

DegreeLive

CORPORATE GOVERNANCE & BUSINESS ETHICS

BBA Semester 4 – Calicut University

DegreeLive

MODULE 1: THEORY AND PRACTICE OF CORPORATE GOVERNANCE

Corporate Governance

1. Corporate Governance refers to the system by which companies are directed, controlled and managed.
2. Ensures accountability, transparency and fairness in business operations.

Objectives

1. Protect stakeholder interests.
2. Improve accountability.
3. Ensure ethical management.
4. Enhance corporate performance.

Need and Importance

1. Prevents misuse of power.
2. Improves investor confidence.
3. Reduces fraud and corruption.
4. Promotes sustainable growth.

Principles

1. Transparency.
2. Accountability.
3. Fairness.
4. Responsibility.
5. Independence.

Corporate Governance and Organizational Success

1. Good governance improves efficiency and decision making.
2. Enhances reputation and stakeholder trust.
3. Supports long-term business success.

Corporate Structure

1. Shareholders.
2. Board of Directors.
3. Management.
4. Stakeholders.

Evolution

1. Developed due to corporate scandals, investor protection needs and globalization.

Characteristics of Corporations and Factors Affecting Governance

Characteristics of Corporations

1. Separate legal entity.
2. Limited liability.
3. Perpetual succession.
4. Transferability of shares.

Factors Influencing Corporate Governance

1. Legal framework.
2. Ownership structure.
3. Board effectiveness.

4. Corporate culture.
5. Stakeholder expectations.

Ethical Issues

1. Fraud.
2. Insider trading.
3. Corruption.
4. Conflict of interest.
5. Lack of transparency.

Board of Directors

Role

1. Strategic direction.
2. Policy formulation.
3. Monitoring management.
4. Protecting shareholder interests.

Responsibilities

1. Ensure compliance.
2. Risk management.
3. Corporate accountability.
4. Ethical leadership.

Powers

1. Appoint management.
2. Approve major decisions.
3. Supervise company affairs.

Corporate Management Committee and Divisional Management Committee

Corporate Management Committee

1. Assists top management in strategic decisions.
2. Coordinates organization-wide activities.

Divisional Management Committee

1. Manages operations of individual divisions.
2. Implements corporate policies.

Governance Codes

1. Provide standards for responsible corporate behaviour.
2. Promote transparency and accountability globally.

CII Code on Corporate Governance

1. **CII (Confederation of Indian Industry) Code:** One of India's earliest governance codes.
2. **Features:**
 - a. Independent directors.
 - b. Audit committees.
 - c. Board accountability.
 - d. Disclosure and transparency.
 - e. Protection of shareholder interests.

Corporate Governance Forums

1. **CACG:** Commonwealth Association for Corporate Governance.
2. **OECD:** Organization for Economic Cooperation and Development. Developed widely accepted governance principles.
3. **ICGN:** International Corporate Governance Network. Promotes global governance standards.
4. **NFCG:** National Foundation for Corporate Governance (India).

Purpose

1. Promote best governance practices.
2. Encourage ethical corporate conduct.

Models of Corporate Governance

1. **Anglo-American Model:** Shareholder-oriented. Common in USA and UK.
2. **Japanese Model:** Strong relationship with banks and stakeholders.
3. **German Model:** Two-tier board system. Employee representation.
4. **Indian Model:** Mix of shareholder and stakeholder approaches. Influenced by Companies Act and SEBI regulations.

Theories of Corporate Governance

1. **Agency Theory:** Conflict exists between owners and managers.

2. **Political Theory:** Governance influenced by political factors.
3. **Stakeholder Theory:** Company should serve all stakeholders.
4. **Legitimacy Theory:** Business must operate according to societal expectations.
5. **Resource Dependency Theory:** Board provides access to valuable resources.
6. **Stewardship Theory:** Managers act as responsible stewards of company assets.
7. **Social Contract Theory:** Business operates under an implicit agreement with society.

