E-Resources on the topic of

"Ethics & Corporate Governance"

(Paper Name: CC 4.1 Chg. - Entrepreneurship Development and Business Ethics)

For Students of 4th Semester, B.Com. (Honours), CBCS, The University of Calcutta

by,

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Unit 5: Ethics & Corporate Governance

Concept of Corporate Governance, Scope, Reports on Corporate Governance and its benefits and limitations-- Corporate Governance and Business Ethics [Brief Concept]
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- ## Concept and Definition of Corporate Governance

Corporate governance refers to the systems, principles, and processes by which a company is directed and controlled. It encompasses the mechanisms through which companies are operated and monitored, ensuring accountability, fairness, and transparency in the company's relationship with its stakeholders, including shareholders, management, customers, suppliers, financiers, government, and the community. According to Margaret M Blair, 'corporate governance refers to the whole set of legal, cultural and institutional arrangements that determine what publicly traded corporation can do, who controls them, how that control is exercised and how the risk and returns from the activities they undertake and located.' 'Corporate governance means that company managers its business in a manner that is accountable and responsible to the shareholders. In a wider interpretation, corporate governance includes company's accountability to shareholders and other stakeholders such as employees, suppliers, customers and local community.' – Catherwood. "Corporate governance is the system by which companies are directed and controlled" – The Cadbury Committee (U.K.).

- ## Significance of Corporate Governance

Corporate governance manages the business efficiently and effectively to increase the value for all parties involved with business operations directly or indirectly.
The significance of corporate governance is measured by the following factors –

i. Wide spread of shareholders
ii. Changing ownership structure

iii. Corporate scams or scandals
iv. Greater expectations of society of the corporate sector
v. Hostile take-overs
vi. Huge increase in top management compensations
vii. Globalisation

- **Scope of Corporate Governance**

The scope of corporate governance ranges from shareholders to dealers, retailers of products. It influences all stakeholders of business, such as follows –

i. Shareholders
ii. Board of Directors
iii. External auditors
iv. Finance markets
v. Debt providers
vi. Government
vii. Others
viii. Media
ix. Society

- **Key components and principles of Corporate Governance**

i. Board of Directors: The board is central to corporate governance, responsible for setting the company's strategic direction, overseeing management, and ensuring that the company operates in a responsible and ethical manner. The board typically includes a mix of executive and non-executive directors, with the latter being independent of the company's management.

ii. Accountability: Effective corporate governance ensures that the board and management are held accountable for their actions and decisions. This includes financial reporting, compliance with laws and regulations, and adherence to ethical standards.

iii. Transparency: Companies should provide clear and accurate information about their financial performance, business practices, and governance structures. Transparency helps build trust with stakeholders and allows for informed decision-making.

iv. Shareholder Rights: Corporate governance frameworks often emphasize protecting the rights of shareholders, including their ability to vote on significant corporate matters, such as mergers and acquisitions, and to have a say in the election of directors.

v. Ethical Conduct: Promoting ethical behaviour and integrity in the company's operations is crucial. This includes establishing codes of conduct, anti-corruption measures, and mechanisms for reporting unethical behaviour.

vi. Risk Management: Effective governance involves identifying, assessing, and managing risks that could affect the company's ability to achieve its objectives. This includes financial, operational, and strategic risks.

vii. Compliance: Companies must adhere to relevant laws, regulations, and industry standards. Compliance ensures that the company operates within the legal framework and meets its obligations to stakeholders.

viii. Stakeholder Engagement: Good corporate governance involves engaging with various stakeholders and considering their interests in decision-making processes. This can include employees, customers, suppliers, and the wider community.

ix. Performance Evaluation: Regular evaluation of the board's performance, as well as that of individual directors and management, helps ensure that the governance framework is effective and that the company is achieving its strategic goals.

In summary, corporate governance is about creating a structure and set of practices that align the interests of various stakeholders, promote ethical conduct, and ensure the long-term success and sustainability of the company.

- **Advantages or Benefits of Corporate Governance**

i. Growth and development
ii. Goodwill and image creation
iii. Maintenance of investor confidence
iv. Increases value of shares
v. Reduction of mismanagement
vi. Increase of productivity
vii. Increase of market capitalisation of the business
viii. Benefits oof all stakeholders
ix. Payment of regular tax to the Government

