Corporate Governance And Ethics

“A man without ethics is a wild beast loosed upon in this world”.

Ethics is about the character which is the sum of qualities that defines a person. These virtues inform ethical decision-making because they provide a foundation to make good judgments when faced with an ethical dilemma. We need to be ethical because it defines who we are individually and as a society.

Now there is something else extended to this called as Business Ethics. Business ethics is a kind of applied ethics. Corporate governance is the system of rules, practices, and processes by which an organization is directed and controlled. An example of good corporate governance is a well-defined and enforced structure that works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards, best practices and formal laws. Alternatively, bad corporate governance is seen as poorly structured, ambiguous and noncompliant, which could damage the image or financial health of a business.

Thematically, the main difference between corporate governance and ethics is that the ethics are the philosophical and morally decent standards that a corporation attempts to stand by, while governance processes are the means by which a corporation attempts to remain as ethical as possible while still making a profit.

Why have many companies have reported as frauds and went into liquidation?

Corporate governance has been a big casualty recently. A rise in the number of corporate frauds poses serious challenges to corporate governance laws. As and when a new corporate fraud becomes 'Breaking News' the voices start again about the importance of corporate governance. Many companies like Enron, WorldCom, Satyam computers failed due to fraud.

If we talk about the scandal of Satyam Ramalinga Raju, he made up the accounts of Satyam Computers and inflated its bank balances. He has, along with his family members, also been accused of laundering money through a mesh of hundreds of companies.

The Enron Scandal surfaced in October 2001 when it was revealed that America's seventh-largest company was involved in corporate corruption and accounting fraud.
ENRON shareholders lost $74 billion leading up to its bankruptcy, and its employees lost their jobs and billions in pension benefits. The deregulation of energy traders led to overconfidence in investments that Enron made because they thought they were in control.
Arrogance caused them to risk more than they could afford, and when the market didn't end up how they thought, it caused the collapse.

WorldCom CEO Bernard Ebbers was sentenced to 25 years in jail for his role in the scandal, and Sullivan was sentenced to five years. The company went bankrupt, recording the largest bankruptcy in American history until the financial crisis of 2008.

To eradicate such scenarios one must know the importance of corporate governance and its

ethics:

Pillars Of Corporate Governance:

The Corporate Governance basically denoted the rule of law for an enlightened investing community and strict regulatory regimes to protect the rights of the investors and companies to improve productivity and profitability without recourse to any means which would offend the moral, ethical and regulatory framework of business. The three pillars of corporate governance are:

- · Transparency
- · Accountability
- · Security

1. Transparency:

In simplest terms, transparency means having nothing to hide. For a company, this means it allows its processes and transactions observable to outsiders. Transparency has played a bigger role in preventing fraud from happening again, especially at such a large scale. Transparency is a critical component of corporate governance because it ensures that all of a company's actions can be checked at any given time by an outside observer. This makes its processes and transactions verifiable, so if a question does come up about a step, the company can provide a clear answer. It's even better when financial reports provide a line-of-sight view into the company's growth drivers. Transparency makes analysis easier and thus lowers risk when investing in stocks. In that way, the investor is less likely to face unpleasant surprises.

2. Accountability:

It takes more than transparency to build integrity as a company. It also takes accountability, which can also mean answerability or liability. Shareholders are deeply interested in who will take the blame when something goes wrong in one of a company's many processes. And even when everything goes smoothly as expected, knowing that someone will be held accountable for future mishaps increases shareholders' confidence, which in turn increases their desire to invest more. Accountability can have a negative connotation because many people associate it with blame. "Who's responsible for when something goes wrong?" is just one of the many questions that accountability seeks to answer. But accountability is more than that. It's about having ownership over one's actions whether the consequences of those actions are good or bad. Thus, accountability covers not only failings but also accomplishments. When the idea of accountability is approached with this positive outlook, people will be more open to it as a means to improve their performance. This applies from the staff all the way up to the corporate board.

How can accountability improve performance? People who have no sense of ownership over their tasks don't feel the motivation to do more than what's expected of them. There's no incentive to work hard and achieve something. But when they understand the weight of their responsibilities, they're more inclined to make sure that they carry out their tasks properly. And when they're successful in this regard, they're likely to feel a sense of accomplishment, and this further fuels their desire to do better.

