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Research Paper

Business Ethics and Corporate Governance

Rupa D. Jajoo,
Ph.D. Research Scholar,
School of Commerce & Management Sciences,
Swami Ramanand Teerth Marathwada University,
Nanded-431606- Maharashtra, India.

Pravin Nandkishorji Totala
Ph.D. Research Scholer
Dr. Babasaheb Ambedkar Marathwada University
Aurangabad (M.S.)

ABSTRACT

Business ethics are moral principles that define right and wrong behaviour in the word of corporates. What constitutes right and wrong behaviour in business is determined by public interest groups and corporates. Ethics refer to the code of conduct that guides and individual while dealing in the situation. It relates to the social rules that influence people to be honest in dealing with other people.

Ethics are the rules. Ethics is the discipline dealing with what is good and bad or right and wrong or with moral duty and obligations. Corporate governance is a set of system and process to ensure that a company is managed to suit the best interest of all stakeholders. The stakeholders may be promoters, members, workmen, executives, shareholders, customers, lenders, vendors, bankers, community government and regulates. Corporate governance is a voluntary ethical code of business companies with total transparency, integrity accountability of the management. It is a system of making management accountable to the stakeholders for effective management of the companies in the interest of the all stakeholders with adequate concern for ethics and values. In this paper an attempt is made to throw light on the business ethics and its role in good corporate governance.

INTRODUCTION

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, kick backs, non- compliance with environmental issues, and hazardous working conditions. Many Indian companies too have importance recognized the importance of integrity, transparency and open communications. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains. Today investors want to ensure that the companies they invest in are not only managed properly, but also have proper corporate governance. They regard corporate governance as a control mechanism that ensures the optimum use of the human, physical and financial resources of an enterprise. Companies have now begun to integrate ethic into their corporate cultures and concentrate on putting appropriate corporate governance and explain how they can be applied in various business situation. 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, kick backs, non-compliance with environmental issues, and hazardous working conditions. Many Indian companies too have importance recognized the importance of integrity, transparency and open communications. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains.

Today, investors want to ensure that the companies they invest in are not only managed properly, but also have proper corporate governance. They regard corporate government as a control mechanism that ensures the optimum use of the human, physical and financial resources of an enterprise.

CORPORATE GOVERNANCE FRAMEWORK

Land labor/ capital and organization / entrepreneurship are the four factors essential for production. These four factors constitute the wheel of business. Maximizing shareholders wealth was considered as the primary objective of business organization. Today this view of business has changed the idea of optimization came into force. It is now recognized that there are many stakeholders and there is need to have a proper balancing in the interest of various stakeholders. Each stakeholder has its own requirements. Their happiness comes from satisfaction of their needs. In the following table, parameters of happiness are mentioned.

Stakeholders	Parameters for happiness
Customers	Quality, reasonable price, good service, complaint handling methods
Employees	Job satisfactions, higher salary, career opportunities, fringe benefits, better working conditions.
Suppliers	In time payment, transparency and honesty in dealings.
Society	Eco- friendly organization, efforts taken to prevent pollution.
Government	Payment of taxes honestly.
Shareholders	Fare return on the capital invested.

ELEMENTS OF GOOD CORPORATE GOVERNANCE

Following are the fifteen elements of good corporate governance:

1. Dispersed ownership: Although the presence of a large or majority block-holder is not necessarily a negative governance issue, a more dispersed ownership normally tends to be more attractive to investors. Most important, a company should have no signal shareholders or group of shareholders who have privileged access to the business or excessive influence over the decision- making process.
2. Transparent ownership: A companies actual ownership structure should be transparent, providing adequate public information on breakdown of shareholdings, identification of substantial/ majority holders, disclosures on director shareholders, cross and pyramid holdings, and management shareholders.
3. One shareholder vote: A company should offer one share/one vote to all of its shareholders, and have only a class of shares. All shareholders should receive equal financial treatment, including the receipt of equitable share of profits.
4. Anti-takeover defenses: The company should not have any share capital, or boards related to anti over defenses.
5. Meeting notifications: Shareholders should be notified at least 28 days prior to each general shareholder meeting to allow overseas investors to participate, and online participation should be available for shareholders.
6. Board size: The board should neither too big not too small. Empirical analyses suggest that the optimal boards size from five to nine members.
7. Outside directors: Not more than half of the directors should be executives of the company.
8. Independent director: At least half of the non-executive directors should be independent outsiders.
9. Written board guidelines: A company should have its own written corporate governance rule that clearly describes its vision, value system, and board responsibilities. Based on the rules, directors and executives should be fairly remunerated and motivated to ensure the success of the company.
10. Board Committees: The board of a company should also appoint independent committees to carry out critical functions such as auditing, internal controls, and top management compensation and development.
11. Disclosure: Frequent and credible disclosure and transparency. At a minimum, a company should provide disclosure on financial and operating performance, business operation and competitive position, corporate bylaws, and corporate mission, and board member backgrounds and basis of remuneration.
12. Accounting standards: A company should use an internationally recognized accounting standard (US GAAP. UK GAAP, IAS) for both annual and quarterly reporting.
13. Independent audit: A company should perform an annual audit using an independent and reputable auditor.
14. Board disclosure: A company should offer multiple channels of access to its information, including both online and offline access. Information should be in both local language and English.
15. Timely disclosures: Information should be disclosed in a timely manner based on standards at the listing stock exchange.

A Word of Caution………………..

Corporate governance has become the latest buzzword in the corporate sector in India. The principle objective of good corporate governance is to enhance the value of shareholder. Corporate governance focuses on:

1. Building a structure and rules to govern a company board of director.
2. Creating independent audit committees made up of enterprise's board members
3. Ensuring disclosures of all relevant information to shareholders and creditors, including business risk analyses and
4. Controlling management.

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