Sarbanes-Oxley Act, 2002 (SOX)

1. US law enacted after major corporate scandals.
2. Strengthened corporate accountability and financial reporting.

Objectives

1. Improve transparency.
2. Prevent accounting fraud.
3. Strengthen audit processes.

Importance

1. Increased investor confidence.
2. Improved corporate governance practices worldwide.

MODULE 2: CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR)

Definition

1. Responsibility of business towards society and environment beyond profit making.

Nature

1. Voluntary and ethical commitment.
2. Supports sustainable development.

Levels

1. Economic Responsibility.
2. Legal Responsibility.
3. Ethical Responsibility.
4. Philanthropic Responsibility.

Approaches

1. Stakeholder approach.
2. Sustainability approach.
3. Social welfare approach.

Principles

1. Accountability.
2. Transparency.
3. Sustainability.

4. Ethical behaviour.

Indian Models and Public Sector Governance

Indian CSR Model

1. Focus on community development and social welfare.
2. **Dimensions:** Economic, Social, Environmental.

Public Sector Governance

1. Governance practices followed by government-owned enterprises.
2. Emphasis on accountability and public interest.

Management Control Systems

Meaning

1. Systems used to monitor and control organizational performance.

Objectives

1. Ensure goal achievement.
2. Improve efficiency.
3. Reduce risks.

Importance in Governance

1. Strengthens accountability.
2. Supports decision making.

3. Enhances internal control.

Internal Control, Audit and Compliance

Internal Control

1. Procedures designed to safeguard assets and ensure accuracy.

Audit

1. Independent examination of records and operations.

Compliance

1. Adherence to laws, regulations and policies.

Importance

1. Prevents fraud.
2. Improves reliability.
3. Ensures legal compliance.

Internal Control and Reporting

Internal Reporting

1. Communication of organizational information for decision making.

MODULE 3: BUSINESS ETHICS AND VALUES

Business Ethics

Meaning

1. Moral principles guiding business behaviour and decisions.

Significance

1. Builds trust.
2. Improves reputation.
3. Prevents misconduct.
4. Supports long-term success.

Scope

1. Employees.
2. Customers.
3. Suppliers.
4. Investors.
5. Society.

Ethical and Unethical Business Decisions

Factors Leading to Ethical Decisions

1. Personal values.
2. Organizational culture.
3. Legal compliance.
4. Ethical leadership.

Factors Leading to Unethical Decisions

1. Greed.
2. Pressure for profits.
3. Weak controls.
4. Lack of accountability.

Management Information

1. Accurate and timely information supporting governance and control.

Benefits

1. Better monitoring.
2. Improved decision making.
3. Enhanced accountability.

Corporate Social Reporting

Meaning

1. Disclosure of social and environmental activities undertaken by a company.

Objectives

1. Demonstrate social responsibility.
2. Improve transparency.
3. Build stakeholder trust.
4. Enhance corporate reputation.

Unethical Practices and Business Ethics in India

Unethical Practices

1. Bribery.
2. Corruption.
3. Tax evasion.
4. Misleading advertisements.
5. Insider trading.

Business Ethics in India

1. Increasing importance due to globalization and corporate accountability.

Ethics Training Programmes, Morals and Values

Ethics Training

1. Programmes designed to improve ethical awareness and behaviour.

Morals

1. Personal beliefs regarding right and wrong.

Values

1. Fundamental principles guiding behaviour.

Importance

1. Encourages ethical conduct.
2. Reduces unethical practices.

Ethical Dilemmas and Professional Ethics

Ethical Dilemma

1. Situation involving conflict between ethical choices.

Types

1. Personal dilemmas.
2. Professional dilemmas.
3. Organizational dilemmas.

Professional Codes of Ethics

1. Guidelines for professional conduct.

Conflict of Interest

1. Personal interest interferes with professional duty.

Consequences of Unethical Behaviour

1. Loss of reputation.
2. Legal penalties.
3. Financial losses.

Corporate Ethical Leadership

1. Leaders promoting ethical culture and conduct.

Ethical Decision Making Approaches

1. **Utilitarianism (Bentham & Mill):** Best decision produces greatest benefit for greatest number.
2. **Deontology (Immanuel Kant):** Actions judged by duties and principles rather than outcomes.
3. **Virtue Ethics (Aristotle):** Focus on moral character and virtues.