3. Security:

A company is expected to make their processes transparent and their people accountable while keeping their enterprise data secure from unauthorized access. There is simply no compromise for this. Companies that experience security breaches involving the exposure of their clients' personal information quickly lose their credibility. Thus, even with accountability and transparency, a company without inadequate security measures will have a hard time attracting shareholders. After all, any scandal, even a breach caused by third-party hackers can have a negative effect on a company's stock market performance. Thus, directors should be made aware of the seriousness of cybercrime and the gravity of its consequences. A security breach — especially involving client information — can make the public easily lose their trust. Trust is a big factor would-be shareholders consider before making an investment in a company.

Advantages of Business Ethics

More and more companies recognize the link between business ethics and financial performance. Companies displaying a clear commitment to ethical conduct consistently outperform companies that do not display ethical conduct. The advantages of ethical behavior in business include helping your business to build customer loyalty, avoid legal problems and attract and retain talented employees.

In general terms, Business Ethics revolves around relationships. These relationships exist between businesses and consumers on multiple social and economic levels. Business ethics, therefore, define the relationship between an individual and a business or may apply to employees, various areas of government, and the community. In other words, Business Ethics refers to moral principles and standards and a code of conduct are expected that businessmen to follow while dealing with others.

Business is a means to society to use scarce resources to produce in an efficient manner those goods and services which society wants and is ready to pay for.

Maximization of profits is the target or objective of a business but it needs to be balanced with the needs of the stakeholders. The important issue in business ethics includes ethical management of the enterprise in relation to its stakeholders. Below are few advantages of business ethics:

- Attracting and retaining good employees: Talented individuals at all levels of an organization want to be compensated fairly for their work and dedication. They want career advancement within the organization to be based on the quality of the work and not favoritism. People aspire to join organizations with high ethical values. Ethical organizations create an environment that is trustworthy, making employees willing to rely on. Thus, companies' policies cultivate teamwork, promote productivity and support employee growth.
- Investor Loyalty: Earning investor loyalty is not an event, it's a process. Investors are concerned about ethics, social responsibility, and reputation of the company in which they invest. Investors today are very much aware that an ethical environment in an organization provides efficiency, productivity, and profits.
- Customer Satisfaction: Customer satisfaction a marketing term that measures how

products or services supplied by a company meet a customer's Customer satisfaction is important because it provides marketers and business owners with a metric that they can use to manage and improve their businesses. The company should evoke trust and respect among customers for enduring success. This can only be achieved through good ethical practices.

- Avoid Legal Problems: At times, a company's management may be tempted to cut corners in pursuit of profit, such as not fully complying with environmental regulations or labor laws, ignoring worker safety hazards or using substandard materials in their products. The penalties for being caught can be severe, including legal fees and fines or sanctions by governmental agencies. The resulting negative publicity can cause long-range damage to the company's reputation that is even more costly than the legal fees or fines. Companies that maintain the highest ethical standards take the time to train every member of the organization about the conduct that is expected of them.

Apart from good governance, we must also be aware of the bad governance. Other types of bad governance practices include:

- · Companies do not cooperate sufficiently with auditors or do not select auditors with the appropriate scale, resulting in the publication of spurious or noncompliant financial documents.
- · Bad executive compensation packages fail to create an optimal incentive for corporate officers.
- · Poorly structured boards make it too difficult for shareholders to oust ineffective incumbents.

Concluding Remarks:

Finally, we can conclude that there is an element of discretion in the interpretation of governance practice and this increases the scope of the choices and decisions to be made by boards about the way a business is governed and run. The choices made will reflect the ethical sensitivity of the board.

The purpose of governance can be said to be to encourage companies to make robust decisions, manage risk properly and account to those that provide their capital. Without attention to the ethical dimensions of these goals any guidance and regulation for corporate governance is unlikely to be fit for the purposes of supporting business sustainability.

The aim is to align as nearly as possible the interests of individuals, corporations and society because "A business that makes nothing but money is a poor kind of business".