Governing a Business Ethically is Manifested Through Corporate Governance: An Exploratory Review

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Abstract
This paper aims to address the Corporate Governance reports of five software companies in India. As per my study corporate governance is to ensure ethical business decisions and conducting business with committed values. As I know that better governance emphasizes on transparency and communication, dissemination of relevant information to interested parties is very important in this respect. High levels of competency and skill are required of the board, with directors exercising proper care in their duties, upholding high standards of integrity and acting fairly. The Audit Committee may also play a significant role in the oversight of a company’s risk management policies and programmes. The Grievances Committee believed that the formation of shareholders’ grievance committee would help focus the attention of the company on shareholders’ grievances and sensitize the management to redress their grievances. The Infosys have evolved guidelines and best practices over the year to ensure timely and accurate disclosure of information regarding their financials, performance, leadership and governance of the company. The TCS places a much greater emphasis on social, environmental and economic development, and the accountability & transparency in the processes.

Keywords
Corporate Governance, Ethical Behaviour, Transparency, Disclosure, Corporate Social Responsibility

I. Introduction
Corporate Governance lies at the very heart of the way business is run often defined as the way businesses are directed and controlled, it concerns the work of the board as the body which bears ultimate responsibility for the business. Governance relates to how the board is constituted and how it performs its role. It encompasses issues of board composition and structures the board’s remit and how it is carried out and the framework of the board’s accountability to its stakeholders. It also concerns how the board delegates authority to manage the business throughout the organization. It does this by cascading down specified limits of authority to committees, the CEO and the executive team, who in their turn delegate tasks to management and employees more generally. This authority allows management to carry out, in accordance with specified budgets and things, the purpose vision and strategy which the board as agree. The extent to which business decisions reflect ethical values and principles is a key to long term success. The business case for business ethics has been well proven by the costs and impacts of the repeated high profile cases of corporate greed and misconduct, often by senior individuals crossing ethical boundaries as well as ignoring or circumventing the rules set out in law. Trust is essential in establishing an organization’s license to operate. Maintaining successful business relationships and operations require businesses to manage their risks, including the guarding that asset is a core remit for those running a company; it is a core remit of good corporate governance. The imperative for ethical behaviors and practices to be part of governance has arguably never been more important. So how is ethics played out in the boardroom?

In this context, business ethics, defined as the application of ethical values to business behavior, is essentially about the discretionary decisions a board takes to deliver on its duties as set down in law, specified by best practices, and demanded by shareholders and other stakeholders. Ethical choices are relevant within the core business strategies that they pursue and the way they direct the business as a whole to achieve them. Boards take decisions which have for reaching consequences and directly affect the lives of their employees and other stakeholders. Conversely a lack of decisive action may also have significant consequences. Business ethics also refers to the way the board conducts itself and the way board members choose to behave in carrying out their role. High levels of competency and skill are required of the board, with directors exercising proper care in their duties, upholding high standards of integrity and acting fairly. The culture of an organization will be strongly influenced by the nature as well as the quality of the leadership shown by the board. A lack of strong and clear leadership from the board will generally result inconsistencies in ways of behaving and working, with practices employment rather than being ethically driven. A board is responsible for determining, articulating and communicating the values and standards of the business, and for ensuring that the policies, procedures and controls in place act to embed, rather than hinder, ethical values throughout the business.

II. Objectives
• To study the compliance governance practices as directed by SEBI
• To ensure that directors of a company are subject to their duties, obligation and responsibilities.
• To do an exploratory review of corporate governance reporting by the software companies
• To ensure ethical business decisions and conducting business with committed values
• To study corporate governance ensures effective engagement with stakeholders.

III. Research Methodology
The study is based on secondary data. The sample size consists of six software companies were taken 1.TCS, 2.Tech Mahindra, 3.Wipro, 4.HCL, 5.Infisys. The secondary data source is research journal, books, newspapers, magazines, internet, company annual reports etc. The secondary data collected by visits to libraries for accessing books, research journals, newspapers, magazines browsing internet etc. The date is compiled in the form of tables wherever necessary.

