and business affairs of the company in an honest, fair, diligent and ethical manner. As Directors, they must act within the bounds of the authority conferred upon them and with the duty to make and enact informed decisions and policies in the best interests of the Company. The Board of Directors has adopted the following

Code of Conduct

Board Members and senior managers will:
  ★ act in the best interests of, and fulfill their fiduciary obligations to the Company;
  ★ act honestly, fairly, ethically and with integrity;
  ★ conduct themselves in a professional, courteous and respectful manner and not take improper advantage of their position;
  ★ will deal fairly with all stakeholders;
  ★ comply with all applicable laws, rules and regulations;
  ★ act in good faith, responsibly, with due care, competence and diligence, without allowing their independent judgment to be subordinated;
  ★ not use the Company’s property or position for personal gain;
  ★ will not accept from or give to stakeholders gifts or other benefits not customary in normal social intercourse;
  ★ not use any information or opportunity received by them in their capacity as Directors or senior management in a manner that would be detrimental to the Company’s interests;
  ★ act in a manner to enhance and maintain the reputation of the Company;
  ★ disclose any personal interest that they may have regarding any matters that may come before the Board and abstain from discussion, voting or otherwise influencing a decision on any matter in which the concerned Director has or may have such an interest;
  ★ abstain from discussion, voting or otherwise influencing a decision on any matters that may come before the board in which they may have a conflict or potential conflict of interest;
Code of Conduct for Corporate Governance

NOTES

- respect the confidentiality of information relating to the affairs of the Company acquired in the course of their service as Directors or senior management, except when authorized or legally required to disclose such information;
- not use confidential information acquired in the course of their service as Directors or senior management for their personal advantage or for the advantage of any other entity;
- help create and maintain a culture of high ethical standards and commitment to compliance;

A Director or senior manager who has concerns regarding compliance with this Code should raise those concerns with the Chairman of the Board and the Chairman of the Audit Committee, who will determine what action, shall be taken to deal with the concern. In the extremely unlikely event that a waiver of this Code for a Director would be in the best interest of the Company, it must be approved by the Audit Committee and the Board of Directors.

There may be situations in which a Director would be in breach of his duty of confidentiality to another entity were he to disclose a conflict of interest to the Board of the Company. In such a situation, it shall be sufficient for the Director concerned to abstain from any participation in the matter concerned, without disclosing the nature of the conflict.

For this purpose “senior management” shall mean members of management one level below the executive directors and shall include all functional heads. Directors and senior managers will annually sign a confirmation that they have read, have complied with and will continue to comply with this Code.

Source: http://www.nfcgindia.org/model%20code%20of%20conduct.pdf
Indian Context of Corporate Governance

CORPORATE GOVERNANCE IN INDIA: CURRENT STATUS & RECOMMENDATIONS

ISSUE CODES AND PRINCIPLES / CURRENT PROVISIONS IN INDIA/ISSUES AND RECOMMENDATIONS

BOARD ISSUES

Responsibility of the Board

CODES AND PRINCIPLES

OECD Principles

The board should fulfil certain key functions, such as (i) reviewing and guiding corporate strategy, risk policy, annual budget and business plans, setting performance objectives, monitoring corporate performance and overseeing major capital expenditures and acquisitions; (ii) selecting, compensating and monitoring key executives; (iii) reviewing key executive and board remuneration; (iv) monitoring and managing potential conflicts of interest of management, board members and shareholders; (v) ensuring the integrity of corporation’s accounting and financial reporting systems; (vi) monitoring the effectiveness of the governance practices; and (vii) overseeing the process of disclosure and communications.

BIS

Bank boards should establish strategic objectives and set corporate values that will direct the ongoing activities of the bank. The board should ensure that senior management implements policies that prohibit activities and relationships that diminish the quality of corporate governance, such as conflicts of interest, self-dealing and preferential dealings with related parties. Board should set and enforce clear lines of responsibility and accountability throughout the organisation. Keeping in view their oversight role board of directors should feel empowered to recommend sound practices, provide dispassionate advice, and avoid conflict of interests.

LSE Combined Code

Every listed company should be headed by an effective board which should lead and control the company.

SEBI

The board of directors of a company directs and controls the management of a company. The day-to-day management of the company is the responsibility of the management.

CURRENT PROVISIONS

Companies

The board of directors is the ultimate governing body of a
Company. It enjoys extensive powers as provided under the Companies Act and the company’s Articles. Some of these powers are exercisable at board meetings while others require the consent of the shareholders.

Directors, who are appointed as fiduciaries of the company, are “expected to display the utmost good faith towards the company whether their dealings are with the company or on behalf of the company”. (S.291)

The board may, through a resolution, delegate its powers to the managers. However, it remains the duty of the board to set out limits to the powers delegated to management. The board should not act negligently in the management of the company’s affairs.

The board of directors must disclose their interest in any transactions of the company. Board’s sanction is required for certain contracts in which particular directors are interested. They must avoid conflicts of interests in their duties and obligations to the company. The board is responsible for signing of the company’s balance sheet and profit and loss statement and for ensuring that these documents are filed with the Registrar and sent to shareholders. The board must provide the directors’ report attached to the annual report to the shareholders and ensure the accuracy of statements made therein. The directors are liable for their statements made in the directors’ report.

**Banks**

Some banks articulate corporate values, codes of conduct and standards of appropriate behaviour, etc. Some of them have also well-articulated corporate strategy decided by the board of directors. In pursuance thereof, performance budgeting system is followed, which measures, monitors and evaluates corporate success and the contribution of business units.

The mechanism for interaction and co-operation among the board of directors, senior management and the auditors of the bank is fairly well established.

Section 20 of BR Act, 1949 prohibits loans and advances to directors or to any firm or company in which directors are interested or loans to individuals in respect of whom any of its directors is a partner or guarantor. Disclosure of interest by directors is mandatory and in case there is any likelihood of conflict of interest arising, the concerned director is required to abstain from participating in the decision-making process relating to that case.

The boards generally perform the function of providing “check and balance” to the management. However, all members of the boards individually may not be said to be conducting themselves
as ideally as envisaged.

RBI has issued a circular regarding Do’s and Don’ts for the directors of banks on March 9, 1992.

**Public Sector Companies**

Most of the provisions in the Companies Act regarding role/responsibility of the Board also apply to the Government companies. The only exception being Section 297, which states that the ‘Board’s sanction is required for certain contracts in which particular directors are interested’.

In addition, the Department of Public Enterprises (DPE) has specified the following:

1. Board of Directors of all non-financial PSUs should ensure that decisions regarding investment of funds are transparent and taken only by the delegated authority, and that the proper exercise of such authority is monitored by the Board. Boards of all PSUs are directed to lay down clear policies on investment of surplus funds, establish transparent procedures, review delegation of authority and prescribe regular reporting of investments to the Board. The Administrative Ministry gives guidance to the Board in laying down policies and procedures. The Administrative Ministry in turn is guided by the DPE and the Ministry of Finance. The latter closely follow up the implementation of the policies on investment laid down by these Ministries.

2. Wherever the company is headed by a part time chairman the part-time Chairman should guide the board of directors in the discharge of the role entrusted to them in respect of formulating corporate policy and the corporate plan, their implementation and evaluation with a view to improving the enterprise’s performance. The part-time Chairman, however, cannot issue directives as the management of public enterprises is vested under the Companies Act with its Board of Directors.

3. As Chairman of the Board of Directors, the part-time Chairman will also evaluate the work of the Chief Executive in implementing the policies laid down by the Board for improving the enterprise’s performance.

**ISSUES / RECOMMENDATIONS**

**Companies**

As in OECD Principles, the responsibility of the board should be clearly defined to include following key functions: (i) reviewing and guiding corporate strategy, risk policy, annual budget and business plans, setting performance objectives, monitoring
corporate performance and overseeing major capital expenditures and acquisitions; (ii) selecting, compensating and monitoring key executives; (iii) reviewing key executive and board remuneration; (iv) monitoring and managing potential conflicts of interest of management, board members and shareholders; (v) ensuring the integrity of corporation’s accounting and financial reporting systems; (vi) monitoring the effectiveness of the governance practices; and (vii) overseeing the process of disclosure and communications.