- **Disadvantages or Limitations of Corporate Governance**

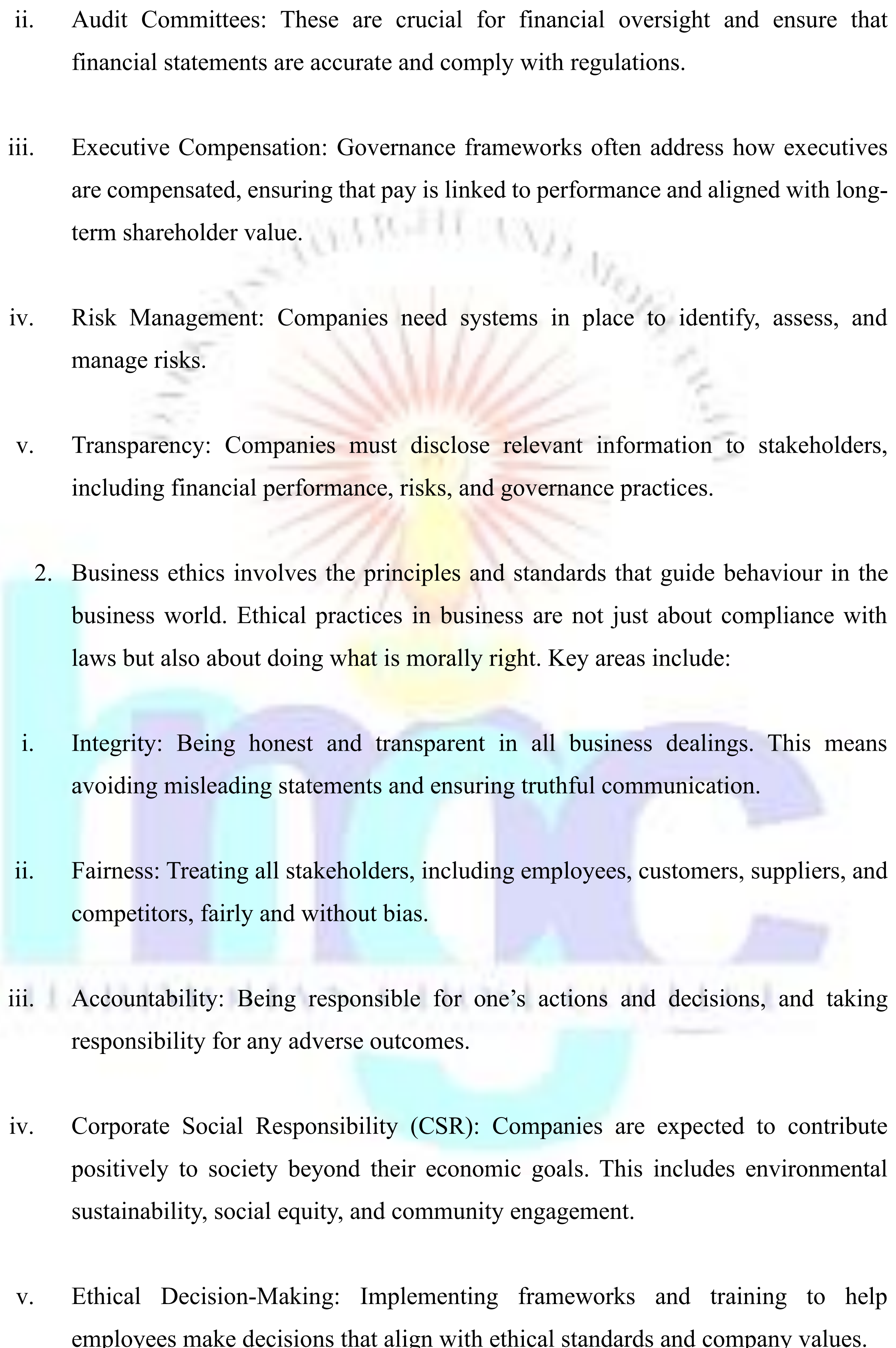
i. Separation of ownership and management
ii. Increase of administrative cost
iii. Unsuitable for small business
iv. Conflict of interest
v. Board acts as trustee

- **Corporate Governance and Business Ethics**

Corporate governance and business ethics are crucial components in maintaining the integrity and success of any organization. They are intertwined but address different aspects of how a company operates.

1. Corporate governance refers to the systems, principles, and processes by which a company is directed and controlled. It encompasses the mechanisms through which companies, and their executives, are held accountable to shareholders, stakeholders, and the public. Key elements include:

i. Board of Directors: Responsible for overseeing the company's management and ensuring that it acts in the best interests of shareholders. This board includes both executive and non-executive members.



ii. Audit Committees: These are crucial for financial oversight and ensure that financial statements are accurate and comply with regulations.

iii. Executive Compensation: Governance frameworks often address how executives are compensated, ensuring that pay is linked to performance and aligned with long-term shareholder value.

iv. Risk Management: Companies need systems in place to identify, assess, and manage risks.

v. Transparency: Companies must disclose relevant information to stakeholders, including financial performance, risks, and governance practices.

2. Business ethics involves the principles and standards that guide behaviour in the business world. Ethical practices in business are not just about compliance with laws but also about doing what is morally right. Key areas include:

i. Integrity: Being honest and transparent in all business dealings. This means avoiding misleading statements and ensuring truthful communication.

ii. Fairness: Treating all stakeholders, including employees, customers, suppliers, and competitors, fairly and without bias.

iii. Accountability: Being responsible for one's actions and decisions, and taking responsibility for any adverse outcomes.

iv. Corporate Social Responsibility (CSR): Companies are expected to contribute positively to society beyond their economic goals. This includes environmental sustainability, social equity, and community engagement.

v. Ethical Decision-Making: Implementing frameworks and training to help employees make decisions that align with ethical standards and company values.

3. Intersection of Governance and Ethics

While corporate governance focuses on the structures and processes that ensure effective management and accountability, business ethics address the moral principles that guide individual and organizational behaviour. Effective corporate governance frameworks promote ethical behaviour by:

i. Setting the Tone at the Top: Leadership should model ethical behaviour and set a standard for the rest of the organization.

ii. Establishing Policies: Developing codes of conduct, ethical guidelines, and compliance programs that support ethical behaviour.

iii. Monitoring and Enforcement: Implementing mechanisms to monitor compliance with ethical standards and take action against violations.

iv. Stakeholder Engagement: Maintaining open communication with stakeholders and addressing their concerns ethically and transparently.

In summary, strong corporate governance structures support ethical behaviour by ensuring accountability and transparency, while a focus on business ethics ensures that individuals and organizations adhere to moral principles in their everyday operations.

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