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Research Paper Accountancy

Global Scenario of Business Ethics With Corporate Governance

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Keywords :

INTRODUCTION

The governance structures of PSUs date back to the days when they were typically wholly owned by the government and were merely an extended arm of the state. These structures allowed the administrative departments in the concerned ministry to exercise virtually complete control over the functioning of these enterprises. It is now evident that these structures are incompatible with the efficient and successful operation of the PZUs in an increasingly competitive and deregulated economy. These issues are discussed extensively elsewhere in this volume (Vittal, 1997).

In the 20th century in the immediate aftermath of the Wall Street Crash of 1929 legal scholars such as Adolf Augustus Berle, Edwin Dodd, and Gardiner C. Means pondered on the changing role of the modern corporation in society. Berle and Means' monograph "The Modem Corporation and Private Property" (1932,Macmillan) continues to have a profound influence on the conception of corporate governance in scholarly debates today.

ROLE OF INSTITUTIONAL INVESTORS

Pension funds, mutual funds, hedge funds, exchange-traded funds, other investor groups; insurance companies, banks, brokers, and other financial institutions where many years ago, worldwide, buyers and sellers of corporation stocks were individual investors, such as wealthy businessmen or families, who often had a vested, personal and emotional interest in the corporations whose shares they owned. Over time, markets have become largely institutionalized: buyers and sellers are largely institutions.

Institutional investor has brought with it some increase in professional diligence which has tended to improve regulation of the stock market (but not necessarily in the interest of the small investor or even of the naive institutions, of which there are many). Note that this process occurred simultaneously with the direct growth of individuals investing indirectly in the market (for example individuals have twice as much money in mutual funds as they do in bank accounts). However, this growth occurred primarily by way of individuals turning over their funds to 'professional' to manage, such as in mutual funds. In this way, the majority of investment now is described as "institutional investment" even though the vast majority of the funds are for the benefit of individual investors.

PRINCEPLES

The main point of good corporate governance include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization.

Corporate governance of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and hen evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

Right and Equitable treatment of shareholders: Organizations should rspect the rights of shareholders and help share holders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.

Interest of other stakeholders: Organizations should recognized that they have legal and other obligations to all legitimate stakeholders.

Role and responsibilities of the board: The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. there are issues about the appropriate mix of executive and non-executive directors.

Integrity and ethical behavior: Ethical and responsible decision making is not only improvement for public relations, but it is also necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by a company n the integrity and ethics of individuals is bound to eventual failure

Disclosure and transparency: Organizations should clarify and make publicity known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard-the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Issues involving corporate governance principles include:

- internal controls and internal auditors
- the independence of external auditors and the quality of their audits
- oversight and management of risks
- oversight of the preparation of the entity's financial statements
- review of the compensation arrangements for the chief executives officer and other senior executives
- the resources made available to directors in carrying out their duties
- the way in which individuals are nominated for positions on the board
- dividend policy

MECHANISMS AND CONTROLS

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. For example, to monitor managers' behavior, an independent third party (the external auditor) attests the accuracy of information provided by management to investors. An ideal control system should regulate both motivation and ability.

INTERNAL CORPORATE GOVERNANCE CONTROLS

Internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals. Examples include:

- Monitoring by the board of directors: The board of directors, with its legal authority to hire, fire and compensate top management, safeguard invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information

- Internal control procedures and internal auditors: Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provided reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organizational who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting.

Remuneration: Performance-based remuneration is designed to related some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits, Such as incentive schemes, however, are reactive in.

