

PREFACE

In the curricular structure introduced by this University for students of Post-Graduate degree programme, the opportunity to pursue Post-Graduate course in a subject is introduced by this University is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation. I am happy to note that the university has been recently accredited by National Assessment and Accreditation Council of India (NAAC) with grade 'A'.

Keeping this in view, the study materials of the Post-Graduate level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing, and devising of a proper layout of the materials. Practically speaking, their role amounts to an involvement in 'invisible teaching'. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials, the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great deal of these efforts is still experimental—in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these do admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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Netaji Subhas Open University
Post-Graduate Degree Programme
Subject : Commerce (M. Com)
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**Netaji Subhas
Open University**

**Post Graduate : Commerce
(M. Com)**

**Course : Corporate Governance and Business Ethics
Code : PGCO-VIII**

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Module - 1

Unit - 1 □ Concept and Understanding the Corporate Governance

Structure

1.1 Objectives

1.2 Introduction

1.3 Important features of Corporate Governance

1.4 Composition of Board of Director

1.4.1 The Role of the Board of Directors in Corporate Governance

1.5 Other Components of Corporate Governance

1.6 Corporate Governance System Worldwide

1.7 Summary

1.8 Exercise

1.1 Objectives

After going through this unit you will learn.

- Corporate Governance and Role of Board:
- Composition of Board of Directors;
- Corporate Governance other components;
- Corporate Governance system worldwide : Single board vs. Dual board; Germany Japanese system - 'networked model' vs. Anglo American system - 'high-tension model';
- Corporate Governance in India A journey through the historical models.

1.2 Introduction

Corporate Governance refers to the way in which companies are governed and to what purpose. It provides power and accountability, and identifies decision makers

of an organisation. Governance is a toolkit that enables management and the board to efficiently face challenges of running a company. Corporate governance ensures appropriate decision-making processes and controls to protect the interests of all stakeholders (shareholders, employees, suppliers, customers and the community).

The **Cadbury Report 1992** provides a useful definition :

‘The system by which companies are directed and controlled’.

In his book ‘A Board Culture of Corporate Governance’, business author Gabrielle O’Donovan defines corporate governance as “an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes.”

1.3 Important Features of Corporate Governance

Important features of corporate governance are as follows:

- 1. Transparency :** Transparency incorporates a system of checks and balances between key players – boards, management, auditors and shareholders. Transparency in company’s action may be ensured through making non-partial disclosures of company rules, policy, accounts, etc. and timely disclosure of information complete in all respect equally to all shareholders about results; Annual General Meetings (AGMs); quarterly updates on company’s performance, risks, outlook, opportunities and threats etc.
- 2. Accountability :** Corporate Governance necessitates taking into account the shareholders interests in every business decision which brought accountability of the Board of Directors of a company and their constituent responsibilities in focus. Board of Directors are the representors of the stakeholders and are accountable to the stake holders for decisions taken.
- 3. Trusteeship :** “The doctrine of trusteeship is based on the Bhagavad Gita. The twin principles of ‘aparigraha’ (non-possession) and ‘Sambhawa’ (equalism) are the main principles of Bhagavad Gita. Corporates are the trustee of the shareholders and their money; they should use their wealth for the welfare of the society and the community at large.” Trusteeship involves

a strong code of discipline and ethical behaviour as well as equally strong principle of accountability.

4. **Employees' Welfare** : Good corporate governance is essentially concerned with company's human resource. Training, Identification and rewarding of performance, Focus on multi-skill programme where key executives are rotated to various functions to develop skills across different functions, Scholarships and/or educational facilities for children of the company's staff are common welfare policies adopted by corporate governance.
5. **Environment Protection** : Protection of environment should be the first priority of every socially responsible organization. Each company must take steps to make sustainable use of resources, establish a healthy and safe working environment, maintain ecological balance, take proactive steps to minimize waste generation and preserve the environment.
6. **Meeting Social Obligations** : social responsibility of a business is regulated by corporate governance through non-executive and independent directors who will take care of the interests and well- being of all the stakeholders. Corporate Social Responsibility (CSR) is now a mandated law, which must be followed to balance the societal damage made by various business organisation. The overall endeavour of the board should be to take the organization forward, to maximize long-term value and shareholders' wealth.

