MBA Second Year (2019-2020)	Assignment Solution - Corporate Governance & Ethics
Even Semester (Fourth Semester)	MBA124
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Question Number- 1.) Explain the ethical models of corporate governance?

Answer-

Corporate codes of ethics are written statements about moral norms which are issued by the respective company and which shall obligate corporate actions. In essence, these documents shall promote ethical behavior within the company and make corporate misbehavior to occur less likely. Although codes are widely distributed in many different countries, their effectiveness is still open to debate. Whereas some studies conclude that codes can be a valid means for enhancing the ethicality of corporate actions, other studies found no significant effects. Codes can be helpful for improving the ethicality of corporate actions. However, merely developing and establishing a code is not enough because the code itself cannot guarantee that its addressees act in accordance with its norms. Rather, the company has to carry out serious attempts to implement its code of ethics.

Implementation measures intend to make it more likely that the code norms are obeyed by the code addressees. In this respect, implementation measures are not restricted to the enactment of the code after the document had been developed. Rather, implementation measures refer to all efforts of the company which shall enhance adherence to the code norms. Therefore, implementation measures are only and always necessary under those conditions that the code norms are not observed anyway. In other words, codes that goes beyond codifying common practices need implementation measures in order to become effective.

In principle, code implementation can either be preference- or constraints-based. Preference-based measures intend to shape the attitudes, motives and beliefs of code addressees. Eventually, actors shall be convinced that the code norms are appropriate and that they deserve to be adhered to due to their deference. Hence, actors shall primarily be intrinsically motivated to act in accordance with the code because they prefer to do so. In contrast, constraints-based measures of code implementation do not intend to influence the actors' preferences. Rather, these measures modify conditions of the situation actor's face, in a way that shall make code adherence to be evaluated more favorably by code addressees.As a consequence, the addressees are – primarily – extrinsically motivated to act in accordance with the code because conformity is rewarded and deviance is punished by the company.

Many business ethicists have articulated skepticism that constraints-based implementation efforts can succeed. Preference-based implementation efforts are important. At the same time, however, Constraints-based implementation measures, namely punishments, neither can nor should be discarded. Constraints-based measures for code implementation. These measures are a common part of ethics programs in practice, although empirical evidence on their effectiveness is far from unanimity. This ambiguity can, at least partly, be traced back to the different designs of constraints-based measures, which is highly ignored in the empirical studies available. Therefore, the subsequent section outlines recommendations on the proper design of constraints-based measures for code implementation. These recommendations are derived from sanction theories which have a long tradition in legal philosophy and became subject of many empirical analyses, too.

Question Number-2.) Describe Modern Corporate Governance in detail?

Answer-

Underlying the energy of advancing equity markets and the apparent variety of the corporate governance guidelines and policy documents appearing in such profusion over the last decade is an implicit but confident sense that an optimal corporate governance model is indeed emerging, i. e. ,

An optimal model with dispersed ownership and shareholder foci. The OECD and World Bank promote corporate governance reform influenced by financial Economists and are generally promoting market

capitalism with a *law matters* approach, although for political reasons, they do not advocate too strongly market capitalism and allow for other corporate governance systems (i. e. concentrated ownership).

Strong corporate governance principles is the hallmark of responsible corporate citizenship and lies at the heart of successful, ethically responsible and sustainable business. Setting and maintaining a culture of sound governance is among the primary responsibilities of the company board.

Essential to effective corporate governance is ensuring that the right information is raised to the right leaders, board members and shareholders so that the right questions can be asked, appropriate challenges addressed, and the organization steered in the best possible direction for success. Of course, that's easy to say, but in today's complex business environment, it's increasingly difficult to do. It's the reason why organizations seek to appoint the best board directors to govern their businesses – the ones with extensive experience, a track record of success and a visible commitment to the future success of the organization. But those directors can only be as good as the information and systems with which they are working.

Today's business environment calls for an approach that wraps around and unifies governance activities; one that empowers boards with the systems and knowledge they need to direct complex, multifaceted organizations. In an effort to bridge the current governance deficits, Diligent launched a new category: modern governance. Enabling this new category, Diligent has launched an integrated offering that puts the necessary tools and intelligence at the fingertips of today's board members and executives.

