

**CS Professional Group - iv**  
**Module - iv**  
**December - 2012**  
**Paper - 8**  
**Governance Business Ethics and Sustain ability**  
**Part - A**  
**Chapter - 1**

**2012 - Dec [1] {C} (a)**

**Answer:**

"Kautilya's Arthshastra maintains that for good governance, all administrators, including the king were considered servants of the people. Good governance and stability were completely linked".

If the king is substituted with Board of Directors and the subjects with the shareholders, the concept of good governance prevails. This is because the concept of corporate governance believes that public good should be ahead of private good and that the corporation's resources cannot be used for personal benefit. The four fold duties of a king as mentioned in Arthshastra are as follows:

1. Raksha - literally means protection
2. Vriddhi - literally means growth
3. Palana - literally means maintenance/compliance
4. Yogakshema - literally means well being

Arthshastra mention self-discipline for a king and the six enemies which a king should overcome-lust, anger, greed, conceit, arrogance and foolhardiness. In the present day context, this addresses the ethics aspect of businesses and the personal ethics of the corporate leaders.

**Chapter - 17**

**2012 - Dec [1] (b)**

**Answer:**

- (i) **The statement is true:** Developing a valid strategy is only the first step in creating an effective organisation. The board plays a crucial role in advising, evaluating and monitoring strategy implementation. Boards can best monitor strategy implementation by setting bench marks to measure progress and by drawing on objective sources of information.
- (ii) **The statement is false:** Insider trading is not always illegal. Trading by a company insider in its shares is not violation per se and is legal, what is illegal is the trading by an insider on the basis of unpublished price-sensitive information.
- (iii) **The statement is false:** As per clause 49 of the listing agreement the chairman of the audit committee shall be an independent director.
- (iv) **The statement is true:** Institutional investors are organization which pool large sums of money and invest those sums in companies. Mutual funds are institutional investors as they raise and invest on behalf of everyone participating in the scheme for the common good.

- (v) **The statement is false:** According to Calpers where the chairman of the board is not an independent director, and the role of chairman and CEO is not separate, the board should name a director as lead independent-director.

**Chapter - 2**

2012 - Dec [2] (a)

**Answer:**

Independent director are invited to sit on the board purely on account of their special skills and expertise in particular field and they represent the conscience of the investing public and also take care of public interest. Independent director bear a fiduciary responsibility towards shareholders and the creditors. Yet, the independence of independent directors is one of the most debated aspects in corporate governance.

In Bhopal Gas tragedy verdict, the court has held Keshub Mahindra reputed industrialist, the then non executive chairman of Union Carbide India Limited (UCIL) guilty and sentenced him to two years of imprisonment alongwith seven other accused. He attended only a few meetings in a year and took only macro view of the company's developments. A non-vigilant act of non-executive chairman accounted for death of thousands. "Ignorance" of the system by the director of the company is unacceptable. Role of non-executive director in this case is questionable. Later he was granted bail.

**Chapter - 3**

2012 - Dec [2] (b) (i)

**Answer:**

Please refer 2010 - Dec [4] (a) (iii)

**Chapter - 5**

2012 - Dec [2] (b) (ii)

**Answer:**

Please refer 2010 - June [4] (a) (iii)

**Chapter - 4**

2012 - Dec [2] (b) (iii)

**Answer:**

**Fraud Risks Management**

The fraud risk management policy will help to strengthen the existing anti-fraud controls by raising the awareness across the company and:

1. Promote an open and transparent communication culture.
2. Promote zero tolerance to fraud/misconduct.
3. Encourage employees to report suspicious cases of fraud misconduct.
4. Spread awareness amongst employees and educate them on risks faced by the company.

**Chapter - 7**

2012 - Dec [2] (b) (iv)

**Answer:**

ISO 26000 is the international standard giving guidance on social responsibility and is intended for use by organizations of all types both public and private sectors, in developed and developing countries.

This international standard is not a management system standard. It is not intended or appropriate for certification purposes

or regulatory or contractual use. Its intent is to provide organizations with guidance concerning social responsibility and can be used as part of public policy activities.

#### Chapter - 8

2012 - Dec [3] (a)

**Answer:**

A corporate weblog is published and used by an organization to reach its organizational goals. There are two types of corporate blogs i.e. external and internal.

Internal blogs may be used in lieu of meetings and e-mail discussions and can be especially useful when the people involved are in different locations or have conflicting schedules.

An external blog is publically available blog where company employees, teams or spokespersons share their views.

**Advantages of Corporate Blogging:**

- (a) Achieve customer intimacy
- (b) Influence the public "conversation" and "control" it.
- (c) Enhance brand visibility and credibility
- (d) Leadership

#### Chapter - 5

2012 - Dec [3] (b)

**Answer:**

SEBI (Substantial Requisition of Shares and Takeovers) Regulations, 2011

Disclosure related provisions:

It may be noted that the word "shares" for disclosure purposes include convertible securities also.

