

GOVERNANCE, BUSINESS ETHICS AND SUSTAINABILITY

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer Question No. 1 which is compulsory and any two of the rest from this part.

PART A

Question 1

- (a) On 8th February, 2009, The Hindustan Times published a news caption "Crisis of unimaginable proportions — Fraud @ Satyam. Company running out of cash to pay salaries — faces lawsuits."

It further remarked : "The country is rocked by possibly the biggest corporate fraud. The company's profits and cash reserves had been doctored for several years with possible connivance of auditors." Obviously, the company had committed breach of good governance practices and legal bulwarks.

If you have to investigate into this case, which aspects of Corporate Governance would you look into ? (10 marks)

- (b) Choose the most appropriate answer from the given options in respect of the following :

- (i) Corporate governance means —
 - (a) Corporate management
 - (b) Corporate administration
 - (c) Corporate planning
 - (d) Corporate system.
- (ii) Board of directors play a pivotal role in ensuring —
 - (a) Good meetings
 - (b) Good management
 - (c) Good administration
 - (d) Good governance.
- (iii) Remuneration Committee of the Board should have —
 - (a) Six members
 - (b) Independent director as its chairman
 - (c) Company Secretary as advisor
 - (d) No interested director.
- (iv) The aim of internal control system is to —
 - (a) Boost company image in market
 - (b) Rationalise the company affairs and activities
 - (c) Help company in achieving its goals
 - (d) Keep check on internal management.

- (v) *Shareholders can apply for winding-up of the company under section 397 read with section 399 of the Companies Act, 1956 in case of —*
- (a) *Oppression and mismanagement*
 - (b) *Misbehaviour of managing director with shareholders*
 - (c) *Company insolvency*
 - (d) *Failure to pay debts.* (1 mark each)
- (c) *State, with reasons in brief, whether the following statements are correct or incorrect:*
- (i) *Audit committee is more of a formality than an independent regulator.*
 - (ii) *Insider trading is permissible with the sanction of the SEBI.*
 - (iii) *Government regulations and public policy tend to bring the bare minimum involvement by the corporates towards their corporate responsibilities.*
 - (iv) *Clause 49 was incorporated in the listing agreement in February, 2000 by the SEBI.*
 - (v) *The matters required to be included in the directors' responsibility statement are to be included in the directors' report.* (1 mark each)

Answer 1(a)

One of the most appropriate definition of Corporate Governance (CG) has been given by ICSI, i.e. Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustained development of all stakeholders. Its principles are:-

1. Sustained development of all stakeholders
2. Effective management and distribution of wealth
3. Discharge of social responsibility
4. Application of best management practices
5. Compliance with law in letter and spirit
6. Adherence of ethical standards

Satyam failed fundamentally on counts of integrity, probity and ethics. The very intent of the promoter directors was to siphon-off the funds of the company to fuel their insatiable greed to amass wealth.

The accounts of Satyam did not reflect true and fair views of the state of affairs of the Company. The auditors, after the confession by the managing director; stated that the accounts of Satyam could not be relied upon.

One the face of it Satyam was a compliant company but the intent of the promoter directors was to defraud.

Some of the issues that should be investigated in the Satyam case include

- (i) Transaction with related parties

- (ii) Violation of SEBI (Substantial Acquisition of Shares and Takeover) Regulations;
- (iii) Violation of SEBI (Prohibition of Insider Trading) Regulations
- (iv) The nature of information placed before the Board and the Audit Committee.
- (v) The role of the internal auditors
- (vi) The role of the statutory auditors
- (vii) The role of Chief Financial Officer
- (viii) The role of the Company Secretary.

Answer 1(b)(i)

- (d) Corporate System

Answer 1(b)(ii)

- (d) Good Governance

Answer 1(b)(iii)

- (b) Independent director as its Chairman

Answer 1(b)(iv)

- (c) Help company in achieving its goals

Answer 1(b)(v)

- (a) Oppression and mismanagement

Answer 1(c)(i)

Incorrect

An Audit Committee oversees the financial reporting process of a company.

Answer 1(c)(ii)

Incorrect

Insider Trading is not permissible even with the permission of SEBI.