Despite very real differences in the corporate systems, the deeper tendency is towards convergence, as it has been since the nineteenth century. The core legal features of the corporate form were already well established in advanced jurisdictions 100 years ago, at the turn of the twentieth century. Although there remained considerable room for variation in governance practices and in the fine structure of corporate law throughout the twentieth century, the pressures for further convergence are now rapidly growing. Chief among these pressures is the recent dominance of a shareholder-centered ideology of corporate law among the business,

government and legal entities in key commercial jurisdictions. There is no longer any serious competitor to the view that corporate law should principally strive to increase long-term shareholder value. This emergent consensus has already profoundly affected corporate governance practices throughout the world. It is only a matter of time before its influence is felt in the reform of corporate law as well.

It is worth asking by what standards or criteria a system of corporate governance may be defined as "optimal". Most economic analyses simply substitute "efficient" for optimal, but McDonnell offers three relevant values:

1. Efficiency
2. Equity
3. Participation

In considering efficiency there is the question of how well the governance system solves agency problems; how well the system facilitates large scale coordination problems; how well the systems encourage long-term innovation; and how they impose different levels of risk on the participants. Distributional equity is another important value, but again is difficult to measure. For many, distributional equity suggests an increased equality of income and wealth, but others find this less compelling. In some instances equity may conflict with efficiency: it could be argued the US system is more efficient, but inevitably results in greater inequality. Finally there is the value of participation, both in terms of any contribution this may make to the success of the enterprise, and as an end in itself in enhancing the ability and self-esteem of people. Corporate governance systems affect the level of participation in decision-making very directly, whether encouraging or disallowing active participation in enterprise decision-making. Arguably each of these values is of great importance, and the precise balance between them is part of the choice of what kind of corporate governance system is adopted. Yet there appears increasingly less opportunity to exercise this choice: The universe of theoretical possibilities is much richer than a dominant strand of the literature suggests, and we are currently far short of the sort of empirical evidence that might help us sort out these possibilities. Most commentators have focused on efficiency to the exclusion of other values. Moreover, even if convergence occurs, there is a possibility that we will not converge on the best system. Even if we converge to the current best system, convergence still may not be desirable.

Question Number-3.) Discuss Business ethics as corporate governance tool?
Answer-

Every organization, as they grow has many stakeholders like shareholders, employees, customers, vendors, community, etc. For survival and growth, they have to rely upon healthy relations with all these stockholders. Hence organizations need to provide good returns for shareholders but also good jobs for employees, reliable products for consumers, responsible relations with the community and a clean environment.

Business ethics is the application of general ethical principles to business dilemmas and encompasses a broader range of issues and concerns than laws do, as everything that is legal is not ethical. Ethics involves learning what is right or wrong, and then doing the right thing -- but "the right thing" is not nearly as straightforward.

Business Ethics has the following purposes: - To give people the tools for dealing with moral complexity in business - Business decisions have an ethical component - Ethical implications must be weighed before acting

Corporate governance is concerned with the ownership, control and accountability of companies, and how the corporate pursuit of economic objectives relates to a number of wider ethical and societal considerations. It is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.

Good Corporate Governance is key to Growing Profits and Reputation. It represents the relationship among stakeholders that is used to determine and control the strategic direction and performance of organizations. Accountability is a key element as well as requirement for corporate governance, fortifying the latter in such a way that it provides a transparent template for governing critical decisions, procedures, and activities.

Corporate Governance deals with the questions: (1) Who benefits from corporate decisions/senior management actions? (2) Who should benefit from corporate decisions/senior management actions?

There are a number of reasons why businesses should act ethically .As behavior is based on values priorities, a mutual effort at all levels to deal with corporate ethics begins with a clear understanding of core values, both individually and organizationally.

Good corporate governance begins with a company's own internal practices and policies. While corporate governance issues are common across organizations, each company requires governance principles that are unique in their approach. Good governance is, ultimately, the sine qua non for continued growth and prosperity.

Corporate governance ensures that long term strategic objectives and plans are established and that the proper management structure is in place. Companies that provide good governance, both in terms of practices and results can expect the backing not only of investors but of customers too.

Corporate Governance represents the moral framework, the ethical framework and the value framework under which an enterprise takes decisions. In the long run ethical behavior has a positive impact on the company's performance.

Question Number-4.) Describe ethical considerations in everyday business?

Answer-

The system of moral and ethical beliefs that guides the values, behaviors, and decisions of a business organization and the individuals within that organization is known as business ethics. Some ethical requirements for businesses are codified into law; environmental regulations, the minimum wage, and restrictions against insider trading and collusion are all examples of the government setting forth minimum standards for business ethics. What qualifies as business ethics in history has changed over time?

