

# Business Ethics and Corporate governance

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. The shapes are primarily triangles and polygons, creating a dynamic, layered effect. The overall composition is clean and modern, with the text centered on the left side of the frame.

# What is business ethics ?

- ▶ Business ethics is the art and discipline of applying ethical principles of solve complex moral dilemmas.
- ▶ Business ethics prove that business has been ethical and can continue to do so while earning profits.
- ▶ A business is considered to be ethical only if tries to reach a tradeoff between economic objectives and social obligations.

# Importance of Business Ethics.

- ▶ Gaining Trust
- ▶ Customer loyalty and satisfaction
- ▶ Preventing harm to society
- ▶ Protecting business from abuse by unethical employees.
- ▶ Sustaining the business.
- ▶ Protecting their own reputation.

# Examples of Unethical practices in india



# Concept of Corporate Governance

- ▶ Experts at OECD have defined Corporate Governance as ‘the system by which business corporations are directed and controlled.
- ▶ It specifies the distribution of rights and responsibilities among different participants in the organization, such as, the Board, managers, shareholders and other stakeholders and specifies the rules and procedures for taking decision on corporate affairs.

# Issues in Corporate Governance

- ▶ Distinguishing the roles of board and management
- ▶ Composition of board
- ▶ Board Committees.
- ▶ Directors and Executives Remuneration.
- ▶ Protection of shareholder rights and expectations
- ▶ Disclosure and audit.

# Obligations to Society and employees

- ▶ National Interest
- ▶ Non political alignment
- ▶ Honest and ethical conduct
- ▶ Corporate social responsibility
- ▶ Environment friendliness
- ▶ Accountability
- ▶ Fair employment practices

- ▶ Equal opportunities
- ▶ Whistle blowing

# Benefits to Corporations

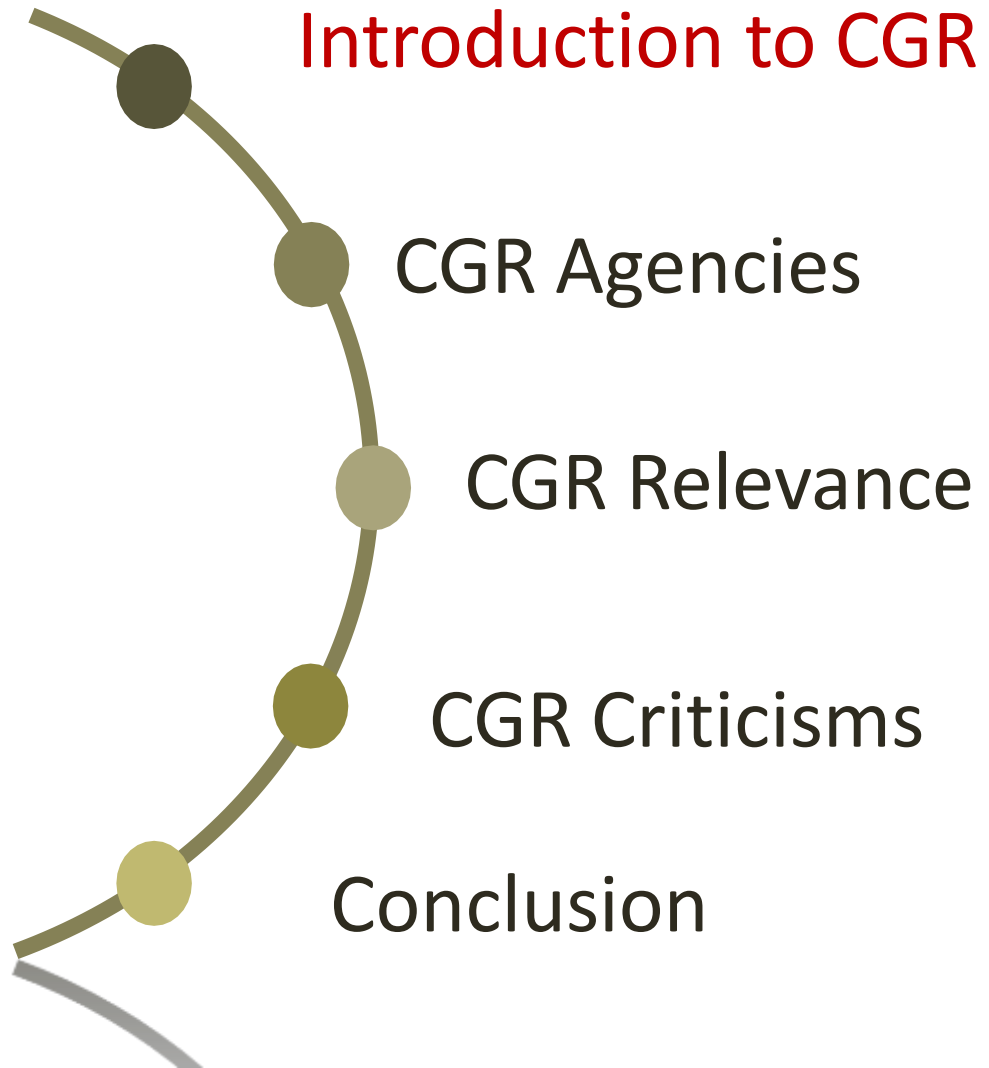
- ▶ Improved Public Image
- ▶ Protecting Shareholders' interests
- ▶ Preventing fraud and malpractices
- ▶ Enhancing the valuation of the enterprise

