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# Corporate Governance and Business Ethics

**Abstract ::**

*Corporate governance issue came again in India after the Satyam business scandal. Corporate corruption scandals have increased drastically over the last few years throughout the world. Today, modern and progressive companies have realized that ethics and corporate social responsibility makes good business sense. It is only in the recent years that Business Ethics and Corporate Governance have become almost a public issue and have started getting favorable responses from the corporations, government agencies, shareholders, employees, suppliers, customers, competitors, the news media, community residents etc. i.e. the entire society. In fact, business ethics and corporate governance go hand in hand. Companies have now begun to integrate ethics into their corporate cultures and concentrate on putting appropriate corporate governance mechanisms in place. The paper is an attempt to examine the Corporate Governance and Business Ethics in today business world.*

## Introduction ::

In recent years, there has been a growing concern towards corporate governance and the pressure of good governance from various stakeholders of companies is growing. Today, modern and progressive companies have realized that ethics and corporate social responsibility makes good business sense. An ethical and socially responsible company generally fulfills the standard of good corporate governance. Good governance is essential to build goodwill and credibility, manage companies efficiently and transparently and prevent many corporate mishaps. Corporate governance exists at a complex intersection of law, morality, and economic efficiency. The impact of market competition would be greater in firms with efficient governance structure. The substitution effect implies when corporate governance is weak; competition plays an important role as a disciplinary device forcing mangers to improve performance and reduce slack.

With the growing strength of consumer movements and rising levels of awareness among stakeholders, corporations are realizing that stakeholders and consumers are no longer indifferent to unethical practices like financial irregularities, tax-evasion, poor quality products and services, non--compliance with environmental issues, and hazardous working conditions. Companies have now begun to integrate ethics into their corporate cultures and concentrate on putting appropriate corporate governance mechanisms in place.

Business Ethics are more forceful, more influential, more effective and even more helpful in corporate governance than the anti-corruption programs. Issues of business ethics, right and wrong, and corporate governance are hot debating points across the business landscape. All parties-management, board, employees, shareholders, regulators and community are asserting their presence. All of them have to collectively make a decisive move as both regulation and latitude are looking equally enticing and as doing the right things is mulling on the imperative of doing things the right way. The world is waiting!

## CONCEPT OF CORPORATE GOVERNANCE ::

The perpetual need for transparency in reporting and accountability has laid emphasis on adoption of measures, policies and practices commonly termed as "corporate governance practices".

Corporate governance is the combination of two words: Corporate + Governance

**Corporate: -** According to the dictionary meaning, the word corporate means a company.
**Governance: -** Concise oxford dictionary defines it as "act or manner of governing".

Corporate governance is a system by which companies are directed and controlled. It includes the policies and procedures adopted by a company in achieving its objectives in relation to its shareholders, employees, customers and suppliers, regulatory authorities and societies at large.

Cathewood explains that corporate governance means the way company manages its business that is accountable and responsible to its owners, as well as suppliers, creditors and the public.

In the words of K. B. Dadiseth, Chairman, HLL, ' Corporate governance is all about creating an outperforming organization that leads to increasing shareholders' value and customers satisfaction.'

In broader sense, James Wolfenshon, President of the World Bank, recently defined corporate governance as the promotion of corporate fairness, transparency and accountability.

Thus we can say that corporate governance basically refers to a set of systems and subsystems by which a company is controlled and directed. It prescribes a set of standards in terms of the company's efficiency, integrity, transparency, accountability and overall image and goodwill in society, to achieve its objective in relation to its shareholders, employees, customers, suppliers, regulatory authorities and community at large.

**CONCEPT OF BUSINESS ETHICS ::**

In order to protect organizations from various evils of ethical problems, the best possible solution could be an effort made by every organization to look at the issues with a positive approach and overcome by taking that first step to include the ethical culture as a part of training initiative taken in every organization. Fostering business ethics awareness in today's multicultural workplace and global Marketplace is only the beginning. In making ethics work, the importance of synergy between vision statement, mission statement, core values, general business principles and code of conduct has been brought out. The purity of behavioral responses is a reflection of the character of a person. It can be said that:

**ETHICS = TRUTHFULNESS + TRANSPARENCY + RIGHTEOUSNESS + MORALITY**

"Ethics may be defined as some standardized form of conduct which may be used to determine what is good or what is bad, what is right or what is wrong, what is just or what is unjust, what is proper or what is improper, what is fair or what is unfair and what should be done and what should not be done." (Banik, 2008)

**IMPORTANCE OF GOOD CORPORATE GOVERNANCE ::**

Good corporate governance has become the need of the hour due to various reasons. Let us examine the hallmarks of good governance:

- It has the ability to invite capital from domestic as well and foreign investors, widely, easily and cheaply.
- Good governance builds confidence amongst shareholders as well as prospective stakeholders. Investors are willing to pay higher price to the corporate demonstrating strict adherence to internationally accepted norms of corporate governance.
- It provides competitive advantage in the global market place.
- It leads to improved employee morale and higher productivity.
- Well-governed companies last longer.
- It is able to prevent corporate crimes.
- It brings transparency and efficiency.
- It maintains a healthy corporate culture that gels well with the socio-economic and cultural environment of the country and the society.
- It enables to resolve successfully the conflicts between various stakeholders within and outside the company, particularly between the owners and the managers of the company.
- Finally, good corporate governance can remove mistrust between different stakeholders, reduce legal costs and improve social and labour relationships and external economies like environment

protection.

It provides sufficient avenues to shareholders for effective contributions to the governance of the company without getting involved in the day to day functioning of the company

**CHARACTERISTICS OF A HIGHLY ETHICAL ORGANISATION ::**

The following points characterize a highly ethical organization:

- They are at ease interacting with diverse internal and external stakeholder groups.
- They are obsessed with fairness.
- Responsibility is individual rather than collective, with individuals assuming personal responsibility for actions of the organization.
- They see their activities in terms of purpose. This purpose is a way of operating that members of the organization highly value. And purpose ties the organization to its environment.
- There is a clear vision and picture of integrity throughout the organization.
- The vision is owned and embodied by top management.
- The reward system is aligned with the vision of integrity.
- Policies and practices of the organization are aligned with the vision; no mixed messages.
- It is understood that every significant management decision has ethical value dimensions.

**BUSINESS ETHICS- INDIVIDUAL'S OR ORGANIZATION'S ::**

Disconnect between an employee and the ground realities widen as she moves up the ladder. Today, businesses are very target driven. At each level, targets are set and are interlinked. The performance of one's superior is determined by one's own performance and this process goes on till the very top echelons. Till such time one meets or surpasses the targets no questions are asked on the way of achieving those and disconnect mentioned earlier plays a huge role. It is only when the shortfall occurs, explanations are demanded and then also words like ethics are given a short shrift. In nutshell, only the end and not the means is what matters. In such an environment, where targets are means to not only success but more importantly survival, ethics boil down to a personal call. These calls have to be taken every day by millions of people in real time with targets and survival at top of the mind.

The line between right and wrong gets blurred. Can one put a number on the price, less than which a gift is considered a culture token and above which it is considered a bribe? Doubt whether any corporate dossier conceptualized at the very top on ethics can address this issue on the ground.

**HOW BUSINESS ETHICS INFLUENCE CG ::**

Line never before, corporations are being asked, encouraged and prodded to improve their business practices to emphasize legal and ethical behavior. Companies, professional firms and individuals alike are being held increasingly accountable for their actions; ad demand grows for higher standards of corporate social responsibility. As recently as a decade ago, many companies viewed business ethics only in terms of administrative compliance with legal standards and adherence to internal rules and regulations. But today, attention to business ethics is on the rise across the world and many companies realize that in order to succeed, they must earn the respect and confidence of their customers. Corporate governance is the basis of accountability in companies, institutions and enterprises, balancing corporate economic and social goals on the hand with community and individual aspirations on the other.

**NEED OF BUSINESS ETHICS IN CORPORATE GOVERNANCE ::**

Corporate governance is nothing but the moral or ethical or value framework under which corporate decisions are taken. Corporate managements generally have been concerned with using the physical, financial and human resources available with the management to get the best possible results in the interests of the stake holders and, particularly, shareholders. It is quite possible that in the effort at arriving the best possible financial results or business results there could be attempts at doing things which are verging on the illegal or even illegal. There is also the possibility of grey areas where an act is not illegal but considered unethical. These raise moral issues.