Though law provides safeguards to shareholders, it is well known that directors’ duties are often followed in letter but not in spirit. The board of directors needs to look into improving the quality of information, which they provide to shareholders. The balance sheet is prepared to meet only statutory requirements. It is not much helpful from average shareholders’ point of view. About 6-8 pages should be added to enlighten the shareholder about the performance of the company in relation to last couple of years, with reference to other companies in the same/similar industry as also with reference to the industry as a whole. Consolidated accounts incorporating performance of subsidiaries and performance of various divisions of the company should be presented.

**Banks**

Even in respect of banks, the responsibility of the board should be clearly defined as in the case of other companies.

There is an urgent need to follow the best practices in the banks in respect of constitution and functioning of the boards.

Banks need to develop mechanisms to ensure percolation of corporate strategic objectives and sound values throughout the organisation.

The board should ensure that senior management implements policies that prohibit (or strictly limit) activities and relationships that diminish the quality of corporate governance, such as, conflicts of interest, self- dealing and preferential treatment to related parties. Bank boards should play an active role in providing oversight of the way in which senior management approaches different kinds of risks which banks face, such as, credit, market, liquidity and operational.

Currently several bank boards, particularly those of the PSBs are relatively weaker and less motivated to pursue policies, which are in the best interests of the banks themselves. Corrective steps should be taken through appropriate restructuring the boards.

A number of corporate control mechanisms do not work freely
in banks as banks operate under substantially different legal and regulatory environments than non-financial companies. The absence of a credible take-over threat among banks has a marked influence on the effectiveness of the corporate control mechanisms operating in banks. There may be benefits in reducing rigour of some of the regulatory impediments that mergers of banks face.

The regulations regarding limits on individual shareholdings and voting rights differ as between PSBs and private sector banks. For example, while limits on individual voting rights are 1% in PSBs they are 10% for private sector banks. All such regulations should be made uniform irrespective of whether the banks are in the private or public sector.

There are many restrictions, which influence the ownership structure of banks. To the extent that these restrictions reduce the likelihood of banks having equity holders with large stakes, it may reduce the effectiveness of the mechanism of monitoring and oversight performed by the shareholders with large stakes. Since the restrictions on market for corporate control for banks in India is not being made up for by greater direct shareholder monitoring, the current restrictions on potential owners of banks do have costs.

Public Sector Companies

The quality of information provided to the shareholders should be improved substantially. In particular, the balance sheet, besides meeting statutory requirements, should also devote about 6-8 pages to enlighten the shareholders about the performance of the company during the current year vis-à-vis that during the last 4-5 years. It should give a comparative picture with reference to other companies in the same/similar industry as also with reference to the industry as a whole. Consolidated accounts incorporating performance of subsidiaries and performance of various divisions of the company should be presented.

The fact that directors’ duties are often followed in letter but not in spirit is all the more true in the case of Government companies, which in many cases keep on faithfully following extant guidelines issued by different Ministries/Departments.

Broadly speaking, the role and responsibility of the Board should be laid down in very clear terms for all kinds of Government companies, just like all other companies. The recommendations made in this regard in the context of Indian companies should apply to the Government companies as well. In any case, the following recommendations should apply to all listed Government companies:
1. The information regarding controlling stake of major shareholders in various government companies should be publicly available.

2. The board of directors needs to look into improving the quality of information, which they provide to shareholders.

<table>
<thead>
<tr>
<th>Accountability to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders/ Stakeholders</td>
</tr>
<tr>
<td>CODES AND PRINCIPLES</td>
</tr>
<tr>
<td>OECD Principles</td>
</tr>
<tr>
<td>Not covered.</td>
</tr>
<tr>
<td>LSE Combined Code</td>
</tr>
<tr>
<td>Not covered.</td>
</tr>
<tr>
<td>SEBI</td>
</tr>
</tbody>
</table>

The board is accountable to the shareholders for creating, protecting and enhancing wealth and resources for the company, and reporting to them on the performance in a timely and transparent manner.

**CURRENT PROVISIONS**

**Companies**

No specific provisions.

**Banks**

Boards of majority of the banks do not enforce clear lines of responsibility and accountability for themselves.

**Public Sector Companies**

The Companies Act (S.619) thus requires that annual report on the working and affairs of each govt. company be prepared and laid before both the Houses of Parliament along with the audit report and comments of the Comptroller and Auditor General of India (CAG) in case the Central Government is a member of the Government company. Where any State Government is also a member, the annual report has to be laid before both Houses of State Legislature as well. This applies to all companies which are referred to as “deemed Government companies”, i.e. those companies in which at least 51% of the paid-up capital is held by the Central Government or State Government or any other company which is owned by them or is under their control.

**ISSUES / RECOMMENDATIONS**

**Companies**

The board should be accountable to the owners of the company, but not necessarily to the stakeholders. The company should, however, respect its contractual obligations to the stakeholders, such as, employees, creditors, suppliers, customers, environmental impact of the operations of the company, etc.
Banks

The boards of banks do not seem to subject themselves to high measure of accountability or performance either set by themselves voluntarily or made applicable to them externally. Thus, this leaves them largely without any accountability either to the institution or to the supervisor. The stress on accountability largely ends up with efforts to fix accountability for loans/advances that go bad. The situation calls for suitable correction.

The board should be accountable to the owners of the bank. The banks should also keep in view the interests of main stakeholders, such as, depositors, employees, creditors, customers, etc. Public Sector Companies The board should be accountable to the ultimate owners of the Government company, which is essentially public and conduct the affairs of the company in such way that the overall social and not sectional interests receive the highest priority. The company should remain viable and meet the objectives for which it has been set up. Similarly, the interests of the main stakeholders, such as, employees, creditors, suppliers, customers, environmental impact of the operations of the company, etc receive due attention.

Access to CODES AND PRINCIPLES

OECD Principles

In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.

LSE Combined Code

The board should be supplied in a timely manner with information in a form and of quality appropriate to enable it to discharge its duties. The board should be free to acquire independent professional advice at the expense of the company.

SEBI

Management should provide timely, accurate, substantive and material information, including financial matters and exceptions, to the board and board committees.

CURRENT PROVISIONS

Companies

No specific provisions.

Banks

Internal information flow is reasonably well established in banks.

Public Sector Companies

Often all the required information is not given especially to the
NOTES

ISSUES / RECOMMENDATIONS

Companies / Banks / Public Sector Companies

In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information. Information currently volunteered by the management to the board members is often quite inadequate. This needs to be improved considerably.

Whenever necessary the directors should be free to acquire, at the expense of the company, independent professional advice in regard to the matters of the company.

The board meeting should be conducted properly with clearly laid down agenda for discussion, which should be circulated well in advance and supported by substantive information. The minutes of the board meeting should be circulated well in advance of the next board meeting. This should be a mandatory recommendation for all companies.

Electoral CODES AND PRINCIPLES

OECD Principles

The board should ensure a formal and transparent board nomination process.

LSE Combined Code

Non-executive directors should be appointed for specific terms and reappointment should be automatic; all directors should be subject to shareholder election following their appointments and re-elections thereafter.

Appointment to the board should follow formal and transparent procedures; the nomination committee should make recommendations on all new board appointments.

Directors should submit themselves for re-election at regular intervals of no more than three years.

SEBI

Not covered.

CURRENT PROVISIONS

Companies

The directors are elected by the shareholders in the general
Each director is appointed or removed by ordinary resolution. At least 2/3rd of total directors should retire by rotation at AGM. Remaining 1/3rd may be appointed for a fixed duration in the general meeting. At every AGM, 1/3rd of those liable to retire by rotation shall retire from office. A retiring director may be re-appointed at AGM. (S.255,256)

The appointment of managing director or whole-time director or manager requires Central Government approval in certain cases. (S.269)

No specific qualifications are expected of directors other than the usual requirements that they should not be insane, not declared insolvent or with a criminal record. (S.267)

**Banks**

In terms of the provisions of Section 9 of Banking Companies (Acquisition and Transfer of Undertakings) Act, the Government constitutes the boards of directors of nationalised banks. The boards comprise of two whole-time directors, a nominee each of Government of India and RBI, nominees of workmen and non-workmen unions, and a chartered accountant. Besides this, six non-official directors with specialised knowledge in agriculture and rural economy, banking, co-operation, economics, finance, law, SSI etc. are appointed.

The directors on the boards of private sector banks are appointed in terms of Section 10A of B.R.Act, 1949 and Section 303 of the Companies Act. While appointing the directors, the area of interest is considered to be the most important criteria. On a case by case basis, RBI appoints a nominee director on the board.

