PGCM (S3) 04
Exam Code : SMCG

Strategic Management and Corporate Governance

SEMESTER - 3

MASTER OF COMMERCE

BLOCK - 2

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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June , 2019

ISBN : 978-93-87940-33-8


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Printed and published by Registrar on behalf of the Krishna Kanta Handiqui State Open University.

Head Office : Patgaon, Rani Gate, Guwahati-781017; Web : www.kkhsou.in
City Office: Housefed Complex, Dispur, Guwahati-781006

The University acknowledges with thanks the financial support provided by the **Distance Education Bureau, UGC** for preparation of this material.

MASTER OF COMMERCE

STRATEGIC MANAGEMENT AND CORPORATE GOVERNANCE

Block 2

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BLOCK INTRODUCTION:

This is the second block of the course 'Strategic Management and Corporate Governance'. The Block is divided into 7 units which are related to the different concepts of Strategic Management and Corporate Governance.

This block comprises of the following seven units:

The ninth unit will help us in knowing Concept of Structure, Structure and Strategy, Stages of Development of Organizations, Types of Organizational structures, Organizational Design and Change; Information system and Control system and Reward system

The tenth unit gives us a broad idea on Stakeholders' Relationship Management, Social Responsibility and Strategic Management, Business Ethics and its Importance

The eleventh unit gives us an idea on Concept of Strategic Evaluation, Nature of Strategic Evaluation, Importance of Strategic Evaluation, Process of Strategic Evaluation, Strategic Control, Operational Control: process of Evaluation and Techniques of Strategic Evaluation and control.

The units 12, 13, 14 and 15 discusses various concepts and issues related to corporate governance.

THE BLOCK IS DEVIDED INTO EIGHT UNITS:

UNIT 9: Structural Implementation

UNIT 10: Behavioural Implementation

UNIT 11: Strategic Evaluation and Control

UNIT 12: Conceptual Framework of Corporate Governance

UNIT 13: Corporate Governance Framework in India

UNIT 14: Corporate Social Responsibility (CSR)

UNIT 15: Whistle-Blowing and Corporate Governance

UNIT 9: STRUCTURAL IMPLEMENTATION

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

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12.4 Structure and Strategy

12.5 Stages of Development of Organizations

12.6 Types of Organizational structures

12.7 Organizational Design and Change

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12.12 Answers to Check Your Progress

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9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the Concept of Structure of Organisation
- discuss Structure and Strategy
- outline the stages of development of organizations
- list out the types of Organizational structures
- describe the organizational Design and Change

9.2 INTRODUCTION

In this unit we are going to discuss the various concept of Structure like Vertical Dimension and Horizontal Dimension. Also we will get a fair idea about the stages of development of Organizations like Entrepreneurial Stage, Functional Development Stage, Decentralization, Staff Proliferation, and Recentralization. We will learn about the various types of organizational structures.

At the end of the unit, we will look into the organizational Design and Change; Information system; Control system and Reward system.

9.3 CONCEPT OF STRUCTURE

An organisationaly structure is the outline of authority and responsibility relationship among different job positions. It is a formal arrangement of tasks and sub – tasks which are needed to implement strategies. An organisation structure has two broad dimensions; namely–

1. **Vertical Dimensions:** The vertical structure is planned to facilitate superiors to implement control over the work of subordinates. Vertical structures are known as tall structures. Such structures are suitable for companies which produce standardized products / services on a large scale with the help of mass production systems and well established technologies.

   The vertical dimension is characterized by

   i. Specialization of tasks
   ii. Chain of command
   iii. Formal reporting relationships
   iv. Grouping of individuals into departments
   v. Upward and downward communication

2. **Horizontal Dimensions:** The horizontal dimension is designed to make certain cooperation and coordination among employees working at the same level of authority. Horizontal structures are also known as flat structures. Such structures are more vital for companies making differentiated products. Medium sized manufacturing and service enterprises and nonprofit orgainsation which present specific social services are examples of these orgainsations.

   The main characteristics of horizontal dimensions are

   i. Sharing of tasks
   ii. Sharing of information
   iii. Decentralized decision making
   iv. Focus on learning

9.4 STRATEGY AND STRUCTURE

There is close interdependence between strategy and structure. There are two types of interdependence on forward and backward relationship.

i. **Forward Relationship**: A suitable organizational structure is required for effective implementation of strategy. A growth strategy requires a different structure then stability structure. Organizational structure is a means for strategy implementation. When there is a significant change in strategy the structure has to be redesigned. New organizational structure creates changes in corporate strategy.

ii. **Backward Relationship**: Strategy is also influenced by Structure. Structural consideration affects the implementation of present strategy and the formulation of future strategies. There is a reciprocal relationship between strategy and structure. Structural implementation is in fact an ongoing process of matching the structure of an organisation with its strategy. Whenever there is a mismatch between the two, changes in structure have to be made. Otherwise strategy implementation becomes difficult and performance suffers.An effective structural framework helps to deal with confusion, chaos and duplication of efforts arises at different levels.

9.5 STAGES OF DEVELOPMENT OF ORGANISATIONS

Cannon's Model consist of the five stages of development, which are discussed as follows—

Stage I: Entrepreneurial Stage: This stage represents the small business, generally operated by the owner – manager. The market of the firm is limited to a specific geographical area.

Stage II: Functional Development: When the company grows in its size, the owner manager cannot perform increased volume of managerial functions. A functional form of organization structure will be adopted. But the problem of functional structure will come to the surface with the further

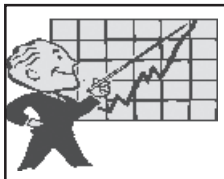
increase in the company's operations. These problems include; delay in getting approval for new products and other innovations. This problem may push the company to the next stage.

Stage III: Decentralization: Organization will be restructured either based on product or geographic or customers. Control may become difficult when each division develops its own view of product quality, pricing etc.

Stage IV: Staff Proliferation: To regain control of the organization, management may employ additional human resources to assist top management.

Stage V: Recentralization: This stage involves increasing involvement of top management in strategic decision making. This move to recentralization may be a part of a cutback and turnaround strategy.

(Source: J.Thomas Cannon, op.cit.,pp. 525 -528., p. 302)



CHECK YOUR PROGRESS

Q1: What is organization Structure?

.....

.....

Q2: What is Horizontal type organisational structure?

.....

.....

9.6 TYPES OF ORGANIZATION STRUCTURE

The main types of orgainsational structures are given below:

1. **Entrepreneurial Structure**: The entrepreneurial structure is the most basic and the simplest type of organisational structure. This structure is suitable for an organisation that is owned and managed by one person. Such an organisation is typically a single product firm that serves a local market.

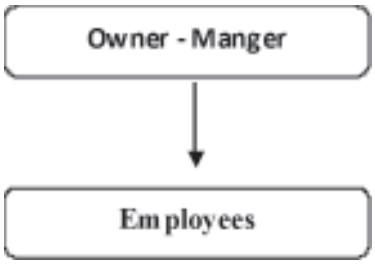


Fig 12.1: Entrepreneurial Structure

Advantages	Disadvantages
1. It is very simple 2. Quick Decision making 3. It ensures centralized control over the entire business 4. It is Flexible	1. Owner – manager is overburdened 2. Little scope for growth of business 3. Employees feel insecure 4. Overlooking strategic issues.

2. Functional Structure : The expansion into the same line of business necessitates specialization of tasks and delegation of authority to heads of different functional areas. Functional structure is suitable for medium sized firms having limited number of products. Grouping of activities on the basis of functions performed for strategic implementation creates functional structures. For example, production, marketing, finance and personnel are the basic functions in a manufacturing organization. The process of functional differentiation may continue through successive level in the hierarchy.

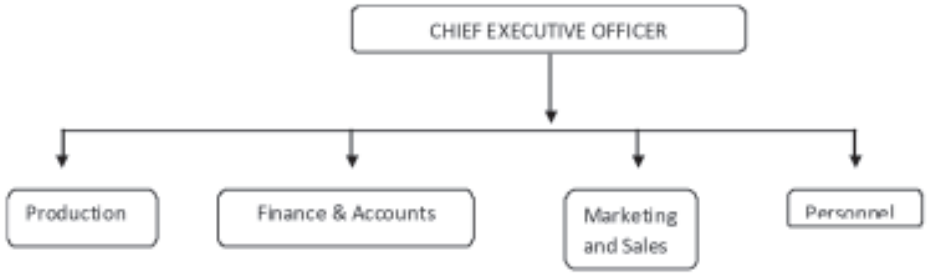


Fig 12.2: The Functional Structure

The main advantages of Functional Structures are as follows:

i. Specialization on the basis of functions results in efficient distribution of work and maximum utilization of functional skills.

ii. Delegation of operational matters enables the chief executive officers to concentrate on strategic issues.

iii. Structure can be linked to strategy by designing key activities as functional departments.

iv. It permits centralized control of strategic results.

v. There is minimum duplication of facilities.

The main disadvantages of functional structure are as follows:

i. There is difficulty in maintaining cooperation and coordination among different functional departments.

ii. Narrow specialization may lead to neglect of overall goals of the organisation.

iii. Conflicts may arise among functional and advisory staff.

iv. Decisions that require involvement of two or more functional areas may get delayed.

v. There is lack of quick response to environmental change.

3. **Divisional Structure**: The functional structure proves to be unsuitable, when the company expands into new products or geographical areas. Under the divisional organisation structure is divided into several divisions on the basis of geographical areas, types of customers and product line. Each division is self contained in terms of manufacturing and marketing facilities. Each division is self contained and headed by a divisional manager who is responsible for efficient and profitable working of the division.



Fig 12.3 : Divisional Structure

Divisional Structure offers the following **advantages**:

i. There is specific autonomy to each division for efficient management.
ii. Each division can respond quickly to environmental changes.
iii. Top management can focus on strategic matters.
iv. There is a scope of expansion and growth of business.
v. Each division can be held responsible for performance.

Divisional structure suffers from some **disadvantages,** which are—

i. Operating costs increase due to duplication of facilities.
ii. Cooperation and coordination among various divisions become difficult. There may be unhealthy competition among divisions.
iii. Policies pursued by different divisions may be inconsistent. Inconsistency may also arise from sharing of authority between corporate and divisional levels.
iv. Problems may arise in the allocation of resources among divisions. Inter-division conflicts may arise on sharing of resources, allocation of common overheads, etc.
v. Divisional structure is appropriate for multibusiness firms operating in a dynamic situation.

4. SBU Structure: Strategic Business Unit (SBU) implies an **independently managed division of a large company**, having its own vision, mission and objectives, whose planning is done separately from other businesses of the company. The vision, mission and objectives of the division are both distinct from the parent enterprise and elemental to the long-term performance of the enterprise. Simply put, an SBU is a cluster of associated businesses which are responsible for its combined planning treatment, i.e. the company engaged in a diversified range of businesses, categorises its multitude of businesses into a few separate divisions, in a scientific way. The task may include analysis and bifurcation of a variety of businesses.

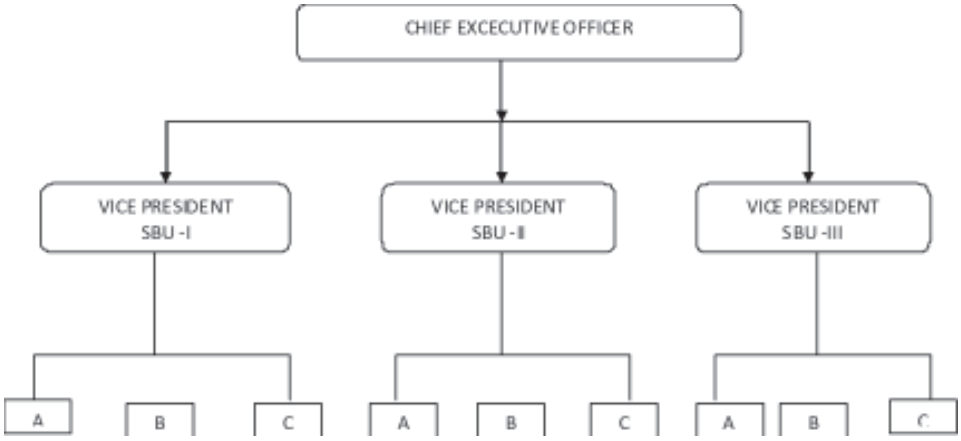


Fig : 12.4 SBU structure

The main **advantages** of SBU structure are as follows:

i. Each SBU head can be held accountable for ultimate results and operates as a stand-alone profit centre.

ii. Coordination between all divisions within an SBU becomes easier. There is greater decentralisation of authority.

iii. SBU structure facilitates strategic control over a large and diverse organisation.

iv. There is considerable scope for growth and expansion of business.

v. Individual SB Us can react quickly to changes in environment.

Some of the **disadvantages** of SBU structure are given below:

i. It is quite difficult to clearly define the autonomy and responsibility of various SBU heads and to achieve synergies across SBUs.

ii. The hierarchy increases due to addition of one more level between corporate management and divisional management.

iii. In a large and diversified company, effective handling of several SBUs may not be easy.

iv. It may lead to costly duplication of staff and facilities.

v. There may be rivalry among SBUs for corporate resources.

vi. Top level managers may lose touch with business level situations.

5. Matrix Structure: A matrix organizational structure is one of the most complicated reporting structures a company can implement. A **matrix organizational structure** is a company structure in which the

reporting relationships are set up as a grid, or matrix, rather than in the traditional hierarchy. In other words, employees have dual reporting relationships - generally to both a functional manager and a product manager.In the 1970s, Philips, a Dutch multinational electronics company, set up matrix management with its managers reporting to both a geographical manager and a product division manager. Many other large corporations, including Caterpillar Tractor, Hughes Aircraft, and Texas Instruments, also set up reporting along both functional and project lines around that time.

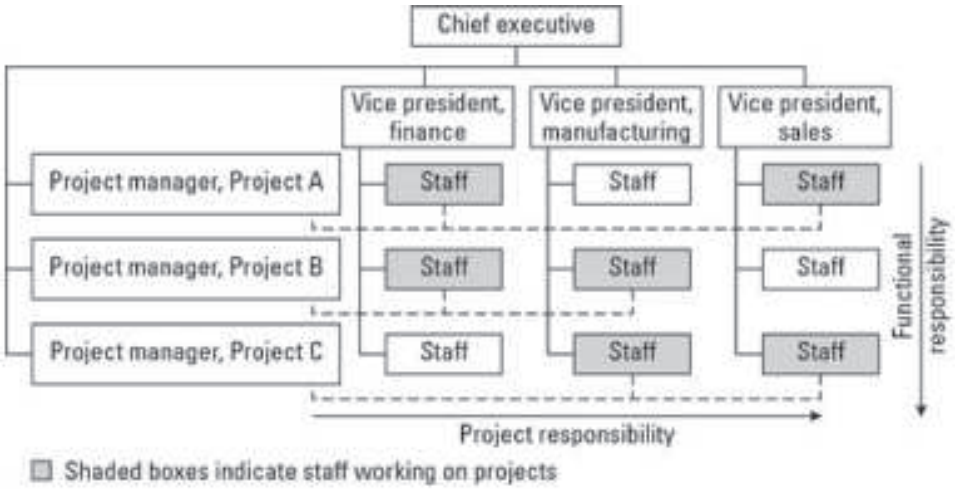


Fig : 12.5 Matrix structure

In a matrix organization, instead of choosing between lining up staff along functional, geographic or product lines, management has both. Staffers report to a functional manager who can help with skills and help prioritize and review work, and to a product line manager who sets direction on product offerings by the company. This structure has some advantages, which are discussed as follows—

Advantages :

i. Objectives will not only be clear but will also be balanced with the objectives of the functional aspects of the organization.

ii. Importantly, there is an actual mechanism for integration of across functional lines.

iii. Efficiency in Resource Management for eg.time saving deployment of company resources.

iv. Efficiency in Staff Management since staff can be used and shared between projects.

v. Efficiency in Facility Management as all of the hardware (computers, desks, rooms, etc.) are shared between or among projects.

vi. Horizontal flow for eg. Information that flows from functional unit to functional unit.

vii. Vertical flow for eg. Information that flows from project to project, and to other points of management.

viii. Groups of functional specialists and experts are preserved even though projects come and go.

ix. Morale difficulties happen with less frequency because the employees in the matrix get the experience of regularly working on successful projects.

Disadvantages:

i. The main drawback is that the employees on the project are working for two chiefs.

ii. The superimposition of a functional organization on a project organization is the creation of a matrix organization. This adds all the complexity of both organizations and adds even more.

iii. Multiple managers and employees involved and increased numbers of people that must be kept abreast of changes and progress.

iv. This is an issue because of the quantity of employees and organizational units involved.

v. All managers must ensure that they have touched base with each other for any important decisions in their areas of responsibility.

vi. Project managers don't have singular authority, and so considerable negotiation is necessary.

vii. Due to the complexity of a matrixed organization and no less than two lines of authority there is a lot of opportunity for conflicting direction and priorities. Each project manager obviously thinks their priorities should be everyone's priorities. And each functional manager thinks that their priorities is his own business.

viii. There is a natural effort in offsetting the objectives and goals of functional and project management. Maintenance of the balance between the goals of functional and project management must be assured by management.

6. **Network Structure**: A networking organisation is one that is created around a central organisation (called the hub organisation) that has relationship and arrangement with some other organisations, to perform functions like designing, manufacturing, marketing etc. for the central organisation, on a contractual basis. A networking organisation is called a boundary-less organization; as the central organisation has relationships and arrangements with many business partners beyond its own boundary lines. In an extreme case of a networking organisation, the hub organisation has arrangements with so large a number of business partners that it, on its own, does only the co-ordination work.A networking organisation is also called a virtual organisation, in that it is nearly a complete organisation; and any slight difference in the structure of organisation is not important.

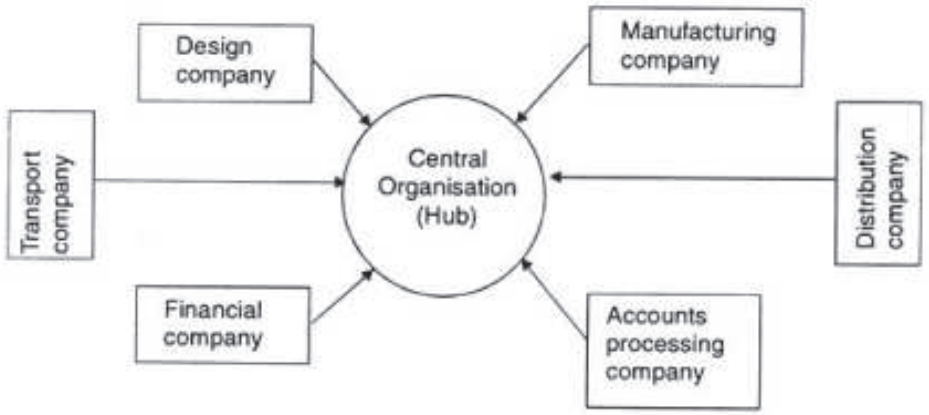


Fig : 12.6 Network structure

The main **advantages** of network structures are as follows:

1. There is high degree of adaptability to change its environment.
2. The firm can concentrate on important competencies.
3. To meet the changing business needs the structure can be modified.
4. Synergy can be achieved by combining complementary skills of different groups in the network.

The main **disadvantages** of network structure are as follows:

1. There are many conflicts among several semi – autonomous groups.
2. Due to many partners control and coordination becomes difficult.
3. As most tasks are performed by others, there are risks of overspecialization.
4. Duplication of facilitates and resources may result in high costs.