Answer 1(c)(iii)

Correct

The laws in India takes care of just the basic Corporate Social Responsibilities through various legislations under labour laws.

Answer 1(c)(iv)

Correct

Clause 49 was incorporated in the listing agreement in February 2000 by SEBI, as part of its endeavour to improve the standards of Corporate Governance.

Answer 1(c)(v)

Correct

Matters required to be included in the Director's Responsibility Statement are to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.

Question 2

(a) *Write notes on any two of the following :*

(i) *Objectives of legal compliance committee*

(ii) *Internal control system*

(iii) *Risk management process.* (5 marks each)

(b) *Distinguish between 'corporate blogging' and 'company's vertical communication'.* (5 marks)

Answer 2(a)(i)

Due to complexity of compliance with the provisions of a number of applicable laws, it has become necessary that the Board of Directors constitute a non mandatory Corporate Compliance Committee & ensure due compliance with laws and procedures applicable to a legal entity. Such a Committee may also be called Legal Compliance Committee.

Objectives of Corporate Compliance Committee

The primary objective of the Compliance Committee is to review, oversee, and monitor:

- the Company's compliance with applicable legal and regulatory requirements,
- the Company's policies, programs, and procedures to ensure compliance with relevant laws, the Company's Code of Conduct, and other relevant standards;
- the Company's efforts to implement legal obligations arising from settlement agreements and other similar documents; and
- perform any other duties as are directed by the Board of Directors of the company.

The duties and responsibilities that can be delegated to the committee include:

1. To oversee the company's compliance efforts with respect to relevant company policies, the company's Code of Conduct, and other relevant laws and regulations and monitor the company's efforts to implement legal obligations arising from agreements and other similar documents;
2. Review the company's overall compliance program to ensure that it is well communicated, supports lawful and ethical business conduct by employees, and reduces risk to the company for non compliance with laws and regulations related to the company's business;
3. Review complaints received from internal and external sources, regarding matters

other than the financial matters which are within the purview of the Audit Committee;

4. Review the policies, programs and procedures for ensuring compliance with relevant laws, the company's Code of Conduct, value statement, other relevant standards, and legal obligations, including those imposed by settlement agreements;
5. Presentation to the Board for adoption of policies, for adoption appropriate changes to the policies, and oversee implementation of and compliance with these policies;
6. Review regularly the company's compliance risk assessment plan;
7. To discuss any significant compliance issues with the Chief Executive Officer;
8. To investigate or cause to be investigated any significant instances of non compliance, or potential compliance violations that are reported to the Committee;
9. To coordinate with other Committees regarding matters brought to the Committee's attention that relate to issues and compliance with applicable laws and regulations;
10. To regularly report to the Board on the Committee's activities, recommendations and conclusions;
11. To discuss any significant compliance issues with the Chief Executive Officer;
12. To periodically report to the Board and CEO on the adequacy and effectiveness of the company's compliance program.

Answer 2(a)(ii)

Internal Control System

Internal control is defined as a process, effected by an organization's people and information technology (IT) systems, designed to help the organization accomplish specific goals or objectives.

It is a means by which an organisation's resources are directed, monitored and measured. It plays an important role in preventing and detecting fraud and protecting the organisation's resources, both physical (i.e. machinery and property) and intangible (i.e. reputation or intellectual property such as trademarks).

An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of the Company that, taken together.

- Facilitates its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieve the Company's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
- Helps to ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization;

- Helps ensure compliance with applicable laws and regulations, and also internal policies with respect to conducting business.

Answer 2(a)(iii)**Risk Management Process**

Risk management is a structured, consistent and continuous process, applied across the organisation for the identification and assessment of risks, control assessment and exposure monitoring.

The objectives of the Company's risk management framework comprise the following:

- To identify, assess, prioritize and manage existing as well as new risks in a planned and coordinated manner.
- To increase the effectiveness of internal and external reporting structure.
- To develop a risk culture that encourages employees to identify risks and associated opportunities and respond to them with appropriate actions.