# Ethics and Corporate Governance

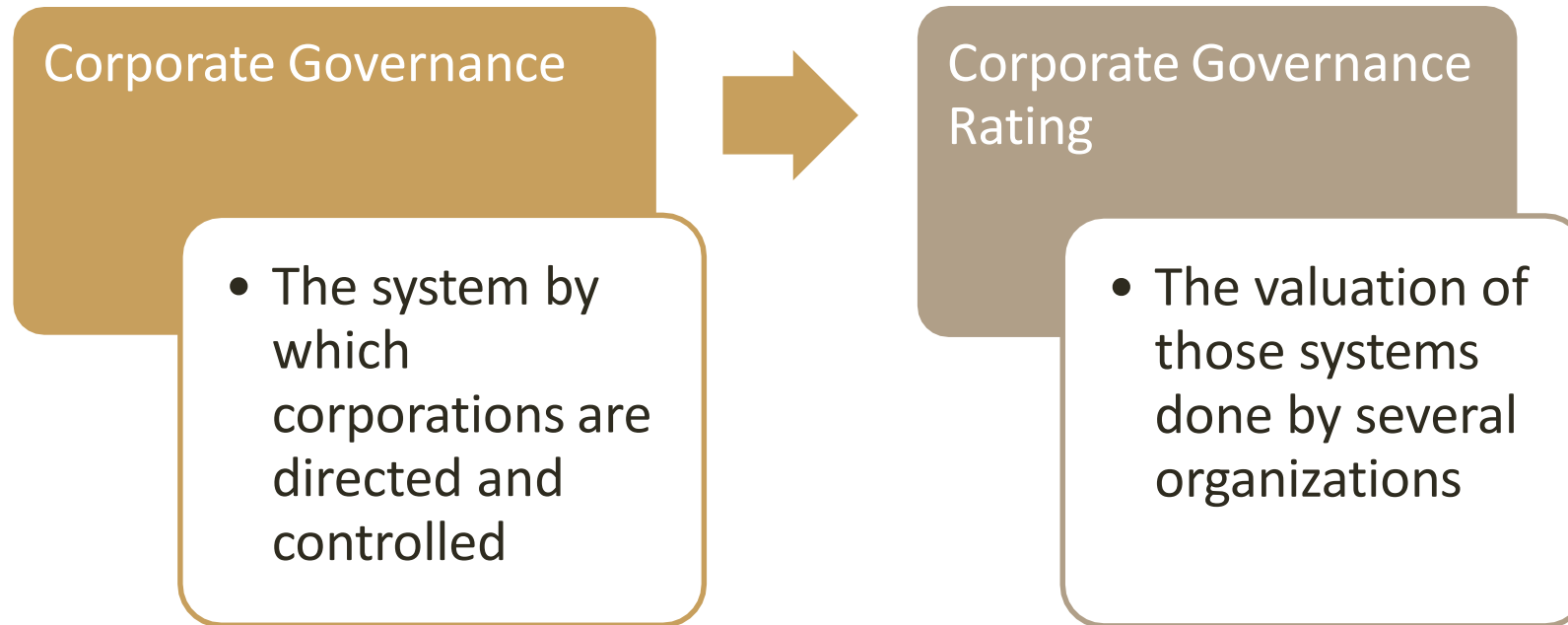
- ▶ Corporate Governance is meant to run companies in an ethical manner such that the interests of all stakeholders is taken care of.
- ▶ Corporate governance should come from within.
- ▶ Corporations should ensure that confidential information made available in the place of work shouldn't be used for personal benefits.

# Corporate Governance rating

# AGENDA



# What is CGR?



## Characteristics:

- CG Ratings are set by different independent rating agencies
- CG Ratings are valued by investors when taking investment decisions

# Why is CGR important?

The rising importance of good governance (OECD principles)



Higher concern regarding CG quality.

The recent corporate scandals



# Potential users of CGR

Governance  
consulting  
firms

Small investors

Executive  
search firms

Accounting  
firms

Institutional  
investors



# Why are institutional investors the primary users of CGR?

Destruction of the bank myth



Growing awareness of fiduciary duty mainly among institutional investors



# AGENDA



# CG Rating Agencies in India

- ✓ CRISIL
- ✓ CARE

These are the primary agencies in India.

Other CG Rating agencies include:

- ICRA
- BRICKWORKS
- FITCH etc.





*CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services.*

*It is India's leading ratings agency.*

CRISIL's  
CG Rating

CRISIL GVC (Governance & Value Creation) assesses corporate governance practices at companies with respect to their impact on all stakeholders who deal with the company such as employees, suppliers, shareholders, lenders and society.



*CRISIL CG Rating- GVC is of major importance primarily because :*

A CRISIL GVC rating :

- indicates the relative capability of a firm with respect to creating wealth for all its stakeholders, while adopting sound corporate governance practices.
- measures the balanced creation of value amongst all stakeholders using a judicious mix of qualitative and quantitative parameters.