7. Virtual Organisation: This is an extension of the network structure. In this approach, independent organisations form temporary alliances to exploit specific opportunities, and then disband when their objectives are met. The term virtual means in effect but not actually so. The virtual organisation consists of a network of independent companies—suppliers, customers or even competitors—linked together to share skills, costs, markets and rewards. The members of a virtual organisation pool and share the knowledge and expertise of each other. The virtual organisation will have few full-time employees or may temporarily hire outside specialists to complete a specific project, such as a new software application. These people do not become a part of the organisation, but join together as a separate entity for a specific purpose. Sometimes companies use a virtual approach to harness the talents and energies of the best people for a particular job, rather than trying to develop those capabilities in house. When an organisation uses a virtual approach, the virtual group typically has full authority to make decisions within certain predetermined boundaries and goals. Most virtual organisations use electronic media for sharing of information and data. Some organisations have redesigned offices to provide temporary space for virtual workers to meet or work on-site.

The advantages of virtual organization :

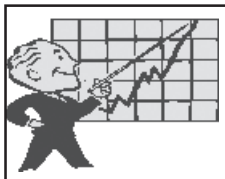
i. It can draw on expertise worldwide.
ii. It is highly flexible and responsive.
iii. It reduces overhead costs.

The disadvantages of virtual organization:

i. Lack of control because the boundaries of a virtual organisation are weak and ambiguous.

ii. Virtual teams place new demands on managers, who have to work with new people, new ideas and new problems.

iii. Virtual organisation poses communication difficulties, and managers may lose motivation.



CHECK YOUR PROGRESS

Q3: What is Network Structure?

.....

.....

Q4: What is Matrix organisational structure?

.....

.....

9.7 ORGANISATIONAL DESIGN AND CHANGE

The purpose of the organisation design is to create the right structure that fits the requirements of the strategy to be implemented. Organisation change is meant to modify existing structures that have gone wrong over the period of time and no longer fit the requirements of the strategy being implemented.

ORGANISATIONAL DESIGN:

Organisation design has two dimensions, each with several sub – dimensions. One is structural dimensions and another will be Contextual Dimensions, which are discussed follows—

i. **Structural Dimension:** describes the internal characteristics of an organisation like :

- Formalisation
- Specialisation
- Hierarchy of Authority
- Centralisations
- Professionalism

- Personnel Ratios

ii. **Contextual Dimensions:** describes the organizational settings that influences and shapes the structural dimensions. The sub dimensions of the contextual dimensions are :

- Environment
- Goals and Strategy
- Culture
- Technology
- Size

The dimensions and sub dimensions of organisation design are interdependent. This study helps to provide a basis for the measurement and analysis of organisation and reveals significant information about them.

The need for the organisation can be derived from the mission and objectives.These needs are the key activities which have to be performed to achieve the objectives and realize the mission. The sequence of the steps followed in organisation design could be described as below :

i. Identification of key activities necessary to be performed for the achievement of objectives and realization of mission through the formulated strategy.
ii. Grouping of activities that are similar in nature and need a common set of skills to be performed.
iii. Choice of Structure that could accommodate the different groups of activities.
iv. Creation of departments, divisions, etc. to which the group of activities could be assigned.
v. Establishing interrelationship between different departments for the purpose of coordination and communication.

These five steps lead to the development of an organization design.

ORGANIZATIONAL CHANGE:

The idea of change is ever-present in management literature. The organizational change takes place alongwith two broad dimensions: the structural changes and the accompanying behavioral changes. The first type of change is related to revision in structural relationship for instance,

the creation or disbandment of departments or managerial positions. The second type of change relates to the concomitant behavioral modifications that are essential to absorb the impact of organizational changes. You are quite familiar with the concepts of formal and informal organizations. What we are referring to this situation are the formal and informal organizations respectively. While formal organizations changes are mainly administrative in nature and can be bought about by the means of organizational planning and implementation, the informal organization changes are more complex and evolve as a response to formal organisational changes. Once established, these informal changes impact the formal organisation in turn. All organizations make changes in their strategies, structure and administrative procedures from time to time. In the past, when the environment was relatively stable, managers were content with making small, incremental, continual changes to resolve problems as they occurred. The perspectives of the past may not be suitable in the current environment that often requires big, radical and sudden changes.

9.8 INFORMATION SYSTEM

If a strategy is to be effectively implemented, then organizational arrangements are necessary, as they provide the information to managers to perform their tasks and relate their work to others. The information system enables the managers to recognize what they need to gasp in order to perform their tasks and also to coordinate their activities with others. Information technology is the means to make the information system work for managers. That is why, for managers, IT is a tool for managing rather than a strategy itself. Information systems, including the usage of IT, have to be dedicated by strategic considerations, rather than strategies being determined on the basis of the IT tools available.

The information systems play a significant role in all types of organizations, in enhancing not only the efficiency of other systems and processes but, through the techniques of data. In the design and administration of the information system, strategists have to concern

themselves with the need to have an appropriate organizational arrangement that will support the implementation of a particular strategy.

9.9 CONTROL SYSTEM AND REWARD SYSTEM

Control System:

Control has traditionally been considered as a major management function along with planning, organizing, and leading. In controlling, the manager essentially deals with the processes for ensuring the behaviors and performance conform to organization standards including rules, procedures and goals. In other words, control ensures that the implementation of strategy takes place according to predetermined plans. Strategic controls are specific types of controls intended to check whether appropriate strategies are being used. Basically control operates in a cyclic manner. It is viewed as a four step process consisting of:

1. Establishing Standards
2. Measuring actual performance
3. Evaluating actual performance against standards
4. Determining corrective action.



Fig: 12.7 The Control Cycle

The control process works to bring performance in line with the predetermined plan. Standards are in the form of budgeted performance. Measurement of performance is done through an appraisal system. The actual performance is evaluated with reference to the standards and positive

and negative variation is observed. Corrective actions follow so that the performance corresponds to the standards. This is the manner in which any control system works. Controls are in fact devices to enforce or facilitate strategic behavior so that the organization, as an entity, moves towards predetermined goals.

Reward System:

Employee rewards are usually linked to their performance. Such linkage helps to control the behavior of employees. There is thus, a close relationship between appraisal system and control system. The reward system helps in strategy implementation. Rewards are given in several forms e.g. salary increase, bonus, stock options, perquisites, promotion etc. In the strategic reward system the focus is on alignment between rewards and corporate strategy so as to secure desired behavior and achievement. Team based reward s and group incentives are more appropriate in case of diversification and internationalization strategies. Strategies and structure influence the design and administration of reward systems.



9.10 LET US SUM UP

In this unit we have discussed the following:

- An organization structure is the outline of authority and responsibility relationship among different job positions.
- An organisation structure has two broad dimensions: Vertical Dimensions and Horizontal Dimensions
- There is close interdependence between strategy and structure. There are two types of interdependence on forward and backward relationship.
- Cannon's Model consist of the five stages of development.

  Stage I: Entrepreneurial Stage

  Stage II: Functional Development

  Stage III: Decentralization

  Stage IV: Staff Proliferation

  Stage V: Recentralization

- The main types of orgainsational structures are: Entrepreneurial Structure, Functional Structure, Divisional Structure, SBU Structure, Matrix Structure and Network Structure.
- The purpose of the organisation design is to create the right structure that fits the requirements of the strategy to be implemented. Organisation change is meant to modify existing structures that have gone wrong over the period of time and no longer fit the requirements of the strategy being implemented.
- The information system enables the managers to recognize what they need to gasp in order to perform their tasks and also to coordinate their activities with others. Information technology is the means to make the information system work for managers.
- Control System: Control has traditionally been considered as a major management function along with planning, organizing, and leading. In controlling, the manager essentially deals with the processes for ensuring the behaviors and performance conform to organization standards including rules, procedures and goals.
- Reward system: Employee rewards are usually linked to their performance. Such linkage helps to control the behavior of employees.



9.11 FURTHER READING

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9.12 ANSWER TO CHECK YOUR PROGRESS

Ans to Q No.1: An organization structure is the outline of authority and responsibility relationship among different job positions. It is a formal arrangement of tasks and sub – tasks which are needed to implement strategies.

Ans to Q No.2: The horizontal dimension is designed to make certain cooperation and coordination among employees working at the same level of authority. Horizontal structures are also known as flat structures.

Ans to Q No.3: A networking organisation is one that is created around a central organisation (called the hub organisation) that has relationship and arrangement with some other organisations, to perform functions like designing, manufacturing, marketing etc. for the central organisation, on a contractual basis. A networking organisation is called a boundary-less organization.

Ans to Q No.4: A matrix organizational structure is a company structure in which the reporting relationships are set up as a grid, or matrix, rather than in the traditional hierarchy. In other words, employees have dual reporting relationships - generally to both a functional manager and a product manager.



9.13 MODEL QUESTIONS

Q.1: Define Organisational Structure

Q.2: Discuss the two dimensions of organisational structure

Q.3: Write the interdependence between strategy and structure

Q.4: Outline the stages of development of organizations

Q.5: What is Entrepreneurial Structure? Discuss its advantages and disadvantages.

Q.6: What is Divisional Structure? Discuss its advantages and disadvantages.

Q.7: Define Matrix Structure. Discuss its advantages and disadvantages.

Q.8: Write short note on organizational design and change.

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UNIT 10: BEHAVIOURAL IMPLEMENTATION

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Stakeholders' Relationship Management

13.4 Social Responsibility and Strategic Management

13.5 Business Ethics and its Importance

13.5.1 Organisational Ethos

13.6 Let Us Sum Up

13.7 Further Reading

13.8 Answer to Check Your Progress

13.9 Model Questions

10.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain the meaning of Stakeholders' Relationship Management
- describe Social Responsibility and Strategic Management
- discuss Business Ethics and its Importance

10.2 INTRODUCTION

Development in modern context is based on increased productivity. Peter Drucker in his book "Managing in Turbulent Times" (1980) stated, "whenever there has been economic development in a country, it has been based on the purposeful management of resources for increased productivity… Indeed, nothing has changed the economic landscape quite so much between the 19th and 20th century as the explosion of productivity." This explosive expansion of productivity has totally changed the way we look at economic activities and functioning of the organizations. For improving productivity, the organizations need to continually engage with its stakeholders. In this Unit, we shall discuss the role and impact of stakeholders' relationship management and business ethics on the

managerial aspects in organizations. Social responsibilities in business have assumed a new role in strategic management. We shall discuss that aspect too.

10.3 STAKEHOLDERS' RELATIONSHIP MANAGEMENT

Organizations who stay close to the customers and other stakeholders are in a better position to cope with the challenges in the environment. Periodic surveys help the managers in developing strategies for improvement. The performance or satisfaction scores might be compared with the expressed/perceived needs of the society.

Change is inevitable and it affects the public as well as the private sector. All organizations whether in government or in business sector, are subject to new challenges. Like business organizations, organizations in the government and social sector also do not have a guaranteed life. They must read the changes taking place in the environment. They must think strategically and must envision new modes of efficiency to deal with the expectations of different groups of stakeholders. The organizations have to function in an ethical and socially responsive manner. In the subsequent sections, we shall discuss with examples how some of the organizations have embraced stakeholders' orientation in their corporate policies.

10.4 SOCIAL RESPONSIBILITY AND STRATEGIC MANAGEMENT

Corporate Social Responsibility began as a philanthropic activity where organizations contributed to social causes. It started gaining in importance and became an essential activity for business. The increasing emphasis on CSR by the corporate organizations and the recent business scandals reflect on the urgent and essential need to pay attention to CSR. At the global level, there are emerging trends in terms of increased spending on CSR and search for new modes of imparting CSR benefits by the corporate sector. More and more Indian business organizations also are

embracing the practice of CSR under different names such as Corporate Philanthropy, Corporate Sustainability, Social Responsibility and Corporate Citizenship etc.

In their book on "Corporate Social Responsibility – Doing the most good for your company and cause" (Kotler et al, New York, Willey, 2005) six distinct corporate social initiatives were identified. The CSR activities that corporations undertake to contribute to a social issue are most commonly in the areas of health, community development, environment etc. They include the following:

i. ***Corporate cause promotion partnership*:** This is specifically intended to increase awareness and concern regarding a social issue, for example, Levi Strauss & Co. distributing leaflets about AIDS.

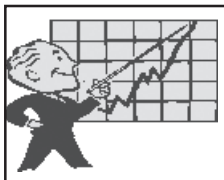
ii. ***Corporate cause related marketing partnership:*** A corporation commits toward making a contribution or donating a percentage of revenues to a specific cause based on product sales.

iii. ***Corporate social marketing partnerships*:** A corporation supports the development of a behavior change campaign mostly to improve community well being, public health, safety etc.

iv. ***Corporate volunteering*:** At local organization and for local cause efforts. Volunteer efforts may include employees serving as volunteers in local organizations or on their own.

v. ***Corporate philanthropy*:** It represents a direct contribution by a corporation to a cause, most often in the form of cash grants, donation, in-kind services etc. The corporations need to balance concerns for shareholder wealth with expectations to demonstrate responsibility for communities that have contributed to the corporation's livelihood.

vi. ***Socially responsive business practices*:** These are discretionary, not mandated by laws or regulatory agencies. Corporations adopt and conduct these business practices and investments as a means to support social causes that improve community's wellbeing and help in protecting the environment.



CHECK YOUR PROGRESS

Q1. What is corporate volunteerism?

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Q2. What is corporate philanthropy?

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Indian business organisations are embracing the practice of CSR under different names such as Corporate Philanthropy, Corporate Sustainability, Social Responsibility and Corporate Citizenship etc. These are well reflected in the Annual Reports and other corporate reports on their respective websites. Reports of surveys and rankings of CSR conducted by organisations such as Time Foundation and Karmayog etc. are also available CSR refers to corporate activities demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders also according to the ambition levels of corporate sustainability. CSR is also influenced by organisation specific factors like the following

i. Organisation's stage of development,
ii. Strategy and
iii. Quality of leadership.

Profits do matter. Good firms bring innovations to the market, which in turn provide economic growth, employment and enrich people's lives. Michael Porter has written about the concept of "shared value" for companies, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. He suggests that companies should take the lead of bringing business and society back together.

Until recently words like love, joy, authenticity, empathy, soulfulness and other terms of endearment did not have place in business. Today a growing number of Firms of Endearment (FoE) embrace such terms. Conscious Capitation is another evolving paradigm for business that

simultaneously creates multiple kinds of value and well being for all stakeholders: financial, intellectual, physical, ecological, social, cultural, emotional, ethical and even spiritual.



LET US KNOW

Firms of Endearment *are loved as they have 'hearts'. These companies do not fit into the norms that Wall Street is comfortable with. They create value by aligning stakeholders' interests with a long term perspective of organic growth through endearment. They take care of the interests of stakeholders strategically. These firms meet the tangible and intangible needs of the stakeholders through affection and loyalty to the company. They adopt a different kind of Stakeholder Relationship Model*

Conscious capitalism *is a new operating system for business to work in greater harmony with the emerging trends and changes. In conscious capitalism, bottom-line is not just profitability but enrichment of all the major stakeholders of business, which include team members, customers, vendors, suppliers, investors, society at large and the environment. Conscious capitalism boasts of the enormous potential of making a positive impact in the world by business.*

Most business organizations now believe that investing a part of their profits and efforts in the society and natural environment from which they draw resources have positive implications for their well being. The benefits that CSR can bring to an organization are substantiated by research findings on the relationship between CSR activities and firm's financial performance, competitive advantage, reputation and legitimacy, employee attitudes and synergistic value creation.

Though CSR as a concept has gained immense popularity, there is lack of agreement on what it really means .The common opinion is CSR ensures a company to do business in an ethical manner and is accountable for the social and environmental impacts that the business creates for the society. A business can only be sustainable if the people and communities that they touch are sustainable and enriched along the way.

However, there are different expectations from different stakeholder groups. Different practices and different standards are leading to different kinds of understanding of CSR. The activities in the CSR spectrum may range from corporate giving fund to community development initiatives like livelihood promotion etc. to developing a marketing channel aimed at rural population where a company may empower poor women entrepreneurs to sell company products. Strengthening health delivery systems in rural locations by selling the company healthcare products can also be considered as a CSR initiative. Standards of CSR practices not only vary from one company to another but also from one industry to another. In India, the Ministry of Corporate Affairs and the Department of Public Enterprises, Government of India has prepared the policy guidelines to ensure some kind of uniformity in CSR practices in the central sector public enterprises of the country

10.5 BUSINESS ETHICS AND ITS IMPORTANCE

Values matter a lot – both at the organizational level and individual level as well. Long term effectiveness in an organization depends on the practice of sound human values. The process must begin with each individual – on his or her own. Strength or surplus in skills cannot compensate for weakness or deficiencies in values. Values are essential for becoming, skills are necessary for doing. Values relate to the inner world; skills relate to the outer world.

The ethical scererio of India is very pour. Corruption is at its heights.

Like lobbying, donations to parties by business can raise conflict of interests and problems. There has been widespread criticism about business donations to political parties. The key issue is in the legitimacy of these donations. The parties have to be accountable for these donations. The temptation to link political decisions to financial support is substantial. Ultimately some of these party “donations” could early be seen as a “fee” to obtain a certain political decision or other personal favours. This may raise the prospect of preferential treatment, which might even threaten the very notion of democratic process. “Gifts” provide a number of other

perspectives. Are they acceptable? What could be the intention of the gift givers? What could be the impact on the receivers? What could be the perception of others concerned? For business, maintaining good relations with parties can be a double – edged sword. It grants influences – but it could also severely harm the organizations image and perhaps encourage questionable behavior.

Law is one aspect of the broader area of regulation of business. It is the role of regulations that is most vital to understand. Regulations are all about the rules governing business behaviours. It includes laws and acts and other forms of formal or informal rule making and enforcement. This includes broader government policies, concepts, goals and strategies. Regulations are not the solitary prerogative of government. It can be delegated to other parties. Regulations can be defined as rules that are issued by governmental actors and other delegated authorities to enable, encourage and forbid particular business behaviours. Regulations include rule, definition, law mechanisms, processes, sanctions and incentives.

10.5.1 Organizational Ethos

Ethics begins first and foremost at one's workplace. An organization that is run unethically can never stand up to first rate competition anywhere in the world. If the atmosphere in the workplace is unethical, then it is impossible to combat the changes and complexities of the outside world. Ethics consolidates morale of the organization and boosts self confidence among employees at all levels. If the goal is ethical practice, then "hiring good people" is an important part of the job. Transparency is integral to an ethical enterprise because it uses knowledge to challenge itself to rise to greater heights. In this process it benefits itself as well as its stakeholders. Transparency treats knowledge as a currency of exchange.

The code of conduct of an organization is very important instrument for aligning vision and mission ideas with routine activities. The thrust in the code of conduct should be prohibitive in character

and these rules should get applied without fear or favour. One needs to know what cannot be done. Merely having the code of conduct is not at all important, compliance is. It should be a concerted effort. It cannot be an imposed intervention. The managers and employees need to discuss together the ethical lines and express the same in the form of codes for compliance. In case of implementation related issues, collective efforts should be there to sort out the problems.

Ethics remain as a matter of serious concern for both the society and the individual managers. In the modern pluralistic society, different demands arise from various agents and parties and the managers have to respond to these varied and conflicting demands. Hence the essential need for a manager is to develop his/her own "Code of conduct" and his/her own norms of "value judgment" to guide his/her in the performance of tasks assigned. In terms of conflicts of interests, the manager must decide what is right or what is wrong. The concept of "trusteeship" instead of "ownership" and "transparency" in stead of "confidentiality" are some of the alternatives which are being considered. Management institutions have started emphasizing on value judgments, ethical and social responsibilities as integral part of their management curriculum. There needs to be a shift of emphasis from profit making to concern for society, consensus management and shared values. Shared values ought to be the principal future requirement and that indeed is the essence of leadership that the future managers must be able to provide.

Making a comparision of the acceptance of business values in different societies.Dr. M.B. Athreya, a well known management consultant opines, "the three core values in the West are human dignity, result orientation (bottom-line) and concern for environment; in the Japanese culture, the values held uppermost were working together for common good (Kyosai); continuous improvement (Kaizen) and training. Institutionalization of values helps a country to prosper.