EXTERNAL CORPORATE GOVERNANCE CONTROLS

External corporate governance controls encompass the controls external stakeholders exercise over the organization. Example include:

- competition
- debt covenants
- demand for and assessment of performance information(especially financial statements)
- government regulations
- managerial labor market
- media pressure
- takeovers

LEGAL ENVIRONMENT

In the United States, corporations are governed under common law, the Model Business Corporation Act, and Delaware law since Delaware, as of 2004, was the domicile for the majority of publicly-traded corporations. Individual rules for corporations are based upon the corporate charter and, less authoritatively, the corporate bylaws In the United States, shareholders cannot initiate changes in the corporate charter although they can initiate changes to the corporate bylaws. In the UK, however, the analogous corporate constitutional documents (the memorandum and articles of association) can be modified by a supermajority(75%) of shareholders. Shareholders can initiate 'precatory pipuais on various initiatives, but the result are nonbinding.

IMPACT OF CORPORATE GOVERNANCE

The positive effect of corporate governance on different stakeholders ultimately is a strengthened economy, and hence good corporate is a tool for socio-economic development.

Marc Lane's book on best corporate governance practical, "Representing Corporate Officers and Directors," was first published in 1987. He revisited his treatise on corporate governance in 2005. The new version is updated annually with the most recent supplement for the year 2010. With the goal of promoting positive social change, Lane provides companies and their directors, officers, auditors and shareholders with

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PARTIES TO CORPORATE GOVERNANCE

Parties involved in corporate governance include the regulatory body(e.g. the Chief Executive Officer, the board of directors, management, shareholders and Auditors). Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large.

The shareholder delegates decision rights to the manager to act in the principal's best interests. This separation of ownership from control implies a loss of effective control by a shareholders over managerial decision. Partly as a result of this separation between the two parties, a system of corporate governance control is implemented to assist in aligning the incentives of managers with those of shareholders. With the significant increase in equity holdings of investors, there has been an opportunities for a reversal of the separation of ownership and control problems because ownership and control problems because ownership is not so diffuse.

ROLE OF THE ACCOUNTANT

Financial reporting is a crucial element necessary for the corporate governance system to function effectively Accountants and auditors are the primary providers of information to capital market participants. The directors of the company should be entitled to expect that management prepare the financial information in compliance with statutory and ethical obligations, and rely on auditors' competence.

BOARD COMPOSITION

Some researchers have found support for the relationship between frequency of meetings and profitability. Other have found a negative relationship between the proportion of external directors and profitability, while others found no relationship between external board membership and profitability. In a recent paper Bhagat and Black found that companies with more independent boards are not more profitable that other companies. It is unlikely that board composition has a direct impact on profitability, a measure of firm performance.

CASE STUDY IN FAVOUR OF BUSINESS ETHICS
JOHNSON & JOHNSON (J&J):

J&J Pharmaceuticals was once shown the red flag about the inferior quality product and it was reported in the Times in the year 2008. Customers were complaining about the moldy smelling Tylenol capsules manufacured at the Las Piedras, Puerto Rico plant.

It took J&J 18 months to start the recall of the offending products. Again in Jan, 2010, Food and Drug Authority (FDA) sent a warning letter to J&J criticizing the delay and not taking proper actions.

This shows whether J&J has undertaken a comprehensive assessment of division.

It means that the concerned people of J&J did not come forward, which resisted the leadership to act swiftly. This also reflects lack of "transparency" in the way the business by J&J is conducted.

Similar things were also happened with Nokia, one of the leading manufacturers of mobile handsets. On 16th august 2007, Nokia had to withdraw and replace faulty mobile phone batteries of BL-5C Series. Nokia Corporation decided to offer free replacement of phone batteries to customers, after receiving reports of around 100 incidents of overheating of batteries from a batch of 46 million batteries. While no serous injuries or property damage had occurred, the batteries produced by Japanese manufacturer Matsushita electric industrial company, had overheated and caused short-circuiting in certain phones.

Over 250 millions BL5-C batteries made for Nokia by manufacturer other than Matsushita electric industrial company have not been affected. “There have been 100 incidents out of 46 millions batteries that were produced and that there is no material injury or damage to properly statistically, it is insignificant, but the recall was precautionary” said an Nokia spokesman.

This shows that Nokia responded quickly to the crisis and took corrective measures so as to safeguard its image in the public. It shows the example of business ethics at the highest standards.