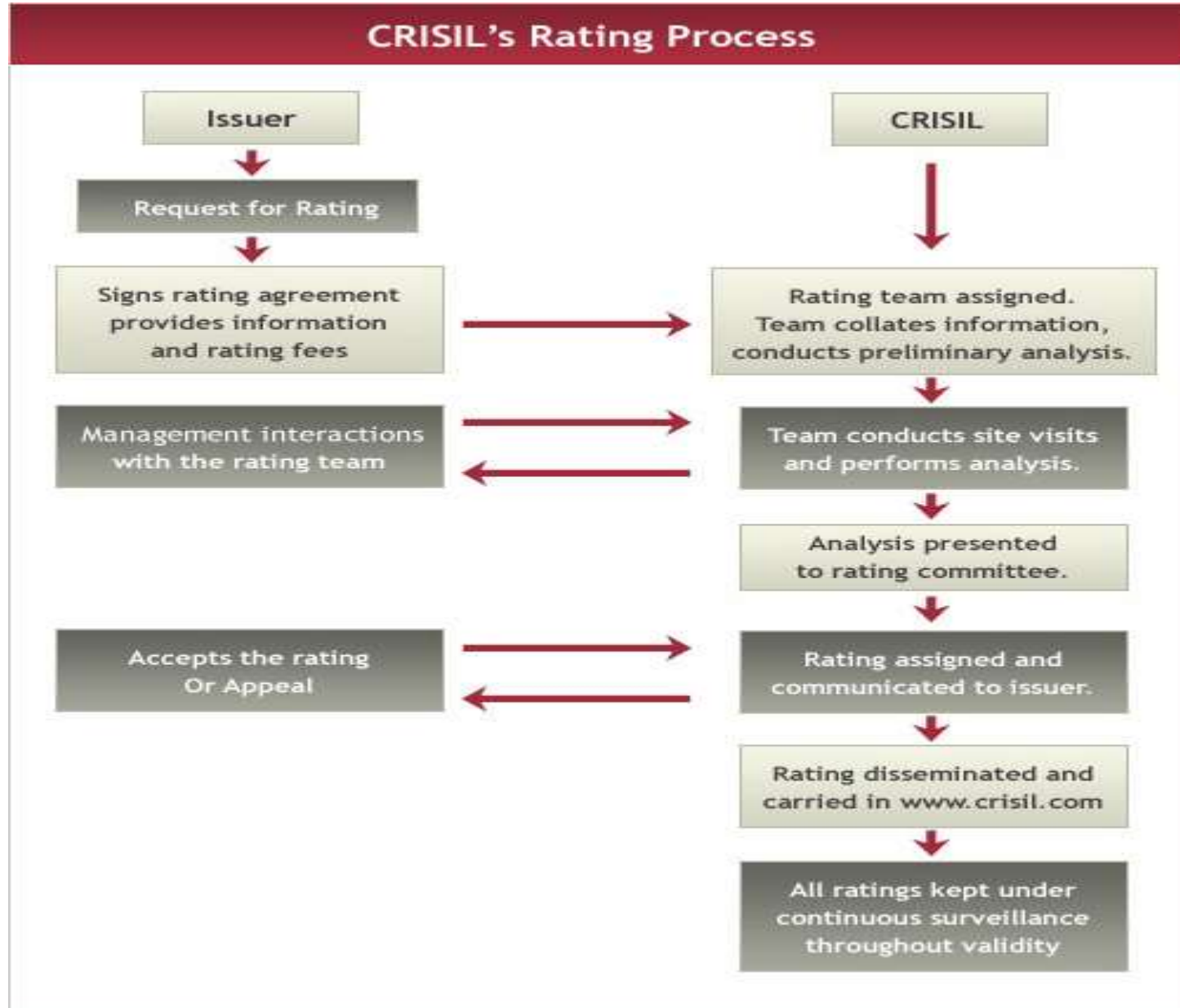
One can find the GVC ratings on CRISIL website of several known companies like Bharti Airtel Limited, HDFC Bank Ltd., Infosys Ltd., Mahindra & Mahindra Limited etc.

# CRISIL GVC Rating Scale

The CG ratings allotted by CRISIL and their meaning are discussed below:

Rating Scale	CRISIL GVC Ratings	Meaning
CRISIL GVC Level-1		Corporate governance and value creation for all stakeholders is the <b>Highest</b> .
CRISIL GVC Level-2		Corporate governance and value creation for all stakeholders is <b>Very High</b> .
CRISIL GVC Level-3		Corporate governance and value creation for all stakeholders is <b>High</b> .
CRISIL GVC Level-4		Corporate governance and value creation for all stakeholders is <b>Above Average</b> .
CRISIL GVC Level-5		Corporate governance and value creation for all stakeholders is <b>Average</b> .
CRISIL GVC Level-6		Corporate governance and value creation for all stakeholders is <b>Below Average</b> .
CRISIL GVC Level-7		Corporate governance and value creation for all stakeholders is <b>Low</b> .
CRISIL GVC Level-8		Corporate governance and value creation for all stakeholders is the <b>Lowest</b> .

# Rating Process





*CARE's Corporate Governance Rating (CGR) is an opinion on relative standing of an entity with regard to adoption of corporate governance practices.*

# CARE's Corporate Governance Rating

## Key characteristics

- ✓ CARE undertakes perusal of various documents like agenda papers and Minutes of Board and Board committees, Minutes of the Annual General Meeting and Extraordinary General Meeting, Annual Return and other documents filed by the company with ROC, SEBI, stock exchanges (domestic and international) and all other regulatory bodies, prospectus (if applicable) and offer documents.