In the Indian context, the values cherished most were: righteousness (dharma); working for the social good (lokasangraha) and involvement and action (yoga). Prof. S.K. Chakraborty has carried out pioneering research in this area. His focus is primarily on inculcating the ancient value system of India as propounded in the BhagavatGeeta – the concept of "Niskaam Karma" and the development of "antardrishti" to distinguish between right and wrong.

Individual influences on ethical decision making relate to the facets of an individual who actually is going through the decision making process. The employees bring certain traits and characteristics with them to an organisation and these are likely to influence the way on which the employees think and behave in response to ethical dilemmas. Individual factors can also account for why some people are perhaps more inclined than others into unethical conduct because of the influence of their colleagues. Empirical tests have tended to report very mixed results with no clear picture emerging on age and gender on ethical beliefs and action. The types and quality of education received by individuals and their professional training and experiences as well have effects on ethical decision making.

Attention to marketing ethics is important because we all have a duty to live a good moral life. This duty has as much application to our business lives as our private lives. Marketing professional should realize that good ethics is good business. Unethical conduct often has negative consequences, ranging from adverse publicity to diminished corporate reputation, to lower employee morale, to legal sanctions. Conversely ethical conduct can contribute to a good reputation, heighten morale.

Many people believe that "marketing ethics" is an oxymoron. In surveys of ethics in the professions, marketing generally are ranked towards the bottom of the list. It is possible that marketers are more likely to be faced with ethical issues than managers in other functions because of their "boundary spanning" role; that is to

deal with external parties or stakeholders. Many ethical issues that come to prominence are the result of insufficient attention to marketing ethics. A basic requirement is there for ethical sensitivity – awareness of moral obligations in marketing decision making and the potential for ethical issues to rise.Overstating the potential benefits of a product would be wrong and thereby one avoids questionable puffery. This depends upon one's willingness to do the job in a socially responsive manner. The Code of Ethics of the American Marketing Association states that marketers should conform to the basic rule of professional ethics not to harm knowingly and that they should offer products and services that are safe and fit for their intended use.



10.6 LET US SUM UP

Organizations have to be sensitive to the needs of the stakeholders. The expectations of the stakeholders are different. The organizations have to imbibe a relationship orientation for improving effectiveness and productivity. Being concerned about the social issues and developing strategies to redress them in a profitable manner is also important. In this Unit we have discussed the CSR spectrum and ethical issues in managing strategies.



10.7 FURTHER READING

1. Chakraborty, SK; Foundations of Managerial Work- Contributions from Indian Thought; Himalaya Publishing House, 1989, Mumbai, pp 61-81
2. Alan R. Andreasen and Philip Kotler, Strategic Marketing for Non Profit Organisations 6th Edition, Pearson Education, 2003,
3. Porter, Michael and Kramer, Mark; "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", Harvard Business Review, December 2006

4. Sisodia, Rajendra S ; Wolfe David B; and Sheth, Jagdish N; "How world class companies profit from Passion and Purpose – Firms of Endearment "; Sound View Executive Book Summaries, Vol. 29 No. 7, part 3, July 2007.(Wharton School Publishing 2007).



10.8 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: *Corporate volunteering* implies providing voluntary services to local organizations and for local cause efforts. Volunteer efforts may include employees serving as volunteers in local organizations or on their own.

Ans. to Q. No. 2: *Corporate philanthropy* implies a direct contribution by a corporation to a cause, most often in the form of cash grants, donation, in-kind services etc.



10.9 MODEL QUESTIONS

Q.1: Write a brief note on stakeholders' relationship management.

Q.2: What is Corporate Social Responsibility? Write a brief note about its strategic management.

Q.3: Discuss briefly why business ethics is important?

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UNIT 11: STRATEGIC EVALUATION AND CONTROL

UNIT STRUCTURE

11.1 Learning outcomes

11.2 Introduction

11.3 Concept of Strategic Evaluation

11.4 Nature of Strategic Evaluation

11.5 Importance of Strategic Evaluation

11.6 Process of Strategic Evaluation

11.7 Strategic Control

- 11.7.1 Types of Strategic Control
- 11.7.2 Importance of Strategic Control

11.8 Techniques of Strategic Evaluation and control

11.9 Let Us Sum Up

11.10 Further Reading

11.11 Answers to Check Your Progress

15.12 Model Questions

11.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss nature and Importance of strategic evaluation.
- discuss strategic control and its implementation process.
- describe about strategic surveillance system.
- learn about operational control,
- describe the measurements of performance, analyzing variances and taking corrective actions of operational control
- outline techniques of strategic evaluation.

11.2 INTRODUCTION

In this unit we are going to discuss the concept of strategic evaluation, nature and requirements for effective of srategic evaluation. We

will get a fair idea about strategic control, its implementation control and importance of srategic control. Also at the end of the unit we will discuss the process of evaluation of operational control, setting of standard, measurements of performance and analyzing variances and taking corrective actions. As there are various techniques of strategic evaluation we will also discuss the techniques of strategic evaluation and control.

11.3 CONCEPT OF STRATEGIC EVALUATION

Strategic evaluation refers to the measurement and testing the efficiency of strategic decisions and the effective implementation of business strategy to achieve desired business objectives. It is advisable to identify the corrective steps and actions to achieve business efficiency. It is considered as the final step of strategy management process. Strategic management concentrates on formulating organisational objectives based on an analysis of the business (internal and external) environment, formulating the plans and policies, controlling and implementing the action plans to achieve the business results.

Continous evaluation and monitoring is essential requirement of strategic management process. The strategic evaluation and controlling process indicates the organization whether the organizational objectives are achieved or not. The evaluation system concentrates on three main aspects of strategy such as appropriate strategy, consistency and feasibility of strategy. Strategy should be appropriate to achieve desired objectives of the organization and it should be formulated as per the available resources and analyses of the internal and external business environment. It should be feasible which implies easy implementation of the strategic decision with available resources of the organization. Strategic management is continuous nature of management process. Strategic evaluation is considered as the last stage under the strategy management process. If there is difference between desired objectives and achieved objectives, controlling process indicates steps for corrective actions.

Strategic evaluation and control process provides the right paths and directions to achieve desired organisational goals. The controlling

process makes sure about corrective strategies and actions are required to achieve organisational target.

Definition given by Stahl and Grigsley, "Strategic evaluation and control is the process of evaluating strategic plans and monitoring organizational performance so that necessary corrective action can be taken. Today, it also indicates process of improvement in order to preclude out of control situations from occurring and to continually provide greater value to customers".

11.4 NATURE OF STRATEGIC EVALUATION

The business environment is the current context in quite complex, volatile uncertain and ambiguous. Change is invitable and occurs very frequently. The organisation has to continually adapt itself to adapt to the changing requirements of the environment.

Strategic evaluation is a complex system to undertake for the effective implementation of management strategy and analyses for strategic decisions. There is need of evaluation for the smooth functioning of strategic decisions and checking to achieve the set objectives of the organization. It is essential to involve and cooperation from allt he people of the management. They should understand the evaluation process for the effective implementing the strategy for the benefits of all stakeholders of the organization.

The business environment is dynamic and complex in nature. The business environments are:

- Highly sensitive and complex in nature
- Unpredictable about the future and accuracy of business environment
- Globalisation and other factors also increases the flexibility of business environment which make difficult to implement business strategies.

Richard Rumlet has suggested the four criteria's, which are applied for internal and external business environment. They are:

- Consonance
- Advantages

- Consistency
- Feasibility

The criteria Consonance and Advantages are considered for the external business environment. “Consonance” means analysing and examining the certain trends of external environment in evaluating strategies. The advantages consider the number of opportunities available in the business environment.

The criteria “Consistency” and “Feasibility” are applied for internal environment of business organization.Consistency isrequired the strategy should be consistent as per the plans and polices of the management to achieve desired goals.The internal environment of organization should favorable and consistent.

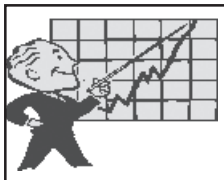
Feasibility indicates strategies should be at par with the available resources and it should not be overextended. It should be easy to handle and achievable.

11.5 IMPORTANCE OF STRATEGIC EVALUATION

Most of the time, strategists have only concentrated their efforts to formulate strategic decisions and implementation. They might ignore or overlook the strategic evaluation and control process until situation warns. It is essential to measure the strategic decisions effectiveness and controlling process to ensure the right directions of strategic plans and policies. The importance of strategic evaluation process may be described with the following points:

1. The strategic evaluation identifies the corrective steps and actions to achieve business efficiency and effectiveness.
2. The strategic evaluation is not only focused to measure the result but also provides the right paths and directions to achieve desired organisational goals.
3. The output of strategic evaluation is feedback which provides essential inputs for the future strategic decisions or plans and polices of the organization.

4. The strategic evaluation is also related with performance appraisal system for reward and recognitions which leads the motivation of employees and boosts the morale of the employees in the organization.
5. Stratrgic evaluation process is beneficial for all organizations whether small, medium, or large.



CHECK YOUR PROGRESS

Q1: Define strategic evaluation.

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Q2: State any three points highlighting significance of strategic evaluation.

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11.6 PROCESS OF STRATEGIC EVALUATION

The process of strategic evaluation starts with formulation of strategic decisions and plans as per the available resources and analysis of the business environment to achieve the desired organisational objectives. After the formulation of strategic plan the next step is effective implementation of strategic plans within available resources to achieve desired result within stipulated time. The process is shown below:

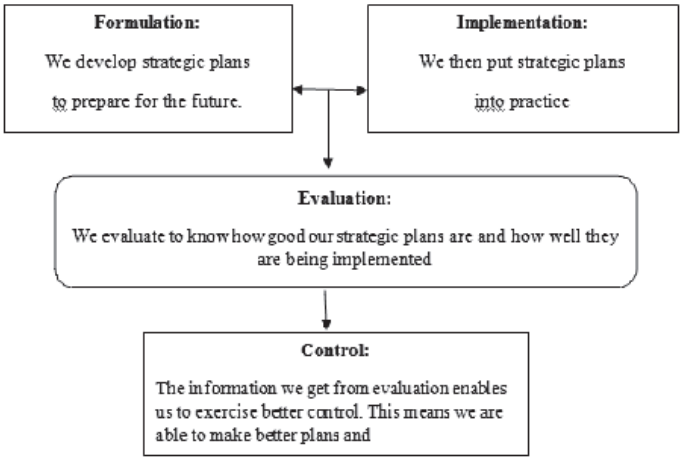


Fig: 15.1 Process of strategic evaluation

Source: -The role of evaluation and control in strategic management HRC Group, Strategic management briefing papers (1989).

Strategic evaluation process is to measure the efficiency and effectiveness of strategic decisions. It identifies the desired results achieved by the strategic decisions. The controlling process makes sure about corrective strategies and actions that are required to achieve organisational goals.

11.7 STRATEGIC CONTROL

Strategic controlling is the process of monitoring and checking the performance of strategic decisions, ensuring the effective implementation of strategic plans and polices, identifying the problems and to take corrective actions whenever required for achieving the desired organizational objectives. In other words it describes the controlling system for the effective implementation.

Some of the definition of strategic control are stated below:

Schreyogg and Steinmann (1987) have described Strategic Control as "the critical evaluation of plans, activities, and results, thereby providing information for the future action".

According to Robert J Mockler, "Management control implies systematic efforts to set standards to compare actual performance with the pre-determined standards, to determine whether there are any deviations and to measure their significance so as to take any action required to assure that all corporate resources are being used in the most effective and efficient way".

The above definition of Robert J Mockler has divided the controlling process in various steps as follows.

i. To establish performance standards
ii. To measure organizational performance
iii. To measure the techniques
iv. To compare the performance with standards
v. To evaluate of deviations
vi. To take corrective actions

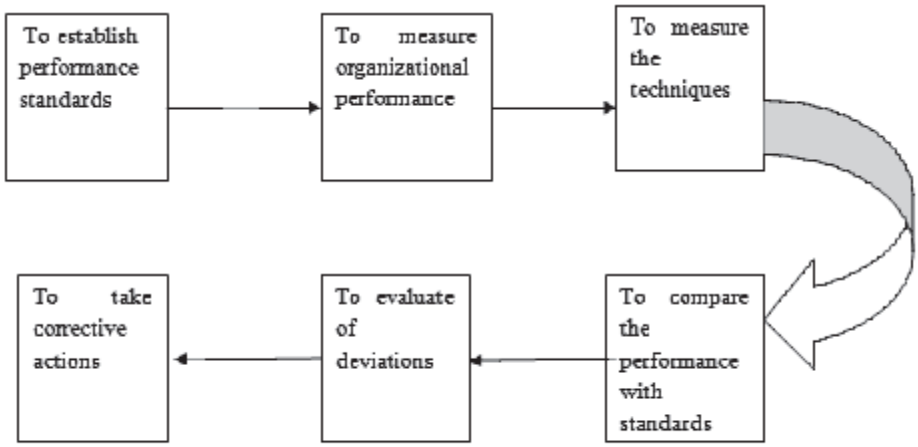


Fig: 16. 2 Strategic evaluation and Control Process

Let us discuss this steps in detail.

1. To establish performance standards:

This is the beginning steps of controlling process. The organization should develop the standards of performances. While fixing the standards, precaution should be taken about their specificity.

Some standards may be difficult to quantify in explicit terms such as morale, discipline, creativity etc. In such cases qualitative goals and design control mechanism are useful for measuring the performance. The following are the some quantitative standards against the performance can be measured.

- **Time standard:** The time factor should be considered to complete the task or goal of the organization. It may be for measuring per hour unit of production, or in the sales, number of sales are made by the executives in day,etc.
- **Cost Standard:** This describes the financial expenditure involved per unit of activity. It could be material cost per units, cost of distribution or selling cost on per sales call basis.
- **Income standard:** It could be sales for the months, sales generated by sales executives in a year,etc.
- **Market share standard:** It is emphasized on to increase the share of market. For example company wants increasing the market share by 5 percent in the next 5 years.

- **Return on investment:** It is one the indicators which shows the various performance of business such as turnover sales, working capital, production and operating costs and Investment.

2. To measure organizational performance:

After the finalized the goals or objectives of the organization, the next step is controlling process to measure the actual achieved organizational performance as compared the fixed goals or objectives of the organization.

Organisational performance can be measured in terms of various yardsticks. For example in a nursing home, the number of beds added in a year can be an yardstick. For a FMCG company, introduction of varieties of products could be an indicator. The efforts and resources extended to achieve the performance standards should be measurable.

3. To select the techniques:

It is one of the difficult tasks to measure the actual performance in the strategic decisions. There are various techniques to measure the efficiency and effectiveness of strategic management. What is to be measured, how to be measured, when to be measured or whether to be measured continuously or periodically etc. are important objectives. These questions provide right path for the measure the performance of strategy. The following are some of the techniques of measurement:

· **Financial measures** :-It indicates the financial condition of the business organization. It involves various ratios, relationship of business variables to each others. Some of the ratios which exhibit financial soundness of business are:

- Net Sales to Working Capital
- Current Ratio
- Liquid ratio
- Net profit to net sales ratio
- Net profit to Net worth ratio
- Collection period on credit sales

- **Production measures:-**It is related with outcome of activities to the production related effort. It involves pre controls, concurrent control and post controls measures.
  - **Pre controls: -** It involves the inputs of productions activities such as men, machines, raw materials, capitals, etc. It is aimed at the control of quality of inputs for the desired objectives. It ensures the skilled personnel as per the requirement with quality of raw materials.
  - **Con-current control:-**It is also known as Production Scheduling. It involves the timeframe work for the production activity. Program Evaluation and Review techniques(PERT) facilitates concurrent control.
  - **Post Control:-**It is also known as "Feedback Controls". It measures the results of completed actions or production activities.
- **Marketing measures :-**According to Smith, Arnold and Bizzell, there are five categories to measures marketing performance.
  - **Sales analysis:-**In this method, the actual sale is compared with projected sales. Any deviation can be analysed with volume of sales.
  - **Market Share analysis:-**It is calculation between Company's Sales volumes to competitor's sales volume. It indicates the corporate image or goodwill of the company in the competitive market.
  - **Marketing expenses to sales ratio:-**It includes the sales promotions expenses such as marketing, advertising, publicity etc.
  - **Customer attitude tracking:-**Customers are the centric point for every business. Without customers, no one can survive in the competitive market. It is analysed the behaviour of customers. Collected feedback with proper mechanism and maintain customer relationship management.

- **Efficiency Analysis:-**It is focused on the efficiency of all marketing efforts to achieve the desired sales in the market. It is involved the Sales force, Sales promotions and techniques and distributions plans and polices etc.

4. To compare performance with standards:-

The next step of controlling process is to compare the actual performance with pre determined performance with standards. If there are not specified standards performance, It would be difficult to measure the performance and to identify the efficiency and effectiveness of strategic decisions.

5. To evaluate deviations:-

It is essential step before the deviation is corrected. The reasons should be investigated. The main idea is to find the root cause for the deviations or problems therefore it would never arise in the future also. The deviations may be positive or negatives.

The positive deviations are in various forms such as achievement of the target before the time with less cost actually planned. The negative deviations may be low quality or quantity than the standards, late schedule of production, increasing the cost of production as compared to estimated costs etc.

6. To take corrective actions:-

After the analysis and investigation, the final steps are arrived to take corrective actions for remedy of the problem. The corrective actions should be consistant to the internal and external environment of business. It should be as per the company's culture, philosophy, labour unions, rules and regulation, etc. the following guidelines should taken into consideration while taking corrective actions.

- Management should identify the root cause of the problem instead of focusing on time being solutions for the problems.
- It should be as per the company's philosophy and rules and regulations

11.7.1 Types of Strategic Control

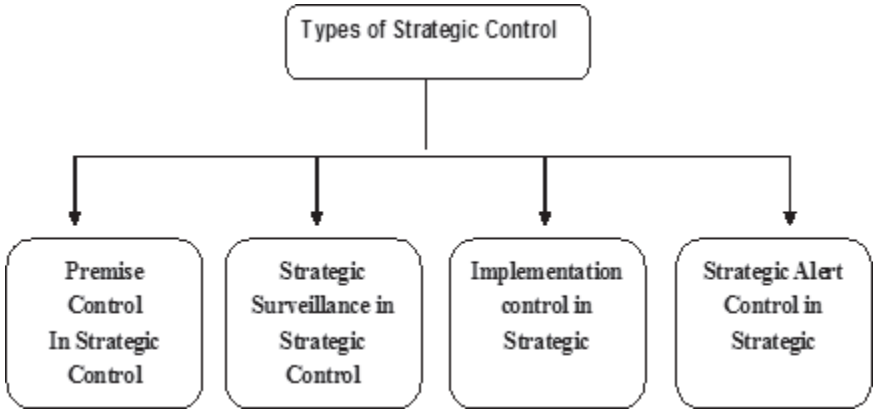


Fig: 15.3: Types of Strategic Control

Let us now discuss the types of strategic control in the following points:

1. Premise Control in Strategic Control:

Premise control is being checked continuously and systematic whether **the premises set during the planning and implementation process is still valid.** If any premise is not suitable to the internal or external situation, the strategy would modify or change as per the requirement.It is always established during the formulation of strategic planning process. It should be considered two basic environmentfactors as follow**.**

- *Environmental factors* :It includes political, social, technological and economical factors are prevailed in the external business environment
- *Industry factors* :It consists of Competitors, Supplier and Market conditions available for the Industry.

2. Strategic Surveillance in Strategic Control:

Strategic Surveillance is concerned within and outside of the organization of variousranges of events that would effect on strategic decisions and policies. The main aim of Strategic Surveillance is monitoring of number of information systems as well as encouraged the untapped information and opportunities for the effective implementation of strategy. It is also similar to the environmental

scanning to identify new information's and untapped opportunity. It is also helped tosafeguard the established strategy.

3. Implementation Control in Strategic Control:

Implementation control strategies are applied when the events are being started. It is involved numbers of events, plans; acts are implemented to achieve organsational goals. It is further divided into two types such as

- *Strategic thrusts or projects:*-It provides relevant information that would help to frame the effective strategy decisions and plans.
- *Milestone reviews:*-It is process to monitor and review the progress of strategy through specific intervals or milestone achieved.