All companies have express or implied objectives which ultimately contribute to the maximization of shareholder value. Risk management actively supports the achievement of those objectives. It is not a process for avoiding risk. Properly implemented risk management can actively allow a company to undertake activities that have a higher level of risk thereby achieving a greater benefit because risks have been identified, understood and well managed.

Organizations which do have risk management policies in place are rewarded by added premium in the market and shall be better placed to pursue objectives and opportunities with confidence.

Risk management can be seen as a tool for creating opportunities for the businesses as they develop during the risk management process. Moreover such opportunities arise also from the complementary effect of risk management with other business planning process.

In other words, risk management is not just about preventing risks, but also managing it properly. However, managing risks properly does not mean becoming risk averse, or ignoring new opportunities for being "too risky".

Risk management provides a framework to:

- ensure that all the foreseeable risks involved are actually understood and accepted before important decisions are taken.
- monitor new projects, and ongoing operations, to ensure that they continue to develop satisfactorily, and no problems or new risks emerge.

It is pertinent to note that every activity carries a potential reward as well. Risk management, essentially, is about managing risk against reward.

Answer 2(b)

A corporate blog is a blog published by or with the support of an organization to reach the organizations goals. The word blog is derived from the word weblog wherein regular entries of commentary description of events are published. Corporate blog is

used by an organization to reach its organizational goals. The advantage of the blogs is that posts and comments are easy to reach and follow due to centralized hosting and generally structured conversation threads. Corporate blog is very popular as economical, effective, has wide coverage, is expedient and cost effective. As a marketing and public relations tool, its value is immense.

Vertical communication on the other hand, focuses the internal targets alone like employees. It is management tool though its public relations value is equally important. Moreover, it consists mainly by instructions, orders, task points, company's image-material and internal newsletter type communication.

Question 3

- (a) *What is 'corporate philanthropy' ? How is it different from corporate social responsibility (CSR) ?* (7 marks)
- (b) *Describe the responsibilities of the Board of directors towards company, management, stakeholders and government.* (8 marks)

Answer 3(a)

Philanthropy means the act of donating money, goods, time or effort to support a charitable cause in regard to a defined objective. Philanthropy can be equated with benevolence and charity for the poor and needy. Philanthropy can be any selfless giving towards any kind of social need that is not served, underserved, or perceived as unserved or underserved. Philanthropy can be by an individual or by a corporate.

The Etymological origin of the word is from Late Latin philanthropia, from Greek philanthropia, from philanthropos loving people that is phil- + anthropos human being. It is the active effort to promote human welfare.

Corporate Social Responsibility on the other hand is about how a company align their values to social causes by including and collaborating with their investors, suppliers, employees, regulators and the society as a whole. The investment in CSR may be on people centric issues and/ or planet issues. CSR initiatives of a corporate is not a selfless act of giving; companies derive long-term benefits from the CSR initiatives and it is this enlightened self interest which drives the CSR initiatives in companies.

Answer 3(b)

Responsibilities of Board of Directors

Responsibilities cast upon Directors are quite onerous and multifarious. Directors are in fiduciary position and must exercise their powers for the benefit of the company. Board is responsible for direction, control and supervision of the management of the company's affairs. They have to establish effective corporate governance procedures and best practices. Ultimate control and management vests with the Board.

Responsibilities towards the company

The board should ensure that:

- It acts in the best interest of the company.

- The decisions it takes does not serve the personal interests of its members.
- It helps the company in increasing its profits and turnover by following principles of equity, ethics and values.
- It helps the company in building its goodwill.
- It shares with the management the decision taken by them and the reasons thereof.
- That the company has systems and means to best utilize the resources of the company and especially its intangible resources.

Responsibilities towards management

The board must ensure that:

- It gives its guidance, support and direction to the management in every decision.
- It acts as leader to inspire and motivate the management to perform their duties.
- It encourages leadership development.
- It encourages compliance and disclosures.
- It trusts the management and gives it the freedom to act.
- It does not dictate terms but take objective decisions.
- It follows the company's code of conduct and the other rules and the regulations of the company.