1.4 Composition of Board of Directors

Section 149 of the Companies Act, 2013 requires that every company shall have a minimum 3 directors in the case of a public company, 2 directors in the case of a private company, and 1 director in the case of a One Person Company.

-At least 1 director who has stayed in India for a total period of not less than 182 days in the previous calendar year shall be appointed by every company.

-At least one woman director shall be appointed in every listed company within one year from the commencement of the Act.

-All the listed public company would have at least 1/3 of the total number of directors as independent directors (fraction is to be rounded off to one).

-A company can appoint a maximum of 15 fifteen directors. A company may appoint more than fifteen directors after passing a special resolution in general meeting and approval of Central Government is not required.

-The maximum number of directorships, including any alternate directorship a person can hold, is 20.

-Every other public company having paid up share capital of ₹ 100 crores or more or turnover of ₹ 300 crores or more as on the last date of audited financial statements, shall appoint least one woman director within one year from the implementation of the Act.

Under LODR for Listed Companies (Listing Obligations and Disclosure Requirements)

The members of the board shall have an optimum combination of executive and non-executive directors and at least one woman director. At least 50% of the board of directors must be non-executive directors.

When the board chairman is a non-executive director, a minimum of one-third directors shall be made up of independent directors. In case of the board chairman being an executive director, a minimum of half of the board of directors shall comprise of independent directors.

However, in case a non-executive chairman is a promoter of the said listed company or directly related to a promoter or a high-level manager, at least half of all directors will comprise of independent directors.

The Director who is involved in the routine management of the firm and acts as a full-time employee of the company is known as Executive Director. A Non-Executive Director is a member of the company's board, but does not possess the management responsibilities. An independent director is a member of the board of directors who (1) do not have a material relationship with the company, (2) is not part of the company's executive team, and (3) is not involved with the day-to-day operations of the company.

1.4.1 The Role of the Board of Directors in Corporate Governance

The main role of board directors is oversight and planning. Corporate boards have the responsibility to take decisions in an organisation, considering how it will affect their employees, customers, suppliers, communities and shareholders.

Good corporate governance was never intended to be directly involved in the daily operations of a corporation, and they are separate from management. Despite the differences, boards also regularly delegate some of their duties to board

committees. Corporate board committees act as a subset of the full board. Committees engage in issues for which the full board doesn't have time. Committees provide regular reports to the board on the matters they're charged with handling. Best practices for corporate governance encourage boards to offer the majority of board seats to independent directors. A well-composed board brings a diverse range of expertise, perspectives and knowledge into the boardroom. Regulators, investors and others are also making a big push for boards to consider diversity in a multitude of realms, including age, gender, experience, ethnicity, race, religion, skills and experiences. Executive, Non-Executive, independent directors including women director creates a dynamic team with expertise of business, general decision making, and independence of decision making.

1.5 Other Components of Corporate Governance

People, Purpose, Process, and Performance are the Four Ps of Corporate Governance, the guiding philosophies behind why governance exists and how it operates. This is further illustrated below :

People—People come first in the Four Ps because people exist on every side of the business equation. They are the founders, the board, the stakeholder and consumer and impartial observer. People are the organisers who determine a purpose to work towards, develop a consistent process to achieve it, evaluate their performance outcomes, and use those outcomes to grow themselves and others as people.

Purpose—Every governance is made for a purpose and to achieve a purpose. The organisations mission, objectives, policies and projects should exist to further this agenda. Every small effort to goof governance will pay off and makes the business effective at achieving it's stated purpose.

Process—Governance is the process by which people achieve their company's purpose, and that process is developed by analysing performance. Processes are refined over time in order to consistently achieve their purpose, and it's always smart to take a critical eye to your governance processes. Correct process helps the company to grow effortlessly.

Performance—Performance analysis is an ability to look at the results of a process and determine whether it was successful (or successful enough), and then apply those findings to the rest of your organisation, is one of the primary functions of the governance process. Performance determines the efforts and gaps that leads to success or failure.