4. Strategic Alert Control in Strategic Control:

It is applied at the time of unexpected events or occurring suddenly situations which would impact on management strategy. It is special alert control system for the rapid and meticulous reassessment of strategy. Strategic alert control system is useful during the emergency situation such as natural disasters, plane crashes, product defects, hostile, chemical spills, etc.

11.7.2 Importance of Strategic Control

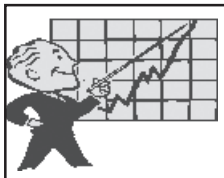
Strategic control is process monitoring and evaluating of strategies to achieve the desired objectives and make sure about the smooth functioning of management strategies. If the desired objectives are not achieved then the corrective steps or actions are taken into consideration.

It helps the Manager to obtain quality, innovation, consistency in the strategies, and complete the target within stipulated time. The following are the importance of controlling process.

- ***Control and quality:*** Quality of the products or Services indicates the success and progress path of the organization in the competitive environment. The feedback mechanism under the evaluation systems played crucial role for the improvement of quality of the product.

- ***Control and Efficiency:*** Efficiency indicates the output and input ratio of production which includes all resources of the organization. It is involved the production and the efforts of human resources. The controlling system makes sure about everything goes as per the strategy if not the corrective actions should take for the efficiency under the production process.
- ***Control and innovations:*** Strategic control leads towards innovative and creativity through continues monitoring and implementing the effective actions to acheve desired results.Strategic decision and policies ensure the appropriate controlling system and evaluation increased the risk taking abilities and improved the skills of management.
- ***Control and customers satisfaction:*** The success of the strategic evaluation process is to measure the satisfaction level of customers. An evaluation controlling system monitors and interacted with employees through proper system and boosts the employees' morale to provide better quality and services to the customers.

Customers are the backbone of the organization and if they satisfied then our business also survived and progress therefore it is essential to maintain satisfaction level among the employee.



CHECK YOUR PROGRESS

Q3: Define Strategic controlling.

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Q4: State the significance of strategic controlling process.

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11.8 TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

Strategic evaluation is referred to the process of the measurements and testing the efficiency and effectiveness of strategic decisions to achieve business objectives and takingthe corrective steps and actions if desired objectives not achieved.

Techniques of Strategic Evaluation are stated below:

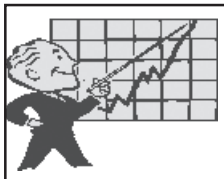
1. Gap Analysis: This is one of the techniques which can identify the gap between the actual achieved performance and expected performance of the organization as per the management strategy. With the various business tools and ratio analyse, it can easily indentify the gap between actual and expected performance. Under the Financial measures the gap identify with the help of various ratio, relationship of business variables to each others such as Net Sales to Working Capital ,Current Ratio, Net profit to net sales ratio, etc. Undermarketing measures, the gap identify with the analyses of Sales, Market share, Competitors performance, etc.

2. SWOT Analysis: This is one techniques of strategic evaluation to actual monitor the performance of strategic decisions. SWOT describes as organization's strengths, weaknesses, opportunities and threats.The business environment is complex and dynamic nature and consists of internal and external environment. It is an Unpredictable about the future and accuracy of business environment. Internal Environment consists of organization's strengths, weaknesses and on other side external environment is only being provided only opportunities and threats. The Evaluation system should analyse the internal and external environment of business and plan organization's strengths, weaknesses, opportunities and threats for the effectively applicable business resources to achieve desired results.

3. PEST Analysis: This is one of the techniques used for the evaluation system of strategy.The business atmosphere is highly sensitive and complex in nature. PEST denotes Political, Economical, Social and Technological factors directly impact on the business. These are essential

factors should be considered while framing the strategy. The success of strategic decisions is mainly depending on these factors. Political factors are considered rules and regulation, legislatures, and environmental norms etc. Economical factors exhibits the economic conditions prevailed in the market to identify opportunity and threats for the business. Social factors show the behavior of customers, demographic pattern of customers and about the values and tradition of people for adopted best suitable strategy. Technological factors are highly sensitive and dynamic in nature. Today technology will be stale for tomorrow exhibits the flexible or changing pattern of technology.Due to rapid changes in technology cause the obsolete our plans and business strategies, these factors should consider while framing the strategy of management.

4. Benchmarking: It is technique of strategic evaluation to identify whether the organization is achieved the expected results or not. If it is failed to achieve the expected result, then what is the difference between actual result and expected result. The organization must set the Standard performance is benchmark for the measuring actual performance.The regular monitoring and measuring the performance of strategic plan and collection of data that indicates actual result of the given activity and set the benchmark of activity.



CHECK YOUR PROGRESS

Q5: Write the steps in process of evaluation of operational control.

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Q6: What is SWOT Analysis?

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11.9 LET US SUM UP

Strategic evaluation process is to measure the efficiency and effectiveness of strategic decisions. It identifies the desired results achieved by the strategies decisions are not. It is being provided the right paths and directions to achieve desired organisational goals. The strategic evaluation and Controlling process indicates the organization whether achieved or not the organizational objectives. The evaluation system has concentrate of three mainly aspect s of strategy such as Appropriate strategy, Consistency and feasible of strategy. Strategy should be appropriate to achieve desired objectives of the organization and it should frame and formulate as per the available resources and analyses the internal and external business environment.

The controlling process makes sure about corrective strategies and actions are required to achieve organisational target. It is related two concepts, one is Strategic management set desired organisational goals and the other one is controlling process for the accomplishment of management goals. Operational control is part of Management control system. It is designed to monitor and regular checking of day to day business operation to ensure the consistency and quality in production as per the established objectives of the organization. It is mainly focused on latest occurrence or events in the organization for the smooth functioning of business activities. If the desired standard or quality of business is matched as per the standards then corrective action should be taken.



11.10 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi

3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P(); Business Policy and Strategic Management: Text and Cases; Himalaya Publication House, New Delhi



11.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q. No.1: Strategic evaluation and control is the process of evaluating strategic plans and monitoring organizational performance so that necessary corrective action can be taken.

Ans to Q. No.2: The significance of strategic evaluation are:

1. Measuring the organisational progress or results and evaluating.
2. It identifies the corrective steps and actions to achieve business efficiency and effectiveness.
3. It provide the right paths and directions to achieve desired organisational goals.

Ans to Q. No.3: Strategic controlling is the process of monitoring and checking the performance of strategic decisions, ensuring the effective implementation of strategic plans and polices, identify the problems and to take corrective actions whenever is required for achieving the desired organizational objectives.

Ans to Q. No.4: The following are the importance of strategic controlling process.

- Control and quality
- Control and Efficiency
- Control and innovations
- Control and customers satisfaction

Ans to Q. No.5: The process of evaluation normally is divided into four steps such as

1. To set the standard of performance
2. To measure the performance
3. To Analysis the deviations

4. To take corrective action

Ans to Q. No.6: SWOT describes as organization's strengths, weaknesses, opportunities and threats.



11.12 MODEL QUESTIONS

Q.1: Explain the nature and importance of Strategic Evaluation.

Q.2: Discuss the importance of strategic evaluation.

Q.3: Discuss briefly the process of strategic evaluation.

Q.4: Discuss different steps of strategic control process.

Q.5: Explain different types of Strategic Control.

Q.6: Explain the Techniques of Strategic Evaluation and control.

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UNIT 12: CONCEPTUAL FRAMEWORK OF CORPORATE GOVERNANCE

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Corporate Governance

- 12.3.1 Meaning
- 12.3.2 Benefits of Corporate Governance
- 12.3.3 Theories on Corporate Governance
  - 12.3.3.1 Agency Theory
  - 12.3.3.2 Stewardship Theory
  - 12.3.3.3 Stakeholder Theory
  - 12.3.3.4 Resource Dependency Theory
  - 12.3.3.5 Political Theory

12.4. Various Approaches to Business Ethics

- 12.4.1 Teleological Approach
- 12.4.2 Deontological Approach
- 12.4.3 Emotive Approach
- 12.4.4 Moral-Rights Approach
- 12.4.5 Justice Approach

12.5 Ethical Governance

12.6 Various Codes of Conduct

12.7 Secretarial Audit

12.8 Insider Trading

12.9 Functions of Rating Agencies

12.10 Green Governance or Environmental Governance

12.11 Shareholder Activism

12.12 Let Us Sum Up

12.13 Further Reading

12.14 Answers to Check Your Progress

12.15 Model Questions

12.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- understand the meaning of corporate governance
- explain the various theories on corporate governance
- understand the concept of business ethics and various approaches to it
- understand ethical governance.
- discuss secretarial audit
- discuss insider trading and the functions of the rating agencies.
- explain green governance and electronic governance.
- discuss briefly on shareholder activism.

12.2 INTRODUCTION

Corporate Governance is gradually emerging as an important field of study within the management and finance discipline since the last few decades. Although corporate governance has been practiced by many corporate entities since long, yet the study of the subject is less than half a century old. Indeed, the term 'corporate governance' was scarcely used until the 1980s.

The need for corporate governance was felt when the non-compliance of standards of financial reporting and accountability by boards of directors and management of corporate resulted in heavy losses to investors.

Corporate governance initiatives in India began in 1998 with the Desirable Code of Corporate Governance – a voluntary code published by the CII, and the first formal regulatory framework for listed companies specifically for corporate governance, established by the SEBI. The latter was made in February 2000, following the recommendations of the Kumar Mangalam Birla Committee Report.

SEBI is actively engaging in establishment of good governance practices in corporate organizations. It has appointed several committees such as Kumar Manglam Birla Committee, Naresh Chandra Committee and Narayana Murthy Committee.

In this unit, we shall discuss about corporate governance, its benefits and theories on corporate governance. We shall also discuss about various approaches to business ethics, ethical governance and the various codes of conduct. Further, we shall also discuss the concept of secretarial audit, insider trading, green governance, shareholder activism etc.

12.3 CORPORATE GOVERNANCE

Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance encompasses balancing the welfare of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. Since corporate governance also offers the outline for accomplishing a company's objectives, it includes basically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

12.3.1 Meaning of Corporate Governance

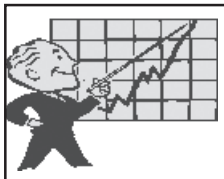
Corporate Governance refers to the way a corporation is governed. It is the practice by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as economic and social goals. Corporate governance deals with determining ways to take effective strategic decisions. It vests crucial authority and complete responsibility to the board of directors. In today's market- oriented economy, the need for corporate governance is vital. Moreover, efficiency as well as globalization are significant factors that influence corporate governance. It is essential to develop added value to the stakeholders. Corporate governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all

shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. These include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Corporate governance practices can be viewed as attempts to line up the interests of stakeholders.

12.3.2 Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. There is a positive impact on the share price.
4. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
5. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
6. It helps in brand formation and development. It may boost up company's reputation and goodwill.
7. It lowers the capital cost.
8. Corporate governance includes instituting policies that require the company to take specific steps to stay compliant with local, state and federal rules, regulations and laws.
9. Corporate governance limits the potential for bad behavior of employees by instituting rules to reduce potential fraud and conflict of interest.



CHECK YOUR PROGRESS

Q1: Write the meaning of Corporate Govenance.

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Q2: State two benefits of Corporate Governance.

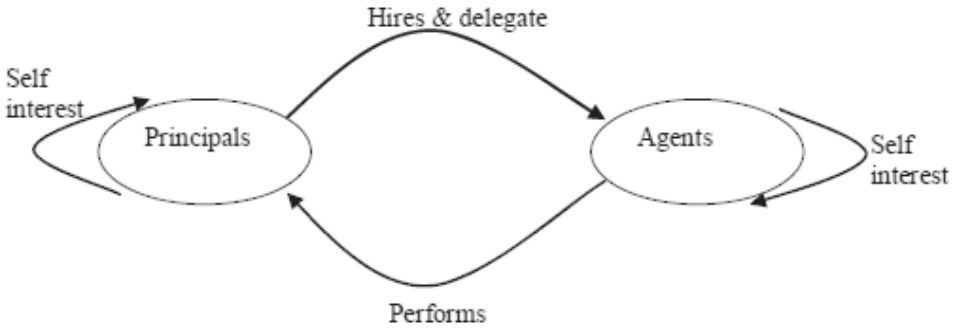
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12.3.3 THEORIES ON CORPORATE GOVERNANCE

12.3.3.1 Agency Theory

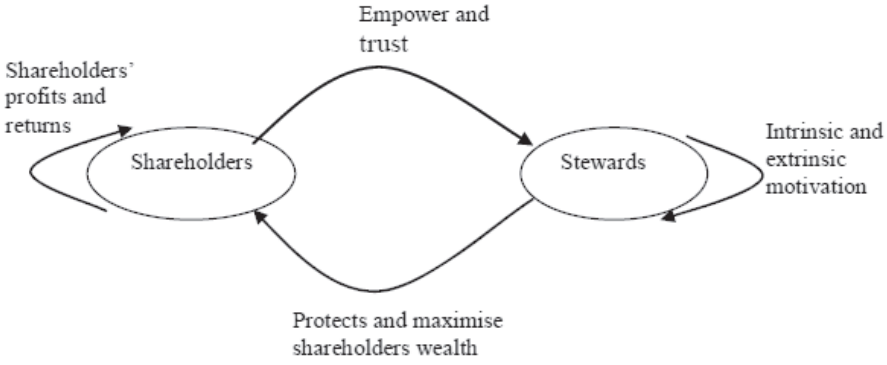
Agency theory defines the relationship between the principals (such as shareholders of company) and agents (such as directors of company). According to this theory, the principals of the company hire the agents to perform work. The principals delegate the work of managing the business to the directors or managers, who are agents of shareholders. The shareholders expect the agents to act and make decisions in the best interest of principal. However, it is not obligatory that agent will always make decisions in the best interests of the principals. The agent may be capitulated to self-interest, opportunistic behaviour and may fail to fulfill the expectations of the principal. The key feature of agency theory is separation of ownership and control. The theory prescribes that people or employees are held accountable in their tasks and responsibilities. Rewards and Punishments can be used to correct the priorities of agents.Agency theories arise from the distinction between the owners (shareholders) of a company or an organization designated as “the principals” and the executives hired to manage the organization called “the agent.” Agency theory argues that the goal of the agent is different from that of the principals, and they are conflicting.



12.3.3.2 Stewardship Theory

The Steward theory states that a steward protects and maximizes shareholders wealth through firm performance. Stewards are company executives and managers working for the shareholders, who protects and make profits for the shareholders. The stewards are satisfied and motivated when organizational success is attained. It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. The employees take ownership of their jobs and work at them diligently.

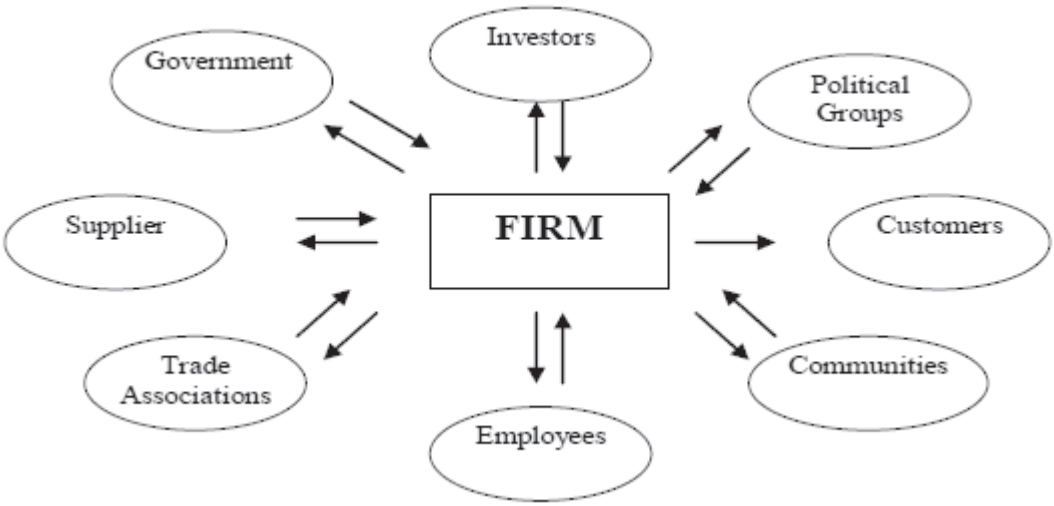
Stewardship theory argues that the managers or executives of a company are stewards of the owners, and both groups share common goals. Therefore, the board should not be too controlling as suggested by agency theories. The board of directors should play a supportive role by empowering executives and, in turn, increase the potential for higher performance. Stewardship theoryclaims for relationships between board and executives that involve training, mentoring, and shared decision making.



12.3.3.3 Stakeholder Theory

Stakeholder theory incorporated the accountability of management to a broad range of stakeholders. It states that managers in organisations have a strong network of relationships including the suppliers, employees and business partners. The theory focuses on managerial decision making and states that interests of all stakeholders have intrinsic value where no set of interests is supposed to dominate the others.

Stakeholder theory is based on the assumption that shareholders are not the only group with a stake in a firm or corporation. Stakeholder theory establishes that clients or customers, suppliers, and the surrounding communities also have a stake in a corporation. They can be affected by the success or failure of a company. Therefore, managers have special obligations to ensure that all stakeholders (not just the shareholders) receive a fair return from their stake in the company. This theory advocates for some form of corporate social responsibility, which is a duty to operate in ethical ways, even if that means a reduction of long-term profit for a company. In that context, the board of directors has a responsibility to be the guardian of the interests of all stakeholders by ensuring that corporate or organizational practices take into account the principles of sustainability for surrounding communities.



12.3.3.4 Resource Dependency Theory

This theory highlights the role played by the board of directors in providing access to resources needed by the firm. It states that directors play an important role in providing or securing essential resources to an organisation through their linkages to the external environment. The provision of resources enhances organizational functioning, firm's performance and its survival. The directors bring inputs to the firm in the form of information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups etc. Directors can be in the form of insiders, business experts, support specialists or community influencers. Resource-dependence theory recommends interventions by the board while advocating for strong financial, human, and intangible supports to the executives. For example, board members who are professionals can use their expertise to train and mentor executives in a way that improves organizational performance. Board members can also tap into their networks of support to attract resources to the organization. This theory recommends that most of the decisions be made by executives with some approval of the board.

12.3.3.5 Political Theory

Political theory brings the methodology of developing voting support from shareholders, rather by purchasing voting power. Hence having a political influence in corporate governance may direct corporate governance within the organization.The political model highlights the allocation of corporate power and profits where privileges are determined through the governments' favour. The political model of corporate governance can have an immense influence on governance developments. It is observed that there is an increasing tendency or trend over government's strong political influence on firms. As a result, there is an entrance of politics into the governance structure or firms' mechanism.

12.4 VARIOUS APPROACHES TO BUSINESS ETHICS

Business ethics is the study of appropriate business policies and practices regarding provocativeissues including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities. The law often monitors business ethics, but at other times business ethics provide a basic guideline that businesses can choose to follow to gain public approval. Business ethics refers to contemporary organizational ideologies, principles, sets of values and norms that govern the actions and behaviour of an individual in the business organization. Business ethics have two dimensions, normative business ethics or descriptive business ethics. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behaviour employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behaviour with non-economic concerns.

12.4.1 Teleological approach:

Also known as consequentiality approach, it determines the moral conduct on the basis of the consequences of an activity. Whether an action is right or wrong would depend upon the judgement about the consequences of such an action. The idea is to judge the action moral if it delivers more good than harm to society. For example, with this approach, lying to save one's life would be ethically acceptable.

Some of the philosophers supporting this view are nineteenth century philosophers like John Stuart Mill and Jeremy Bentham. They proposed that ethics and morality of an act should be judged on the basis of their ultimate utility. An act would be considered moral if it produced more satisfaction than dissatisfaction for society. It must be understood that this satisfaction or happiness should be for the society in general and not to the people committing the act or the people who are directly involved in the act.