**Public Sector Companies**

Section 255, 256, 257 and 269 of the Companies Act do not apply to a Government company in which entire paid-up share capital is held by Central/State Government or subsidiary of a Government company in which entire paid-up capital is held by that Government company.

These Sections stipulate:

At least 2/3rd of total directors should retire by rotation at AGM. Remaining 1/3rd may be appointed for life-term or for a fixed duration in the general meeting. At every AGM, 1/3rd of those liable to retire by rotation shall retire from office. A retiring director may be re-appointed at AGM. (S.255,256)

The appointment of managing director or whole-time director or manager requires Central Government approval only in certain
The DPE guidelines stipulate the following:

All part-time non-official directors are appointed for a term of three years at a time with rotational retirement. The retiring directors are eligible for re-appointment.

Rotational retirement is necessary to ensure a degree of continuity of the Board. For the purpose of rotational retirement the public enterprises fall in two categories, namely, (i) enterprises where the entire paid up share capital is held by the Government (including State Governments), and (ii) the entire paid up capital is not held by the Government. Ideally in both cases rotational retirement system should be adopted in both cases.

**Selection Process**

All proposals relating to creation/redesignation/upgradation of board level posts, including MD, Chairman, CMD, etc. in PSEs require the approval of the Financial Adviser and Minister-in-Charge of the Administrative Ministry. The proposals are then processed by the DPE in consultation with the Public enterprises Services Board (PESB) for approval of the Ministry of Heavy and Public Enterprises and the Ministry of Finance.

**ISSUES / RECOMMENDATIONS**

**Companies**

Independent and executive directors should be appointed on the board based on the recommendations of a nomination committee comprising the independent directors of the board. The nomination committee should adopt clear and transparent criteria for selection of the independent board members.

The criteria for choosing non-executive directors should be disclosed in the Annual Report.

**Banks**

Presently, the bank boards consist mainly of nominated members as against elected members. The board with nominated members cannot be regarded as being truly independent.

It sometimes takes a number of years to reconstitute the boards of some public sector banks. The board should have continuity and directors should be appointed with different tenures.

Presently, the directors representing the interests of workmen, employees, officers, depositors, farmers, workers, and artisans, and directors with special knowledge or practical experience in specified fields are appointed on the boards of nationalised banks for a period not exceeding 3 years, and they are eligible for reappointment until his/her successor has been appointed. It is
essential to look into the composition of board of directors of nationalised banks and induct professionals.

As in case of other companies, independent and executive directors should be appointed on the board based on the recommendations of a nomination committee of the board. The nomination committee should adopt clear and transparent criteria for selection of the independent board members.

The criteria for choosing independent non-executive directors should be disclosed in the Annual Report.

**Public Sector Companies**

The concept of nomination committee of the Board does not exist in the Government companies at present. The selection for all Board-level posts in PSEs is done through a complicated process. The role of Public Enterprises Services Board (PESB) set up by the Board comes close to that of the nomination committee. It advises Government on the appointments to all top-level posts in PSEs. As the entire process is very complicated and involves different levels of recommendations, interviewing and final decision-making, there are considerable delays in appointment to various top-level posts.

An independent high powered Selection Board of eminent persons on the lines of the Union Public Service Commission to select full time directors for the PSUs should be set up. Its decisions should be final and not subject to approval of the concerned administrative ministry. The selection board should also prepare a panel of experts for nomination as independent or professional directors on the boards of PSUs. The induction of non-executive directors should be done by a nomination committee.

The criteria for choosing independent non-executive directors should be disclosed in the Annual Report.

**CODES AND PRINCIPLES**

**OECD Principles / LSE Combined Code / K M Birla Report**  
Not covered.

**CURRENT PROVISIONS**

**Companies**

The Companies Act stipulates every company to have minimum three directors. Only individuals can be directors. A company, in its general meeting, by ordinary resolution, can increase or decrease the number of its directors within the limits fixed by its Articles. Any increase in the number of directors beyond 12 requires Central Government approval. (S.252, 253, 258 and 259)
NOTES

Banks

The size of boards of public sector banks is stipulated by their respective statues.

Public Sector Companies

Sections 252, 253, 258 of the Companies Act regarding size of the board apply to Government companies also. Section 259 of the Companies Act, which stipulates that any increase in the number of directors beyond 12 requires Central Government approval, does not apply to Government companies.

ISSUES / RECOMMENDATIONS

Companies

All listed companies should have minimum of eight board members so as to have professionals/experts from different disciplines as required by the company’s scale and range of operations. Companies with net-worth of Rs 15 crore or more should have at least 10 directors of which at least 5 should be independent directors.

Banks

All banks should have minimum of 10 board members.

Public Sector Companies

The Articles/Memorandum of Association of different PSEs specify the size of the board, which varies from company to company. Normally, the size of the Board ranges between 3 and 15. Some PSUs have even bigger boards.

The recommendation that all listed companies should have minimum of 10 board members should apply to PSEs as well.

Composition

CODES AND PRINCIPLES

OECD Principles

Majority must be independent board members who can contribute sufficiently to the decision-making of the board.

LSE Combined Code

The board should include a balance of executive and non-executive directors (including independent non-executives) so that no individual or group of individuals can dominate the board’s decision-making.

SEBI

The board of a company should have an optimum combination of executive and non-executive directors with not less than fifty per cent of the board comprising the non-executive directors. The number of independent directors would depend on the nature
of the chairman of the board. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should be independent. (Mandatory Recommendation)

CURRENT PROVISIONS

Banks

Not less than one-half of the total number of directors of a bank shall consist of persons who have special knowledge or practical experience in one or more of the areas specified in Section 10 A (2) of the Banking Regulation Act 1949.

Public Sector Companies

The Members of the Board of PSEs generally consist of the following three categories:

Functional Directors: These are full time operational Directors responsible for day to day functioning of the enterprise. The enterprises could have representation at Board level for disciplines, such as, finance, personnel, production, marketing, project, planning etc. The number of such should not exceed 50% of the actual strength of the board.

Government Directors: They are appointed by the Administrative Ministries and are generally the officers dealing with the concerned enterprise. In most cases there are two such Directors on a Board; the Joint Secretary or Additional Secretary dealing with particular enterprise and the Financial Adviser of the Ministry. The number of government directors should not exceed one-sixth of the actual strength of the board with a limit of two.

Non-Official Directors: The induction of non-official Directors on the Boards of PSEs is considered essential in order to make the Boards more professional. They are drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability.

Source: http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/20024.pdf

Improving Code of Conduct

Recommendations of SEBI committee on Corporate Governance

Review of information by audit committees

Suggestions were received from members that audit committees of publicly listed companies should be required to review the following information mandatorily:

★ Financial statements;
★ Management discussion and analysis of financial condition and results of operations;
NOTES

Business Ethics & Corporate Governance

The Committee noted that most of this information was already reviewed by audit committees during the audit committee meeting. Further, it was already contained as a recommendation in the Kumarmangalam Birla Committee on Corporate Governance.

The Committee also noted that the recommendation in the Birla Committee Report cast a responsibility on the audit committee vis-à-vis their duties and role. Further, the compliance report of the Mumbai Stock Exchange showed that approximately only 53% of the companies complied with this requirement contained in the Birla Committee Report.

In view of the above deliberations, the Committee makes the following mandatory recommendation:

**Mandatory recommendation**

Audit committees of publicly listed companies should be required to review the following information mandatorily:

- Financial statements and draft audit report, including quarterly / half-yearly financial information;
- Management discussion and analysis of financial condition and results of operations;
- Reports relating to compliance with laws and to risk management;
- Management letters / letters of internal control weaknesses issued by statutory / internal auditors; and
- Records of related party transactions.

**Financial literacy of members of the audit committee**

Suggestions were received that all audit committee members should be “financially literate” and at least one member should have accounting or related financial management expertise. It was also suggested that all audit committee members should be able to read and understand financial statements at the time of their appointment rather than within a reasonable period.

The Committee was of the view that the first recommendation was acceptable. It was also of the view that the definition of the phrase “financially literate” should be explained further.

Based on the above discussions, the Committee accordingly makes the following mandatory recommendation:

All audit committee members should be “financially literate” and at least one member should have accounting or related financial management expertise.