Different people have come up with different definitions of Corporate Governance and it is hard to see that there will be any single definition in the future so the best way to define the concept is perhaps to list a few of the different definitions rather than just mentioning one definition.

"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance", OECD April 1999

**ETHICAL ISSUES IN CORPORATE GOVERNANCE ::**

Now let us understand the basic issue of what will be the ethical issues in corporate governance. There has to be absolute integrity in all operations. Integrity is of three types:

- Financial integrity
- Moral integrity
- Intellectual integrity

So far as corporate governance is concerned, it is financial integrity that assumes tremendous importance. This would mean that the directors and all concerned should be open and straight about issues where there is conflict of interest involved in financial decision making. When it comes to even the purchase procedures, there is need for greater transparency. Corporate governance calls for three factors:

- Transparency in decision-making
- Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken, and
- The accountability is for the safeguarding the interests of the stakeholders and the investors in the organization by product.

Implementation of corporate governance has depended upon laying down explicit codes, which enterprises and the organizations are supposed to observe. The Cadbury’s code in United Kingdom was the starting point, which led to a number of other codes. In India itself we have the Kumaramangalam Birla code as a result of the committee headed by him at the behest of the SEBI. Ultimately effective corporate governance depends upon the commitment of the people in the organization. The very first issue of corporate governance in India is, do the India managements really believe in corporate governance?

Corporate governance depends upon two factors. The first is the commitment of the management for the principle of integrity and transparency in business operations. The second is the legal and the administrative framework created by the government. If public governance is weak, we cannot have good corporate governance. The dramatic Enron case has highlighted how companies, which were the darlings of the stock market and held up as models for vigorous and innovative growth, can, ultimately collapse like a house of cards as they were based on fraud and dishonesty.

**BUSINESS ETHICS AND CORPORATE GOVERNANCE IN INDIA ::**

Although the discussion on ethics is almost a general phenomenon in India, unethical business became a recognized phenomenon in this country during the Second World War. The concern with business ethics has become visible only during the nineties. Although there is a strong belief in corporate social responsibility in India, the decisions are not made in a participatory way, but by the persons at the top. In teams of the rules and regulations in India, the government very often acts as a problem creator rather than a facilitator. This is due to a complex bureaucracy, corruption and undoubtedly, the absence of ethical sense in various sectors. It is high time the Indian companies start reflecting upon their corporate practices and look beyond traditional community development and a simple focus on compliance. “………shareholder should ensure that the composition of board of Directors is a balanced mix of independent directors and management appointees.” (Sahu, 2009)

In the Indian context, the need for corporate governance has been highlighted because of the scams we have been having almost as an annual feature ever since we had liberalization from 1991. We had the Harshad Mehta Scam, Ketan Parikh Scam, UTI Scam. The ethical temperature of any business or capital market depends on three factors. The first is the individual's sense of values. The second is the social values accepted by the business and industry. Let us not forget that when Harshad Mehta Scam took place, it was claimed that the manner in which the bank receipts were being treated was the prevailing norm. Perhaps a similar argument would have been given in the Ketan Parikh Scam. The third and perhaps the most decisive factor is the system.

**CONCLUSION ::**

Wealth has to be created before it can be distributed. The responsibility to create wealth is of business. And responsibilities and rights must go together. Hence, the society cannot disarm business of its rights which are essential for creating value. The spookiness comes in when business accords certain rights to itself by itself. The importance of wealth creation and difficulty in achieving it blurs the fine line.

As we have seen there is no silver bullet for settling issues like business ethics and corporate governance. Separations of powers just like between executive, judiciary and legislature is imperative. No one stakeholder is an apex authority. Everyone has a role to play.

Regulation defines these roles to a certain extent. But it can only do so much. A culture epitomized by the top management and communication of the right information do much more than regulation. At the end of the day we are all human. We think differently and have different takes on different issues. Till such time this fact is appreciated and co-opted by every stakeholder and a healthy debate continues on the rightness of business, we are certain that businesses will keep on doing what they are good at and others will keep making sure that businesses do it the good way.

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Dr. (Prof.) Nirmalsinh D. Zala
Associate Professor
Maharajashri Bhagvatsinhji Arts & Commerce College,
Gondal-360311 Dist: Rajkot