IV. Reforms in Corporate Governance
SEBI-appointed committees and the adoption of Clause 49 Shorty after introduction of the CII Code, SEBI appointed the Committee on Corporate Governance (the Birla Committee). In 1999, the Birla Committee submitted a report to SEBI “to promote and raise the standard of Corporate Governance” for listed companies. The Birla Committee’s recommendations were primarily focused on two fundamental goals—improving the function and structure
of company boards and increasing disclosure to shareholders. With respect to company boards, the committee made specific recommendations regarding board representation and independence that have persisted to date in Clause 49. The committee also recognized the importance of audit committees and made many specific recommendations regarding the function and constitution of board audit committees. The Birla Committee also made several recommendations regarding disclosure and transparency issues, in particular with respect to information provided to shareholders. Among other recommendations, the Birla Committee stated that a company’s annual report to shareholders should contain a Management Discussion and Analysis (MD&A) section, and that companies should transmit certain information, such as quarterly reports and analyst presentations, to shareholders.

SEBI amended clause 49 in response to the Murthy’s committee recommendations. However implementation of these changes was delayed until 1st January, 2006 due primarily to industry resistance and lack of preparedness to accept such wide-ranging reforms. While there were many changes to clause 49 as result of the Murthy report, governance requirement with respect to corporate boards, audit committee, shareholders disclosure, and CEO/CFO certification of internal controls constituted the largest transformation of the governance and disclosure standards of Indian companies.

**Clause 49, as currently in effect includes the following key requirement:-**

**Board Independence** board of directors of listed companies must have minimum number of independent directors. Whereas the chairmen is an executive or a promoter or related to promoter or a senior official, then at least one-half the board should comprise independent director; in other cases independent director should constitute at least one third of the board size.

**Audit committee** listed companies must have audit committees of the board with a minimum of three directors, two-thirds of whom must be independent; in addition, the role and responsibilities of audit committee are specified in detail.

**Disclosure listed** companies must periodically make various disclosures regarding financial and other matters to ensure transparency, CEO/CFO certification of internal control. The CEO and CFO of listed companies must (a) Certify that the financial statement are fair and (b) Accept responsibility for internal controls.

**Annual reports** of listed companies must carry status reports about compliance with corporate governance norms.

**V. Ethical Corporate Governance**

Ethical Corporate Governance (also called Ethical Governance) has very much become a buzzword these days, just about every company thinks it’s a good idea and may even proclaim to follow it, but what exactly is it, and how can we know for a sure that a company is practicing what it preaches?

Ethical Corporate Governance refers to the processes and policies that a company has in place to deal with issues concerning how it is administered and conducts day to day business. It is important to remember that companies exist primarily to create a product or service, which is used to generate profit. However that intention must be balanced with controls that ensure a company pursues profit without crossing over the line into the realms of unethical behaviour. In the past many companies may have exploited their market positions to inhibit competition or even threaten local population; ethical corporate governance exists to prevent this happening.

A corporate governance policy should also cover the expected conduct of senior members of a company, for example the chief executive officer, board of directors and other senior management, who are often seen as exempt from the normal policies applied in the company. Corporate governance is a multi-faceted subject with many layers of complexity. An important part of corporate governance deals with accountability, fiduciary duty and mechanisms of auditing and control.

The public share of company is more in the organization, than the companies need do their business ethically, transparently and more disclosures the information to the stakeholders time to time through corporate governance reports and management discussion reports, reason why stakeholders are play the vital role in the company success. The table indicates that the promoters and public contribution towards their equity capital investment in their companies shown in the Table 1.

**Table 1: Number of Share Held by Both Promoters and Public**

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Promoter Share (%)</th>
<th>Public Share (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>73.75</td>
<td>26.25</td>
<td>100</td>
</tr>
<tr>
<td>Tech Mahindra</td>
<td>47.41</td>
<td>52.29</td>
<td>100</td>
</tr>
<tr>
<td>Wipro</td>
<td>78.28</td>
<td>21.72</td>
<td>100</td>
</tr>
<tr>
<td>HCL</td>
<td>55.81</td>
<td>44.19</td>
<td>100</td>
</tr>
<tr>
<td>Info Edge</td>
<td>52.21</td>
<td>47.79</td>
<td>100</td>
</tr>
<tr>
<td>Infosys</td>
<td>16.04</td>
<td>83.96</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Companies Annual Reports

The above table reveals the promoter share very low and the public share was high in Infosys it means the company works towards the stake holders of the organization so more ethical values and transparency is required for Infosys company because this company public share was 83.46 and promoters share was only 16.04 percentage.