Explanation 1 – The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.
Explanation 2 – A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

Disclosure of accounting treatment

It was suggested that in case a company has followed a treatment different from that prescribed in an accounting standard, independent / statutory auditors should justify why they believe such alternative treatment is more representative of the underlying business transaction. This should also be explained clearly in the footnotes to the financial statements.

The Committee noted that accounting policies and principles are selected by a company’s management. Consequently, the onus should be on management to explain why they believe such alternative treatment is more representative of the underlying business transaction. The auditor’s responsibility is to express a qualification in case he disagrees with the explanation given by the company’s management. The responsibility should not be cast on the auditor to justify such departures from an accounting standard. The members were of the view that the auditor may either concur or disagree with management’s viewpoint. The auditor may draw reference to this footnote without necessarily making it the subject matter of an audit qualification, unless he disagrees with the departure from the accounting standard, in which case he would be required to issue a qualification.

In light of the above deliberations, the Committee was of the view that the suggestion should be modified to reflect this. The Committee therefore makes the following mandatory recommendation:

In case a company has followed a treatment different from that prescribed in an accounting standard, management should justify why they believe such alternative treatment is more representative of the underlying business transaction. Management should also clearly explain the alternative accounting treatment in the footnotes to the financial statements.

Audit qualifications

Suggestions were received that where financial statements contain qualifications, companies should be given a reasonable period of time within which to cure the qualifications, by SEBI / Stock Exchanges. Mere explanations from companies may not be sufficient.

The Committee noted that the above recommendation be dropped since adequate safeguards already exist. It was also of the opinion that it may not be possible to cure a taint in some cases and this would lead to undue hardship on companies.

Based on this discussion, the Committee accordingly makes the following recommendation:

Companies should be encouraged to move towards a regime of unqualified financial statements. This recommendation should be reviewed at an appropriate juncture to determine whether the financial reporting climate is conducive towards a system of
NOTES

filing only unqualified financial statements.

**Basis for related party transactions**

Suggestions were received that for each related party, a statement shall be recorded disclosing the basis / methodology for various types of transactions. It was also suggested that the records of all transactions with related parties including their bases / methodology should be placed before the independent audit committee at each Board meeting for formal approval / ratification. This should include any exceptional transactions that are not on an arm’s length principle together with reasons for such deviation.

The Committee noted that a statement disclosing the basis / methodology for various types of transactions entered into with related parties should be prepared and submitted for the information of the audit committee. It also opined that this statement should include transactions which are not on an arm’s length principle. The company’s management should explain to the audit committee the reasons for the non-arm’s length nature of the transaction.

The Committee also noted that the definition of “arm’s length” should be clarified in the recommendation. It noted that a reference may be made to the report of the Department of Company Affairs’ Expert Group on Transfer Pricing Guidelines for a suitable definition.

Based on the above discussions, the Committee accordingly makes the following mandatory recommendation:

A statement of all transactions with related parties including their bases should be placed before the independent audit committee for formal approval / ratification.

If any transaction is not on an arm’s length basis, management should provide an explanation to the audit committee justifying the same.

**Definition of “related party”**

It was suggested that SEBI should clarify the definition of the term “related party”. The Committee noted that Accounting Standard 18, Related Party Transactions (“AS 18”) issued by the ICAI contained the definition of this term. Based on this discussion, the Committee adopted the definition of “related party” as set out in AS 18 and makes mandatory recommendation:

The term “related party” shall have the same meaning as contained in Accounting Standard 18, Related Party Transactions, issued by the Institute of Chartered Accountants of India.

**Risk Management: Board disclosures**

The Committee believes that it is important for corporate Boards to be fully aware of the risks facing the business and that it is important for shareholders to know about the process by which companies manage their business risks.

In light of this, it was suggested that procedures should be in place to inform Board members about the risk assessment and minimization procedures. These procedures should be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. These risks will include global risks; general, economic and political risks; industry risks; and company specific risks.
It was also suggested that management should place a report before the Board every quarter documenting any limitations to the risk taking capacity of the corporation.

This document should be formally approved by the Board. The Committee believes that this recommendation is important. This is because the Management Discussion, and Analysis of Financial Condition and Results of Operations, are the responsibility of a company’s management. It is, therefore important, that the audit committee be made aware of the risks faced by a company.

It is management’s responsibility to demonstrate to the audit committee the measures taken to address business risks. Further, it was added that the Compliance Officer of the company should certify the Risk Management report placed before the audit committee.

The Committee also noted that it was not practicable to put the responsibility of review of risk management only on the audit committee. It agreed that there must be a process by which key risks are reviewed by the entire Board of Directors and not just the audit committee. Further, there must be evidence demonstrating that this review process has actually taken place. Investors in a company would therefore know how the company has identified and addressed its business risks.

It was also mentioned that verifiability and enforceability of this recommendation was difficult. This was because companies could obtain a sign-off from the Board members that such procedures were complied with.

Based on the above deliberations, the Committee makes the following mandatory recommendation:

Procedures should be in place to inform Board members about the risk assessment and minimization procedures. These procedures should be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

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. This document should be formally approved by the Board.

Training of Board members

It was also suggested that Board members be trained in the business model of the company as well as the risk profile of the business parameters of the company.

The Committee noted that there is a real necessity for Board members to understand the components of the business model and the accompanying risk parameters. However, the Committee also noted that Board members can always ask for information relating to the business model of the company.

It also observed that the process of Board review of business risks will be a mandatory recommendation of the Committee. Therefore, training of Board members could be made recommendatory.

Based on the above deliberations, the Committee makes the following non mandatory recommendation:

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.
NOTES

model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors, and the best ways to discharge them.

Use of proceeds from Initial Public Offerings (“IPO”)

It was suggested that companies raising money through an Initial Public Offering should disclose the uses / application of funds by major category (capital expenditure, sales and marketing, working capital, etc) on a quarterly basis as part of their quarterly declaration of (unaudited) financial results.

The Committee noted that that disclosure of unspecified uses of IPO proceeds would be a more transparent measure. A statement of funds utilised for purposes other than those stated in the offer document / prospectus should be prepared by management. This statement should be certified by the independent auditors of the company and approved by the audit committee.

Based on the above discussion, the Committee makes the following mandatory recommendation:

Companies raising money through an Initial Public Offering (“IPO”) should disclose to the Audit Committee, the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis. On an annual basis, the company shall prepare a statement of funds utilised for purposes other than those stated in the offer document/prospectus. This statement should be certified by the independent auditors of the company. The audit committee should make appropriate recommendations to the Board to take up steps in this matter.

Written code for executive management

It was suggested that there should be a written code of conduct of Board members (by category of directors – executive directors, independent directors, nominee directors and promoter directors). Further, there should be a written code of conduct for senior financial personnel including the Chief Financial officer, Treasurer and Financial Controller (or the officer who discharges these functions).

The Committee noted that the Birla Committee Report had defined the broad roles and responsibilities of management. It was obligatory on the part of the Board of Directors of a company to define a code of conduct for itself and the senior management of the company, not just senior financial personnel. Concerns were expressed on two main areas, (a) enforceability, and (b) definition of senior management. The Committee also noted that sample codes were available at www.choan.edu.

Based on the deliberations and views expressed by several members, the Committee makes the following mandatory recommendation:

It should be obligatory for the Board of a company to lay down the code of conduct for all Board members and senior management of a company. This code of conduct shall be posted on the website of the company.

All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed off by the CEO and COO.

Explanation – For this purpose, the term “senior management” shall mean personnel of the company who are members of its management / operating council (i.e. core
management team excluding Board of Directors). Normally, this would comprise all members of management one level below the executive directors.

**Exclusion of nominee directors from the definition of independent directors**

It was suggested that nominee directors should be excluded from the definition of independent directors.

The Committee felt that the institution of nominee directors creates a conflict of interest that should be avoided. Such directors often claim that they are answerable only to the institutions they represent and take no responsibility for the company’s management or fiduciary responsibility to other shareholders. It is necessary that all directors, whether representing institutions or otherwise, should have the same responsibilities and liabilities.

If the institution, whether as a lending institution or as investing institution, wishes to appoint its nominee on the Board, such appointment should be made through the normal process of election by the shareholders.

