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The Changing scenario of corporate ethics and the Developing Role of Corporate Governance in India

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The paper attempts to find the reasons and lead the way ahead for corporate governance and an ethical business environment in the country. The objective behind this is to analyze the past unethical behaviours of the company and study the evolving relationship between corporate ethics and corporate governance. Further, providing possible sets of recommendations and suggestions to stop those and adding value to society in the current time of corporate corruption. In the present time, where the image and reputation of the company help in running it, the corporate world has understood the importance of corporate ethics considering the frightful consequences of it. In the revolution to improve, social and technological advancement can lead the way out for making the required legal amendments.

Keywords: *corporate ethics, corporate government, business, business environment.*

INTRODUCTION

In the present time, corporate ethics and business ethics are phrases that are used interchangeably with each other. It dates back to the 1970s when the need for ethics was first seen. During those years, the graphs for corporate frauds hiked and a lot of companies turned themselves to unethical corporate practices. The important role of corporate ethics was

explained to the companies and the government including the adverse consequences it will be having on the stakeholders and how it would be better for a company if they adopt it.

In the evolving world of technology, where the press has played a very important role in maintaining the image and reputation of a company, this has been taken as a very valuable asset for the companies. Companies are also forced to have a fair and approachable image of the company to attract their potential customers. But even after considering it of such immense worth, we can encounter various instances where corporate governance has been considered as a matter of concern. Thus, the need for corporate responsibility comes into the picture. For a business to succeed, ethics must go hand-in-hand with it, but people still consider it separately.¹

BACKGROUND ON CORPORATE ETHICS

Many businessmen still say that the profit and growth of a company define its sustainability and are considered one of the paramount goals of a company. But, a society with modern thinking has a different perception. As Ulrich states that “strict profit maximization cannot be a legitimate principle of corporate conduct since it discards the moral self-commitment from the start”.² We can see that to establish a strong reputation, a company has to attract stakeholders like customers, suppliers, shareholders, etc. Now, we can see how the goals of a company have transformed from PROFITS to PROFITS & SOCIETY. Various approaches from philanthropic to strategic approaches have been applied to bring together ethics with the economy.

There are several reasons for the unethical practices by the companies which may be because of weak regulations, poor work environment, ineffective sanctions, etc. Corporate social responsibility with governance and business ethics has contributed to the ethics in the corporate world. This helps in protecting and guiding the companies to not fall for unethical practices which may lead them into trouble.

¹ Zimmerli, Richter & Holzinger, *Corporate Ethics and Corporate Governance* (Springer 2007)

² *Ibid*

CORPORATE ETHICS

Where each mind is considered different in each person, thus the definition of corporate ethics also varies from person to person and may be debatable in certain situations. Thus, corporate ethics are derived from the rules and procedures, along with the cultures, and laws of the country where it is situated. Thus, there is no universal definition of corporate ethics but the meaning may vary from company to company depending on the various factors mentioned above. This is a very concrete concept. But, we can find some basic principles which Indian companies follow while maintaining their corporate ethics-

- **Honest or Truthfulness:** Having no malicious intent while doing something and having pure intentions to function.
- **Accountability:** Accepting the consequences and taking responsibility for the same.
- **Legal Compliant:** Working under the rules set by the legislations, frameworks, etc.
- **Trustworthiness.**
- **Leadership:** Making the best use of available resources and taking the best decision in your position.
- **Loyalty:** Remaining loyal to your own company by maintaining the confidentiality of internal matters and keeping a professional work environment where no undue advantage is taken by anyone.
- **Morale:** Having a mindset to have a positive impact on society and operate the company not only for profits but for society too.

A NEED FOR ETHICS

The main answer to this question will be to bring clarity and transparency to the system. A code of conduct needs to be formed considering both the people outside (stakeholders) and inside (employees) of the company.

The following supervisory bodies have kept a strict check on both the internal and external functioning of a company -

- **Watchdogs:** In simple words, also known as investigative reporters. In past, investigative reporters have brought down various scandals at a global level. They keep monitoring the functions of a company and if they have any issue with the action, then they may hold the company liable which further ruins the reputation of the company.
- **Executive Board:** This is generally an internal committee that gives recommendations to the board of directors and top management when connected to ethics. Further, if there is an internal dispute in the company with relation to ethics, then it handles the case to resolve the dispute.
- **Government Evaluations:** These are impromptu evaluations done by the government to ensure that the company is functioning correctly and if found guilty of wrong, then would be penalized for the same.
- **Whistle-Blowers:** This is an internal mechanism where the employees have the power to disclose the conduct of the company which violates the laws, regulations, etc. For example- power exploitation, misuse of funds, etc.
- **Hotlines:** This is a method for anonymous reporting of ethical violations by a company to the committee. If the complaint is investigated and found to be correct with sufficient evidence, then the violators are penalized for the same.