**A. Ethical Aspects of Corporate Governance**

![Fig. 1:]

Fig. 1 illustrates the means by which a business is governed ethically. The board sets the tone from the top of the organization principally through five means and all these elements need to be place in order for a board’s commitment to ethics to be put fully into practice.

**1. Board Behaviours**

The board members carry out their duties in a way that reflects ethical values such as integrity, respect, fairness and honesty.
2. Board Structures and Processes
Which facilitate ethical behavior, avoid unethical one and ensure proper accountability ex: appropriate board composition, committees, decision making procedures.

3. Purpose, Strategy and Vision
The board sets the purpose for the business and what the business stands for its strategic decision reflect the business’s core values.

4. Value & Standards
The board articulates and ensures the implementation of the standards of behavior it expects for business practices, the way business will be done and its role in society (including ethics programmes and CSR initiatives).

5. Structure & Procedure for Oversight & Control
Mechanisms of delegation and control are conducive to ethical business practices.

VI. Ethical behaviour
Ethics refers to system of moral principles a sense of right and wrong and goodness and badness of action, and their motives and consequences. Because ethics refers to the application of ethics to business to be more specific business ethics is the study of good and evil, right and wrong and just and unjust actions of businesses.

Hot line means encouraging internal whistle blow that is confidential call and then quickly investigates the situation. In the past, it was assumed in most companies that ethics was a matter of individual conscience. But the scenario has changed. Today many companies are using managerial techniques that are designed to encourage ethical behavior.

VII. Transparency and Ethics
A key to good corporate governance is transparency. Transparency expects a free flow and free exchange in information. Well informed employees are the sound pillars of good corporate governance. The dissemination of right information to the right people (Employees) not only builds up awareness among them but also enhances their moral and information, wrong and inadequate information, misunderstood facts or falsified information. Transparency requires enforcement of right to information-nature, timeliness, and integrity of the information produced at each level of interface. In fact, transparency is measured by the ability of outsiders to assess true position of a company availability of firm specific information to those outside publicly traded firms.

Transparency is an important value and values are cultivated through awakening, convincing and persuading and shared meaning to the concepts. It is more in the form of a learning process rather than fixation and imposition of certain rules through coercion. However, values once developed and cultivated also require development of a system of checks and balances. Because human beings are susceptible to vices, good governance therefore requires a system of checks, balances, evaluations and introspections. If the transparency is ensure in the company policies and procedures then the people having more trust and faith towards that a company, they are ready to investment more money in such a company. It means that such a company’s share value may be high in the stock market. The Table 2 reveals the growth rate of equity share in the stock market.

Table 2: The Growth Rate of Equity Share in Stock Markets during the year 2012-13

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>BSE</th>
<th>NSE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Opening Value(Rs.)</td>
<td>Closing Value(Rs.)</td>
</tr>
<tr>
<td>TCS</td>
<td>1152.07</td>
<td>1545.00</td>
</tr>
<tr>
<td>Tech Mahindra</td>
<td>707.22</td>
<td>1074.77</td>
</tr>
<tr>
<td>Wipro</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>HCL</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Info Edge</td>
<td>757.00</td>
<td>352.5</td>
</tr>
<tr>
<td>Infosys</td>
<td>2836.4</td>
<td>2591.22</td>
</tr>
</tbody>
</table>

Source: Company Annual Reports

The growth rate of Tech Mahindra is 51.97 percent in BSE and 51.41 percent in NSE, TCS is 34.8 percent in BSE and 37.64 percent in NSE, Wipro and HCL not indexed in BSE but in NSE, Wipro shows very low growth rate but Info Edge in NSE shows 341.13 percent during the year 2012-13. The growth rate of equity share in stock market indicate the shareholder faith and trust towards the company transparency than only the share market value will increased.

VIII. Disclosure and Ethics
As I know that better governance emphasizes on transparency and communication, dissemination of relevant information to interested parties is very important in this respect. Corporate disclosure implies the disclosure of relevant information to entities that are affected by that information. The different stakeholders have different aspects of the company. The different information which the company...
should provide to different stakeholders as a part of corporate disclosure is as follows:

1. The customers should be informed about product quality, product ingredients, product features, precautions and safety measures, etc. This type of product information is interesting and useful to the customers as it has a direct/indirect bearing upon the customers’ benefits.