12.4.2 Deontological approach:

While a “teleologist” focuses on doing what will maximize societal welfare, a “deontologist” focuses on doing what is “right” based on his moral principles. Accordingly, some actions would be considered wrong even if the consequences of these actions were good. According to DcGeorge, “The deontological approach is built upon the premise that duty is the basic moral category and that the duty is independent of the consequences. An action is right if it has certain characteristics or is of a certain kind and wrong if it has other characteristics or is of another kind. This approach has more of a religious undertone. The ethical code of conduct has been dictated by the holy scriptures. The wrongs and rights have been defined by the word of God. This gives the concept of ethics a fixed perception. Since the word of God is considered as permanent and unchangeable, so then is the concept of ethics.

Holy Scriptures like those of the Bible, the Holy Quran, Bhagwad Gita and Guru Granth Sahib are considered to be the words of God and hence must be accepted in their entirety and without question. In similar thinking, though based upon rationality, rather than religious command, Emmanuel Kant, an eighteenth century german philosopher suggested morality as universally binding on all rational minds.

12.4.3 *Emotive Approach*

This approach is proposed by A.J. Ayer. He suggests that morals and ethics are just the personal viewpoints and moral judgements are meaningless expressions of emotions. The concept of morality is personal in nature and only reflects a person’s emotions.

This means that if a person feels good about an act, then in his view, it is a moral act. For example, using loopholes to cheat on income tax may be immoral from societal point of view, but the person filing the income tax returns sees nothing wrong with it.

12.4.4 Moral-rights approach:

This approach views behaviour as respecting and protecting fundamental human rights, equal treatment under law and so on. Some of these rights are set forth in documents such as Bill of Rights in America and U.N. Declaration of Human Rights. From ethical point of view, people expect that their health and safety is not endangered by unsafe products.

They have a right not to be intentionally deceived on matters which should be truthfully disclosed to them. Citizens have a fundamental right to privacy and violation of such privacy would not be morally justifiable.

Individuals have the right to object and reject directives that violate their moral or religious beliefs. For example, Sikhs are allowed to wear turbans instead of putting on a hat as required by Royal Canadian Police, because of their religious beliefs.

12.4.5 Justice approach:

The justice view of moral behaviour is based on the belief that ethical decisions do not discriminate people on the basis of any types of preferences, but treat all people fairly, equitably and impartially according to established guiding rules and standards. All mankind is created equal and discriminating against any one on the basis of race, gender, religion, nationality or any such criteria would be considered unethical.

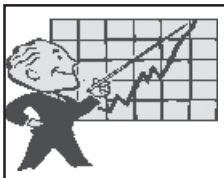
From organizational point of view, all policies and rules should be fairly administered. For example, a senior executive and an assembly worker should get the same treatment for the same issue, such as a charge of sexual harassment.

Similarly, not joining the army in time of war may be unethical and unpatriotic from the point of view of the society and the country, but the person concerned may consider war as immoral in itself. According to this approach, the whole idea about morality centers on the personal view point.

An extension of Emotive theory puts focus on the integrity of the person. While the person is looking for his own long term benefit, he must have a virtue ethics perspective which primarily considers the person's character, motivations and intentions.

12.5 ETHICAL GOVERNANCE

Governance has been defined to refer to structures and processes that are designed to ensure accountability, transparency, responsiveness, rule of law, stability, equity and inclusiveness, empowerment, and broad-based participation. Governance also represents the norms, values and rules of the game through which public affairs are managed in a manner that is transparent, participatory, inclusive and responsive. In a broad sense, governance is about the culture and institutional environment in which citizens and stakeholders interact among themselves and participate in public affairs. It is more than the organs of the government. The backbone of ethical governance is not only ethical principles in formulating policies, building institutions but also ethical display in behavioural terms by people manning those institutions and working in them.



CHECK YOUR PROGRESS

Q3: Write the meaning of Business Ethics.

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12.6 VARIOUS CODES OF CONDUCT

A code of conduct is a set of rules outlining the social norms, religious rules and responsibilities of, and or proper practices for an individual. A company code of conduct is a code of conduct commonly written for employees of a company, which protects the business and informs the employees of the company's expectations. It is appropriate for even the smallest of companies to create a document containing important information on expectations for employees. A code of conduct can be an

important part in establishing an inclusive culture, but it is not a comprehensive solution on its own. An ethical culture is created by the organization's leaders who manifest their ethics in their attitudes and behavior. Studies of codes of conduct in the private sector show that their effective implementation must be part of a learning process that requires training, consistent enforcement, and continuous measurement/ improvement. A code of conduct is a set of organizational rules or standards regarding organizational values, beliefs, and ethics, as well as matters of legal compliance that govern the conduct of the organization and its members. Organizational members are responsible for adhering to the code of conduct and will be held accountable for failure to do so.

While the content of codes will vary from organization to organization, many will address common topics, including:

- Conflicts of interests
- Confidential information
- Employment discrimination
- Use of the organization's property
- Financial reporting and accounting
- Health and safety issues
- Political contributions and campaigning in the office
- Legal compliance issues relevant to the organisation

A code of conduct states the rules, values, ethical principles and vision of the business. Having a code of conduct in the workplace provides staff with clear standards and expectations of how to do their job. It is vital for the employees to understand and accept the code of conduct, as their compliance with the code helps to build the business's reputation. Code of conduct should be followed whenever employees are working for or representing the business. This includes when they are:

- performing work in the workplace
- taking business trips
- attending work-related social events
- representing them or the business.

This throws light on how to develop, implement and review a code of conduct for the business.

12.7 SECRETARIAL AUDIT

Secretarial Audit is introduced by recently enacted Companies Act, 2013. It is a process to check compliances made by the Company under Corporate Law and other laws, rules, regulations, procedures etc. It is a mechanism to monitor compliance with the requirements of stated laws and processes. Periodically examination of work is necessary to point out errors and mistakes and to make a robust compliance mechanism system in an organization. Every company needs to comply hundreds of laws, rulesand regulations. These laws are complex and non-compliances would attract major risk to company. **Secretarial audit** gives comfort to the regulators, stakeholders and management that company has disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes.

As per section 204 of the Companies Act, 2013 read with Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, following companies are required to obtain 'Secretarial Audit Report' from independent practicing company secretary;

(1) Every listed company

(2) Every public company having a paid-up share capital of fifty crore rupees or more; or

(3) (b) Every public company having a turnover of two hundred fifty crore rupees or more.

Secretarial audit is also mandatory to a private company which is a subsidiary of a public company, and which falls under the prescribed class of companies.

As per Rule 8 of the Companies (Meetings of Board and its powers) Rules, 2014, **secretarial auditor** is required to be appointed by means of resolution passed at a duly convened board meeting and resolution for appointment shall be filed with registrar of companies within 30 days in E-form MGT-14.

So a company secretary (member of the ICSI) is appointed as a secretarial auditor usually at the beginning of the financial year. This appointment is by the board members through a board resolution.

He will then submit a report of his audit to the same board. It is preferable to submit a report quarterly, so the company can stay on top of the compliance requirements.

Now when the auditor submits his report, he has to review the compliance of five specific laws. This is the scope of his audit. The five laws are as follows,

i. Companies Act 2013
ii. Securities Contracts (Regulation) Act, 1956
iii. Depositories Act 1956
iv. FEMA 1999
v. Rules and Regulations under the SEBI Act

Other than this the auditor will also check the company's compliance with,

i. The Secretarial Standards which the ICSI issues from time to time
ii. The Listing Agreement of the company with the appropriate stock exchange

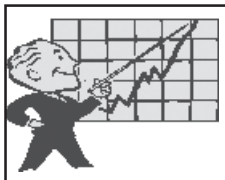
A secretarial audit is a mechanism to check the compliance of an organization to the laws, rules, regulations, and notifications etc. prevalent at the time of the audit. In this case, it is to check if a company has been complying with the provisions of the Companies Act 2013 and its entire rule therein.

The rules and regulations around companies are very complex and ever increasing. The responsibilities of the directors, promoters and other managerial positions are also very complicated and crucial. So it is important that a practicing company secretary (PCS) be hired to conduct a secretarial audit.

12.8 INSIDER TRADING

Insider trading is the trading of a public company's stock or other securities (such as bonds or stock options) by individuals with access to non-public information about the company. Insider trading includes transactions that aim to personal gain or to avoidance of personal losses.

Conversely, it does not involve transactions, which are made based on external information, such as knowledge about upcoming changes in the market legislation or technological developments that will affect an entire industry. Insider trading is generally negative and related to knowledge that is acquired from inside. Insider trading can be legal or illegal depending on if the information used to base the trade is public. By non-public information, it is indicated that the information is not legally out in the public domain and that only a handful of people directly related to the information possess. Detailed rules regarding insider trading are complicated and generally, vary from country to country. The definition of an "insider" can differ significantly under different jurisdictions. Some may follow a narrow definition and only consider people within the company with direct access to the information as an "insider." On the other hand, some may also consider people related to company officials as insiders. If someone is caught in the act of insider trading, he can either be sent to prison, charged a fine, or both.



CHECK YOUR PROGRESS

Q4: What do you understand by Secretarial Audit?

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Q5: What do you understand by insider trading?

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12.9 FUNCTIONS OF RATING AGENCIES

1. Business Analysis

A credit rating company analyzes the business condition of the borrowing company not merely by the profits the borrowing concern has made, but by the use of capital in a more productive purpose. The return on capital and the cost of capital will be analyzed.

2. Evaluation of industrial risks

Every industry have its risks which are due to natural or market conditions such as competition or due to the substitutes that have

arrived in the market. The extent of risks and measures to overcome them will be taken into account while judging the credit rating of the company.

3. **Market position of the company within the industry**

   A higher percentage of market shares will involve more risks as the company has to be vigilant to maintain its share. So, a credit rating agency often give due weightage for the market share of the borrowing concern.

4. **Operating efficiency**

   This is judged from the point of view of utilization of the capacity. When full capacity is utilized, the company has an advantage over others. This may be possible due to location advantage or better labour relations. These will be looked into by the credit rating agency.

5. **Legal position in terms of prospectus**

   The statements made in the prospectus should be true and factual. If tall claims are made, they will hamper the growth of the company and the credit rating agency will not rely on the prospectus of the company. It may also be construed as a willful fraud for attracting more funds. So, the contents of prospectus will also be a factor for credit rating considerations.

6. **Financial analysis based on accounting quality**

   If accrued incomes are taken for making a window-dressing of balance sheet, it will not reflect well on the quality of accounting of the borrowing concern. Companies relying on realized income will be in a better position to provide a realistic balance sheet. So, the true financial position of the company is judged not merely on the books of accounts but also on their market conditions in meeting their debt commitments.

7. **Statement of profits**

   There may be over statement or understatement of profits depending upon the purpose for which the statement is prepared. Here, again the credit rating agency has to scrutinize the realistic position of the company.

8. Adequacy of cash flow

Is the cash flow sufficient to meet its current commitments as well as any other contingencies? This factor is taken into consideration by the rating agencies.

9. Financial flexibility

Rating agencies adjudge the financial flexibility of companies. It paves way to alternate sources for raising necessary funds

10. Management evaluation

Evaluation of management and supervising day-to-day operations and dealings is one of the important functions of credit rating agencies.

11. Labour turnover

How far the non-alignment is looking after the welfare of its labour? What is the extent of punctuality, discipline and morale of the labor force? To what extent they continue with the employment in the company? A rating agency looks for all these issues.

12. Regulatory and competitive environment

If there are more regulations restricting competition, then there will be more protection to the company; whereas under condition of deregulation, providing more scope for competition, the efficiency of the company will be tested. A rating agency studies the regulatory and competitive environment from these angles.

13. Asset quality

The value of assets and the price of the assets according to the market conditions and the provisions made for these assets is taken into account by the credit rating authorities. Performance of assets will also be taken. The extent of standard, substandard, doubtful and bad assets will also be taken into account while granting credit rating.

14. Enhances corporate image:

Better credit rating for any credit investment enhances visibility and corporate image in the industry.

15. Low-cost information

The credit rating agency collects, analyses, interprets and makes a proper conclusion of any complex data and transforms it into a very lucid and easily understandable manner.

12.10 GREEN GOVERNANCE OR ENVIRONMENTAL GOVERNANCE

Environmental governance is a concept in political ecology and environmental policy that advocates sustainability (sustainable development) as the supreme consideration for managing all human activities—political, social and economic. Governance includes government, business and civil society, and emphasizes whole system management. To capture this diverse range of elements, environmental governance often employs alternative systems of governance, for example watershed-based management. Green governance is a systematic life-cycle to help an organization drive towards overall sustainability. The life-cycle focuses on areas like strategy, risk management, compliance management, portfolio management, project management, performance management, stakeholder reporting etc.

12.11 SHAREHOLDER ACTIVISM

A shareholder activist is a person who attempts to use his or her rights as a shareholder of a publicly-traded corporation to bring about change within or for the corporation. Shareholder activism is a way that shareholders can influence a corporation's behaviour by exercising their rights as partial owners. Classes of shares allow for distinct voting privileges, in addition to dividend entitlements. While minority shareholders don't run day to day operations, several ways exist for them to influence a company's board of directors and executive management actions. Shareholder activists also employ a variety of offensive tactics to force changes. For example, they might make strategic use of media channels in order to publicize their demands and prompt greater pressure from other shareholders. They may also threaten companies with lawsuits if they are not allowed to voice their opinion.



12.12 LET US SUM UP

- We have discussed about Corporate Governance, its benefits and theories.
- Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance encompasses balancing the welfare of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.
- Business ethics is the study of appropriate business policies and practices regarding provocative issues including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.
- Various approaches to business ethics has been discussed above.
- The backbone of ethical governance is not only ethical principles in formulating policies, building institutions but also ethical display in behavioural terms by people manning those institutions and working in them.
- A code of conduct is a set of organizational rules or standards regarding organizational values, beliefs, and ethics, as well as matters of legal compliance that govern the conduct of the organization and its members.
- A secretarial audit is a mechanism to check the compliance of an organization to the laws, rules, regulations, and notifications etc. prevalent at the time of the audit.
- Insider trading is the trading of a public company's stock or other securities (such as bonds or stock options) by individuals with access to non-public information about the company. Insider trading includes transactions that aim to personal gain or to avoidance of personal losses.

- Green governance is a systematic life-cycle to help an organization drive towards overall sustainability. The life-cycle focuses on areas like strategy, risk management, compliance management, portfolio management, project management, performance management, stakeholder reporting etc.
- Shareholder activism is a way that shareholders can influence a corporation's behaviour by exercising their rights as partial owners.



12.13 FURTHER READINGS

1. Corporate Governance and Corporate Social Responsibility of Indian Companies by Saumitra N. Bhaduri and Ekta Selarka.
2. Corporate Governance in India- An Evaluatin by Subhash Chandra Das.



12.14 ANSWER TO CHECK YOUR PROGRESS

Answer to Q No 1: Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. These include monitoring the actions, policies, practices, and decisions of corporations, their agents, and

Answer to Q No 2: 1) Good corporate governance ensures corporate success and economic growth

2) Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively

Answer to Q No 3: Business ethics is the study of appropriate business policies and practices regarding provocative issues including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities

Answer to Q No 4: A secretarial audit is a mechanism to check the compliance of an organization to the laws, rules, regulations, and notifications etc. prevalent at the time of the audit

Answer to Q No 5: Insider trading is the trading of a public company's stock or other securities (such as bonds or stock options) by individuals with access to non-public information about the company



12.15 MODEL QUESTIONS

Q.1: Define corporate governance. Highlight its relative advantages.

Q.2: Explain the various theories on corporate governance.

Q.3: What do you understand by business ethics? Why is it important? Discuss the various approaches to business ethics.

Q.4: Write short notes on-

- Environmental governance
- Ethical governance

Q.5: What is code of ethics? Give some examples.

Q.6: Define insiders trading.

Q.7: What are various functions performed by the rating agencies? Elaborate.

Q.8: Which companies are required to obtain secretarial audit report?

Q.9: Mention whether the following statements are true or false-

i Secretarial Audit is introduced under section clause of SEBI.

ii Stakeholder theory of corporate governance isbased on the assumption that shareholders are not the only group with a stake in a firm or corporation.

iii Agency theory argues that the goal of the agent is different from that of the principals, and they are conflicting.

iv Emotive approach of business ethics is proposed by A.J. Ayer.

v Corporate governance maximisess wastages, corruption, risks and mismanagement.

vi Insider trading is generally negative and related to knowledge that is acquired from inside.

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UNIT 13: CORPORATE GOVERNANCE FRAMEWORK IN INDIA

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Concept of Corporate Boards

13.4 Powers and Duties of Board of Directors

13.5 Disqualification of Corporate Boards

13.6 Various Board Committees with their Respective Functions

13.7 Regulatory Framework of Corporate Governance In India

13.8 Securities and Exchange Board Of India (SEBI) Guidelines

13.9 Corporate Governance in PSUs and Banks

13.10 Let Us Sum Up

13.11 Further Reading

13.12 Answers to Check Your Progress

13.13 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit you will be able to

- explain the powers and responsibilities of corporate boards
- discuss the disqualifications of the corporate boards.
- explain the various board committees with their respective functions.
- discuss the regulatory framework of corporate governance in India
- highlight the SEBI guidelines regarding corporate governance
- discuss corporate governance in public sector undertakings and banks.

13.2 INTRODUCTION

In this unit we will discuss the concept of corporate boards and the powers and duties of the Board of Directors. We will also discuss the different boards and their functions. The unit will also cover the regulatory

framework of corporate governance in India, corporate governance in PSUs and Banks etc.

13.3 CONCEPT OF CORPORATE BOARDS

When a small business incorporates with a state, it files a document called the 'articles of incorporation' that highlights basic information about the corporation, including how shares of stock will be issued and how board of directors will be structured. State regulations often require the board of directors to include a few portfolios, including the president, secretary and treasurer, but corporate houses are given the flexibility to customize the board's structure to suit their needs according to their type of business organisation.A board of directors is a group of individuals elected to represent shareholders. The board of directors should be a representation of both management and shareholder interests, and consist of both internal and external members. A board's mandate is to establish policies for corporate management and making decisions on major company issues. Every public company must have a board of directors. Some private and non-profit organizations also have a board of directors.A corporation is managed by directors and officers. Directors act as a group known as a board of directors. The board of directors is the corporation's governing body. It manages the corporation's business and affairs and has the authority to exercise all of the corporation's powers. Corporations also have officers who are appointed by and receive their powers from the board. Generally, the board of directors is responsible for making major business and policy decisions and the officers are responsible for carrying out the board's policies and for making the day-to-day decisions.

13.4 POWERS OF BOARD OF DIRECTORS

The board of directors is the highest authority in any company. According to Section 179 of Companies Act 2013 encompasses the power of directors of a company. They are entitled to make any and all decisions, and thus exercise all the power, which the company has authority to enact.

Power Exercised by Passing Resolution at Board Meetings

There are also certain powers of the board that those resolutions can only be passed by calling a board meeting. This is done as per Section 175, Companies Act 2013. Thus, the board of directors can exercise the following powers, only by passing a resolution in the meetings of the board:

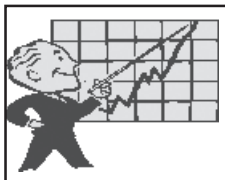
- Make calls on shareholders
- Authorize the buyback of securities and shares
- Issue securities and shares
- Borrow monies
- Investing the funds
- Grant loans
- Approve the financial statement
- Approve amalgamation/merger
- Diversify the business
- Take over a company

Duties of Board of Directors

The directors of a company owe a number of duties to it. Many of those duties have been developed by the courts over hundreds of years forming the common law rules and equitable principles applicable today. Several have been codified into statute. The main duties include:

1. To act in good faith and to use powers for a proper purpose for the benefit of the company as a whole
2. to exercise independent judgment and not to delegate powers except with proper authorization
3. to exercise reasonable care, skill and diligence
4. to avoid a situation in which the director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company
5. not to enter into transactions in which the directors have an interest except in compliance with the requirements of the law
6. not to gain any advantage from use of position as a director
7. not to make any unauthorized use of the company's property or information

8. not to accept any personal benefit from third parties conferred because of the director's position as a director
9. a duty to keep proper accounting records



CHECK YOUR PROGRESS

Q.1: State two powers of Board of Directors.