1.6 Corporate Governance System Worldwide

1. Anglo-American Model of Corporate Governance :

In this model of corporate governance, shareholders elect the board of directors. They take up the advisory role. Shareholders usually control a private corporation through the board of directors. The board of directors performs three basic functions on behalf of the shareholders i.e. representation, direction and oversight. The board appoints and supervises the executive officers who will take care of the daily activities of the organization. However, the structural framework of the Anglo-American model as laid down by the legal system is depicted through the following diagram-

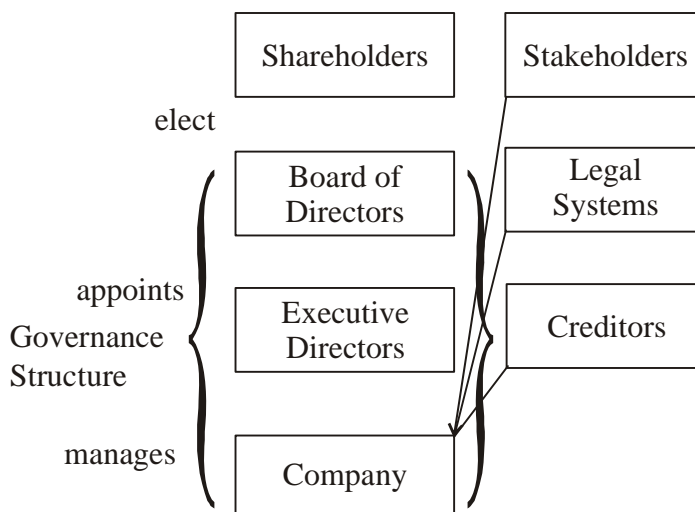


Fig-1 : Anglo-American Corporate Governance Model

As per this model, employees, suppliers and creditors are stakeholders in the corporations. The creditors have a lien on the assets of the corporation. The board of directors designs the policy of the corporation, which is then implemented by the management. Using a well-designed information system the board monitors the implementation of this policy in the organization. This model is most suitable for a production or manufacturing organization as it facilitates efficient monitoring of production, exchange and performance.

2. German Model of Corporate Governance :

In this model of corporate governance, even though the shareholders own the

corporation, they do not directly control the governance mechanism. Here, we can find two-tier board structure- Supervisory Board and Management Board. Half of the members of Supervisory Board are elected by the labour unions while the remaining is elected by the share holders or owners of the corporations. In this model, the employees are not just stakeholders, but also have a say in the governance mechanism.

Thus, employees become responsible for the policies that are to be implemented by them for attaining the objectives of the firm i.e. profit, market share, high turnover etc. The supervisory board, which is jointly appointed by shareholders and labour unions, appoints and monitors the management board. This management board conducts the day-to-day operations of the organization independently. But, the management board has to report to the supervisory board about their activities for a specific period. One of the unique features of this model is that the labour relations' officer finds a place on the management board. So, this model ensures workers participation in the governance mechanism. Here, the German model of corporate governance and the relationship between various constituents of the system is presented-

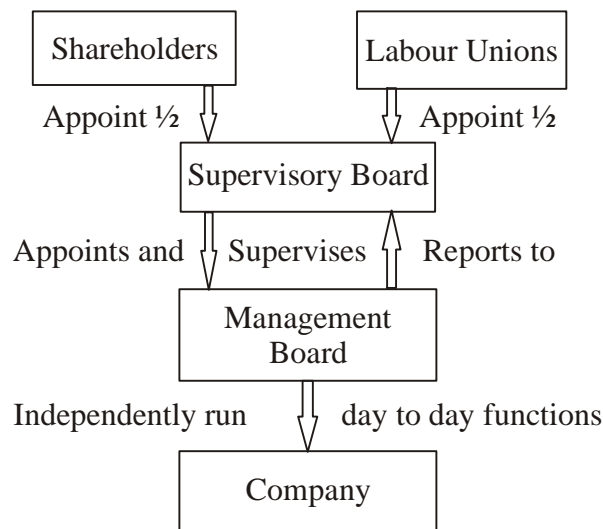


Fig-2 : German Corporate Governance Model

3 Japanese Model of Corporate Governance :

In the Japanese model of corporate governance, the financial institutions have a major say in the governance mechanism. The shareholders, along with the banks (the major capital providers of the Japanese firms), appoint the members on the