# CARE's Corporate Governance Rating

## Key characteristics

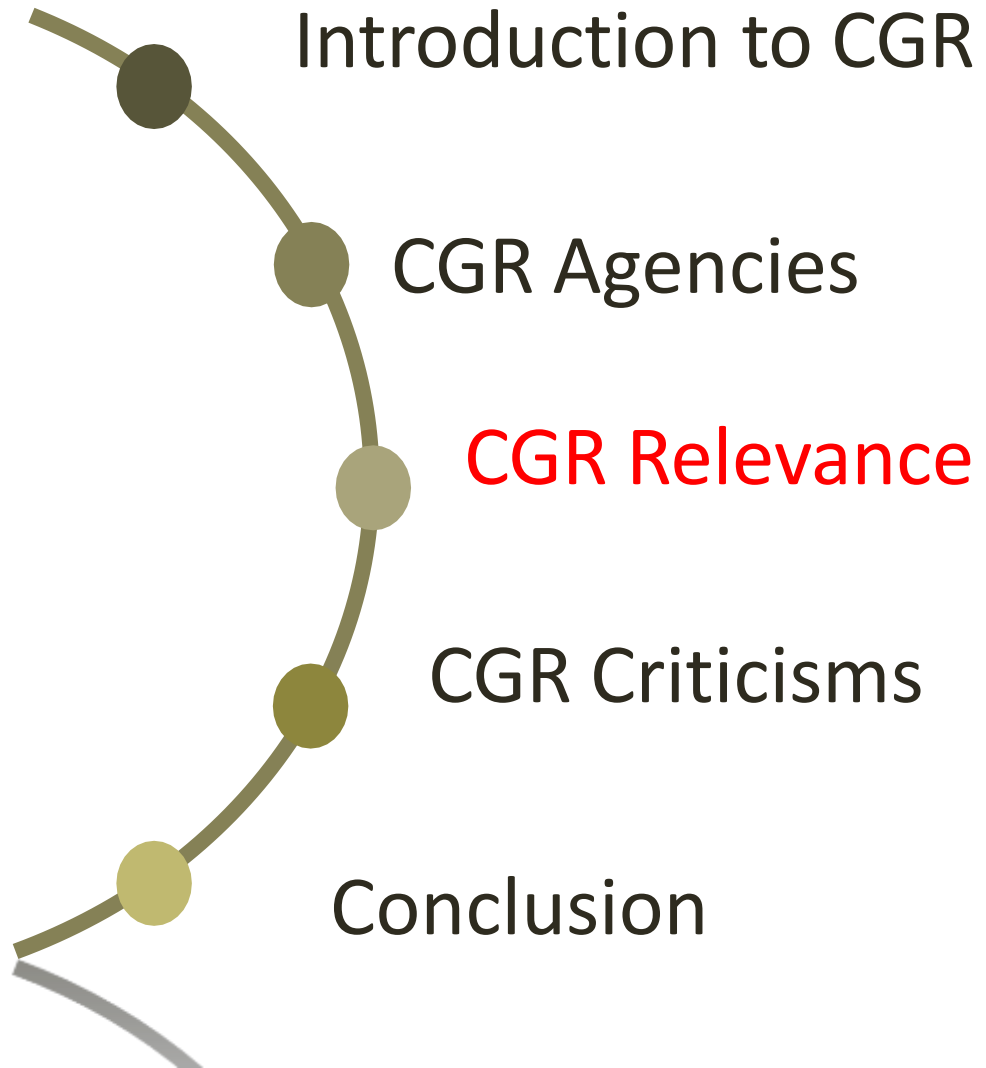
- ✓ CARE's team will interact with the Chairman, MD/CEO and independent directors, key officials of the company, Statutory Auditors, Internal Auditors, Lenders and Institutional/major shareholders. Thus for rating, all such information is made use of.



# Parameters of CG for allotting CGRs

<b>CRISIL GVC</b>	<b>CARE</b>
Equitable treatment of shareholders	Board composition & functioning
Ownership rights of shareholders	Ownership structure
Transparency & disclosure	Organization structure and Management Information System
Composition of Board	Shareholder relationship
Functioning of Board	Disclosure & transparency
Management assessment	Financial prudence
Value creation for various stakeholders	Statutory and regulatory compliance

# AGENDA



# Relevance of CG Ratings

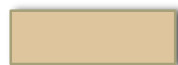
Corporate Governance Criteria	CG Ratings...
Rights and duties of shareholders	assesses the position of a shareholder in a company in terms of rights and obligations
Range of takeover defences	shows an objective mathematical approach for checking the probability to resist a hostile bid
Disclosure on corporate governance	assess the level of transparency on a company's corporate governance
Board structure and function	assesses the accountability, independence and functioning of the governing bodies

# Good CG Rating Vs. Weak CG Rating

- improves profits and increases company valuations
- greater access to financing
- lower cost of capital
- better performance
- more favourable treatment of all stakeholders



- poor firm performance
- risky financing patterns
- makes firms susceptible to macroeconomic crises



## ✓ Shareholders (Majority and Minority)

### *Majority Shareholders*

- To understand how management is promoting the interests of the shareholders.
- To understand the relative degree of transparency at a firm
- To guide existing and new investments: both strategic and portfolio investment

### *Minority Shareholders*

- To appreciate how management treats minority shareholders vis-à-vis majority

## ✓ Creditors (Counterparties, Investors, Lenders)

- To use as a guide or as conditionality for lending decisions
- To understand how management promotes the interests of financial stakeholders
- To guide rollover or new lending decisions

## ✓ **Board Directors**

- To understand the relative standing of existing governance practices as a form of self assessment
- To use as benchmarks for improvement
- To reduce directors' liability insurance premia
- To provide additional information to attract new directors to join the board
- To help orient new directors about a company's governance processes

## ✓ **Managers**

- To understand the relative standing of existing governance practices
- To use as benchmarks for improvement
- To communicate governance standards as an investor relations tool (annual reports, websites, advertising, etc)

# AGENDA



# CGR Criticisms

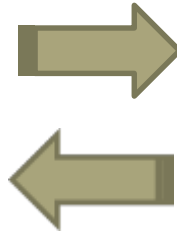


- How reliable is the underlying theory of CG, in particular the relation between good CG practices and higher performance?
- Are the cultural and contextual differences between companies, taken into consideration by CGR agencies?
- There is a correlation between the different ratings system?