Ethics Theories

Consequential Theories

1. Judged by outcomes.
2. **Egoism:** Focus on self-interest.
3. **Utilitarianism:** Focus on overall benefit.

Non-Consequential Theories

1. Focus on duties, rights and moral principles regardless of outcome.

Values and Ethics

Values

1. Personal beliefs regarding what is important.

Types

1. Personal Values.
2. Social Values.
3. Moral Values.
4. Professional Values.

Values vs Ethics

Values	Ethics
Personal beliefs	Rules of conduct
Individual-oriented	Society/organization-oriented

Kohlberg's Six Stages of Moral Development

1. **Pre-Conventional Level:**
 - a. Obedience and Punishment.
 - b. Self-Interest.
2. **Conventional Level:**
 - a. Good Interpersonal Relationships.
 - b. Law and Order.
3. **Post-Conventional Level:**
 - a. Social Contract.
 - b. Universal Ethical Principles.

Ethics in HRM

Importance

1. Fair recruitment.
2. Equal opportunities.
3. Employee welfare.

Managing Ethical Issues

1. Non-discrimination.
2. Privacy protection.
3. Fair compensation.
4. Ethical performance evaluation.

Marketing Ethics

Importance

1. Builds customer trust.
2. Protects consumer rights.

Ethical Issues

1. False advertising.
2. Misleading claims.
3. Price manipulation.

Ethical Behaviour Towards Suppliers

1. Fair dealings.
2. Honest communication.
3. Timely payments.

Ethics in Finance and Accounts

Issues

1. Financial fraud.
2. Window dressing.
3. Insider trading.
4. Manipulation of accounts.

Importance

1. Accuracy.
2. Transparency.
3. Investor confidence.

MODULE 4: ETHICAL DECISION MAKING AND INDIAN ETHOS

Ethical Decision Making

Meaning

1. Process of choosing actions based on ethical principles.

Process

1. Identify problem.
2. Clarify goals.
3. Gather facts.
4. Develop alternatives.
5. Analyze options.
6. Test alternatives.
7. Make decision.
8. Implement decision.

Factors Influencing Ethical Decision Making

Individual Influences

1. Age and Gender.
2. Culture and Nationality.
3. Education.
4. Employment experience.
5. Psychological factors.
6. Personal values.
7. Integrity.
8. Moral imagination.

Situational Influences

1. **Issue-Related Factors:** Nature and seriousness of issue.
2. **Context-Related Factors:** Organizational culture, Social environment, Peer pressure.

Ethical Characteristics of Professionalism

Characteristics

1. Integrity.
2. Accountability.
3. Competence.
4. Fairness.
5. Confidentiality.

Social and Environmental Issues

1. Pollution.

2. Resource depletion.
3. Human rights.
4. Workplace safety.

Corporate Values and Ethical Decision Making

Corporate Values

1. Shared beliefs guiding organizational behaviour.
2. Examples: Honesty, Respect, Responsibility, Transparency.

Importance

1. Shapes culture.
2. Guides decisions.
3. Builds trust.

Indian Ethos

Meaning

1. Ethical and value-based management principles derived from Indian philosophy and culture.

Need

1. Promotes ethical leadership.
2. Encourages holistic development.
3. Supports responsible management.

Purpose

1. Balance material success and moral values.
2. Improve individual and organizational effectiveness.

Relevance

1. Ethical business practices.
2. Sustainable development.
3. Human-centered management.

Salient Features

1. **Brain Stilling:** Calm and focused mind for better decisions.
2. **Total Quality Mind:** Continuous improvement in thoughts and actions.
3. **Intuition:** Inner understanding supporting decision making.
4. **Intellectual Rational Brain:** Logic and analytical thinking.
5. **Holistic-Spiritual Brain:** Integrated thinking considering ethics, values and long-term welfare.