Responsibilities towards stakeholders

The board must ensure that:

- Its every decision helps in the increasing the stakeholders value.
- It does not act in a manner by which any stakeholder is prejudiced.
- One stakeholder should not be benefited at the cost of the other.
- It must discourage restrictive or monopolistic activities for the undue benefit of the company.
- That proper system is established and followed which helps in resolving the grievances of the stakeholders.
- That company has policies for different class of stakeholders which are equally applicable. Such policies should be based on the principles of equity and justice.
- That company discloses its policies to all the stakeholders.
- The stakeholders are able to establish long term relationships based on trust and confidence.

Responsibility towards government

The board must ensure that:

- The company complies with all the laws applicable to it whether they are the central laws or state laws.
- There are systems and checks to ensure that the above is complied.
- That all the dues towards the government in the form of taxes, rates, etc. are paid on time.
- It supports the initiatives taken by the government for the promotion of welfare and security of the nation.

Question 4

- (a) *“A positive synergy out of due integration of the social responsibility of business with the commercial focus is on the whole a fairy tale with catchy gains.”*
Elucidate. (7 marks)
- (b) *Enumerate various committees of the Board of directors which are required to be constituted under clause 49 of the listing agreement and state their functions?*
(8 marks)

Answer 4(a)

The integration of the CSR initiatives of a company with its commercial purpose does give rise to positive synergies. The positive synergies of CSR include:

- a. CSR creates a favorable public image
- b. The positive image created out of CSR promotes goodwill and loyalty of the stakeholders including employees
- c. Society gains in the form of better neighborhood and employment opportunities.
- d. Satisfaction of changed consumer needs and expectations
- e. Social involvement reduces the need for legal and governmental interference
- f. External environment is also improved
- g. Good CSR ensures due balance of authority (financial power) and responsibility
- h. It has exemplary impact on other units too
- i. Encourages cooperative/positive attitudes
- j. Project assessments are made in terms of social cost-benefits too.
- k. CSR alone is suitable for promoting national and public interest and economic growth with welfare.

The synergy between the social involvement of business into its basic commercial-profit-gain focus arises due to the following reasons :

- Globalization – coupled with focus on cross-border trade, multinational enterprises and global supply chains — is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things.
- Advances in communications technology, such as the Internet, cellular phones and personal digital assistants, are making it easier to track corporate activities and disseminate information about them. Non-governmental organizations now regularly draw attention through their websites to business practices they view as problematic.
- Consumers and investors are showing increasing interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues.
- Numerous serious and high-profile breaches of corporate ethics have contributed to elevated public mistrust of corporations and highlighted the need for improved corporate governance, transparency, accountability and ethical standards.
- Citizens in many countries are making it clear that corporations should meet standards of social and environmental care, no matter where they operate.
- There is increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that corporate social responsibility addresses.
- Businesses are recognizing that adopting an effective approach to CSR can reduce risk of business disruptions, open up new opportunities, and enhance brand and company reputation.

Answer 4(b)**Various Committees of the Board which are required to be constituted under Clause 49**

Audit Committee and Shareholders Grievance Committees are mandatory committees which have to be constituted by a listed entity to whom clause 49 of the Listing Agreement is applicable.

Audit Committee

A key element in the corporate governance process of any organization is its audit committee. The battle for financial statement integrity and reliability depends on balancing the pressures of multiple stakeholders, including management, regulators, investors and the public interest.

Functions of Audit Committee

The functions of the audit committee include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval. :
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval
6. Reviewing, with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any areas of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

Shareholders Grievance Committee/Investor Grievance Committee

In terms of Clause 49-IV(G)(iii) of the Listing Agreement, a board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of

balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'.

The number of meetings of the Shareholders/Investors Grievance Committee should be in accordance with the exigencies of business requirements

To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the Registrar and Share Transfer Agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight

PART B

(Answer ANY TWO questions from this part.)

Question 5

- (a) Explain the concept of 'business ethics'. (2 marks)*
- (b) State the essential features of a good business ethics programme. (3 marks)*
- (c) You are the Company Secretary of Satyadhan Services Ltd. The company is currently facing crisis of sagging public image. The Board wants to publicise its ethical programme which takes care of the public aspirations. Draft a catchy 8-Point 'Good Ethics Programme' (GEP) for consideration of the Board of directors. (10 marks)*

Answer 5(a)

The Concept of Business Ethics

Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application moral or ethical norms to business. The term ethics has its origin from the Greek word "ethos", which means character or custom - the distinguishing character, sentiment, moral nature, or guiding beliefs of a person, group, or institution. The synonyms of ethics as per Collins Thesaurus are – conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards.

Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximize profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, rules – articulated and implicit, are developed to guide the businesses to earn profits without harming individuals or society as a whole.

Answer 5(b)

Features of Good Ethics Programme

The following factors indicate the success of an ethics programme:

- *Leadership* : that executives and supervisors care about ethics and values as much as they do about the bottom line.
- *Consistency between words and actions* : that top management "practises what it preaches".

- *Fairness* : that it operates fairly.
- *Openness* : that people talk openly about ethics and values, and that ethics and values are integrated into business decision-making.
- *Just rewards* : that ethical behaviour is rewarded.
- *Value-driven* : that an ethics and compliance programme is values-driven.

Answer 5(c)**Note for the Board**

Placed below is a draft ethics programme of Sathyadhan Services Limited

Ethics Programme of Sathyadhan Services Limited

- Codes of ethics have been developed for :
 - Board and Senior Management,
 - employees,
 - vendors & contractors;
- Constitution of a Committee of the Board to oversee ethics issues;
- Designation of an officer to oversee ethics and compliance with the code of ethics;
- Adequate training of the Code of ethics to all whom the code would apply.
- Inclusion of ethics-related criteria in employees' annual performance reviews and in the evaluation and compensation of management;
- Expression by senior management that all known ethics breaches have been reported, investigated, and resolved;
- Disclosure of practices and processes the company has adopted to promote ethical behavior.
- Re-iteration that the Code of ethics as communicated and illustrated to through the training is sacrosanct and would apply in every situation and any deviation would be strictly dealt with.

Question 6

- (a) *"Ethics is the first line of defence against corruption, while law enforcement is remedial and reactive. However, both fail to achieve the desired aim in the Indian set-up." Do you agree ? Give reasons in support of your answer.*
(7 marks)
- (b) *Explain and distinguish between 'activity analysis' and 'stakeholders analysis'.*
(8 marks)

Answer 6(a)

It is absolutely correct to say that ethics is the first line of defense against corruption. What prevents corruption in the first place is ethics. The enforcement of law is a reaction to the occurrence of the corruption. While the law can only lay down the dos and don'ts

and the consequences of doing or not doing something, the compliance to law in letter & spirit can be achieved only through ethical practices being followed.

An act may be perfectly legal but totally unethical. Therefore, the statement law enforcement is remedial and reactive is also true.

However, ethics is not absolute and is open to the influence of time, place and situation. Certain unethical practices on account of the fact that it is widely prevalent is apparently justified.

The following are some of the factors that have contributed to the prevalence of corruption in India :

- (i) Cultural ethos : Putting a premium on materialism, profiteering, power-play and casual attitude for ethical values..Myopic concerns over-riding long-term considerations and values.
- (ii) Institutional failures : procedural rigmaroles, in-built obstacles, bureaucratic red-tapism etc.
- (iii) Poor enforcement of law : delays in justice.
- (iv) Erosion of values in politicians, entrepreneurs; political lobbying etc.

Answer 6(b)

Stakeholder Analysis

Stakeholder analysis is the identification of a project's/activity's key stakeholders, an assessment of their interests, and the ways in which these interests affect project riskiness and viability. It is linked to both institutional appraisal and social analysis: drawing on the information deriving from these approaches, but also contributing to the combining of such data in a single framework. Stakeholder analysis contributes to project design/activity design through the logical framework, and by helping to identify appropriate forms of stakeholder participation.

Doing a stakeholder analysis can:

- draw out the interests of stakeholders in relation to the problems which the project is seeking to address (at the identification stage) or the purpose of the project (once it has started).
- identify conflicts of interests between stakeholders,
- help to identify relations between stakeholders which can be built upon, and may enable establish synergies
- help to assess the appropriate type of participation by different stakeholders.

The underlining factor in the stakeholder concept is that every activity of an organization should be based taking into account the interests of all the stakeholders. A holistic approach ensuring fairness to all the stakeholders is completely necessary for the sustainability of an enterprise.