Event based Disclosures (Regulation 29)

- (a) Any person, who alongwith persons acting in concert (PACs) crosses, the threshold limit of 5% of shares or voting rights, has to disclose his aggregate shareholding and voting rights to the target company and its registered office and to every stock exchange where the shares of the target company are listed within 2 working days of acquisition as per the format specified by SEBI.
  
- (b) Any person who hold 5% or more of shares or voting rights of the target company and who acquires or sells shares representing 2% or more of the voting rights, shall disclose details of such acquisitions/sales to the target company at its registered office and to every stock exchanges where the shares of the target company are listed within 2 working days of such transaction, as per the format specified by SEBI.

Shares taken by way of encumbrance shall be treated as an acquisition and on release of such encumbrances it is a disposal.

Continual Disclosures (Regulation 30)

Continual disclosures of aggregate shareholding shall be made within 7 days of financial year ending on March 31 to the target company at its registered office and every stock exchange where the shares of the target company are listed by:

- (a) Shareholders (alongwith PACs, if any) holding shares or voting rights entitling them to exercise 25% or more of the voting rights in the target company.
- (b) Promoter (alongwith PACs, if any) of the target company irrespective of their percentage of holding.

Disclosure of encumbered shares

The promoter (alongwith PACs) of the target company shall disclose details of share encumbered by them or invocation or release of encumbrance of shares held by them to the target company at its registered office and every stock exchange where shares of the target company are listed, within 7 working days of such event.

AS per regulation 28(3), the term "encumbrance" shall include a pledge, lien or any such transaction, by whatever name called". The promoters have to understand the nature of encumbrance and those encumbrances which entail a risk of the shares held by promoters being appropriated or sold by a third party directly or indirectly, are required to be disclosed to the stock exchanges in terms of the Takeover Regulation 2011.

**Chapter - 2**

2012 - Dec [3] (c)

**Answer:**

**Barriers to Visionary Leadership**

1. **Time Management:** Lack of time to attend meetings read materials and maintain contact with each other in between meetings.
2. **Resistance to risk taking:** Board leadership must strike a balance between taking chances and maintaining the traditional stewardship role.
3. **Strategic Planning:** Boards are not involved in strategic planning at all. Therefore, the boards lose an important opportunity to home/"exercise visionary leadership skills.
4. **Complexity:** Board members frequently lack a deep understanding of critical changes; trends and developments that challenge fundamental assumptions about how it defines its work and what success looks like.
5. **Micro Management:** When board is tempted to micro manage or to meddle in lesser matters an opportunity to provide visionary leadership is lost.
6. **Clinging to Tradition:** Board often resist change in order to preserve tradition.
7. **Confused Roles:** Some board assumes that it is the job of the executive director to do the visionary thinking and that the board will sit and wait for direction and inspiration. This lack of clarity can result in boards that do not exercise visionary leadership because they do not think it is their job.
8. **Past Habit:** Time was when clients, members and consumers would just walk in the door on their own. Viewing things in this way, board did not consider market place pressures or for that matter a competitive market place. All that has changed. Yet for many boards their leadership style has not kept pace with this new awareness.

**Chapter - 8**

2012 - Dec [4] (a)

**Answer:**

Much of the development of insider trading law has resulted from court decisions.

In United States Vs Carpenter (1986), the US Supreme Court ruled that "It is well established as a general proposition that a person who acquires special knowledge or information by virtue of a confidential or fiduciary relationship with another is not free to exploit that knowledge or information for his own personal benefit but must account to his principle for any profits derived therefrom".

Similarly in India, in 1922 market regulator SEBI introduced Securities and Exchange Board of India (Prohibition of Insider trading) Regulation 1992 providing that "insider" is any person, who is or was connected with the company, and who is reasonably expected to have access to unpublished price sensitive information about the stock of that particular company, or who has access to such unpublished price sensitive information. Various prosecutions under these regulation have been introduced and finalised.

In the Case of M/s Tata Finance Limited (TFL), 2008 SEBI has passed an order restraining Sri DS Pendse Managing Director of the company and associates from accessing the securities market and prohibiting them from buying, selling or otherwise dealing or associating with the securities market in any manner whatsoever for a period of five years.

## Chapter - 2

2012 - Dec [4] (b) (i)

Answer:

### Directors Development Programme

Directors Development should not be treated as merely another training schedule rather it should be structured so as to sharpen the existing skills and knowledge of directors. It is good practice for boards to arrange for an ongoing updation of their members with changes in governance, technologies markets, products, and so on through:

1. Ongoing education
2. Site visits
3. Seminars; and
4. Various short term and long term courses

## Chapter - 5

2012 - Dec [4] (b) (iii)

Answer:

Please refer 2012 - June [4] (b) (ii)

## Chapter - 7

2012 - Dec [4] (b) (iii)

Answer:

### Corporate Citizenship

Corporate citizenship is a commitment to improve community well-being through voluntary business practices and

contribution of corporate resources leading to sustainable growth. It means moving from supply driven to more demand led strategies keeping in mind the welfare of all stakeholders, more participatory approaches to working with communities; balancing the economic cost and benefits with the social and finally dealing with processes rather than structures. The ultimate goal is to establish dynamic relationship between the community, business and philanthropic activities so as to complement and supplement each other.