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Q.2: State two duties of Board of Directors.

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13.5 DISQUALIFICATIONS OF THE CORPORATE BOARDS

(1) A person shall not be eligible for appointment as a director of a company, if —

(*a*) He is of unsound mind and stands so declared by a competent court;

(*b*) he is adischarged insolvent;

(*c*) he has applied to be adjudicated as an insolvent and his application is pending;

(*d*) he has been convicted by a court of any offence, whether involving moralturpitude or otherwise, and sentenced in respect thereof to imprisonment for not lessthan six months and a period of five years has not elapsed from the date of expiry of thesentence:
Provided that if a person has been convicted of any offence and sentenced inrespect thereof to imprisonment for a period of seven years or more, he shall not beeligible to be appointed as a director in any company;

(*e*) an order disqualifying him for appointment as a director has been passed by a court or Tribunal and the order is in force;

(*f*) he has not paid any calls in respect of any shares of the company held by him,whether alone or jointly with others, and six months have elapsed from the last dayfixed for the payment of the call;

(*g*) he has been convicted of the offence dealing with related party transactionsunder section 188 at any time during the last preceding five years; or

(*h*) he has not complied with sub-section (*3*) of section 152.

(*2*) No person who is or has been a director of a company which—

(*a*) has not filed financial statements or annual returns for any continuous periodof three financial years; or

(*b*) has failed to repay the deposits accepted by it or pay interest thereon or toredeem any debentures on the due date or pay interest due thereon or pay any dividenddeclared and such failure to pay or redeem continues for one year or more,shall be eligible to be re-appointed as a director of that company or appointed in othercompany for a period of five years from the date on which the said company fails to do so.

(*3*) A private company may by its articles provide for any disqualifications forappointment as a director in addition to those specified in sub-sections (*1*) and (*2*):

Provided that the disqualifications referred to in clauses (*d*), (*e*) and (*g*) of sub-section

(*1*) shall not take effect—

(*i*) for thirty days from the date of conviction or order of disqualification;

(*ii*) where an appeal or petition is preferred within thirty days as aforesaid againstthe conviction resulting in sentence or order, until expiry of seven days from the dateon which such appeal or petition is disposed off; or

(*iii*) where any further appeal or petition is preferred against order or sentencewithin seven days, until such further appeal or petition is disposed off.

13.6 VARIOUS BOARD COMMITTEES WITH THEIR RESPECTIVE FUNCTIONS

(A) Remuneration Committee:

Remuneration committees should consist exclusively of non-executive directors. Theirpurpose is to provide an independent basis for setting the salary levels and the rulescovering incentives, share options, benefit entitlements and contract provisions forexecutive directors. Such committees are accountable to shareholders for the decisionstaken. They should be constituted as sub-committees of companyboards and boards should elect both the chairman and the members.Remuneration committees must provide a remuneration package sufficient to attract, retain and motivate directors, but should avoid paying more than is necessary. They should be sensitive to wider issues, e.g. pay and employment conditions elsewhere in the company. Remuneration committees should take a robust line on the payment of compensation where performance has been unsatisfactory.

The functions of the Remuneration Committee of the Board of Directors, according to Article 36 of the Board of Directors' Regulations are the following: The mission of the Remuneration Committee will be to assist the Board of Directors in matters relating to the remuneration policy for directors, senior managers and employees whose professional activities have a material impact on the company's risk profile, endeavouring to ensure observance of the established remuneration policy. In particular, it will perform the following functions:

1. Propose to the board of directors, for its submission to the general meeting, the directors' remuneration policy, with respect to its items, amounts, and parameters for its determination and its vesting.
2. Determine the extent and amount of the individual remunerations, entitlements and other economic compensations and other contractual conditions for the executive directors, so that these can be reflected in their contracts. The committee's proposals on such matters will be submitted to the board of directors.

3. Propose the annual report to the board of directors each year, which will then be submitted to the annual general meeting, in compliance with the applicable legislation.
4. Propose the remuneration policy to the board of directors for senior managers and employees whose professional activities have a significant impact on the company's risk profile.
5. Propose the basic conditions of the senior management contracts to the board of directors, and directly supervise the remuneration of the senior managers in charge of risk management and compliance functions within the company.
6. Administer observance of the remuneration policy established by the company and periodically review the remuneration policy applied to directors, senior managers and employees whose professional activities have a significant impact on the company's risk profile.
7. Check the information on director and senior manager remuneration contained in the different corporate documents, including the annual report on director's remuneration.
8. Any other duties that may have been allocated under these regulations or attributed to the committee by a board of directors' resolution or by applicable legislation. In the performance of its duties, the remuneration committee will consult with the chairman of the board via the committee chair, especially with respect to matters related to executive directors and senior managers.

(B) Nomination Committee:

Nomination and governance committees have a leadership role related to board effectiveness and governance. Their duties extend to board succession planning, including recruiting and recommending board directors. Nomination committees are the board's opinion on governance, and they get to make the decisions about how they want to shape their company's governance policies and practices.

Corporations also have the flexibility to make decisions about which people or groups within the company manage governance matters. In addition to the nomination committee, companies may delegate governance

responsibilities to the board, board chair, lead director, executive director or another committee.

1. For public companies, nomination committees also generally accept responsibility for shareholder proposals and engagement. Usuallypublic companies report that their nomination and governance committees manage the shareholder and stakeholder areas, including political spending and environmental sustainability.
2. Risk management is another area that many companies delegate to their nomination and governance committees. Their duties may include reviewing the company's enterprise risk management process, plans for business continuity, and strategies for workplace and product safety.
3. The bulk of nomination committee responsibilities fall under board effectiveness, including succession planning, director recruiting and appointments, director education and director self-evaluations.
4. Nomination committees lead or facilitate board evaluations on an annual basis. The process of director evaluations usually also encompasses evaluating how governance standards compare to the competition's standards and the standards of the broader market. In connection with board evaluations, nomination committees also make recommendations for committee assignments and the committee chair. In addition, nomination committees may make recommendations for changes to committee structures and functions.
5. Board director education is also an area of heavy focus because of risks related to cyber security and advancements in technology. Nomination committees are responsible for supervising board director orientation, onboarding and continuing education.

(C) Shareholders' Grievance Committee:

The primary function of the shareholders' grievance committee is to assist the board in controlling the shareholders' grievances against the company and redresses the complaints of the shareholders. The shareholders' grievance committee consists of three or more directors. Usually, the company secretary acts as secretary of this committee. The chairman calls the committee meeting as and when required. The minutes

of the meetings is recorded and documented. The quorum of the meetings is one third of the total strength or two directors whichever is more. The shareholders' grievance committee report to the board.

Powers and authorities: The shareholders' grievance committee may:

1. Ensure proper controls at registrar and transfer agent;
2. Look into the redressing of the shareholders complaints and queries;
3. Review movement in shareholdings and ownership structure;
4. Evaluate its performance annually.

(D) Investment Committee

Members should have a firm grasp of the procedures outlined in the plan document for managing the plan's assets, including the plan's investment strategy. Members do not necessarily need an investment background, but they should be committed to learning what they need to know to make informed decisions. It is the responsibility of committee members to stay abreast of changes in ERISA (Employee Retirement Income Security Act) regulations and legal rulings that affect the plan's management. The investment policy statement should describe the purposes of the portfolio and how it relates to the spending needs of the organisation. The investment policy statement should also specify risk parameters, set asset allocation ranges and rebalancing rules, provide for management selection and termination and related matters. When in-house management staff is selecting outside managers, the committee should be comfortable with the processes used by staff for due diligence, analysis of risk, assessment of the transparency of managers, reporting and ongoing monitoring. If an investment fails because of fraud or negligence,the committee should insist on a review describing the causes and the lessons learned and further implementation of the steps to stop recurrence of the problem.

(E) Investors' Relation Committee:

The investor relations specialist is responsible for effectively administering the investor relations committee and is chaired by a member of the board of directors. The group meets on a regular basis to discuss the vital issues. The investor relations committee is responsible for following

and determining trends in not-for-profit financial management and fund-raising strategies. The investor relations specialist employs fund-raising protocols and procedures that are appropriate and consistent with those employed by leading nonprofits. He will routinely analyze investor programs and develop targeted initiatives designed to attract new private sector investment and to retain current investors. The committee is responsible for managing existing programs designed to ensure a minimal loss of investors and for developing new products, benefits and services that will attract new investors. The investor relations specialist will further be responsible for all aspects of multi-year fund-raising pledge drives including management of the process, identification and selection of volunteers, assisting in the determination of campaign objectives and the coordination and management of resources allocated to the campaign. The committee is responsible for the development and implementation of the annual business plan for investor fundraising, and is responsible for the preparation and presentation of monthly private sector forecasts and results. The committee must actively seek new ways to increase private sector funding.

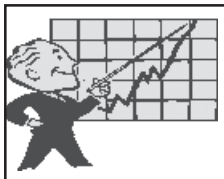
(F) Risk Management Committee:

The purpose of the risk management committee of the board of directors is to assist the board in fulfilling its corporate governance oversight responsibilities with regard to the identification, evaluation and mitigation of strategic, operational, and external environment risks. The committee has overall responsibility for monitoring and approving the enterprise risk management framework and associated practices of the company.

The members of the risk management committee shall meet the independent requirements of the listing standards of SEBI and requirements under Indian law, including Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The members of the risk management committee will be appointed by the board on the recommendation of the nomination and remuneration committee.

Role of risk management committee is discussed under the following points-

1. To assess the company's risk profile and key areas of risk.
2. To recommend the board and adoption of risk assessment and rating procedures.
3. To articulate the company's policy for the oversight and management of business risks.
4. To assess and recommend the board's acceptable levels of risk.
5. To develop and implement a risk management framework and internal control system.
6. To review the nature and level of insurance coverage.
7. To review management's response to the company auditors' recommended steps and further check whether those are implemented or not,
8. To report the trends of the company's risk profile, reports on specific risk and the status of the risk management process.



CHECK YOUR PROGRESS

Q.3: What is Remuneration Committee?

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Q.4: State the role of Risk Management Committee.

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13.7 REGULATORY FRAMEWORK OF CORPORATE GOVERNANCE IN INDIA

The Companies Act, 2013

The new companies law contains many provisions related to good corporate governance like composition of board of directors, admitting woman director, admitting independent director, directors' training and evaluation, constitution of audit committee, internal audit, risk management committee, subsidiaries companies management, compliance center etc. All such provisions of new company law are instrumental in providing a good corporate governance structure.

Few provisions are:-

1. Section 134, which mandates to attach a report to every financial statement by board of directors containing all the details of the matter including the statement containing director's responsibility.
2. Section 177, which requires board of directors of every listed company or any other class of committee to constitute an audit committee. It also provides the manner to constitute the committee.
3. Section 184, which mandates the director disclose his interest in any company or companies, body corporate, firms, or other association of Individuals. The director is required to disclose any such interest at the first meeting of the board and if there is any change in the interest then the first meeting held after such change.

13.8 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) GUIDELINES

SEBI is a regulatory authority established on April 12, 1992. SEBI was established with the main purpose of curbing the malpractices and protecting the interest of its investors. Its main objective is to regulate the activities of stock exchange and at the same time ensuring the healthy development in the financial market. In order to ensure good corporate governance SEBI came up with detailed corporate governance norms.

1. As per the new rules the companies are required to get shareholders' approval for RPT (Related Party Transactions), it established whistle blower mechanism, clear mandate to have at least one woman director in the board and moreover it elaborated disclosures on pay packages.
2. Clause 35B of the listing agreement is being amended by the regulatory authority. Now as per the amended clause, listed companies are required to provide the option of e-voting to its shareholders on all proposed or passed at general meetings. Those who do not have access to e-voting facility, they should be provided to cast their votes in writing on Postal Ballot. There was the need to amend the provision so that the provisions of the listing agreement can be aligned with the

provisions of companies Act, 2013. By doing so an additional requirement can be provided to strengthen the corporate governance norms in India with respect to listed companies.

3. Clause 49 of the listing agreement was also amended by SEBI in order to strengthen the corporate governance framework for listed companies in India. The revised clause forbids the independent directors from being eligible for any kind of stock option. Whistle blower policy is also added in the revised clause whereby the directors and employees can report any unethical behavior, any fraud or if there is violation of code of conduct of the company. By the amendment audit committee is also enhanced, now it will include evaluation of risk management system and internal financial control, will keep a check on inter-corporate loans and investments. The amendment now requires all the companies to form a policy for the purpose of determination of 'material subsidiaries' and that will be published online.

SEBI also implemented various regulations for effective working of the companies; few of these regulations are as follows-

1. SEBI (Issue of Capital and Disclosure Requirements) regulation, 2009. This Regulation contains provisions for public issue wherein the issuer shall satisfy the conditions mentioned under the regulation; it also contains provisions regarding restriction on right issue. It also contains provisions regarding listing of securities on stock exchange wherein in-principle is to be obtained by the issuer from recognized stock exchange.Part A of schedule XI of this regulations talks about disclosure in red herring prospectus, shelf prospectus, and prospectus wherein it is the duty of issuer to ensure that all material information and reports were submitted prior to the issue.It also makes it very clear that underwriting obligations would not be restricted to any kind of minimum subscription level but it would be applicable to the whole issue. All such rules are instrumental in ensuring good corporate governance.
2. SEBI (Listing Obligations and Disclosure Requirements), 2015. The LODR regulations were notified with the aim of simplifying the existing provisions of listing agreements for different segment of capital

markets like convertible and non-convertible debt securities, equity shares etc. it requires all listed entities to make disclosure and abide by the provisions of these regulations. Listed entities shall ensure that directors, or any other person related to the company shall adhere to the responsibilities assigned to them under this regulation. The intent here is to ensure that once the shares of a company are listed on a stock exchange they are easily accessible to the normal public. The company secretary who will be the 'Compliance Officer' of the company shall ensure compliances and should also provide the compliance certificate' to stock exchanges. Listed companies shall have a policy for preservation of documents approved by board.

3. SEBI (Prohibition of Insider Trading) Regulations,2015. Insider trading per se is not a violation of law but what is prohibited is trading by an insider on the basis of non-public information. To prevent such trading SEBI came up with this regulation. Under this, the restriction is corporate insiders who arrive at trading decisions by using the price sensitive information directly or indirectly. Under this the disclosure mandated at two different levels, one is the immediate disclosure of material facts while the other is regarding disclosure of transactions undertaken. While the former prevents insider trading, the latter reveals the insider trading. Under this Insiders may be restricted from dealing in securities for a specific time period in order to prevent them taking advantage of any material information before the shareholders or public. A condition can be imposed upon the insiders to obtain a prior approval before dealing in securities of a company.
4. SEBI came up with many other regulations like regulation on fraudulent and unfair trade practices, regulations on substantial acquisition of shares and takeovers, issue of sweat equity etc. The main aim behind coming up with such regulation, rules etc. is to ensure good corporate governance in a company.

Apart from some initiatives for corporate governance as discussed above, few other initiatives were also taken like-

- Setting up IEPF (Investor Education and protection Fund) for protection of the interest of the investors and promoting investors awareness.
- Empowering investors with the help of NGO's, investor association etc. by educating them and providing relevant information.
- Setting up NFCG (National Foundation for Corporate Governance) in partnership with ICAI, ICSI, CII with the vision to foster the culture of good governance and to set a framework related to best practices, ethics and processes. Under NFCG a core group on corporate governance norms is constituted for institutional investors. Core group on corporate social responsibility is also constituted under NFCG.

As per the SEBI committee the objective of corporate governance is maximization of shareholders wealth and at the same time protecting the interest of other shareholders. As per the report on corporate governance initiative in India by OECD (Organization for economic Co-operation and Development) the government has renamed the ministry to corporate affairs from company affairs. The vision behind renaming the ministry is to become a part for initiating corporate reforms in the country by ensuring good governance and enlightened regulation and to facilitate effective investor protection and corporate functioning.

Development of rules and norms is an important step but only the first step to ensure good corporate governance. Journey is long but serious efforts from Indian government and SEBI will always remain instrumental in dealing with the problem of corporate governance. Amendment brought in the Companies Act, various initiatives taken up by the government, standards issued by ICAI and ICSI provides a regulatory framework for curbing the malpractices and ensuring the rights of the investors.

13.9 CORPORATE GOVERNANCE IN PSU's and BANKS

Banks are large institutions with a range of delivery models with interplay of products and services. Most important is the human resource element where standardization is difficult to enforce. Software and hardware may function in a similar fashion within the given framework and set of

instructions but human resources have mind to different call in a similar set of situations. It is very difficult to comprehend human mind and bring about standardization in their actions. But there are set rules and conditions laid down in banks that bind the behavior of the employees. Its enforcement needs constant monitoring and checks and balances to ensure that they conform to the rule book.

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders and also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. The fundamental objective of corporate governance is the 'enhancement of the long-term shareholder value while at the same time protecting the interests of other stakeholders.The spirit of various definitions clearly bring to fore the significant role of Corporate Governance. If the Corporate Governance is implemented in totality in banks, it will have impact on the overall health of the banking system reflected in the form of rise in business levels, profitability ratios, dividends paid, market capitalization, earnings per share, net worth, and book value of the shares and so on. The expression of interest of foreign banks to expand operations in India, their strategic move to join collaborations, joint ventures, tie ups, correspondent relations etc. with the Indian financial entities are also a reflection of soundness of stable governance policies. Adoption of corporate governance practices in banks has begun to reflect changes in the style of governance and their growth pattern. Before we embark on further study of its role in banking system, a quick look at the pace of growth of banking sector will help us crystallize our views. The following sections will provide a snap shot of how the banks have broadly done in the recent years. These sections will also attempt quantification of performance of banks in the capital market which has a better correlation with the policy of corporate governance measures.

Business dynamic of today's market has changed and as a result, market need to focus on transparency in the business hence corporate governance has become important for all sectors including government

organization. Corporate Governance is steadily focusing on building the confidence of its various stake holders including Customers, Suppliers, employees, shareholders, Bankers and Society at large. As these Public-Sector Undertakings (PSUs) are socially responsible unit, it becomes utmost important for these organization to adhere to these clauses because these are run by tax payer money for its operation. Corporate governance norms for PSUs emanate from the Laws, Rules & Regulations of The Companies Act, 2013; SEBI (Listing Obligation and Disclosures Requirement) Regulations, 2015 and CPSE (Central Public Sector Enterprises) guidelines issued by the department of public enterprises under the ministry of heavy industries and public enterprises. CPSE Guidelines state, "...as listed CPSEs are concerned, they have to follow the SEBI Guidelines on corporate governance. In addition, they shall follow those provisions in these guidelines which do not exist in the SEBI guidelines and also do not contradict any of the provisions of the SEBI Guidelines." This makes it clear that all listed CPSEs have to follow, at the least, corporate governance norms as prescribed by SEBI.

However, non-compliance continues to persist. According to a report by proxy advisory firm Stakeholders Empowerment Services (SES), only 14 out of 48 PSUs surveyed were found to be fully compliant as on September 2018. While 22 PSUs were non-compliant with laws relating to the composition of their board of directors, 17 failed to spend the required amount on CSR activities. Others were non-compliant with rules regarding the composition of audit committees, nomination and remuneration committees and having an adequate number of independent directors.

Critical issues in Corporate Governance are-

1. Leading to reduction of legal costs, improved social and labour relations.
2. Deteriorating of ethical and moral values in BOD's, CEO's and managers and the active role played by lower level personnel of the corporate bodies

3. Negligent and irresponsible shareholders who are sending their proxies to attend and vote at general meetings
4. Accountability of senior executives is not clearly defined
5. Inefficient board of directors who are incapable of monitoring the functions of managers
6. Lack of recognition of the need for effective strategies
7. Non-availability of quality data and improper interpretation of data in key decision making leading to bad governance
8. Improper documentation of policies, procedures, rules and so on
9. Too much domination of own family members and parities in the board composition.