A major reason for increasing adoption of a Stakeholder Concept in setting business

objectives is the recognition that businesses are affected by the "environment" in which they operate. Businesses come into regular contact with customers, suppliers, government agencies, families of employees, special interest groups. Decisions made by a business are likely to affect one or more of these "stakeholder groups".

The stakeholder concept suggests that the managers of a business should take into account their responsibilities to other groups - not just the shareholder group - when making decisions. The concept suggests that businesses can benefit significantly from cooperating with stakeholder groups, incorporating their needs in the decision-making process.

Activity Analysis

The ethical dimension of an activity can be determined with the help of the following grid which is self-explanatory:

Activity Analysis

(Ethical)

Parasite 1 Helping self Injuring Others	Win-win Situation 3 Helping self Helping Others
Martyr 2 Helping Others Injuring self	Total Loss 4 Injuring self Injuring Others

The first block in the grid – help self and injuring others is obviously unethical. The second block that is helping others and injuring self may appear to be ethical, however it is not ethical. The third grid wherein one helps self and also helps others is the most ideal and ethical situation. The win-win situation. The last grid is a situation that should be avoided at all costs and is highly unethical.

Question 7

(a) Outline the main provisions of a 'model code of business conduct and ethics'.
(7 marks)

(b) Write short notes on any two of the following :

(i) Ethics audit

(ii) Ethical dilemma

(iii) Deontological ethics.

(4 marks each)

Answer 7(a)

The Code should include the following:

(a) Company Values.

(b) Avoidance of conflict of interest.

- (c) Accurate and timely disclosure in reports and documents that the company files before Government agencies, as well as in Company's other communications.
- (d) Compliance of applicable laws, rules and regulations including Insider Trading Regulations.
- (e) Maintaining confidentiality of Company affairs.
- (f) Non-competition with Company and maintaining fair dealings with the Company.
- (g) Standards of business conduct for Company's customers, communities, suppliers, shareholders, competitors, employees.
- (h) Prohibition of Directors and senior management from taking corporate opportunities for themselves or their families.
- (i) Review of the adequacy of the Code annually by the Board.
- (j) No authority of waiver of the Code for anyone should be given.

The Code of Conduct for each Company summarises its philosophy of doing business.

Although the exact details of this code are a matter of discretion, the following principles have been found to occur in most of the companies:

- Use of company's assets;
- Avoidance of actions involving conflict of interest;
- Avoidance of compromising on commercial relationship;
- Avoidance of unlawful agreements;
- Avoidance of offering or receiving monetary or other inducements;
- Maintenance of confidentiality;
- Collection of information from legitimate sources only.
- Safety at workplace
- Maintaining and Managing Records
- Free and Fair competition
- Disciplinary actions

Answer 7(b)(i)

Ethics Audit

Ethics Audit is an audit of all those functions & activities where deviation of the code of ethics of the conduct is most likely to occur. The following are the some of the suggested steps in ethics audit :

1. The first step in conducting an audit is securing the commitment of the firm's top management.

2. The second step is establishing a committee or team to oversee the audit process.
3. The third step is establishing the scope of the audit.
4. The fourth step should include a review of the firm's mission values, goals, and policies.
5. The fifth step is identifying the tools or methods that can be employed to measure the firm's progress and then collecting and analyzing the relevant information.
6. The sixth step is having the results of the data analysis verified by an independent party.
7. The final step in the audit process is reporting the audit findings to the board of directors and top executives and, if approved, to external stakeholders.

Answer 7(b)(ii)**Ethical Dilemma**

Dilemma is a situation that requires a choice between options that are or seem equally unfavorable or mutually exclusive.

By definition, an ethical dilemma involves the need to choose from among two or more morally acceptable courses of action, when one choice prevents selecting the other; or, the need to choose between equally unacceptable alternatives (Hamric, Spross, and Hanson, 2000).

A dilemma could be a right vs. wrong situation in which the right would be more difficult to pursue and wrong would be more convenient. A right versus wrong dilemma is easier to resolve.