The Committee noted a dissenting view that FI nominees should not be granted any Board representation rights. Management should treat them on par with other investors and disseminate the same information that other shareholders would obtain. By virtue of their Board seat, FIs are placed in an advantageous position over the other shareholders, in terms of company price-sensitive information.

Based on the above distinction, the Committee makes the following mandatory recommendation:

There shall be no nominee directors. Where an institution wishes to appoint a director on the Board, such appointment should be made by the shareholders. An institutional director, so appointed, shall have the same responsibilities and shall be subject to the same liabilities as any other director.

Nominee of the Government on public sector companies shall be similarly elected and shall be subject to the same responsibilities and liabilities as other directors.

**Limits on compensation paid to independent directors**

The Committee discussed the following issues relating to compensation of independent directors:

Whether limits should be set for compensation paid to independent directors and how these limits should be determined;

What are the disclosures to be made to ensure transparency; and

In case of stock-based compensation, the vesting timeframe of the options and the parameters that trigger vesting such as average return on capital employed, turnover criteria, etc.

Based on its deliberations, the Committee makes the following recommendation:

All compensation paid to non-executive directors may be fixed by the Board of Directors and should be approved by shareholders in general meeting. Limits should be set for the maximum number of stock options that can be granted to non-executive directors in any financial year and in aggregate. The stock options granted to the
nonexecutive directors shall vest after a period of at least one year from the date such
nonexecutive directors have retired from the Board of the Company. Companies should
publish their compensation philosophy and statement of entitled compensation in respect
of non-executive directors in their annual report. Alternatively, this may be put up on the
company’s website and reference drawn thereto in the annual report. Companies should
disclose on an annual basis, details of shares held by non-executive directors, including
on an “if-converted” basis. Non-executive directors should be required to disclose their
stock holding (both own or held by / for other persons on a beneficial basis) in the listed
company in which they are proposed to be appointed as directors, prior to their
appointment. These details should accompany their notice of appointment.

Definition of independent directors

The Committee noted that the definition of independent directors should be clarified
in the recommendations. It observed that the definition of independent directors as set
out in the code of the International Corporate Governance Network may be referred
to. The Committee also noted that the Naresh Chandra Committee report has attempted
to define the term “independent director”. The Committee was of the view that the
same definition may be used to define independent directors.

An issue often raised in the context of independence is whether independent
directors are entitled to any material benefits from the company other than sitting fees,
remuneration, and travel and stay arrangements. Such benefits include stock options
and performance bonuses that executive directors may be entitled to. The central issue
is whether such benefits serve as incentives or hindrances to the objectivity of decision-
making and hence, compromise its quality. It also needs to be considered that restrictions
such as these could disenchant a person from accepting the position of independent
director that carries onerous responsibilities without appropriate reward.

The Committee decided that the term “Independent director” shall have the same
meaning as contained in paragraph 4.1 of the Naresh Chandra Committee report Based
on its deliberations, the Committee makes the following recommendation The term
“independent director” is defined as a non-executive director of the company who:

★ apart from receiving director remuneration, does not have any material
pecuniary relationships or transactions with the company, its promoters, its
senior management or its holding company, its subsidiaries and associated
companies;

★ is not related to promoters or management at the board level or at one level
below the board;

★ has not been an executive of the company in the immediately preceding
three financial years;

★ is not a partner or an executive of the statutory audit firm or the internal audit
firm that is associated with the company, and has not been a partner or an
executive of any such firm for the last three years. This will also apply to
legal firm(s) and consulting firm(s) that have a material association with the
entity.

★ is not a supplier, service provider or customer of the company. This should
include
lessor-lessee type relationships also; and

is not a substantial shareholder of the company, i.e. owning two percent or more of the block of voting shares.

The considerations as regards remuneration paid to an independent director shall be the same as those applied to a non-executive director.

**Whistle Blower Policy**

Internal policy on access to audit committees

It was suggested that personnel who observe an unethical or improper practice should be able to approach the independent audit committee without necessarily informing the Board. There should also be a mechanism for employees to be aware of this privilege.

The Committee agreed with this suggestion. It also noted that the suggestion may be accepted, with one modification i.e. the word “board” be replaced with “supervisor”.

Based on the above, the Committee makes the following recommendation:

Personnel who observe an unethical or improper practice (not necessarily a violation of law) should be able to approach the audit committee without necessarily informing their supervisors.

Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc. The employment and other personnel policies of the company shall contain provisions protecting “whistle blowers” from unfair termination and other unfair prejudicial employment practices.

It was also suggested that SEBI should monitor compliance with the recommendation set out in Section 3.11.1 above.

The Committee noted that companies should affirm periodically (at least on an annual basis) that they have complied with this requirement.

The Committee also noted that it was necessary to provide protection to the internal auditor by enhancing his independence. This can be done by mandating that the appointment, removal and terms of remuneration of the chief internal auditor must be subject to review by the Audit Committee.

Based on this discussion, the Committee makes the following mandatory recommendation:

Companies shall annually affirm that they have not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct) and that they have provided protection to “whistle blowers” from unfair termination and other unfair or prejudicial employment practices.

The appointment, removal and terms of remuneration of the chief internal auditor must be subject to review by the Audit Committee.

Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.

It was suggested to the Committee that the requirements relating to non-executive / independent directors and audit committees should be extended to subsidiaries of listed companies. Further, the scope of the Audit Committee should be enlarged to
include review of investments made by subsidiaries and associates to ensure that Section 77 of Companies Act, 1956 is not violated.

The Committee noted the following additional suggestions:

It may be difficult to monitor compliance with the suggestion, in the case of associate companies, insofar as it related to a review of investments. This requirement may, therefore, be made applicable to subsidiary companies only;

It should be recommended to the Central Government that the Companies Act, 1956 should be amended to exclude common directorships in holding and subsidiary companies, in computing the limits on directorships that an individual may hold;

The provisions relating to the composition of the Board of Directors of the holding company shall also be made applicable to the composition of the Board of Directors of subsidiary companies;

At least one-third of the Board of Directors of the subsidiary company shall be non-executive directors of the parent company;

The Audit Committee of the parent company shall also review the financial statements of the subsidiary company;

The minutes of the Board meeting of the subsidiary company shall be placed for review at the Board meeting of the parent company; and

The Board report of the parent company should state that they have reviewed the affairs of the subsidiary company also.

Based on the deliberations, the Committee makes the following mandatory recommendation:

The provisions relating to the composition of the Board of Directors of the holding company should be made applicable to the composition of the Board of Directors of subsidiary companies.

At least one independent director on the Board of Directors of the parent company shall be a director on the Board of Directors of the subsidiary company. The Audit Committee of the parent company shall also review the financial statements, in particular the investments made by the subsidiary company. The minutes of the Board meetings of the subsidiary company shall be placed for review at the Board meeting of the parent company.

Regulatory Framework for Corporate Governance in India (Disclosures and Transparency)

Corporate Governance Voluntary Guidelines

Good corporate governance practices enhance companies’ value and stakeholders’ trust resulting into robust development of capital market, the economy and also help in the evolution of a vibrant and constructive shareholders’ activism. The Ministry of Corporate Affairs has examined committee reports as well as suggestions received from various stakeholders on issues related to corporate governance. Keeping in mind that the subject of corporate governance may go well beyond the Law and that there are inherent limitations in enforcing many aspects of corporate governance through legislative or regulatory means, it has been considered necessary that a set of voluntary
guidelines called “Corporate Governance -Voluntary Guidelines 2009” which are relevant in the present context, are prepared and disseminated for consideration and adoption by corporates. These guidelines provide for a 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 addition to the existing laws but is recommendatory in nature. While it is expected that more and more corporates should make sincere efforts to consider adoption of the guidelines, there may be genuine reasons for some companies in not being able to do so completely. In such a case it is expected that such companies should inform their shareholders about the reasons for not adopting these guidelines either fully or partially. It is hoped that “India Inc” would respond to these guidelines with keen interest. It is also hoped that by following good governance practices, the Indian corporate sector would be in a better position to enhance not only the economic value of enterprise but also the value for every stakeholder who has contributed in the success of the enterprise, and while doing so, it would be setting the global benchmarks for good corporate governance.

After taking into account the experience of voluntary adoption of these guidelines by the corporates and consideration of relevant feedback, the Government would initiate the exercise for review of these guidelines for further improvement after one year.

For details, see details.