board. In this model even the president is appointed on the basis of a consensus between shareholders and the banks. The President consults with the board and their relations are hierarchical in nature. Usually the board ratifies whatever decisions the president takes. The financial institutions that finance the business have a crucial role in it even though the shareholders are the owners of the business. In this model, the executive management (primarily board of directors) carries out the management function. Sometimes the financial institutions monitor the management function by nominating the management personnel. The banks even have the power to suspend the board in case of an emergency. The Japanese model of corporate governance is exhibited here with this self-explanatory diagram-

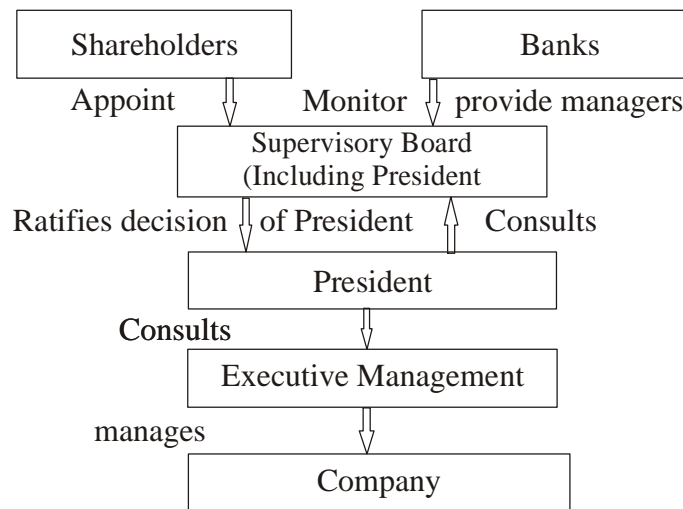


Fig-3 : Japanese Corporate Governance Model

4 Indian Model of Corporate Governance :

The Indian model of corporate governance is a mix of the Anglo-American and German models of Corporate Governance. Corporations in India can be grouped into three categories: private companies, public companies, banks and other corporations.

In case of closely hold family-run private companies, the founder, his family, and associates exercise maximum control over the activities of these companies. The businesses of private companies like that of the TATA group, the Reliance group or the Birla group are financed by retained earnings or/and debt. The role of external equity finance is minimal.

In case of public enterprises, the central and state governments choose the members of the board. Even after the disinvestment of some public companies, the government continues to have a considerable hold over the activities of the company. Here the interests of the stakeholders are generally given less priority. Large public sector enterprises are run to serve the interests of the government rather than aiming for efficiency and maximizing long term owner value.