An ethical dilemma is a situation that will often involve an apparent conflict between moral imperatives, in which to obey one would result in transgressing another. This is also called an ethical paradox.

An ethical dilemma involves a situation that makes a person question what is the 'right' or 'wrong' thing to do. Ethical dilemmas make individuals think about their obligations, duties or responsibilities. These dilemmas can be highly complex and difficult to resolve. Easier dilemmas involve a 'right' versus 'wrong' answer; whereas, complex ethical dilemmas involve a decision between right and right.

Answer 7(b)(iii)

Deontological ethics is an approach to ethics that holds that acts are inherently good or evil, regardless of the consequences of the acts. A central theme among deontological theorists is that we have a duty to do those things that are inherently good ("truth-telling" for example); while the ends or consequences of our actions are important, our obligation or duty is to take the right action, even if the consequences of a given act may be bad.

It is sometimes described as "duty" or "obligation" based ethics, because deontologists believe that ethical rules "bind you to your duty."

PART C**Question 8**

Attempt any four of the following :

- (a) *Explain the concept of 'triple bottom line' (TBL). (5 marks)*
- (b) *What do you understand by 'corporate sustainability' ? State the key drivers which need to be garnered to ensure sustainability. (5 marks)*
- (c) *Explain the benefits of sustainability reporting. Describe sustainability reporting in emerging economies. (5 marks)*
- (d) *Write a note on — World Commission on Environment and Development (WCED). (5 marks)*
- (e) *Choose the most appropriate answer from the given options in respect of the following :*
 - (i) *The UN climate change conference was held in Bali, Indonesia in —*
 - (a) *January, 2005*
 - (b) *June, 2000*
 - (c) *December, 2007*
 - (d) *January, 2009.*
 - (ii) *The International Labour Organisation (ILO) was created by a treaty in —*
 - (a) *Rome*
 - (b) *Versailles*
 - (c) *Paris*
 - (d) *Geneva.*
 - (iii) *The Biodiversity Treaty has —*
 - (a) *Two goals*
 - (b) *Four goals*
 - (c) *Only one goal*
 - (d) *Three goals.*
 - (iv) *The rule in Rylands vs. Fletcher originally applies only to —*
 - (a) *Natural resources*
 - (b) *Industrial disasters*
 - (c) *Agrarian water logging*
 - (d) *Dangerous industries.*
 - (v) *The Corporate Manslaughter and Corporate Homicide Act, 2007 applies to industries located in —*
 - (a) *India*
 - (b) *UK*

- (c) USA
- (d) France. (1 mark each)
- (f) State, with reasons in brief, whether the following statements are correct or incorrect:
- (i) Sustainable development and economic growth are co-terminous.
 - (ii) In real life, many public limited companies do not exist in perpetuity.
 - (iii) Stakeholders identification is optional as per the global reporting initiative.
 - (iv) Agenda-21 was adopted at the Earth Summit in New York in 1992 by way of a treaty.
 - (v) There is an absolute and non-delegatable duty on an enterprise which is engaged in a hazardous or inherently dangerous activity. (1 mark each)

Answer 8(a)

Triple Bottom Line (TBL)

In 1999 Elkington developed the concept of the Triple Bottom Line which proposed that business goals were inseparable from the societies and environments within which they operate. Whilst short-term economic gain could be chased, a failure to account for social and environmental impacts would make those business practices unsustainable.

The Triple Bottom Line is made up of "Social, Economic and Environmental" aspect and indicated by the phrase "People, Planet, Profit".

"People" means Human Capital. It implies fair and beneficial business practices toward labour and the community and region in which a corporation conducts its business would create long term value. Well being of a corporate, its labour and other stakeholder interests are interdependent. For example, fair pay to workforce, health and safety at work place, tolerable working hours etc.

The second aspect of TBL is "Planet" - the Natural Capital. It refers to sustainable environmental practices. A company which decides to follow TBL always keep in mind that it does no harm nature or create negative environmental impact.

The third aspect of triple bottom line is profit. The concept of profit for TBL company is somehow more wider in all perspective. It is the reflection of economic impact the organization has on its business activities and that too after meeting all social and environmental cost. It somehow indicates real value addition a corporate made through its various activities.