# CGR Criticisms –CGR & Stock value



Good governance practices

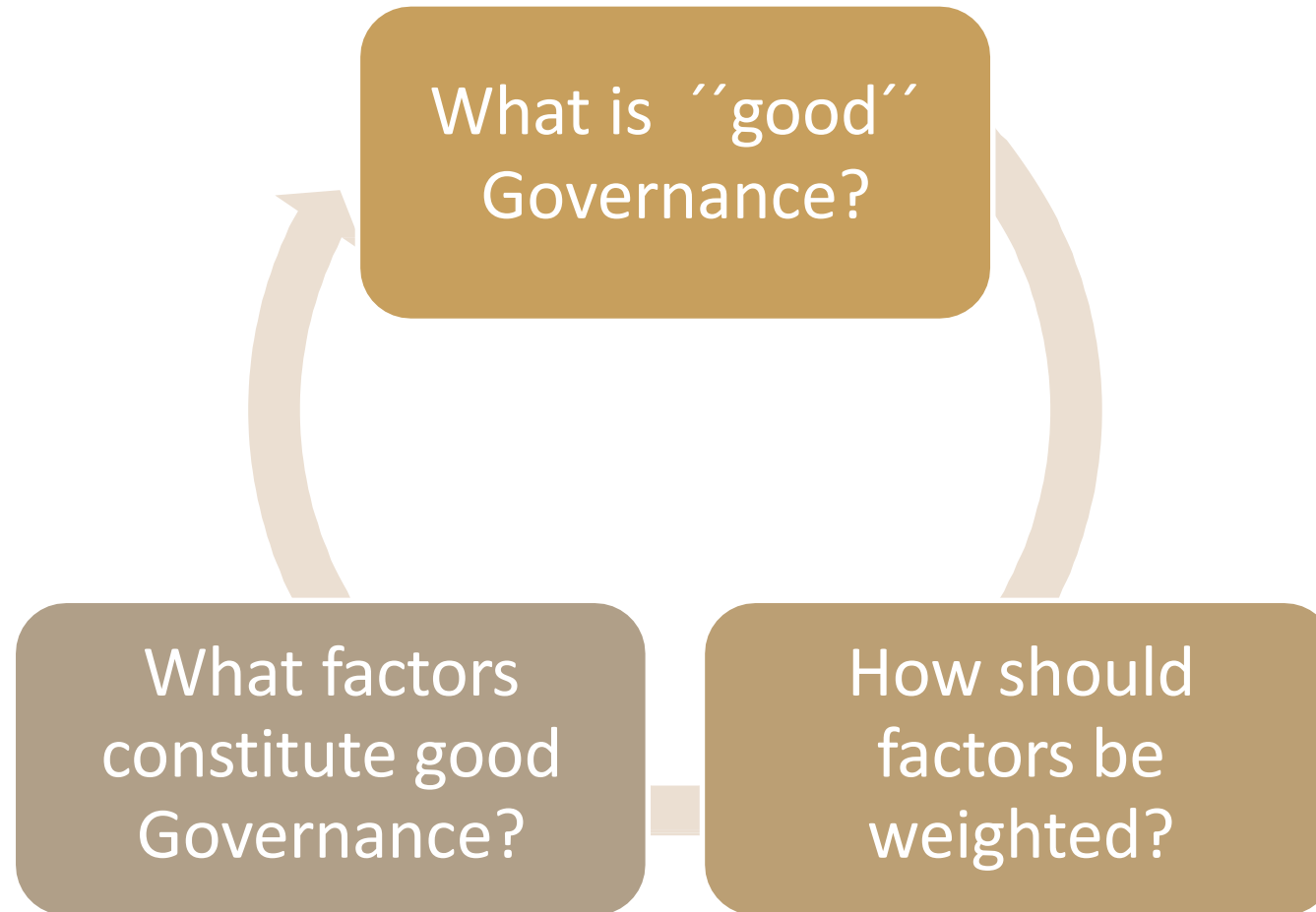


Higher stock value

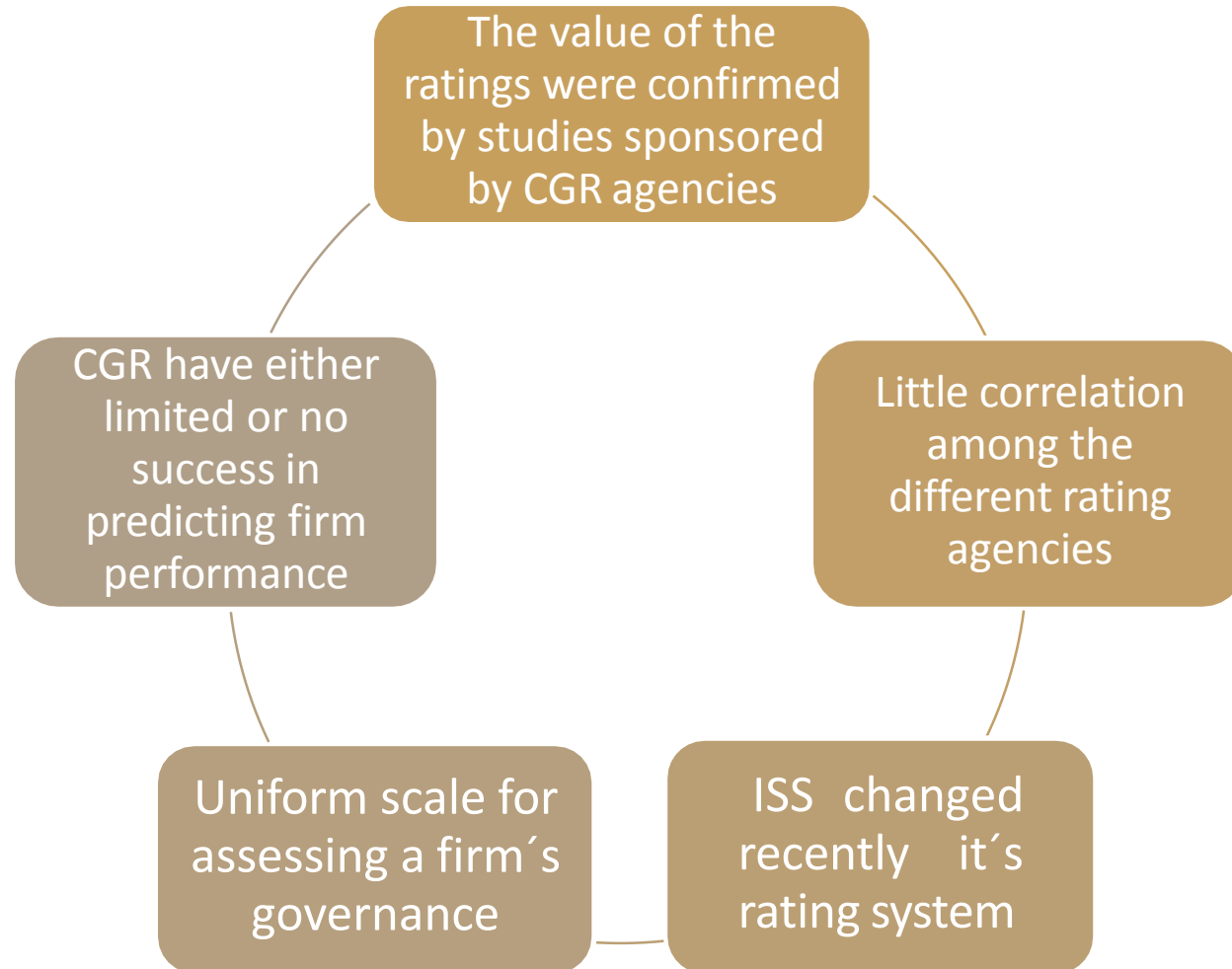