The management team sets the tone for how the entire company runs on a day-to-day basis. When the prevailing management philosophy is based on ethical practices and behavior, leaders within an organization can direct employees by example and guide them in making decisions that are not only beneficial to them as individuals, but also to the organization as a whole. Building on a foundation of ethical behavior helps create long-lasting

positive effects for a company, including the ability to attract and retain highly talented individuals, and building and maintaining a positive reputation within the community. Running a business in an ethical manner from the top down builds a stronger bond between individuals on the management team, further creating stability within the company.

When management is leading an organization in an ethical manner, employees follow in those footsteps. Employees make better decisions in less time with business ethics as a guiding principle; this increases productivity and overall employee morale. When employees complete work in a way that is based on honesty and integrity, the whole organization benefits. Employees who work for a corporation that demands a high standard of business ethics in all facets of operations are more likely to perform their job duties at a higher level and are also more inclined to stay loyal to that organization.

Business ethics differ from industry to industry, and nation to nation. The nature of a business's operations has a major influence on the ethical issues with which it must contend. For example, an ethical quandary arises for an investment brokerage when the best decision for a client and his or her money does not coincide with what pays the brokerage the highest commission. A media company that produces TV content aimed at children may feel an ethical obligation to promote good values and eschew off-color material in its programming.

Companies such as Amazon and Google, which conduct most of their operations online, are not scrutinized for their environmental impact the way energy companies such as BP and Exxon are. When it comes to protecting their customers' privacy and security, however, their ethics are examined very closely. A particular area in which technology companies must make tough ethical decisions is marketing. Advancements in data mining technology enable businesses to track their customers' movements online and sell that data to marketing companies, or use it to match customers with advertising promotions. Many people view this type of activity as a major invasion of privacy. However, such customer data is invaluable to businesses, as they can use it to increase profits substantially. Thus, an ethical dilemma is born: To what extent is it appropriate to spy on customers' online lives to gain a marketing advantage?

The importance of business ethics reaches far beyond employee loyalty and morale or the strength of a management team bond. As with all business initiatives, the ethical operation of a company is directly related to profitability in both the short and long term. The reputation of a business in the surrounding community, other businesses, and individual investors is paramount in determining whether a company is a worthwhile investment. If a company is perceived to not operate ethically, investors are less inclined to buy stock or otherwise support its operations.

Companies have more and more of an incentive to be ethical as the area of socially responsible and ethical investing keeps growing. The increasing number of investors seeking out ethically operating companies to invest in is driving more firms to take this issue more seriously.

With consistent ethical behavior comes an increasingly positive public image, and there are few other considerations as important to potential investors and current shareholders. To retain a positive image, businesses must be committed to operating on an ethical foundation as it relates to the treatment of employees, respecting the surrounding environment and fair market practices in terms of price and consumer treatment.

Question Number-5.) Explain nature of business-purpose and goals in reference to profit maximization versus corporate social responsibility?

Answer-

While issues related to ethics and social responsibility have gained tremendous significance in corporate and academic worlds during the recent times, these concepts are difficult to grasp. This experiential exercise serves as a vehicle for students to enhance their understanding and insights on these concepts as they critically examine, in a highly involved setting, the two opposing views of corporate social responsibilities--profit maximization only versus stakeholders' view of social responsibility.

The claim that the social responsibility of business is to increase its profits is associated with the late Milton Friedman and is the title of a famous article he published in 1970. A devastating critique of the popular idea that corporations have social responsibilities that trump profit maximization. At the time, Friedman further noted, managers would often disguise actions that were really intended to increase profits in the cloak of corporate social responsibility (CSR).

Few directives in business can override the core mission of maximizing shareholder wealth, and today that particularly means increasing quarterly profits. Such an intense focus on one variable over a short time (i.e., a short-term perspective) leads to a short- sighted view of what constitutes business success.

Measuring true profitability, however, requires taking a long-term perspective. We cannot accurately measure success within a quarter of a year; a longer time is often required for a product or service to find its market and gain traction against competitors, or for the effects of a new business policy to be felt. Satisfying consumers' demands, going green, being socially responsible, and acting above and beyond the basic requirements all take time and money. However, the extra cost and effort will result in profits in the long run. If we measure success from this longer perspective, we are more likely to understand the positive effect ethical behavior has on all who are associated with a business.

Decades ago, some management theorists argued that a conscientious manager in a for- profit setting acts ethically by emphasizing solely the maximization of earnings. Today, most commentators contend that ethical business leadership is grounded in doing right by all stakeholders directly affected by a firm's operations, including, but not limited to, stockholders, or those who own shares of the company's stock. That is, business leaders do right when they give thought to what is best for *all* who have a stake in their companies. Not only that, firms actually reap greater material success when they take such an approach, especially over the long run.