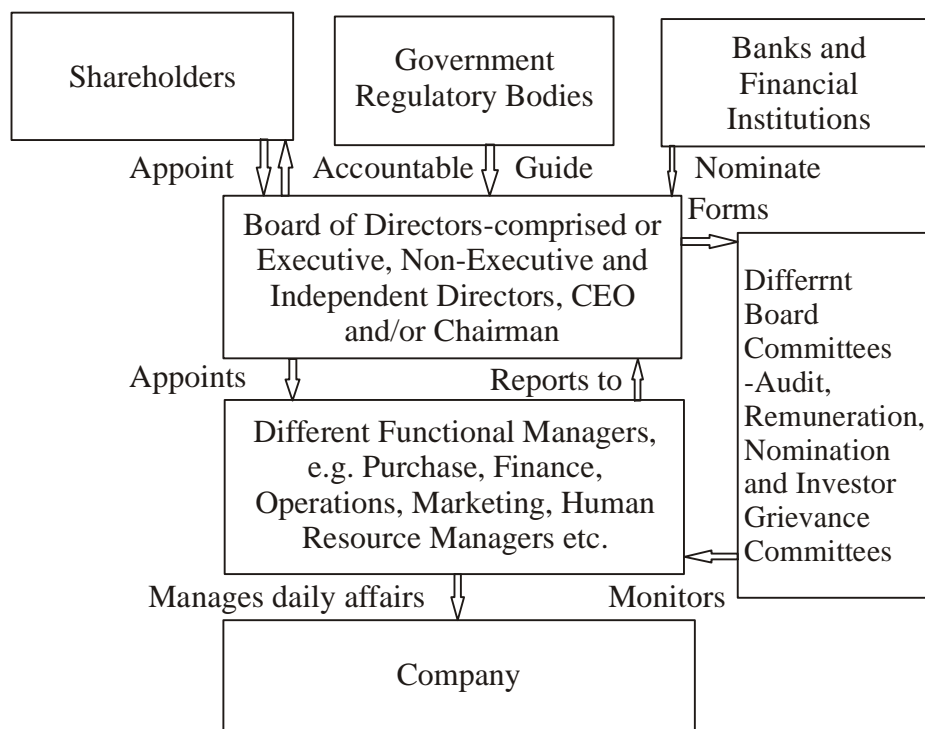


Fig-4 : Indian Model of Corporate Governance

1.7 Summary

The chapter consists of an explanation of how governance is important for sustainability in business. The Board of Directors brings a diverse range of expertise, perspectives, and knowledge into the boardroom. So the composition of the board is relevant in good governance. People, Purpose, Process, and Performance are the Four Ps of Corporate Governance, the guiding philosophies behind why governance exists. The corporate governance system adopted worldwide is also included in this chapter to understand the diversified approaches to corporate governance.

1.8 Exercise

Group - A

1. The corporate governance structure of a company reflects the individual companies':
 - (a) Cultural and economic system.
 - (b) Legal and business system.
 - (c) Social and regulatory system.
 - (d) All of the above.
2. Under the _____, both internal and external corporate governance mechanisms are intended to induce managerial actions that maximize profit and shareholder value.
 - (a) Shareholder theory.
 - (b) Agency theory.
 - (c) Stakeholder theory.
 - (d) Corporate governance theory.
3. The system that is used by firms to control and direct their operations and the operations of their employees is called :
 - (a) Corporate Compliance.
 - (b) Corporate Governance.
 - (c) Corporate Control.
 - (d) Corporate Directive.
4. What is meant by the phrase CSR ?
 - (a) Corporate Social Responsibility
 - (b) Company Social Responsibility
 - (c) Corporate Society Responsibility
 - (d) Company Society Responsibility

5. Which of the following does the term Corporate Social Responsibility relate to ?
- (a) Ethical conduct
 - (b) Environmental practice
 - (c) Community investment
 - (d) All of the above

Group – B

1. Mention few important features of Corporate Governance?
2. Explain the role of the Board of Directors in Corporate Governance ?
3. What are the other important components of Corporate Governance?
4. Explain the Indian model of Corporate Governance.

Group – C

1. Explain Corporate Governance system practices worldwide.
2. How is Corporate Governance important and how does composition of board of directors help in good governance.

Ans. Group-A : 1. (d), 2. (b), 3. (b), 4. (a), 5. (d)

Unit - 2 □ Corporate Governance in India

Structure

- 2.1 Objectives**
- 2.2 Introduction**
- 2.3 Major recommendations of Corporate Governance Committees**
- 2.4 An Overview on Various Initiatives towards Corporate Governance Movements in India**
- 2.5 Corporate Governance Reform in Post Satyam Saga: Biggest Corporate Scam in India**
- 2.6 A Brief Review of Reforms in Corporate Governance Mechanisms in India under the regime of the New Companies Act, 2013**
- 2.7 Summary**
- 2.8 Exercise**

2.1 Objectives

After going through this unit you will learn.

- Main recommendations of the Corporate Governance Committees and Codes in India;
- Corporate Governance and legislations in India;
- Corporate Governance in the Public Sector in India.

2.2 Introduction

Major committees have been formed to enhance the social benefit of corporate governance and optimum utilisation of resources available as CSR funds. These committees provide major recommendations which must be adopted to enhance the responsibilities of a business. It was felt that under Indian conditions a statutory rather than a voluntary code would be far more purposive and meaningful. The Companies Act, 2013 has tried to make a paradigm shift in corporate governance mechanism in India by promulgating various timely and relevant provisions.

2.3 Major recommendations of Corporate Governance Committees

Major recommendations of corporate governance committees are described below.