Clause 49 on Corporate Governance

The company has to agree to comply with the following provisions:

I. Board of Directors

(A) Composition of Board

i. The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.

ii. Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

Provided that 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.

Explanation-For the purpose of the expression “related to any promoter” referred to in sub-clause (ii):

a. If the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;
b. If the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it.”

iii. For the purpose of the sub-clause (ii), the expression ‘independent director’ shall mean a non-executive director of the company who:

a. apart from receiving director’s remuneration, does not have any 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 financial years;

d. is not a partner or an executive or was not partner or an executive during the preceding three 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 firm(s) and consulting firm(s) 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 independence of the director;

f. is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.

g. is not less than 21 years of age

Explanation
For the purposes of the sub-clause (iii):

a. Associate shall mean a company which is an “associate” as defined in Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements”, issued by the Institute of Chartered Accountants of India.

b. “Senior management” shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

c. “Relative” shall mean “relative” as defined in section 2(41) and section 6 read with Schedule 1A of the Companies Act, 1956.

d. Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors.

Explanation:
“Institution’ for this purpose means a public financial institution as defined in Section 4A of the Companies Act, 1956 or a “corresponding new bank” as defined in section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980[both Acts].”
(B) Non executive directors’ compensation and disclosures

All fees/compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders’ resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and in aggregate.

Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 1956 for payment of sitting fees without approval of the Central Government.

(C) Other provisions as to Board and Committees

i. The board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in Annexure– I A.

ii. A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director.

Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

Explanation:

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act shall be excluded.

2. For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders’ Grievance Committee alone shall be considered.

iii. The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances.

iv. An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:

Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply.

(D) Code of Conduct

i. The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.
NOTES

ii. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

Explanation: For this purpose, the term “senior management” shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

II. Audit Committee

(A) Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

i. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.

ii. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation 1: The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation 2: A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

iii. The Chairman of the Audit Committee shall be an independent director;

iv. The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;

v. The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;

vi. The Company Secretary shall act as the secretary to the committee.

(B) Meeting of Audit Committee

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

(C) Powers of Audit Committee

The audit committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

(D) Role of Audit Committee

The role of the audit committee shall include the following:

1. Oversight of the company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
   a. Matters required to be included in the Director’s Responsibility Statement to be included in the Board’s report in terms of clause (2AA) of section 217 of the Companies Act, 1956
   b. Changes, if any, in accounting policies and practices and reasons for the same
   c. Major accounting entries involving estimates based on the exercise of judgment by management
   d. Significant adjustments made in the financial statements arising out of audit findings
   e. Compliance with listing and other legal requirements relating to financial statements
   f. Disclosure of any related party transactions
   g. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval

   5A. Reviewing, with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up there on.

9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of nonpayment of declared dividends) and creditors.

12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

12A. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience & background, etc. of the candidate.

13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i): The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii): If the company has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions/features as is contained in this clause.

(E) Review of information by Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;

2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;

3. Management letters / letters of internal control weaknesses issued by the statutory auditors;

4. Internal audit reports relating to internal control weaknesses; and

5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

III. Subsidiary Companies

i. At least one independent director on the Board of Directors of the holding company shall be

a director on the Board of Directors of a material non listed Indian subsidiary company.

ii. The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
iii. The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Explanation 1: The term “material non-listed Indian subsidiary” shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e. paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

Explanation 2: The term “significant transaction or arrangement” shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

Explanation 3: Where a listed holding company has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

IV. Disclosures

(A) Basis of related party transactions

i. A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.

ii. Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.

iii. Details of material individual transactions with related parties or others, which are not on an arm’s length basis should be placed before the audit committee, together with Management’s justification for the same.

(B) Disclosure of Accounting Treatment

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management’s explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

(C) Board Disclosures – Risk management

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(D) Proceeds from public issues, rights issues, preferential issues etc.

When money is raised through an issue (public issues, rights issues, preferential issues etc.), it shall disclose to the Audit Committee, the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an
annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent. This statement shall be certified by the statutory auditors of the company. Furthermore, where the company has appointed a monitoring agency to monitor the utilisation of proceeds of a public or rights issue, it shall place before the Audit Committee the monitoring report of such agency, upon receipt, without any delay. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.

(E) Remuneration of Directors

i. All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.

ii. Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:
   a. All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.
   b. Details of fixed component and performance linked incentives, along with the performance criteria.
   c. Service contracts, notice period, severance fees.
   d. Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.

iii. The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company’s website and reference drawn thereto in the annual report.

iv. The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.

v. Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.

(F) Management

i. As part of the directors’ report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company’s competitive position:
   1. Industry structure and developments.
   2. Opportunities and Threats.
   4. Outlook
   5. Risks and concerns.
6. Internal control systems and their adequacy.

7. Discussion on financial performance with respect to operational performance.

8. Material developments in Human Resources / Industrial Relations front, including number of people employed.

ii. Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

Explanation: For this purpose, the term "senior management" shall mean personnel of the company who are members of its core management team excluding the Board of Directors. This would also include all members of management one level below the executive directors including all functional heads.

(G) Shareholders

i. In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
   a. A brief resume of the director;
   b. Nature of his expertise in specific functional areas;
   c. Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
   d. Shareholding of non-executive directors as stated in Clause 49 (IV) (E) (v) above
      ia. Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed.

ii. Quarterly results and presentations made by the company to analysts shall be put on company’s web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.

iii. A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as ‘Shareholders/Investors Grievance Committee’.

iv. To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

V. CEO/CFO certification - The CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance Director or any other person heading the finance function discharging that function shall certify to the Board that:
NOTES

a. They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:

i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

ii. these statements together present a true and fair view of the company’s affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company’s code of conduct.

c. They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

d. They have indicated to the auditors and the Audit committee

i. significant changes in internal control over financial reporting during the year;

ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

iii. instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company’s internal control system over financial reporting.

VI. Report on Corporate Governance

i. There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Noncompliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted.

ii. The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in Annexure I B. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company

VII. Compliance

1. The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors’ report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.

2. The non-mandatory requirements given in Annexure – I D may be implemented as per the discretion of the company. However, the disclosures of the compliance
with mandatory requirements and adoption (and compliance) / non-adoption of
the non mandatory requirements shall be made in the section on corporate
governance of the Annual Report.

For details on annexures, see appendix.

Source: http://www.nseindia.com/getting_listed/content/clause_49.pdf
CORPORATE GOVERNANCE

DEFINITION

NEED AND IMPORTANCE

PROBLEMS AND ISSUES

BEST PRACTICES

BOARD AND CORPORATE GOVERNANCE

DISCLOSURES AND TRANSPARENCY

EXECUTIVE AND NON EXECUTIVE DIRECTORS

NEW APPROACHES TO CORPORATE GOVERNANCE

CODE OF CONDUCT FOR CORPORATE GOVERNANCE

IMPROVING CORPORATE CONDUCT

INDIAN CONTEXT OF CORPORATE GOVERNANCE

REGULATORY FRAMEWORK OF CORPORATE GOVERNANCE in INDIA

CORPORATE GOVERNANCE

Greed's ethics, malaafried conduct and transparency, profits and profiteeruing, Benefits for all and only self interest are the terms and concepts which are paradoxical in nature but can only be felt and understood in relation to each other.

For example when `Greed' brought in the 2008 economic crusis through the route of sub-prime crisis world got to reiterate the lesson of ethics and transparency in a very painful and hardway. Another example which saw in India was Satyam case. There are many historical examples like that Bearings Bank of United Kingdom in 1990s. There has been ..... case. Indian corporate world and Government still are unable to come out of the shock and the ..... of the Telecom case.

All the lessons we have learned throughout the history have shown us a new path and few important aspects.

a) If organizations are socially responsible then why they tend to decieve the same society?

b) Can business ethics be seen as a relative concept?

c) Is the fear of failurs bound to bring in irrsponsible and self - centered haviour?

d) How and when Greed creeps into the character of an organization?

e) Can ill transparency, distrust and irresponsibility be fixed upon the organizational leadership?

f) Should only the leadership be accountable or the organization as a whole
should share the accountability?

g) can checks and balances bring ultimate transparency?

or

h) Is it a matter of development of culture and character and ...... passing it on to the coming generations?

