BUSINESS ETHICS

NAME OF THE CHAPTER : ETHICS & CORPORATE GOVERNANCE

SEMESTER : FOURTH

MARKS ALLOTTED TO THIS CHAPTER: 8 MARKS

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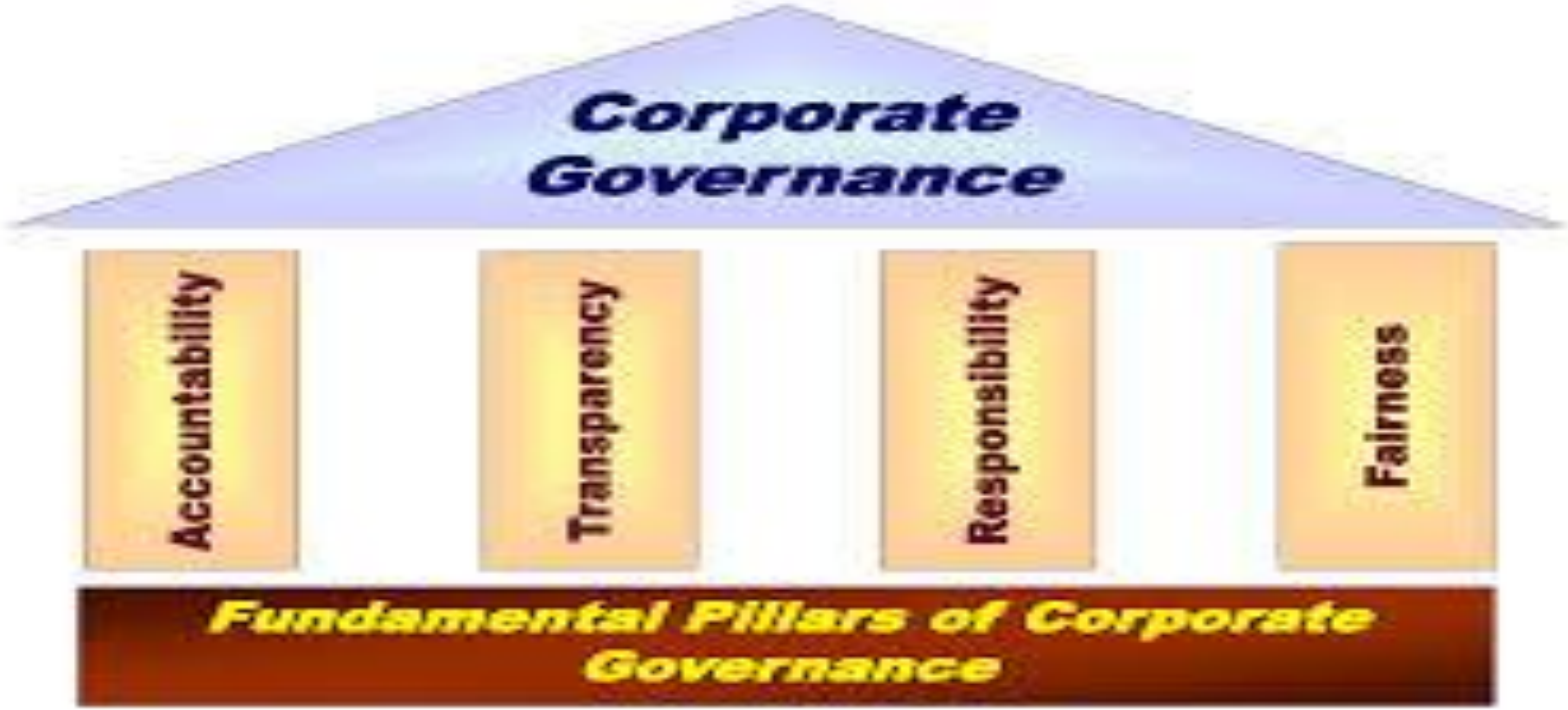
CORPORATE
GOVERNANCE
Mission
accountability
Scope
team
business
values
Vision
stakeholders
Staff
roles
shareholders
ethics
regulatory
Board
committee
market
mitigation

What is Corporate Governance?

- The rules of corporate governance define how power is distributed among shareholders, boards of directors, and managers and how disputes are settled.
- The nature of corporate governance has changed dramatically over time.
- Boards of directors evolved to perform the critical role of monitoring hired managers for the shareholders.

Corporate Governance

The exercise of authority over the members of a corporate community based on formal structures, rules, and processes.