The government is trying to improve the transparency and accountability levels of PSUs. In order to handle the issues like to failing to comply with clause 49 of the SEBI listing agreement, independence of PSUs government focuses on their implementation.



13.10 LET US SUM UP

In this unit we have discussed the following aspects –

- A board of directors is a group of individuals elected to represent shareholders.
- Every public company must have a board of directors.
- Some of the powers of the Board are-
  - Authorize the buyback of securities and shares
  - Issue securities and shares
  - Borrow monies
  - Investing the funds
  - Grant loans
- Some of the duties of the Board of Directors-
- to act in good faith and to use powers for a proper purpose for the benefit of the company as a whole.
- to exercise independent judgment and not to delegate powers except with proper authorization.

- to exercise reasonable care, skill and diligence.
- to avoid a situation in which the director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company.
- The various board committees with their respective functions.
- The regulatory framework of corporate governance in India.



13.11 FURTHER READING

1. Corporate Governance and Corporate Social Responsibility of Indian Companies by Saumitra N. Bhaduri and EktaSelarka.
2. Corporate Governance in India- An Evaluatin by Subhash Chandra Das.



13.12 ANSWER TO CHECK YOUR PROGRESS

Ans. To Q. No. 1: Two powers of the Board of Directors are-

- Authorize the buyback of securities and shares
- Issue securities and shares

Ans. To Q. No. 2: Two duties of the Board of Directors are-

- To act in good faith and to use powers for a proper purpose for the benefit of the company as a whole
- to exercise independent judgment and not to delegate powers except with proper authorization

Ans. To Q. No. 3: The purpose of Remuneration Committee is to provide an independent basis for setting the salary levels and the rules covering incentives, share options, benefit entitlements and contract provisions for executive directors. Such committees are accountable to shareholders for the decisions taken. The committee is constituted as sub-committees of company boards and boards should elect both the chairman and the members.

Ans. To Q. No. 4:

- To assess the company's risk profile and key areas of risk.
- To recommend the board and adoption of risk assessment and rating procedures.



13.13 MODEL QUESTIONS

Q.1: Define corporate boards. What are the powers of these boards?

Q.2: Discuss the responsibilities of the corporate boards. What are the disqualifications of the directors?

Q.3: Describe various board committees with their respective functions.

Q.4: Discuss the regulatory framework of corporate governance in India

Q.5: Write a note on corporate governance in banks.

Q.6: Discuss the corporate governance norms applicable in public sector undertakings in India.

Q.7: Highlight the functions of the risk management committee.

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UNIT 14: CORPORATE SOCIAL RESPONSIBILITY (CSR)

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Concept of Corporate Social Responsibility

14.4 Concept of Corporate Philanthropy

14.5 Growing Importance of CSR

14.6 Business Benefits of CSR

14.7 Corporate Sustainability Reporting

14.8 Relationship between Corporate Social Responsibility and Corporate Governance

14.9 Environmental Issues

14.10 Drivers of Corporate Social Responsibility

14.11 Major Initiatives Taken Up by Organisations for Discharging CSR in India

14.12 Let Us Sum Up

14.13 Further Reading

14.14 Answers to Check Your Progress

14.15 Model Questions

14.1 LEARNING OBJECTIVES

After going through this unit you will be able to

- define the concept of corporate social responsibility
- understand the meaning of corporate philanthropy
- explain the importance and need for CSR.
- discuss corporate sustainability reporting
- explain the relationship between corporate social responsibility and corporate governance
- discuss the various CSR models
- highlight the environment aspect of CSR

- understand the drivers of corporate social responsibility
- know some major initiatives taken up by organisations for discharging CSR in India.

14.2 INTRODUCTION

In this unit we are going to discuss the concept of corporate social responsibility. This concept gained popularity specially from 1950. As businesses are part of the society, therefore, it is necessary that businesses also discharge their responsibilities to the society. However, this is not a new phenomenon as various companies have contributed in various ways for the development of the society. The Indian corporate houses like Tata Steel, Mahindra Group, SAIL etc. undertakes various activities to fulfill their corporate social responsibility However, it gained a serious attention from 1950 onwards. This is a very interesting topic that we are going to dealt with as the Companies Act, 2013 prescribed certain provisions in this regard.

14.3 CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is an evolving business practice that incorporates sustainable development into a company's business structure. Corporate social responsibility or CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term stakeholder, i.e. on whom an organization's activities have an impact. CSR is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders.

It has a positive impact on social, economic and environmental factors. As the use of corporate responsibility expands, it is becoming

extremely important to have a socially conscious image. Now- a- days, majority of organisations are performing social responsibilities for wealth maximization, public relations, building goodwill and building long term relation with community. Consumers, employees and stakeholders are beginning to prioritize CSR when choosing a brand or company. Most consumers approve that while achieving business targets, companies must adopt CSR activities and efforts at the same time. Most consumers believe companies doing charity work will receive a positive response. By discharging corporate social responsibility, also called corporate citizenship, companies can be sensible of the kind of influence they are having on all aspects of society including economic, social, and environmental. The concept of corporate social responsibility means that organizations bear moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law.

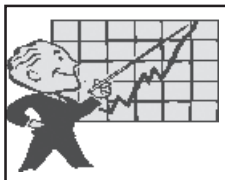
"A robust CSR program is an opportunity for companies to demonstrate their good corporate citizenship and protect the company from outsized risk by looking at the whole social and environmental sphere that surrounds the company," stated by Jen Boynton, CEO of B Targeted Marketing Company.

Corporate Social Initiatives

Corporate social responsibility includes six types of corporate social initiatives which are mentioned below:

- Corporate philanthropy: Company's active and regular participation in donations to charity, including cash, kinds, goods, and services, sometimes through a corporate foundation.
- Community volunteering: Company-organized volunteer activities, sometimes while an employee receives pay for pro-bono work on behalf of a non-profit organization
- Socially-responsible business practices: Many companies engage in production of natural and non-adulterate products which appeal to a customer segment.
- Cause promotions and activism: Company-funded advocacy campaigns

- Cause-related marketing: Donations to charity based on product sales
- Corporate social marketing: Company-funded behaviour-change campaigns



CHECK YOUR PROGRESS

Q.1: Define corporate social responsibility.

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14.4 CONCEPT OF CORPORATE PHILANTHROPY

Businesses can practice social responsibility by donating money, products or services to social causes and nonprofits. It is part of management's value framework, company culture and core values.Big companies tend to have a lot of resources that can benefit charities and local community programs. It is best to consult with these organizations about their specific needs before donating. Corporate philanthropy is the act of corporations donating a portion of their profits or resources to various non-profit organizations. The function of corporate giving can be handled directly by the corporation or through a company foundation. The most common resource that corporations donate is cash; however, corporations also donate the use of their corporate facilities; property (such as used computers, buildings or land); gifts of products, services and equipment; advertising support etc.Corporate philanthropy highlights the values and morals of a company in the way that even when the company is not having sufficient profits; it tends to lend a helping hand towards the society and community people in small ways. In the absence of an actively pursued business case, corporate philanthropy depends predominantly on the social values, sensitivity and awareness of a firm's top management. A good example of this is supporting the elimination of neglected tropical diseases such as leprosy, by donating medicines for its cure and working with partner organizations involved in the fight against the disease. Other important cases may include the tremendous support in financing free education for girls by

Wipro, improvement and enhancement of slum areas in Jamshedpur town by Tatas, extending support towards different NGO's for financing orphanage welfare by ITC etc.

14.5 GROWING IMPORTANCE OF CSR

The benefits of discharging corporate social responsibilities are manifold and hence can be discussed under various heads.

CSR should not be viewed as a drain on resources, because carefully implemented CSR policies can help theorganisation develop and prosper in many ways:

- Winning new business
- Increase in customer retention
- Development and enhancement of relationships with customers, suppliers and networks
- Attracting, retaining and maintaining a happy workforce and be an Employer of Choice
- Saving money on energy and operating costs and managing risk
- Differentiating oneself from the competitors
- Generating innovation and learning
- Improving the business goodwill and standing
- Providing access to investment and funding opportunities
- Generating positive publicity and media opportunities due to media interest in ethical business activities.

Generally, corporate social responsibility initiatives taken by a firm fall into four categories:

1. Environmental responsibility

It is a moral responsibility of every business house, big or small to preserve the environment and protect it. Environmental responsibility initiatives taken by a firm can involve reducing pollution, greenhouse gas emissions, and the sustainable use of natural resources.

2. Human rights responsibility

Human rights responsibility initiatives taken by a firm mayinclude providing and practicing fair labour practices (i.e., equal pay for equal work), providing better amenities, fair trade practices, and disapproving child labour.

3. Philanthropic responsibility

Philanthropic responsibility initiatives taken by a firm can involve funding educational programs, supporting health initiatives, donating to worthy causes, and supporting community beautification projects.

4. Economic responsibility

Economic responsibility initiatives taken by a firm encompasses improving the firm's business operations while participating in sustainable practices. For example, by using a new manufacturing process to minimize wastage, optimum utilization of available resources without wasting them etc.

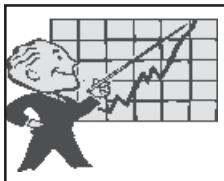
14.6 BUSINESS BENEFITS OF CSR

In a way, corporate social responsibility can be seen as a public relations effort. However, it goes beyond that as corporate social responsibility can boost a firm's competitiveness. The business benefits of corporate social responsibility include:

- **Stronger brand image, recognition, and reputation**
  CSR adds value to firms by establishing and maintaining a good corporate reputation and brand equity.
- **Increased customer loyalty and sales**
  Customers of a firm that practices CSR feel that they are helping the firm support a cause.
- **Operational cost savings**
  Investing in operational efficiencies results in operational cost savings and reduced environmental impact.
- **Retaining key and talented employees**
  Employees stay longer and are more committed to their firm knowing that they are working for a business that practices corporate social responsibility.
- **Easier access to funding**
  Investors are more willing to support a business that practices CSR
- **Increase employee loyalty and job satisfaction**
  When employees become aware that their organisation is actively engaged in CSR practices and programmes they are morally satisfied

and become motivated to contribute more in their efforts for organizational development. This enhances job satisfaction and their belongingness towards the workplace.

- **Give employees the chance to develop new skills**
  Another advantage is that such programmes and initiatives develops the creativity of the employees and they engage in more productive work thereby polishing their skills.
- **Improve morale and motivation**
  Employees become more motivated in their work and find interest in organizational activities immerged in community welfare.



CHECK YOUR PROGRESS

Q.2: State the benefits of CSR.

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14.7 CORPORATE SUSTAINABILITY REPORTING

Before implementation of a proper organizational programme of CSR, it is vital to frame a clear strong CSR strategy. This strategy needs to be defined as clearly as possible with a future goal in mind. After defining the strategy the next task is to set up the CSR Management system. The management system of CSR outlines the various spectrum of activities that need to be performed for bringing the desired results and holding the strategy firmly. The next step after the successful set up of the management system is the reporting of the first results of the companies CSR activities. This is called CSR reporting. Companies usually report on an annual basis. This CSR reporting is really the first test whether the organisation is able to create something interesting and worth reporting to the stakeholders. Corporate sustainability reporting is a challenging task as it tests CSR management and coordination skills. The goal is to produce a meaning full publication that will be of interest to the stakeholders. The challenging partinside the company is that it will be very difficult to get all the numbers and keeping the data up-to-date and relevant.

14.8 RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

Corporate Governance is ensuring that an organization is run in a responsible manner by ensuring accountability, transparency and compliance with due regard to its key stakeholders. It is the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated.

Corporate Social Responsibility (CSR) is corporate form of self-regulation integrated into the business model to create a positive impact on the stakeholders and the environment. “CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis” by European Commission.

Corporate Governance was related to profit maximization and provided protection to shareholders who have provided capital to firm, while CSR apparently was against profit maximization because it suggested a set of actions beneficial for external stakeholders that may not be good for a shareholder. Corporate Governance is an umbrella term and CSR is gradually getting fused into the company’s corporate governance practices.

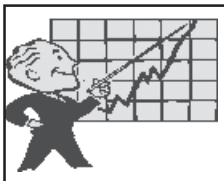
Corporate Governance is about the stewardship of the company and how effective it is. Corporate governance aims at bringing a balance between the economic and social goals. There should be complete transparency about the activities of the company. The conduct of the company should be in line with the legal and ethical framework.CSR is a part of the governance of the company. This is a clear indicator of how responsible the company is towards the society and the sustainability of the company. If a company pollutes the environment by its activities and spends some meagre amount on schools and building hospitals, the company is definitely not socially responsible.The governance mechanism is multidimensional and should ensure the stakeholders interests are

protected in all respect.Corporate governance comprises of CSR and both well implemented would enhance the sustainability of the company.Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. This article outlines the relationship between corporate governance and corporate social responsibility (CSR). It begins by examining the role of corporate governance in creating value for shareholders. It focuses on the actions of the corporation and the board toward its shareholders and other stakeholders, i.e., how corporate governance serves or fails to serve their interests.

Corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. CSR is a concept with many definitions and practices.

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.Corporate governance is a term that refers to the rules, practices and processes that govern corporations. Board directors and managers are the major players in corporate governance, but employees, vendors and other stakeholders also have a stake in corporate governance.

Despite the difference between corporate governance and corporate social responsibility, corporate social responsibility holds a prominent place for many corporations under the umbrella of good corporate governance. Corporate social responsibility is not a requirement, or even an expectation, for corporate boards. Yet, many corporate boards find that it's in the corporation's best interests to become involved with corporate social responsibility on some level. Corporations may demonstrate their support by investing in financial resources, promoting social messages and, in some cases, becoming bold activists.



CHECK YOUR PROGRESS

Q.3: What is corporate governance?

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LET US KNOW

Corporate social responsibility through triple-bottom line

"People, planet and profit", also known as the triple bottom line, form one way to evaluate CSR. "People" refers to fair labour practices, the community and region where the business operates. "Planet" refers to sustainable environmental practices. "Profit" is the economic value created by the organization after deducting the cost of all inputs, including the cost of the capital (unlike accounting definitions of profit).

This measure was claimed to help some companies to be more conscious of their social and moral responsibilities. However, critics claim that it is selective and substitutes a company's perspective for that of the community. The term was coined by John Elkington in 1994. While performing corporate social responsibility activities seems like a lot of work and expense, the financial returns can be significant. The research and analysis required to develop an approach to CSR can result in operational and financial improvements. The business that streamlines its operations to eliminate waste and conserve natural resources may see a decrease in production costs. Businesses can take tax deductions for some activities, such as recycling and employee training. It also results in increased investors' interest and enhanced goodwill of the company. Employee pride can drive an increase in production quality and quantity.

ISO 26000 is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL).

14.9 ENVIRONMENTAL ISSUES

In the last 10 years the Corporate Social Responsibility (CSR) movement stood for topics such as Corporate Governance, Environmental Management and Community Engagement. Corporations have long been criticized for their negative effect on the natural environment in terms of wasting natural resources and contributing to environmental problems such as pollution and global warming. The use of fossil fuels is thought to contribute to global warming, and there is both governmental and societal pressure on corporations to adhere to stricter environmental standards and to voluntarily change production processes in order to do less harm to the environment. Other issues related to the natural environment include waste disposal, deforestation, acid rain, and land degradation. It is likely that corporate responsibilities in this area will increase in the coming years.For example, many organisations choose to use recycled materials in their packaging or add renewable energy sources like solar power to their factory. Again many companies implement green practices to assist in environment waste reduction, some recycle papers, cans and bottles in the office, few collect food, clothing and specially donations for victims of floods, hurricane and other natural disasters around the globe.

14.10 DRIVERS OF CORPORATE SOCIAL RESPONSIBILITY

Top management: At the foremost, the top level management must have an awareness of the content and potential instrumental value of CSR (Corporate Social Responsibility). Different organisations have different policies and ways for facilitating CSR programs and efforts.

Employees: The success of effective corporate social responsibility is possible with existence of an adequate Human Resource Information System (HRIS) that facilitates for effective planning, controlling and managing the goals, strive for continuous efficiency and improve employee and manager communications. The employees of HR department play a vital role in ensuring that the organisation discharges corporate social responsibility.

Active and efficient employees manage the CSR plan implementation proactively and maintain the documentation part for further action and reference. Social and community connections that are encouraged by employers give employees the scope to involve their companies in meaningful ways with the community.

Pressure from investors and consumers: The concept of social investment widens the usual conception of stockholder value by expressing retail investors' ethical values in terms of arguments advanced by the deep ecology movement. CSR gestures are supposed to encompass liberal and timely dividend decisions towards shareholders. Most mainstream financial institutions have offered social investment products for a number of years; as such, managers of social funds compete for market share and view investment criteria as providing a competitive advantage, much as might any fund manager.

Customers expect periodic public relations activities, introducing natural cosmetics, adopting consumer sovereignty from companies.

Another important driver of corporate social responsibility is the **judicial system or the legal framework** of a nation that puts pressure and moral obligation on the companies to practice such programmes and take social initiatives for community and socialwelfare.

14.11 MAJOR INITIATIVES TAKEN UP BY ORGANISATIONS FOR DISCHARGING CSR IN INDIA

TCS: Tata consultancy services is India's largest software service company and has won the Asian CSR award for initiating community development work and implementing various programs and devoting leadership and sincerity as ongoing commitment in incorporating ethical values. Major focus of the company is on education sector that cares TCS designed computer based literacy model to teach adults and this program is known as an adult literacy program. Company is also working upon environment policy and has been developing environment friendly products. TCS has also taken some footprints into the health sector too i.e. its actively supporting children's

hospital in Mumbai. Success of all these CSR practices is shared by company with a three dimensional framework that comprises employees, management and workplace.

IBM: IBM is software company that possess highest standards of social responsibility in our country. Company has been growing its footstep in India and has in over 200 cities and towns across the country. IBM India has clearly established as a one of the leaders in the Indian Information Technology (IT) sector. IBM holds frequent awards for its industry-leading employment practices and policies. Company has different department for the operation of CSR initiatives as one of them is Indian women's leadership council. The main objective of this council is to provide, technical, professional and personal development to the women. This is to attract and retain women employees at IBM. Company issued its first corporate policy on environmental affairs in the year 1971 and till date its working on go green and preserving natural resources. IBM has developed a system that aligns the company's values with social responsibility initiatives and maximizes its impact as a global enterprise. With this aim company is working on specific societal issues like environment, community development, health care, education etc. Company is committed towards the implementation of its environmental policy in all of the company's business activities. Company has integrated in organizing many health services that constitutes providing medicines, industrial work area hygiene and safety.

Infosys: As a leading software company Infosys is into t the providing language and computer education. Company has special program for unprivileged children by which company teaches them various skills and change their outlook too. Company also donates carom, chess board, chocolates etc. to the needy ones. One of the Infosys team has been working with Kaliyuvamane that is an informal school for dropouts. Company believes that business have direct impact upon the environment through the use of energy, use of environmental resources and other operations. Business firms have to work accordingly so that they can minimize adverse effects of technology on local community and employees. Company is working on

the concept of reengineering the process and to align them with green goals. Manufacturing of products and services has been done in such a way that the harmful impact on environment can be reduced to minimal possible level. CSR Activities Include**:** Blood donation camp, eye donation camp and Infosys foundation has been working in the sectors of health care, education, environment preservation and social rehabilitation.

WIPRO: The women of Wipro (WOW), council of the company has taken various initiatives to empower women. Three main CSR activities include environment sector, education sector and energy conservation. In the last few years company ensured consistent increase in women empowerment as ten percent increase has been observed in the year of 2004 to 2010. Basic motive of the company is 'we live in the community and community lives in us.'