There are several other questions to be answered in this regard. But on thing in important and certain and that is in today's Globalized scanasrio irrational, irresponsible unseasonable, transparent and unethical conduct of the organizations has derogatory and transcending effects which have consequences to pull down economics and degrade the turst of the society for a long time. For example lehman Brothers Became famous just because of some of the other seasons enumerated obove but the sad part in that the ..... which they instigated engulfed a very- very large part of the population around the world.

Definational Backdrop of `Corporate Governance'

`Corporate Governance in a set of acceptable, transparent, ethical, responsible, reasonable actions derived through the value system having large societal acceptability so as to achieve the vision of an organization.

Corporate Governance in also concerned with developing and maintaining a balance between economic and social goals of an organization while also justifiable fullfilling the individual goals of the promoters and key investors.

In shorter terms `Corporate Governance' in related to how well, cohesively and with transparent efficiency the board of an organization leads it towards its goals. `Corporate Governance' has a relationship with the values and moral of a company and its directors.

An important role of corporate Governance in to create vendar and benchmarkes for the conduct of its directors and to ensure that they abide by their duties, responsibilities and obligations in the best of the interest of their shareholders, stockeshlders, employees and society at large.

Corporate Governance has an important relational aspect associated with cohesive, trust based conduct between the managers, chisectors, providers of equity, investors and promoters of an organization.

This fundamental definitional interpretaon of `corporates Governance' is suggestive of the fact that a large ..... in this regard lies on the directors and other through whom precedences may traverse as a part of the culture of an organization.

This is sepcifically the reason as you may appreciate that organizations like TATAs are seen as institutions in themselves.

Need and Importance

Fundamental need and importance of `Corporate Governance' as discussed in the
Business Ethics & Corporate Governance

NOTES

preceding sections is well established and the seasons are

a) To keep alive the trust of the stakeholders of an organization and business at large.

b) To strengthen the life of the business through the ... trust.

The above two aspects `a' and `b' in a Globalized would also are deeply associated with the increasing role of Foreign.

Institutional Investors (FIIS). Investors not are only concerned with the managerial effectiveness of the enterprises organizations they invest in but also are concerned with the real and efficiency these organizations follow the principles of corporate Governance as discussed in the definition also. FIIs are interested in the process and procedures an organization follows interms of their accounting management environmental sustainability measures, employee development and internal and external transparency in General. Transparency international ranks countries on corruption perception Index, where sadly India doesnot holds a goal and appreciable rank and place. There is a need for our country to improve its position on such scales. Other factors emphasizing upon the need of effective corporate Governance are.

i) Larger freedom in the management practies in the Globalized economies requires greater responsibilities.

ii) Competition should be met with sportive attitude though it brings pressure on reporting aspect.

iii) Removed of trade barrier and reduction of duties through global arrangement, treaties and agreements have brought in complexity in the market conditions which require patience and greater transparency.

iv) Examples set by many corporates in terms of lack of transparency, disclosures, embezzlements, undesirable tractices have time and again brought emotional, social and economic losses.

Therefore the importance of corporate Governance may be enumenrated as follows :

a) It is important for developing and maintaining the trust of investors on a company / organization.

b) Because of the reason that effective corporate Governance measures require the larger role of people other from the stoke holders at key positions who are not directly benefitted by the decisions of an organizations, it brings efficiency, effectiveness and more responsibility in the over all conduct of an organization.

c) Corporate Governance has a dual effect. On the one hand it tends to limit the liability of the top management and on the other hand it enhances their moral liability.

d) The most important effect of `Corporate Governance' in observed while learning about the history of long living and respectably known organizations like TATAs, Infosys, HDFC, Mahindra and Mahindra and so on. These organizations have not only grown in leaps and bounds in terms of their market
capitalization, profitability, employee strength Customers and international expansion but also have structured and strengthened the business and entrepreneurship around them. For example on of the dealers of Titan Watches once confided in me that `I have been doing business through generations but doing business with Titan has taught me about how to be transparent and earn profits simultaneously.

e) Corporate Governance brings in imbibed rationality to the risk monitoring that an organization faces globally.

f) One important thing which kingfisher episode has taught the corporate world is that a corporate Governance mistake can became detrimental for whole of the industry as such, especially when the industry is trying to grow and may actually change the business ..... 

---

**Problems and Issues**

Flow of Information - An important aspect or requirement for effective Corporate Governance is related to transparency and flow of information within and outside the organization within the organization, the information keeps up the level of confidence amongst the employees who not only are the stake holders but also are the brand ambassadors of an organization. For example LIC has been one of the most trusted brands and names in India because its employees and agents circulate the message regarding the trustworthiness of their organization because they trust it themselves. Information flow outside the organization enhances the shareholder and partner organizations confidence who otherwise have to rely upon the judgement of larger shareholders and investors.

**Accounting transparency practice and expression -**

Accounting statements say quite a lot about the practices an organization follows but accounting expressions have quite a scope for deliberate hiding of actional which are unethical and compromising in character. There in always a scope of expression of accounts in miscellaneous terms on the one hand ..... on the other hand to show loans and payment of high interests to the organizations which have common directors and promoters.

Cost of Monitoring - For a general employee, shareholder or stakeholders at large cost of getting information, its analysis and general monitoring in high and normally beyond understanding wherein things come to fore for them once they largely are out of hand or organizational have vanished as happened with a steel co. and a large known telecom co. in Uttar Pradesh who despite of the fact that they were doing well with a large subscriber base closed their shop overnight.

---

**Best Practices**

Categorization of the best practices of `Corporate Governance` may suitably be done at the levels of stakeholders and activities of an organization and that can be:

a) Best practices in relation to the conduct and actient of Directors and Boards.
b) Best practices at operational levels.

c) Best practices at the reporting of accounts levels.

d) Best practices to enfinance the levels of democracy at the shareholders levels.

**Conduct and Actions of Directors and the Boards**

One of the most important aspects best practices observed about the conduct and actions of the Boards and Directors around the World in that companies now have started specifying the structure (as also specified by the lord in every country), constitution, independence, benefits like Hemunerative and non-remunerative benefits, empowerment, roles responsibilities and accountability along with the evaluation of their corporate boards. Infact companies have strongly been delineating managerial and directorial responsibilities. Companies are also respersting the execution and benefits associated with the responsibilities of the directors.

Practices at the Poerational levels - There have been instances where while logically integrating the businesses vertically and horizontally to make the value chain more effective companies tend to either overstate or understate the transactions or hide some accounts. This also happens in case of operational dealings with other organizations. Many a times the greed of the ..... managers prompt them to siphon money. Many a times to get the orders and then to materialize the payments. Companies tend to pay underhands which cannot specifically be expressed in the books of accounts. There are many ways to address such aspech and one of the cases which in unique in its approach in of the company / organization called morning star which in into fruit and largely tomato curshing. This organization crafted a dual strategy by diluting the managerial responsibilities amongst all the employees or let me put it this way that they alwated the rules of their employees towards specific managerial responsibilities. The resultant was that every employee was responsible and was monitored by his poor group. Processes were standandred and the scope of corruption, greed and individual benefits got reduced.

**Reporting at the account level**

Annual report are the major and the important avences of reporting for shareholders. As we understand there are specific guidelines and fundamentally lais down requirements for reporting the contents in the annual reports specific prescription for disclosures in available along with the formal in which a company's financials are to be prepared, .... and submitted to the shareholders. There in a provision and concetion for reaching the detailed qualitors report in the annual general meeting of the shareholders of a company. Then this report in published in newspapers and a copy in sent to all the stokeholders concerned along with publishing it on the web. As we know that the shareholders have the voting right hence required to be provided with explanatory information especially in the cases where specific resolutions have to be passed.

Then there are general disclosures as per the demand and requirent of the general public, investors and organizations like SEBI, which have to be abided by as per the low and regulations.

**Enhancing the democracy at the shareholder level**

The voting rights of the shareholders are proportional to their shareholding.
percent of the shareholders should be in majority in specific cases to ... the resolutions and a simple majority in many cases as prescribed by the law. This is done through show of hands of the present or recorded proxics alongwith show of hands and a poll may also be called upon as per the discretion and the requirement of the chair and the committee members eligible to take such decisions.

Shareholders need and are entitled to protection against unfair treatment. There are legal procedures involved for it anything wrong has been done or a shareholder has been motivated to invest through biased and misleading information or even by hiding information. But the most important aspect in the clear description and also highlighting of the risk a shareholder may face by a company units offer document and the brochure as laid down as a mandatory requirement by the securities and exchange Board of India (SEBI). This exercise of creating awareness amongst the present and the potential shareholders about the details of the risks involved n offers made in one of the most important aspaech and enabling tool for people to analyze the proposition and invest rationally.