2. The employees should be informed about their duties and responsibilities, nature of work, wages for the work, rules and regulation relating to performance and behavior, leave policy, rules regarding transfer and promotion, grievances redressed machinery, monetary and non-monetary benefits to employees, employees’ right, welfare schemes, rules regarding termination of services of employees.

3. The stakeholders should be informed about the company’s profitability, safety of their capital future prospects and growth plans, financial position of the company, its assets and liabilities, its incomes and expenditures, state of business affairs and value of the investment of the shareholders, etc.

4. The government should be informed the financial results of the company, its tax-liability and tax-payments, compliance of various laws, methods of operations, safety measures, working conditions, employee satisfaction, environmental protection, product safety, fair pricing and fair trade practices.

5. The general public should be informed about waste disposal management and environmental protections, employment policy of the company, nature of company’s business and its operations, financial soundness of the company, its products and services.

IX. Corporate Social Responsibility

The narrow focus of corporate governance exclusively upon the internal control of the firm and simply complying with regulation is no longer tenable. In the past this has allowed corporations to act in extremely irresponsible ways by externalizing social and environmental costs. Corporate objectives described as “wealth generating” too frequently have resulted in the loss of well-being to communities and the ecology. But increasingly in the future the license to operate will not be given so readily to corporations and other entities. A license to operate will depend on maintaining the highest standards of integrity and practice in corporate behavior. Corporate governance essentially will involve sustained and responsible monitoring of not just the financial health of the company, but the social and environmental impact of the company.

A substantial increase in the range, significance and impact of corporate social and environmental initiatives in recent years suggests the growing materiality of sustainability. Once regarded as a concern of a few philanthropic individuals and companies, corporate social and environmental responsibility appears to be becoming established in many corporations as a critical element of strategic direction, and one of the main drivers of business development, as well as an essential component of risk management. Corporate social and environmental responsibility (CSR) seems to be rapidly moving from the margins to the mainstream of corporate activity, with greater recognition of a direct and inescapable relationship between corporate governance, corporate responsibility, and sustainable development.

The Table – 3 reveals that the companies are spent some portion of amount towards the corporate social responsibilities from their profits (PAT).

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>PAT</th>
<th>CSR Investment</th>
<th>PAT to CSR ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>13917.31</td>
<td>70.97</td>
<td>0.51</td>
</tr>
<tr>
<td>Tech Mahindra</td>
<td>1287.8</td>
<td>1.92</td>
<td>1.50</td>
</tr>
<tr>
<td>Wipro</td>
<td>6136</td>
<td>15.34</td>
<td>0.25</td>
</tr>
<tr>
<td>HCL (80)*</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Info Edge</td>
<td>74.42</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Infosys</td>
<td>9429</td>
<td>500</td>
<td>5.30</td>
</tr>
</tbody>
</table>

Source: Annual Reports

Above table clearly indicates that the Infosys company spent 5.30 percent from their profits occupies first place and Tech Mahindra in second place with investment of 1.5 percentage and TCS occupies the third place with investment of 0.51 percentage. Its means Infosys Company can have more corporate responsibility towards the stakeholders of the company.

X. Audit committee

Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;

• Review the scope and planning of audit requirements;
• Review the findings on management matters in conjunction with the external auditor and departmental responses thereon (Management Letter);
• Keep under review the effectiveness of the company’s system of accounting and internal control;
• Make recommendations to the Board in regard to the appointment, removal and remuneration of the external auditors of the company ensure the independence and objectivity of the external auditors and that there is no conflict of interest which could impair the independent judgment of the external auditors.
• Authorise the internal auditor to carry out investigations into any activity of the company which may be of interest or concern to the committee.
• Assist in the oversight of the integrity of the Company’s financial statements and establish and develop the internal audit function.

The Audit Committee has a responsibility to ensure that the company’s financials are void of any misrepresentation or misleading information. The Committee may also play a significant role in the oversight of a company’s risk management policies and programmes where there is no Board Risk Management Committee charged with this function.