#### **Chapter - 6**

2012 - Dec [4] (b) (iv)

**Answer:**

#### **Corporate Governance in Australia**

Australia's corporate governance framework contains a range of measures that promote accountability of management and transparency of financial and other information.

The Australian stock exchange through its listing rules, regulates the behaviour of ASX listed companies. In addition to the listing rules, which are mandatory the ASX has a set of guidance notes to assist listed companies to comply with both the spirit and letter of the rules. The ASX Corporate Governance council issued Corporate Governance principles in 2003. These were revised in 2007 and came into effect from 1<sup>st</sup> January, 2008. This was further revised in the year 2010. The approach is similar to the UK combined code i.e. comply or explain. In Australia it is called "if not why not approach". If a company considers that a recommendation is inappropriate to a particular circumstances, it has the flexibility not to adopt it and explain why it has not adopted.

#### **Part - B**

#### **Chapter - 10**

2012 - Dec [5] (a)

**Answer:**

Developed by Transparency International (TI), the Integrity Pact (IP) is a tool aimed at preventing corruption in public contracting. It consists of a process that includes an agreement between a government or a government department and all bidders for a public contract. It contains rights and obligations to the effect that neither side will; pay, offer, demand or accept bribes, collude with competitors to obtain the contract; or engage in such abuses while carrying out the contract. The IP also introduces a monitoring system that provides for independent oversight and accountability.

#### **Chapter - 12**

2012 - Dec [5] (b) (i)

**Answer:**

#### **Stakeholder Engagement**

Stakeholder engagement is an alliance building tool. Corporate practice stakeholder engagement in an effort to understand the needs of their stake holders create partnership and promote dialogue. Stakeholder engagement identifies stakeholders, assesses stakeholder needs develop stakeholder relations plans and form alliances with stakeholders.

#### **Chapter - 11**

2012 - Dec [5] (b) (ii)

**Answer:**

Please refer 2009 - Dec [5] (b) (iii)

**Chapter - 11**

2012 - Dec [5] (b) (iii)

**Answer:**

**CREDO**

Credo is a statement of common values that allows employees to understand the importance of the stakeholders and service provided. It is the force which makes them work together to achieve a consistent high standard. A good credo gives the company a reason to exist; it develops the spirit of employees motivating them at all times.

**Chapter - 10**

2012 - Dec [5] (b) (iv)

**Answer:**

Please refer 2009 - Dec [5] (b) (ii)

**Chapter - 11**

2012 - Dec [6] (a)

**Answer:**

Please refer 2011 - Dec [7] (a)

**Chapter - 10**

2012 - Dec [6] (b)

**Answer:**

Please refer 2010 - June [6] (b)

**Chapter - 11**

2012 - Dec [6] (c)

**Answer:**

Please refer 2011 - June [7] (b)

**Chapter - 10**

2012 - Dec [7] (a)

**Answer:**

Please refer 2010 - June [7] (a)

**Chapter - 11**

2012 - Dec [7] (b)

Please refer 2012 - June [6] (c)

**Chapter - 12**

2012 - Dec [7] (c)

**Answer:**

Please refer 2009 - Dec [7] (b)

**Part - C**

2012 - Dec [8] (i)

**Answer:**

Please refer 2010 - Dec [8] (v)

#### Chapter - 13

2012 - Dec [8] (ii)

**Answer:**

#### **Corporate Sustainability**

Corporate sustainability indicates new philosophy as an alternative to the traditional growth and profit maximisation model under which sustainable development comprising environmental protection social justice and equity and economic development are given more significant focus while recognizing simultaneously corporate growth and profitability.

#### **Corporate Social Responsibility**

As a corporate citizen every corporate is duty bound to its society wherein they operate and serve. Although there is no hard and fast rules, CSR activities need to be clubbed and integrated into the business model of the company.

#### Chapter - 14

2012 - Dec [8] (iii)

**Answer:**

#### **Standard Disclosures**

In G3 Reporting Guidelines there are three different types of disclosures contained, which are as under:

1. Strategy and profile.
2. Management approach.
3. Performance indicators.

#### Chapter - 13

2012 - Dec [8] (iv)

**Answer:**

Sustainable development is a broad concept that balances the need for economic growth with environmental protection and social equity. It is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations. Sustainable development is a broad concept and it combines economics, social justice, environmental science and management, business management, politics and law.

Four acceptable fundamental principle of sustainable development are:

1. **Principle of intergenerational equity:** Need to preserve natural resources for future generation.
2. **Principle of sustainable use:** Use of natural resources in a prudent manner without or with minimum tolerable impact on nature.
3. **Principle of equitable use or intergenerational equity:** Use of natural resources by any state/country must take into account its impact on other states.
4. **Principle of integration:** Environmental aspect and impacts of socio-economic activities should be integrated so that prudent use of natural resources is ensured.



**Chapter - 16**

**2012 - Dec [8] (v)**

**Answer:**

Please refer 2009 - Dec [8] (iv)