Further transparency in reporting and actual accounting and conforming to the obligatory matters by the companies strengthen and empower the shareholder not only brings their confidence but also in a mode to enhance the levels of democracy amongst and for them.

The Board and Corporate Governance

Leadership, Strategy, guidance, right representation to the shareholders independently of the management of an organization are the major functions, characteristics and roles of the Board of Directors. In Indian context a board in general comprises of the promoters directors, professional directors and constitutionally nominated directors.

Constitution

constitution of a board must be comprised of:

a) well qualified individuals with integrity

b) Individuals having relevant though diversified experience alongwith qualification and intresty.

c) Most important aspect in that each board member must devote suitable time for his duties and responsibilities.

d) Independent directors should be appropriate in member and ..... of indepen
dence should be strong and transparent.

e) Independent directors should only be responsible for holding executive ses
dions, corrpensation committecs audit committecs and other committecs where neutrality in the fundamental basis for keeping the levels of transparency.

f) In family owned businesses outside directors should be more independent and empowered so as to demarcate family and business perspective completely.
Responsibilities -

a) The board is responsible for approving the fundamental core philosophy of an organization along with the mission.

b) The board monitors and evaluates the corporate performance and strategy.

c) The board also reviews and appers the transactions as decided by the board its ... to come under its putwies and not associated with ordinary business apcuations.

d) Board decides the executive compensations and evaluates the seniors management performance.

e) Management of executive Director's and CEOs succession (planning) evaluation of his performance in a neutral and unbiased member in also done by the Board of Directors.

f) Communication with the shareholding in the ultimate responsibility of the Board.

g) Evaluation of the performance of the Board itself is the responsibility of the board.

However idealistic these functions and responsibilities may seen to be are the reasons for an organizations success and growth with sustainability. It is the responsibility of the promoters to maintain the independence and neutrality of the board. For this control or desireets have ultinate powers must be left and a character of a gardener is to be rutured who get benefitted by the fragrance but not the flowers and the ..... when they are in surplus.

Executive and Non Executive Directors

Functional abilities and required roles demarcate the executive and the Non-executive Directors.

Executive Directors are on the fulltime appointment and routine operational job i. e. primarily executing and Directing day to day operations, whereas non executive directors work an part time ... sharing then expertive and attend the board meetings for the purpose. But ... eyes of law the liabilities of both of the directors are same. The compensation in both the cases is negotiable where the executive directors like other benefits, while the non- executive directors get a sitting fee for every meeting they attend and may also get rememration as a percentage of the net profits of a company if the article of understanding company bylaers provides in such aprovision.

New approaches to Corporate Governance

Six prominent Committees around the world may be referred to you expersing some improvisation and changes in corporate Governance.

In India, 2002 Naresh Chandra Committee was appointed by SEBI for fourssing and recommending upon the representation of independent directors on the company
boards apart from the other issues such as composition of the audit committees.

The important recommendations of the committee are:

1) There should not be any distinction between a board with an executive chairman and a non-executive chairman.

2) Audit should have an compulsory solution every five years.

3) Larger role of independent directors to protect common shareholder.

4) Mandatory and enlarged level of disclosure by a company and its auditors.

The committee said that for this there should be a strong and a more transparent mechanism.

5) 50 percent directors should be independent especially on the boards of a listed company and an unlisted public limited company with paid up share capital and a full reserve of Rs 10 Crore or more or turnover of Rs 50 Crore or more. Minimum member of independent directors suggested in any case should not be less than 5.

6) The committee further suggested that the audit committee of companies should be entirely comprised of independent directors.

2003 The Narayan Murthy Committee

In 2003 SEBI constituted a committee under the Chairmanship of Mr. N. R. Narayan Murthy.

Important Suggestions and recommendations of the committee were as follows:

a) A code of conduct should be laid down and followed by the board of directors and the executive management of a company. This code of conduct would be known to all the stakeholders of a company and strict compliance would not only be done but declared through annual reports.

b) The board of directors of a company would get continuous training and updation.

c) Risk should be an important aspect to be .... to .... the executive management must update the board with the risk provisions and prospectus to be faced by the company whereas the board with the help of laid down risk minimization and control procedures and the help of the experts would advice the company on the same by approving or disapproving the company's plans.

d) A Company would follow only the standard accounting procedures.

5) There would not be any nominee director. The appointment of a director should be made by the shareholders and the liabilities of the appointed director would be the same as that of the others. Same would be the case of public sector companies where the nominees of the Government would be duly elected and would hold the same liabilities and responsibilities as other directors.

6) The usage of the money raised through IPO's (Initial Public Offers) should be disclosed to the audit committee on quarterly basis. If funds are utilized for any other purpose other than the stated ones in the offer document then a proper statement of the funds used would be made certified by independent
NOTES

Business Ethics & Corporate Governance

7) Audit committee of a company would be accessible to all and the whistle blowers would be provided production against unfair termination or prejudiced employment practises. Audit committee would review the appointment and terms of appointment of the chief internal auditor.

8) Non mandatory recommendations should be reviewed at an appropriate juncture to determine whether the financial reporting climate in conducive to a system of filing only unqualified financial statements.

9) Audit committees of publicity listed companies should review the following periodically.
   i) Financial statements and the draft audit report.
   ii) Management discussion and analysis of financial remark of operations.
   iii) Compliance reports.
   iv) Transaction records
   v) Internal control weaknesses as marked by internal auditors.

National Task force on Corporate Governance

This was one of the earlier efforts made by confederation of Indian Industries in 1996. This task force also focusses on Board and the directors, their conduct, disclosures, Creditors, financiers and the role of capital market as well.

There are three significant international committees and then recommendations to be mentioned in this discussion, which became ..... or different aspects between 1987 and 1994.

Tead way commission USA or the National Commission on fraudulent Financial Reporting which significantly recommended on public companies to have audit committees exclusively composed of independent directors.

Cadbury committee united Kingdom (UK) published its report in 1992 also emphasized on cohesive, responsibility board system having prominence of audit procedures and independent of auditors, though it also emphasized on a constructive relationship between the managers and the owners of a company.

King Committee of South Africa also included consideration for disadvantaged communities. It published its report in 1994 and alongwith other aspect on Governance emphasized on effective worker participation indecision making, for adopting affirmative action programmes as part of the business plans. It also was suggestive of a companys responsibility towards environmental matters.

International pressppective of Corporate Governance

In united states corporate Governance in based on short term market orientation and has continuously evolved especially since the inception of the New York stock exchange in 1792 from large number of shareholding but no voice of shareholder based system to an effective transparent system where reporting procedures are strong though there were many technical flows which passisted and came to four during sub prime criss but the robustness of the system has uncreased and good levels of liquidity for the
In the United Kingdom, Germany, and other European countries, the larger role of institutional investors has always been a major component and the governance practices have largely... through an institutionalised perspective. In Germany, there is a two-tier board system having a management board for running the companies where an supervisory board for supervising the management board. The European system has also evolved, from being a... transportent and a disclosure averse system to a move open one.

The conclusion is that most of the systems around the world have been secretive, close-knit, relationship-based and non-institutionalized. But now with the integration of the world markets, all the systems are aligning themselves with international standards of more transparency, decentralization of controls, independent auditing, disclosures, protection of mass/common shareholders and equity in the stature of managers, owners, common man/shareholders, institutions as part of organizations truly to be termed as stakeholders.

Questions

1) Describe the meaning and your understanding of corporate governance specially in Indian context.

2) Enumerate the best corporate governance practices in major economies.

3) Explain the evolution of corporate governance in India.

4) Describe the role, responsibilities and the evaluation of board of directors of a company.

5) Interpret transparency and accountability in terms of corporate governance.

6) Describe the regulatory framework of corporate governance in India.

7) Why present corporate governance systems emphasize on the role of audit committees, and their independence and also the role of independent directors?

8) Would the increased role of independent directors in future generate a conflict with a company's managerial control?

Readings

- Shaikh Salim (Business environment) Pearson 2nd ed.
- National Commission for Corporate Governance - SEBI &
- Ministry of Corporate Affairs.