World wide many corporates are now adopting Triple Bottom Line under vision and mission and practicing the same through aligning their corporate policies in that direction.

Many countries worldwide are now contemplating how to integrate this triple bottom line under their legal system.

Answer 8(b)

Corporate sustainability indicates new philosophy as an alternative to the traditional growth and profit-maximization model under which sustainable development comprising

environmental protection, social justice and equity, and economic development are given more significant focus while recognizing simultaneous corporate growth and profitability.

It is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate sustainability describes business practices built around social and environmental considerations.

Corporate sustainability encompasses strategies and practices that aim to meet the needs of stakeholders today while seeking to protect, support and enhance the human and natural resources that will be needed in the future. Corporate sustainability leaders achieve long-term shareholder value by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks.

Concern towards social, environmental and economical issues, i.e., covering all the segments of stakeholders, are now basic and fundamental issues which permits a corporate to operate in long run sustainably. Following key drivers need to be garnered to ensure sustainability

- *Internal capacity building strength* – In order to convert various risks into competitive advantage.
- *Social impact assessment* – In order to become sensitive to various social factors, like changes in culture, living habits etc.
- *Repositioning capability* through development and innovation Crystallization of all activities to ensure consistent growth

Corporate sustainability is a business approach creating shareholder value in long run.

Answer 8(c)

Benefits of Sustainability Reporting

Benefits of sustainability reporting are:

- Legitimation of corporate activities, products and services which create environmental and social impacts.
- Increase in corporate reputation and brand value.
- Gaining a competitive advantage.
- Comparison and benchmarking against competitors.
- Increasing transparency and accountability within the company.
- Establishing and supporting employee motivation as well as internal information and control processes.

Sustainability Reporting in Emerging Economies

Investors increasingly recognize the value of robust sustainability reporting and expectations for such reporting have spread to companies in emerging markets. While it may be difficult for emerging market companies to devote the resources to such reporting,

companies should begin by taking the first step of committing to the process of reporting, and demonstrating that they are managing the sustainability issues most material to their sector. Such companies would develop a competitive advantage in the marketplace and reach a greater range of investors and customers.

Increasingly global companies understand that a commitment to sustainability reporting can contribute to financial success. Such transparency allows companies to reach a broader range of investors and customers, enhance operational efficiency, improve brand positioning, and develop leadership in the marketplace.

Recently, in India, Corporate Environmental Reporting as a useful adjunct to the concept sustainable development, has been recognized in various policy documents like the Approach Paper to the Eleventh Plan and the National Environmental Policy 2006.

Answer 8(d)

The Brundtland Commission, formally the World Commission on Environment and Development (WCED), known by the name of its Chair Gro Harlem Brundtland, was convened by the United Nations in 1983. The Commission was created to address growing concern “about the accelerating deterioration of the human environment and natural resources and the consequences of that deterioration for economic and social development.” In establishing the Commission, the UN General Assembly recognized that environmental problems were global in nature and determined that it was in the common interest of all nations to establish policies for sustainable development.

The Report of the Brundtland Commission, *Our Common Future*, published in 1987, dealt with sustainable development and the change of policies needed for achieving that. The definition of this term in the report is quite well known and often cited:

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Answer 8(e)(i)

- (c) December, 2007

Answer 8(e)(ii)

- (b) Versailles

Answer 8(e)(iii)

- (d) Three goals

Answer 8(e)(iv)

- (c) Agrarian water logging

Answer 8(e)(v)

- (b) UK

Answer 8(f)(i)

Correct

Sustainable development balances the need for economic growth with environmental protection and social equity.

Answer 8(f)(ii)

Correct

Many times corporates become non-functional and reach a closure situation.

Answer 8(f)(iii)

Incorrect

The reporting organization should identify its stakeholders and explain in its report how it has responded to their reasonable expectations and interests.

Answer 8(f)(iv)

Incorrect

It was adopted at Rio De Janeiro and not New York.

Answer 8(f)(v)

Correct

An enterprise owes an absolute and non-delegable duty to the community to ensure that no harm results to anyone on account of hazardous or inherently dangerous nature of the activity which it has undertaken.