VIOLATIONS OBSERVED IN VARIOUS INDUSTRIES

Considering the diversity of challenges that are faced in each sector, we have considered 4 sectors from the prevalent data, we will be trying to observe the most common violations which are caused in that industry -

- Finance Sector;
- Manipulation of data;
- Artificial increase in share price;
- False elevation of the company's performance;
- Insider trading;
- Deceptive mergers of the companies;
- Tax fraud, stock market fraud;

- Education Sector;
- Fake degrees and diplomas;
- Manipulation of funds;
- Illegal fees;
- Theft of resources;
- Sexual harassment;
- IT Sector;
- Virus attack;
- Hacking;
- Piracy;
- Spoofing;
- Copyright infringement;
- Phishing;
- Cyberbullying;
- Government;
- Bribery, corruption;
- Misuse of insider information;
- Nepotism;
- Unjustified gifts and entertainment;
- The exploitation of confidential information.

ETHICAL PREDICAMENTS

There are various situations where the employee has to choose what is correct and what is wrong. Ethics plays a very important role in this. There will be a scenario where we will be required to choose which decision will be correct and would be ethical while keeping the stakeholder interests in mind³.

³ Taimini IK, *Glimpses into the Psychology of Yoga* (1 edn, Theosophical Society Publishing House 1973)

The features include:

- Private gains vs social costs;
- The predominance in competitive behaviour;
- The clash between objectives;
- Differences in ideas and values⁴

Sometimes, bad results are produced even though the correct/right decision was made, but on the other hand, good results are produced even though the actions or decision which was made was ethically wrong. Thus, a dilemma is there between the moral obligations of a person against the good results. Thus, it can be observed that even though some correct acts bring wrong results, one must accept them and aim for the best outcome to achieve satisfaction.⁵

CASE STUDIES THAT SIGNIFY THE NEED FOR A BETTER CORPORATE GOVERNANCE SYSTEM

In 2008, the Satyam Scam took place where Satyam Computers Services Ltd. who was a global consultant was caught committing fraud. This brought down the reputation of the company. The scandal was exposed in 2009 and it was found that Ramalinga and his brother committed a fraud of Rs.7000 crores and it was caused by the top executives of the company who altered the audits. After finding them guilty, they were jailed and the company was disbanded. Further, it was removed from major indices including Sensex and Nifty. Ramalinga and his brother confessed regarding the same and 3 charge sheets were filed against them by the CBI. It is ironic to see that a company that received the “Golden Peacock Global Awards” in the UK for best corporate governance practice in 2008 was caught doing such fraud. The award was also revoked after they were caught.

Then we cannot forget our very own “King of Good Times”, Vijay Mallya who committed various frauds and money laundering with amounts up to Rs.9000 crores. He fled the country

⁴ *Ibid*

⁵ Tota & Shehu, ‘The Dilemma of Business Ethics’ (2012) 3 PEF

<<https://www.sciencedirect.com/science/article/pii/S2212567112001955?via%3Dihub>> accessed 10 November 2022

when he lost cases against 13 banks and owed them money. Similarly, we can consider the case of Nirav Modi. Punjab National Bank conned \$2.2 billion to ace jewellery designer Nirav Modi. This was made possible by raiding credits from international branches of Indian banks by creating illegal/fake guarantees in Indian banks. This fraud was caused by the employees themselves.

CORPORATE GOVERNANCE FRAMEWORK IN INDIA

There exist various loopholes in the corporate governance framework which makes it weak. The execution and administration of the same and not done properly, whereas we can also see that there exist some people like Nirav Modi, Vijay Mallya, etc. who don't care about these guidelines. The Indian judicial system takes time to address a dispute. The behaviour of the accountants and auditors shall be checked and regulated to ensure ethical and professional standards. The loopholes, laidback attitude of employees, etc. have led to the area for scams to take place. After observing all this, the SEBI (Securities and Exchange Board of India) also realized the significance of good corporate governance in the country. There were many committees like the Kumar Mangalam committee, Naresh Chandra committee, Narayan Murthy Committee, etc.⁶

RECOMMENDATIONS/ SUGGESTIONS

- Implementation of an effective code of conduct.
- The language should be easy to understand and read.
- Maintain data where all the violations are noted.
- Keeping a spare database of whistle-blowers.
- The rules should be laid down.
- Ethics-related complaints should be handled privately till the violator is caught.
- Regular inspection by both upper and lower management.
- Take a third-party inspection.
- Bringing third-party to audit.

⁶ Ed N Balasubramanian, *Corporate Boards and Governance* (1 edn, Sterlings Publishers 1998)

- Employees should be accessible.
- In the case of mergers and acquisitions, the rules should be revised and rewritten.⁷

CONCLUSION

This paper involves the current corporate governance framework followed in the country including the information related to an ethical business environment. Thus, we can conclude from the paper that our country lacks a uniform National Code of Corporate Ethics. As we can see that what one company may deem to be unethical, may be considered ethical for another company. So considering this in mind, there exists a demand for uniform rules and procedures. Further, there are many loopholes in the current structure. It was only in the old times, that ethics was considered the same as what law is, but now it is more than just a law.⁸ If India wishes to compete in the international market and become a global leader, then extensive efforts have to be done for creating an ethical business environment which must consider one of the most important things.⁹ Considering the past cases, we can learn from the mistakes and make recommendations as eventually, it may help the nation in building a good corporate governance system with corporate ethics.

⁷ *Ibid*

⁸ Denis Collins, *Business Ethics: Best Practices for Designing and Managing Ethical Organizations* (2 edn, SAGE Publications 2017)

⁹ *Ibid*