Focus on short or long-term stock performance?

There is an ideal time frame?

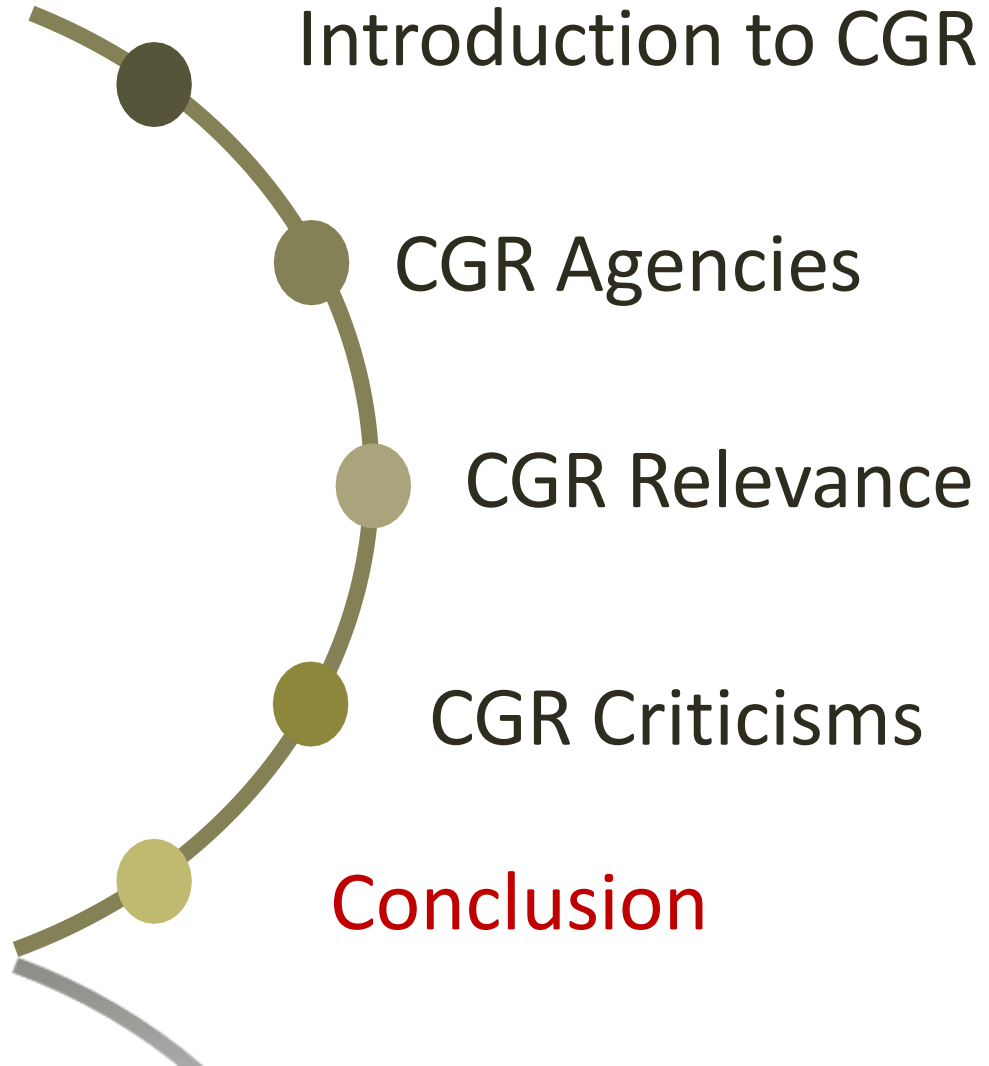
# CGR Criticisms – Definition of “good” Governance