The role of the Audit Committee in corporate governance has evolved in the wake of the corporate governance failures around the world and the Audit Committee has become increasingly relevant in enhancing confidence in the integrity of an organization’s processes and procedures relating to internal control and corporate and financial reporting. The Audit Committee has become one of the main pillars of corporate governance in checking and forestalling corporate misconduct. The effectiveness of the Audit Committee determines to a large extent the integrity of a company’s financials.
XI. Compensation Committee
The purpose of the Compensation Committee is to discharge the Board’s responsibilities relating to compensation of the Company’s executive officers and administer the Company’s incentive and equity compensation plans, as well as to provide oversight of the policies and practices relating to employee relations and human resource activities. In doing so, the Compensation Committee shall approve the compensation of the Company’s executive officers, including the Chief Executive Officer (“CEO”). The Compensation Committee shall oversee the preparation of a “compensation discussion and analysis” and a related “compensation committee report” for inclusion in the Company’s annual proxy statement and annual report on Form 10-K, in accordance with the rules of the Securities and Exchange Commission. In addition, the Compensation Committee shall provide oversight of the design of all Company retirement and health and welfare plan programs and human resource management practices and policies such as hiring and retention, employee ownership culture and programs, performance management programs, diversity policies and practice, leadership development, and manager succession planning.

XII. Shareholders Grievance Committee
As one of its mandatory recommendations, the Kumar Mangalam Birla Committee propounded the need to form board committee under the chairmanship of a non-executive director to specifically look into the redressing of shareholder complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The Committee believed that the formation of shareholders’ grievance committee would help focus the attention of the company on shareholders’ grievances and sensitize the management to redress their grievances. The Revised Clause 49 now mandates the formation of such a committee in light of the recommendations of these committees and any defaults by the company in payments to shareholders.

Effective corporate governance practices constitute the strong foundations on which successful commercial enterprises are built to last. The Company’s philosophy on corporate governance oversees business strategies and ensures fiscal accountability, ethical corporate behaviour and fairness to all stakeholders comprising regulators, employees, customers, vendors, investors and the society at large.

The different committee meetings and frequency to attend the meetings of Board of Directors their decision making ensure to build successful business organization and its creates more trust and better behavior avoid unethical one and ensure proper accountability. If the transparency is ensure in the company, then the stakeholders having more trust and faith towards the company policies. Value based governance requires value-creation is respect of employees, customers, investors and society. Infosys believe that an active business as a whole to achieve them. While facilitate ethical behavior avoid unethical one and ensure proper accountability.

From the above table it can be seen that shareholders grievance committee meeting attendance is 25 and employee’s compensation committee meeting attendance is 19. It can be concluded from the above analysis all five companies give the priority to show the more concern towards the shareholders, it clearly indicates that the all companies are followed the ethical value in its governance.

Strong leadership and effective corporate governance practices have been the Company’s hallmark and it has inherited these from the ethos. The Companies continues to focus on its resources, strengths and strategies to achieve its vision of becoming a truly global leader in software services, while upholding the core values of excellence, integrity, responsibility, unity and understanding, which are fundamental to the companies. The Companies always believes in adopting the ‘best practices’ that are followed in the area of corporate governance across various geographies.

XIII. Conclusion
As per my exploratory analysis on Corporate Governance reports of different software companies in India, the ethical value to business behavior is essential about the discretionary decisions a board takes to deliver an its duties as set down in a law, specified by best practices. Ethical choices are relevant which the core business strategies that they pursue and the way they direct the business as a whole to achieve them. While facilitate ethical behavior avoid unethical one and ensure proper accountability. If the transparency is ensure in the company, then the stakeholders having more trust and faith towards the company policies. Value based governance requires value-creation is respect of employees, customers, investors and society. Infosys have evolved guidelines and best practices over the year to ensure timely and accurate disclosure of information regarding their financials, performance, leadership and governance of the company, that’s way the public share was more in the this company. When we talking about CSR Infosys spent more money towards corporate responsibility by occupies first place and TCS occupies second place according to my sample. TCS has always subscribed to the fundamental premises of ethics, good governance and respect for the individual. TCS places a much greater emphasis on social, environmental and economic development, and the accountability & transparency in the processes. However corporations capable of working in investors’, stakeholders’, and society’s interests in a collaborative, creative and productive way do the business, would reveals the companies have good corporate governance.

References

Table 4: Frequency of Meetings Attended by Board of Directors

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Meetings</td>
<td>16</td>
<td>21.3</td>
<td>21.3</td>
<td>21.3</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>15</td>
<td>20.0</td>
<td>20.0</td>
<td>41.3</td>
</tr>
<tr>
<td>Employees compensation Committee</td>
<td>19</td>
<td>25.3</td>
<td>25.3</td>
<td>66.6</td>
</tr>
</tbody>
</table>

Source: Secondary data


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