Wipro Cares: Focus area of Wipro cares is on taking educational and health care initiatives for migrated communities and environmental issues and disaster rehabilitation.



14.12 LET US SUM UP

In this unit we have discussed the following aspects-

- Corporate social responsibility is an evolving business practice.
- Corporate social responsibility or CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms.
- Corporate social responsibility includes six types of corporate social initiatives-
  - Corporate philanthropy
  - Community volunteering
  - Socially-responsible business practices
  - Cause promotions and activism
  - Cause-related marketing

- Corporate social marketing

- Corporate social responsibility initiatives are generally categorized into four categories:
  - Environmental responsibility
  - Human rights responsibility
  - Philanthropic responsibility
  - Economic responsibility

- **Benefits of CSR-**
  - Stronger brand image, recognition, and reputation
  - Increased customer loyalty and sales
  - Operational cost savings



14.13 FURTHER READING

1. Corporate Governance and Corporate Social Responsibility of Indian Companies by Saumitra N. Bhaduri and EktaSelarka.
2. Corporate Governance, Ethics and CSR by Justine Simpson and John Taylor.



14.14 ANSWERS TO CHECK YOUR PROGRESS

Ans. To Q. No. 1: Corporate social responsibility is an evolving business practice that incorporates sustainable development into a company's business structure. Corporate social responsibility or CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms.

Ans. To Q. No. 2:

- *Stronger brand image, recognition, and reputation*
- *Increased customer loyalty and sales*

Ans. To Q. No. 3: Corporate governance aims at bringing a balance between the economic and social goals. There should be complete transparency about the activities of the company. The conduct of the company should be in line with the legal and ethical framework. CSR is a part of the governance of the company.



14.15 MODEL QUESTIONS

Q.1: Define corporate social responsibility. Why is it important?

Q.2: What do you understand by corporate philanthropy? Give some examples.

Q.3: Are corporate governance and CSR the same thing? What is the relationship between the two?

Q.4: Write short notes on:

a) Sustainability reporting

b) CSR initiatives towards environment protection

Q.5: Discuss the drivers of corporate social responsibility.

Q.6: Discuss and highlight some of the CSR initiatives taken up by Indian companies in different sectors.

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UNIT 15: WHISTLE-BLOWING AND CORPORATE GOVERNANCE

UNIT STRUCTURE

15.1 Learning Objectives

15.2 Introduction

15.3 Concept of Whistle-Blowing

15.4 Whistle-Blowing Policy

15.5 Different Types of Whistle-Blowers

15.6 Whistle-Blowing Policy and Legislations in India

15.7 Let Us Sum Up

15.8 Further Reading

15.9 Answers to Check Your Progress

15.10 Model Questions

15.1 LEARNING OBJECTIVES

After going through this unit you will be able to

- define the concept of whistle-blowing
- describe the process of whistle-blowing
- discuss the whistleblowing policy
- explain the different types of whistleblowers
- discuss the whistle blowing policy and prevalent legislation in India
- discuss the Whistle-blowers Protection Act

15.2 INTRODUCTION

In the area of corporate governance, whistle blowers occupy an important position. Whistle blowers are the persons who primarily ring the bell for a probable danger in organizations. This bell may save an organization and the stakeholders from any illegal, unethical or wrongful activities that someone may be undertaking within the organization. In this unit, we are going to discuss concept of whistle – blowing and its process. We will also focus on whistle blowing policy and the different types of whistle blowers. The unit will cover the prevalent legislation in this respect.

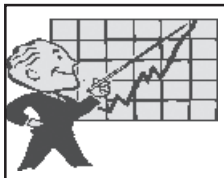
15.3 CONCEPT OF WHISTLE-BLOWING

A whistleblower is a person who uncovers any kind of facts, figures or activity that is reasoned illegitimate, unethical, or not correct within an organization that is either private or public.Whistle-blower is one inside the organisation who blows a whistle (informs the superior or the concerned authority) against any concrete or probable violation of law or established code of conduct which may pose a threat to the company or public interest in general.Whistleblowers can choose to bring forth the information or allegations either internally or externally. Internally, a whistleblower can surface his/her accusations to the attention of other people within the accused organization such as an immediate supervisor or management. Externally, a whistleblower may choose to highlight allegations by contacting a third party outside the accused organization such as through media, government, law enforcement, etc. Whistleblowers however face the risk of rigidpunishment and retaliation from those who are accused or alleged of wrongdoing. The term whistleblower was first discussed by Doggett, J., in the case of Winters v. Houston Chronicle Pub. Co. The word is derived from the practice of English Bobbies, who would blow their whistles when they noticed the commission of a crime. The whistle would alert both law enforcement officers and the general public of danger. Whistle blowing can be defined in a number of ways. In its simplest form, whistle blowing involves the act of reporting misconduct within an organization to internal or external parties. Internal whistle blowing necessitates reporting the information within the organization ie., to the top management or functional superior. External whistle blowing occurs when the whistleblower takes the information outside the organization, such as to the media or regulators. Whistle blowing is an essential organizational behaviour that can cause dramatic change in modern organizations. In the public sector, whistle blowing also can generatekeyfundamental reforms in the nature and role of government in society.

Whistle blowers are not unhappy or dissatisfied employees who indulge in wrong revelations. Infact, they are among the most industrious, admired, and committed employees of their organizations. A number of

studies show that most whistle blowers are normal people who have a strong integrity. Empirical evidence confirms that most whistle blowers are committed to the formal goals of their organization. They identify with the organization and they have a strong sense of professional responsibility. These employees characteristically feel an "extended sense of responsibility" when they are antagonized with moral or ethical dilemmas. Whistle blowers are often disliked, fired, and demeaned. It appears that many whistle blowers willingly put them- selves at risk to preserve the common good. They feel a strong sense of responsibility towards the company, general public, shareholders or other stakeholders whenever witness any kind of misconduct in the operations or intentions. Although hundreds of laws provide protection to whistleblowers but stipulations can easily cloud that protection and put whistleblowers vulnerable to reprisal and legal distress. However, the decision and action has become far more complicated with recent advancements in technology and communication. Whistleblowers oftenface retaliation, sometimes at the hands of the organization or group they have accused, sometimes from related organizations, and sometimes under law.

The process of Whistle-blowing basically involves five steps. At the outset, when a concern is raised by an employee, it is communicated to the Ombudsperson, who could be any person alegal adviser, audit committee or a compliance officer. This would result in initial enquiry, which could be dismissed when it is found that the complaint is in light mood or insignificant and the proceedings can be stopped. On the other hand if the complaint turns out to be a genuine one an enquiry committee can be appointed which may take up further investigations and based on the results of the investigation appropriate action may be taken against the guilty or as the case may be.



CHECK YOUR PROGRESS

Q.1: Who is whistle-blower?

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15.4 WHISTLE-BLOWING POLICY

In today's era of modernization, liberalization and globalization, where business operations and transactions are guided by commercial and economic motives, protection of larger public interest or discharging social and moral values from corporate outrages has become matter of great importance. The fearlessand noble attempt in this regard was made by the Confederation of Indian Industries by coming up with the voluntary set of guidelines on Corporate Governance, subsequently adopted by SEBI through its Listing Agreement.

The Whistle-blower policy in this regard has been recognized as one of the basic features of Corporate Governance Norms by most of the nations across the world. However due to the lobbying of the Indian Corporations, the Whistle-blower policy, despite being a mandatory recommendation in the Murthy Committee Report, was diluted and made non mandatory provision under the Clause 49. The article deals with the legal implications of this dilution and tries to identify the origin and legislative development of the policy and its need in the present corporate world.

In many instances, concerned employees, or third parties connected to the situation can raise the initial red flags by reporting suspicious behavior. The Companies Act, 2013, as well as SEBI (through revisions of Clause 49 of the Listing Agreement) have made it mandatory for certain classes of companies to establish mechanisms to receive complaints related to such grievances or concerns raised by Directors or employees of a company. Further, the Whistleblowers Protection Act, 2014, passed last year in the parliament, is a move to encourage individuals to report suspected malpractice and fraud in public sector organizations, supported by disclosures. However, the Act does not allow anonymous complaints, raising concerns about how protection would be accorded to whistleblowers if their identity is known.

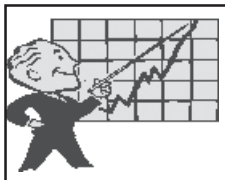
15.5 DIFFERENT TYPES OF WHISTLE-BLOWERS

There are different types of whistle-blowers surfacing their activities internally or externally. A few has been discussed below-

1. There are whistle-blowers who report financial misconduct in corporations to higher management and do not expect to receive any compensation for their approach or work.
2. Some whistleblowers expose federal offences in corporations, expecting to receive part of any money obtained by the government, if the government files a lawsuit for money.
3. The next are the ones exposing excessive payments billed to the government for purchasing different types of materials in the organisation or company.
4. There are whistleblowers exposing government documents, such as private manning; Assange etc.
5. Corruption-exposing whistleblowers, usually insiders.
6. Corruption-fighting whistleblowers who has been continuously fighting with people and groups involved in corruption that results in great harm, many deaths, or periodic catastrophic events—either the direct perpetrators or those who cover-up for the perpetrators.

- Private sector whistleblowing, though not as high profile as public sector whistleblowing, is more predominant and inhibited in society today. Simply because private corporations usually have stricter regulations that overpower potential whistleblowers. An example of private sector whistleblowing is when an employee reports to someone in a higher position such as a manager, or a third party that is isolated from the individual chapter, such as their lawyer or the police. In the private sector corporate groups can easily hide their misconduct by individual branches. It is not until such misconduct bleed into the top officials that corporate offenses are seen by the public. Situations in which a person may blow the whistle are in cases of violated laws or company policy, such as sexual harassment or theft. Whistleblowing in the private sector is typically not as prominent or openly discussed in major news outlets, though occasionally, third parties expose human rights violations and exploitation of workers.

- Another one is public sector whistleblowing which is more crucial and calls for animosity Exposing misconduct or illegal or dishonest activity is a big fear for public employees because they feel they are going against their government and country. After many federal whistleblowers were scrutinized in high-profile media cases, laws were finally introduced to protect government whistleblowers. These laws were enacted to help prevent corruption and encourage people to expose misconduct, illegal, or dishonest activity for the good of society.



CHECK YOUR PROGRESS

Q.2: State any two types of whistle blower.

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15.6 WHISTLE-BLOWING POLICY AND LEGISLATIONS IN INDIA

The first step taken in this regard was in 1996, when the Confederation of Indian Industries took a special initiative on Corporate Governance – the first institutional initiative in Indian industry. The objective was to develop and promote a code for Corporate Governance to be adopted and followed by Indian companies, be these in the Private Sector, the Public Sector, Banks or Financial Institutions, all of which are corporate entities. The code however focused on listed companies for the simple reason that these are financed largely by public money (be it equity or debt) and, hence, need to follow codes and policies that make them more accountable and value oriented to their investing public.

There was no material provision as regards the policy of Whistle blowers in the Code; however, the code in substance talked about the reporting of internal audit reports, including cases of theft and dishonesty of a material nature to the Board and an Independent Audit committee consisting of non-executive directors.

- A major breakthrough was achieved by the amendment to clause 49 of the SEBI's Listing Agreement to include the recommendations of the Narayan Murthy Committee Report on Corporate Governance, 2003. Owing to the controversy raised by the murder of Satyendra Dubey, the policy of Whistle Blower was given as a mandatory recommendation.

The Recommendation involved the following dimensions:

a. Personnel who observe an unethical or improper practice (not necessarily a violation of law) shall be able to approach the audit committee without necessarily informing their supervisors.

b. Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc. The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.

c. Company shall annually affirm that it has not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct) and that it has provided protection to "whistle blowers" from unfair termination and other unfair or prejudicial employment practices.

d. Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.

Whistle Blowers Protection Act, 2014 is an Act in the Parliament of India which provides a mechanism to investigate alleged corruption and misuse of power by public servants and also protect anyone who exposes alleged wrongdoing in government bodies, projects and offices. The wrongdoing might take the form of fraud, corruption or mismanagement. The Act will also ensure punishment for false or frivolous complaints.

The Act was approved by the Cabinet of India as part of a drive to eliminate corruption in the country's bureaucracy and passed by the Lok Sabha on 27 December 2011. The Bill was passed by Rajya Sabha on 21 February 2014 and received the President's assent on 9 May 2014.

SALIENT FEATURES OF THE ACT

- The Act seeks to protect whistle blowers, i.e. persons making a public interest disclosure related to an act of corruption, misuse of power, or criminal offense by a public servant.
- Any public servant or any other person including a non-governmental organization may make such a disclosure to the Central or State Vigilance Commission.
- Every complaint has to include the identity of the complainant.
- The Vigilance Commission shall not disclose the identity of the complainant except to the head of the department if he deems it necessary. The Act penalizes any person who has disclosed the identity of the complainant.
- The Act prescribes penalties for knowingly making false complaints.

INTERVENTION BY SUPREME COURT

Citing a case study, in November 2003, Satyendra Dubey a whistleblower and National Highways Authority of India (NHAI) engineer was murdered after he exposed corruption in the construction of highways. As a result, the Supreme Court, in April 2004, pressed the government into issuing an office order, the Public Interest Disclosures and Protection of Informers Resolution, 2004 designating CVC as the nodal agency.

In March 2011, the Supreme Court refused to frame guidelines for protection of whistle blowers in the country, saying that it cannot make law. However, the court allowed the petitioners to approach the high court for protection of whistleblowers in a specific case.

In August 2013, a bench of Justices K S Radhakrishnan and Arjan Kumar Sikri ruled that identity of whistleblower can never be revealed to the accused facing prosecution under Prevention of Corruption Act, 1988.

CRITICAL ANALYSIS OF THE ACT

According to Indian law reports, the bill has faced considerable criticism because its jurisdiction is restricted to the government sector and encompasses only those who are working for the Government of India or its agencies; it does not cover the state-government employees. However, the draft bill aimed at protecting whistleblowers is seen as a welcome move.

The proposed law has neither provisions to encourage whistleblowing (financial incentives), nor deals with corporate whistleblowers; it does not extend its jurisdiction to the private sector (a strange omission, after the fraud at Satyam). The Directorate of Income Tax Intelligence and Criminal Investigation is one of the only agencies empowered for whistle blower protection. The bill has a limited definition of disclosure, and does not define victimization. Other countries (such as the United States, United Kingdom and Canada) define disclosure more widely and define victimization.

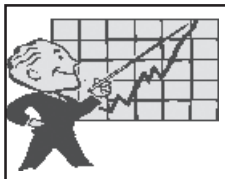
It differs on many issues with the proposed Bill of the Law Commission and the Second Administrative Reform Commission's report. These include non-admission of anonymous complaints and lack of penalties for officials who victimise whistleblowers.

However, owing to the lobbying by the corporate world many of the mandatory recommendations were made non mandatory in the amendment to the Clause 49 of the Listing Agreement, which was to be enforced by April, 2005.

- At present clause 49 recommends the company to "establish a mechanism for employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization." This is a mere recommendation and not a mandatory provision which is to be complied with.
- Corruption as it has permeated to every nerve and vein of the country, the central government following the gruesome murder of Satyendra Dubey, on recommendation of the Law Commission Report, which came up with a draft bill on Whistle Blower Protection, designated the Vigilance Commissioner with an authority to take up complains

about corruption and mismanagement in government, which subsequently adopted the Whistle-Blowers Resolution. In 2006 finally the draft bill Whistle blowers (Protection in Public Interest Disclosures) Bill recommended by the Law Commission was presented in Rajya Sabha and till date it is pending.

- Even the Limited Liability Partnership Act, 2008 has brought in corporate governance by including the concept of 'whistle blowing'. Any applicable penalties against the partner or an employee who provides useful information may be reduced or waived. The whistle blower may not be penalised by the LLP for providing such information.



CHECK YOUR PROGRESS

Q.3: What is Whistle Blowers Protection Act, 2014?

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15.7 LET US SUM UP

The following aspects have been discussed in this unit-

- A whistleblower is a person who uncovers any kind of facts, figures or activity that is reasoned illegitimate, unethical, or not correct within an organization.
- Whistle blowing is an essential organizational behaviour that can cause dramatic change in modern organizations.
- The process of Whistle-blowing basically involves five steps.
- The Whistle-blower policy is one of the basic features of corporate governance norms.
- There are whistle-blowers who report financial misconduct in corporations to higher management and do not expect to receive any compensation for their approach or work.

- Some whistle blowers expose federal offences in corporations, expecting to receive part of any money obtained by the government, if the government files a lawsuit for money.
- The next are the ones exposing excessive payments billed to the government for purchasing different types of materials in the organisation or company.
- There are whistleblowers exposing government documents, such as private manning; Assange etc.
- Whistle Blowers Protection Act, 2014 is an Act in the Parliament of India which provides a mechanism to investigate alleged corruption and misuse of power by public servants and also protect anyone who exposes alleged wrongdoing in government bodies, projects and offices.



15.8 FURTHER READING

1. Corporate Governance: Principles, Policies and Practices by A.C Fernando, K.P Muraleedharan and E.K Satheesh



15.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. To Q. No. 1:A whistleblower is a person who uncovers any kind of facts, figures or activity that is reasoned illegitimate, unethical, or not correct within an organization that is either private or public.Whistle-blower is one inside the organisation who blows a whistle (informs the superior or the concerned authority) against any concrete or probable violation of law or established code of conduct which may pose a threat to the company or public interest in general.

Ans. To Q. No. 2:

- Corruption-exposing whistleblowers
- Corruption-fighting whistleblowers

Ans. To Q. No. 3:2014: It is an Act in the Parliament of India which provides a mechanism to investigate alleged corruption and misuse of power by public servants and also protect anyone who exposes alleged wrongdoing in government bodies, projects and offices. The wrongdoing might take the form of fraud, corruption or mismanagement. The Act will also ensure punishment for false or frivolous complaints.



15.10 MODEL QUESTIONS

Q.1: Define the term whistle-blowing. Who are the whistle-blowers?

Q.2: What are different types of whistle blowers?

Q.3: Is whistle-blowing a threat in India? Is there any legal protection or legislation for protection of whistle-blowers?

Q.4: Write a short note on the process of whistle-blowing.

Q.5: When the Whistle Blowers Protection Act was passed? Highlight the features of the Act. Also present a critical analysis of your viewpoint towards the Act.

Q.6: Highlight two popular cases of whistle-blowing in India.

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Name of the Paper: Course Code:

Centre for Internal Quality Assurance (CIQA)
Krishna Kanta Handiqui State Open University
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Learner's Feedback on Course

Dear Learner,

Regarding the course as mentioned above, we would like to know your opinions and comments so as to improve the quality of self learning materials in future. Please respond to the following statements by ticking the number you feel most reflect your opinion. After completion of the additional comments, please detach the page and send/mail the same to us at the address given below.

The Director, Centre for Internal Quality Assurance, KKHandiqui State Open University
Housefed Complex, Dispur, Guwahati- 781006
(E-mail id: ciqa@kkhsou.in)

1. Approximately how many hours did you spend for studying the units in the course? | | | |
2. Please give your opinions (by √ mark) to the following items based on your reading of the block:

Sl. No.	Statements	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
I.	The SLMs of the course fulfil the learning objectives set out in the beginning of each unit					
II.	The units of the SLM could satisfy my academic needs and expectations					
III.	The Unit writers have excellent knowledge about the course contents					
IV.	Language and contents of the units were presented at a level which I could readily understand					
V.	Ample opportunity for participation in the activities provided in the units					
VI.	Used enough Illustrations (Diagrams, tables etc.) for conceptual clarity					
VII.	Quality of content is engaging, relevant, and up-to-date					
VIII.	The self check questions are very helpful					
IX.	The Possible/model questions and the answers to check my progress have benefited me a lot					

Additional Comments: *(Please feel free to provide your open comments)*

1. Which aspects of the SLM, according to you, worked well?

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2. What sort of changes/improvements do you feel KKHSOU could implement to improve the overall quality of the SLM?

Thank you for taking the time to complete this form.

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