Corporate Governance
Accountability
Transparency
Responsibility
Fairness
Fundamental Pillars of Corporate Governance

Corporate Governance - The Concept

- There is no universally accepted definition of corporate governance. It is a concept that is understood by many as being a set of relationships between a company's management, its shareholders and the society within an institutional framework.
- These relationships evolve into the corporate governance framework, which forms

  "*the system by which companies are directed and controlled*".
- The relationships among the participants of the governance system and the role played by each participant vary from company to company. It is essential to recognize that every company operates within a 'unique' jurisdiction of its stakeholders including investors, creditors, employees, managers, and regulators. Good corporate governance seeks to create an institutional framework that encourages all participants to contribute towards better corporate performance through an alignment of their objectives.

Definition of Corporate Governance

In other words ;

CG may be defined as a set of systems, processes and principles which ensures that a company is governed in the best interest of all the stakeholders.

It is the system by which the companies are directed and controlled. It is about promoting corporate fairness, transparency and accountability.

In other words, 'good corporate governance' is simply 'good business'. It ensures:

- **Adequate disclosures and effective decision making to achieve corporate objectives.**
- **Transparency in business transaction.**
- **Statutory and Legal Compliances**
- **Protection of shareholder interests**
- **Commitment of values and ethical conduct of business**

GOOD CORPORATE GOVERNANCE

- A good corporate governance recognizes the diverse interests of shareholders, lenders, employees, government, etc. The new concept of governance to bring about quality corporate governance is not only a necessity to serve the divergent corporate interests, but also is a key requirement in the best interests of the corporate themselves and the economy.

CORPORATE GOVERNANCE

PURPOSES

Primary:

Monitor those parties within a company who control the resources owned by investors.

Supporting:

- Ensure there is a suitable balance of power on the board of directors.
- Ensure executive directors are remunerated fairly.
- Make the board of directors responsible for monitoring and managing risk.
- Ensure the external auditors remain independent and free from the influence of the company.
- Address other issues, e.g. business ethics, corporate social responsibility (CSR), and protection of 'whistleblowers'.

OBJECTIVES

Primary:

Contribute to improved corporate performance and accountability in creating long-term shareholder value.

Supporting:

- Control the controllers by increasing the amount of reporting and disclosure to all stakeholders.
- Increase level of confidence and transparency in company activities for all investors (existing and potential) and thus promote growth .
- Ensure that the company is run in a legal and ethical manner.
- Build in control at the top that will 'cascade' down the organisation.

Scope of Corporate Governance:

- To improve the standard of living and life of the society, industry, commerce and professional services.
- To generate accurate and reliable information.
- To make the decision-making process transparent.
- To prepare a small enterprise for growth and help secure new business opportunities when they arise.
- To improve the economic efficiency of the firm.
- To increase the market confidence of the firm.

BENEFITS & LIMITATIONS OF CORPORATE GOVERNANCE

- Benefits:
  - Industrial economy country's economy
  - Confidence of investors-foreign and domestic
  - Retaining the best human capital
  - Stable sources of financing
  - Stability and growth to the enterprise
  - Fairness with stakeholders
  - Increases operational performance of A company
  - Strategic thinking
  - Monitoring of risk factors
  - Limiting liabilities
  - Integrity of financial reports
- Limitations:
  - Beyond the realm of law
  - Need for evolution of new systems of corporate governance

WHY IS CORPORATE GOVERNANCE IMPORTANT FOR POLICY?

- The limited liability corporation
- The public corporation and the agency problem
- The growth of the private corporate sector
- The growth of equity markets and their institutions
- The new economy
- The growth of international private capital flows

Role of Ethics in Business

- Benefits of Ethics in the Workplace
  - Attention to business ethics has improved society.
  - Ethics programs help maintain a moral course in tough times.
  - Ethics programs cultivate teamwork and productivity.
  - Ethics programs support employee growth and meaning.
  - Ethics programs help ensure that policies are legal.
  - Ethics programs help avoid criminal acts "of omission" and can lower fines.
  - Ethics programs help manage values associated with quality, strategic planning, and diversity management.
  - Ethics programs promote a strong public image.
  - Ethics programs can have a positive impact on the bottom line.
  - Last, but not least, formal attention to ethics in the workplace is the right thing to do.

How Ethics Can Make Corporate Governance More Meaningful?

- Corporate governance is meant to run companies ethically in a manner such that all stakeholders – creditors, distributors, customers, employees, the society at large and governments are dealt in a fair manner.
- Good corporate governance should look at all stakeholders and not just shareholders along. Otherwise, a chemical company, for example, can maximize the profit of shareholders, but completely violate all environment laws and make it impossible for the people around the area to lead a normal life.
- Corporate governance is not something which regulators have to impose on a management, it should come from within. There is no point in making statutory provisions for enforcing ethical conduct.


Thank you