# CGR Criticisms – Ratings' value



# AGENDA



# Conclusion

- How reliable is the underlying theory of CG, in particular the relation between good CG practices and higher performance?

Not 100% reliable.

- Are the cultural and contextual differences between companies, taken into consideration by CGR agencies?

No, they are not.

- There is a correlation among the different ratings system?

Recent studies showed small correlation.

# Conclusion

- Different studies in Corporate governance rating and firm performance lead to different results
- CG rating can not give an accurate forecast about firm performance
- Investors should not base entirely on commercial CGR in their investment decision
- More time needs to be invested into the perfection of governance rating databases
- Need for greater use of qualitative research method, like directors interviews

**CASES  
OF  
UNETHICAL  
BEHAVIOUR**



# CORPORATE FRAUD : SHOULD WE CARE?

When we think of corporate fraud, there is a tendency to imagine it is an isolated event with no real repercussions in our lives. In reality, the financial cost of corporate scams have deep ethical consideration and significant implications in our life.

# ACFE

## (ASSOCIATION OF CERTIFIED FRAUD EXAMINERS )

- CONDUCTED 2012 Global Fraud Study
- Reviewed 1,388 incidents of fraud worldwide
- Found that the average organization loses 5 percent of its annual revenue to fraud
- It amounts to a projected annual fraud loss of US \$3.5 trillion.

- ◉ In perspective, this is US \$3.5 trillion that would have otherwise been used to provide other services and products. Many of these scams include taxpayer money that would ideally go toward improving amenities for citizens. Clearly, corporate fraud has deep financial ramifications for all of us, even if we don't see them immediately. So yes, we should care.

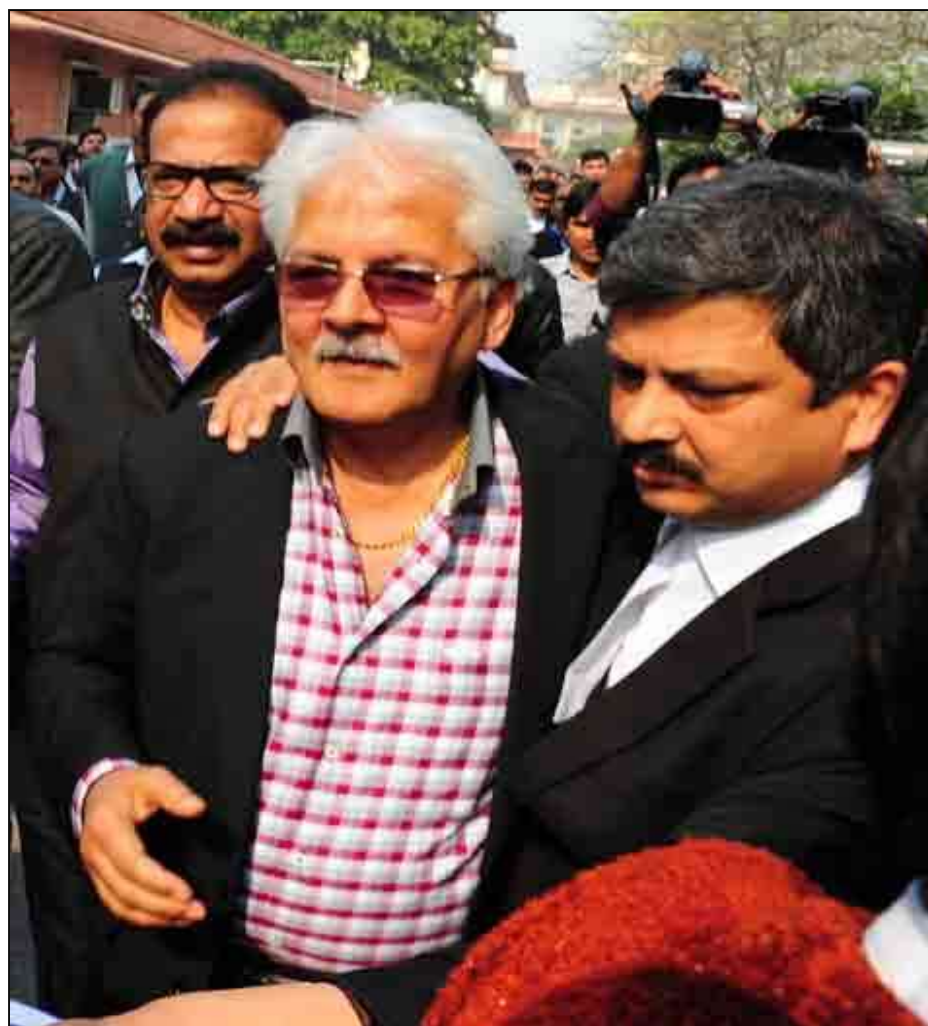
# THE PURGE: POTENTIAL SOLUTIONS

A recent survey by Grant Thornton and Assocham finds that cases of financial fraud have risen in India over the last few years and become one of the main factors deterring foreign companies from investing in India. As the economy grows to keep pace with the steadily growing needs of the population, corporate fraud is disastrous for India.

# THE THREE MAJOR SYSTEMATIC CHANGES THAT WE CAN DO :

- ◉ Laws protecting whistleblowers are imperative. The likelihood of people coming forth to willingly provide information will be a lot higher if they are provided with basic assurances. Safety from political threats and job security can ensure more people will be willing to volunteer information and increase transparency in the Indian corporate sector
- ◉ Federal and market regulators need a greater level of autonomy than they presently enjoy. The Reserve Bank of India, SEBI and other regulators can only be efficient provided their work is not directed by political influences
- ◉ Last and perhaps most importantly, there is a crucial need for judicial reform in India. The judicial system's slow-moving course causes needless delays and allows corporate violators to find underhanded methods to evade justice. Corporate cases, especially cases of such magnitude, need to be fast-tracked to reach resolution quickly so violators can be dealt severe and immediate consequences.

# CASES OF UNETHICAL BEHAVIOR



# CASE 1 : SAHARA GROUP

- ❑ Since 2009, when the Sahara Group's activities first came under the radar of SEBI leading up to the arrest of Sahara India Pariwar founder Subrata Roy in 2014, both parties have been engaged in an aggressive regulatory conflict.
- ❑ SEBI alleged that Sahara India Real Estate Corp Ltd (SIRECL) and Sahara Housing Investment Corp Ltd (SHICL), which issued Optional Fully Convertible Debentures (OFCD), illegally collected investor money. Meanwhile, Sahara denied SEBI had any jurisdiction in the matter.
- ❑ SEBI went on to order Sahara to issue a full refund to its investors, which was challenged by Sahara before the Securities Appellate Tribunal (SAT).
- ❑ When the SAT upheld SEBI's order, Sahara moved to the Supreme Court in August 2012, which ordered Sahara to refund investors' money by depositing it with SEBI.
- ❑ Sahara then declared that most of the US \$3.9 billion had already been repaid to investors, save for a paltry US \$840 million, which it handed over to SEBI. This was disputed by SEBI, which claimed that the details of the investors who were refunded had not been provided.
- ❑ When Sahara failed to deposit the remaining money with SEBI and Subrata Roy skipped his hearing, the Supreme Court of India issued an arrest warrant for the Sahara chief in February 2014.
- ❑ The regulator persevered through what the Supreme Court referred to as the "ridiculous game of cat and mouse" and finally managed to pin down Sahara chief Subrata Roy in 2014. In this rare victory, SEBI not only brought Sahara to justice, but also made an excellent case for why the regulator, and others like it, require greater autonomy and penalizing powers.



# CASE 2 : TOYOTA

- ❑ One of the most important aspects of any car company is safety -- the concern for safety, how both employees and consumers are kept safe, and how issues are handled should a safety concern arise. Toyota made a huge and unethical failure in 2010 when they basically betrayed their promise as a company by ignoring safety concerns and delaying recall investigations just so they could save a little money.
- ❑ After confronted with safety concerns regarding faulty breaks and sticking pedals in 2009, Toyota said that phasing in side airbags saved \$124 million and 50,000, the cost of what it would have taken to recall and fix vehicles. They also stated that delaying a rule for tougher door locks saved them \$11 million.
- ❑ Despite being ordered to appear before Congress and provide an explanation for their unethical handling of the situation, Toyota didn't seem to think it was such a big deal.
- ❑ "We can win back the customer's confidence; we are doing a better job," said senior Toyota executive and global managing director on the Toyota board in somewhat of an apology for their delayed recalls. But it seems that they were only sorry after they got caught -- it was almost an entire two years before Toyota got called out on this unethical practice after a few deaths and even more complaints about their unsafe vehicles. Their failure to be honest got so bad that they were even accused of hiding evidence in hundreds of rollover and death cases.



# CASE 3: APPLE

- ❑ Everyone wants an iPhone and no one really cares if it were made by tiny child slaves who are forced to work in dangerous conditions, inhaling cancerous vapours, for 10 hours a day, seven days a week. And that is why apple continues to be so profitable.
- ❑ But as beautiful as their products are, the production side of their business is a dark, horrific and unethical one. Apple manufacturer Foxconn is like hell on earth. Conditions at this plant are so miserable that "anti-suicide nets" had to be installed beneath the windows after a whopping 17 employees leapt to their deaths in protests of the horrific things they had to endure on a daily basis.
- ❑ Living quarters like tiny college dorms in a gigantic beehive type factory, each crammed with crappy bunk beds. Exhausting hours, humiliating discipline, unreasonable workloads, and pressure to reduce overtime resulting in lower pay checks are just some of the crappy conditions faced by thousands of Foxconn employees on a daily basis.
- ❑ The controversy began in 2006 and is still happening today. And while Apple has made efforts to branch out and use some different manufacturers to produce their products, unethical Foxconn is still their go-to company.
- ❑ Besides using Foxconn, Apple co-founder Steve Wozniak claimed that Apple was engaging in unethical tax practices by utilizing an Irish tax loophole to avoid paying billions in taxes on international sales.



Thank you!