Cadbury Committee Code of Best Practices

Sir Adrian Cadbury, Chairman of Cadbury Schweppes and also considered the father/pioneer in the field of modern 'Corporate Governance', had in fact made its recommendation in 1992 with the publication of the 'code of best practices'. His recommendations were focused primarily on the composite functioning responsibility and accountability of a company's Board of Directors. Some of the major highlighting factors of his recommendations are furnished below :

- (a) **Composition of board of directors :** It is recommended that where the chairman is also chief executive, it is essential that there should be strong and independent element on the board with a recognized senior member. The board should include non-executive director of sufficient caliber and number for their views to carry significant weight in the board's decisions. (Executive) Director Service contracts should not exceed three years without shareholders' approval.
- (b) **Separation of the Post of Directors and Chairman :** Given the importance and particular nature of the chairman's role, it should in principle be separate from that of the chief executive. If the two roles are combined in one person, it represents a considerable concentration of power. We recommend, therefore, that there should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board.
- (c) **Independence in Board Committees :** To meet recommendations on the composition of sub-committees of the board, all boards will require a minimum of three non-executive directors, one of whom may be the chairman of the company provided he or she is not also its executive head. Additionally, two of the three should be independent directors. By independence, we mean that apart from their directors' fees and shareholdings, they should be independent of management and free from any business or

other relationship which could materially interfere with the exercise of their independent judgment. Moreover, in order to promote independence in board it was also recommended that non-executive directors should not participate in share option schemes and for their service as non-executive directors not to be pensionable by the company.

- (d) **Appointment of Non-Executive Directors :** Given the importance of their distinctive contribution, non-executive directors should be selected with the same impartiality and care as senior executives. We recommend that their appointment should be a matter for the board as a whole and that there should be a formal selection process, which will reinforce the independence of non-executive directors and make it evident that they have been appointed on merit and not through any form of patronage. We regard it as good practice for a nomination committee (dealt with below) to carry out the selection process and to make proposals to the board.
- (e) **Activities and Responsibilities of the Board :** There should be a clearly accepted division of responsibilities at the head of company, which will ensure a balance of power and authority such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive it is essential that there should be a strong and independent element on the board, with a recognized senior member. The Board should have a formal schedule of matter specifically reserved to it for decisions to ensure that the direction and control of the company is firmly in its hands. Moreover, it was also recommended that in order to promote transparency in the system the non-executive directors should be appointed for specified terms.
- (f) **The Role of company Secretary :** All directors should have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the company secretary should be a matter for the board as a whole.
- (g) **Standards of Conduct :** It is important that all employees should know what standards of conduct are expected of them. We regard it as good practice for board of directors to draw up codes of ethics or statements of business practice and to publish them both internally and externally.
- (h) **Nomination Committee :** It is important that all employees should know what standards of conduct are expected of them. We regard it as good practice for board of directors to draw up codes of ethics or statements of

business practice and to publish them both internally and externally.

- (i) **About Audit Committee :** In the context of establishing “Audit committee” and defining its significance, “The Cadbury Committee” made important recommendations about formation, procedure of meetings of audit committee.

The board should establish an ‘Audit Committee’ of at least 3 non-executive directors with written terms of reference which deal clearly with its authority and duties and they should normally meet at least twice a year.

The external auditor should normally attend audit committee meetings, as should the finance director.

- (j) **About meetings of the Board :** The board should meet regularly, retain full and effective control over the company and monitor the executive managements. The board should have a formal schedule of matters specifically reserved to it for decision to ensure that the director and control of the company is firmly in hands.

- (k) **Director’s pay and Remuneration :** There should be full and clear disclosure of director’s total emoluments and those of the chairman and highest paid U.K. directors, including pension contribution and stock options. Separate figures should be given for salary and performance related elements and the basis on which performance is measured should be explained.

Executive directors’ pay should be subject to the recommendation of a ‘Remuneration Committee’ made up wholly or mainly of non-executive director.

- (l) **About Independent / Non-executive Directors :** The Committee had made some important recommendations towards the presence of independent element in the board so as to ensure neutrality in decision making or other functioning of the board. The Board should include non-executive directors of sufficient caliber and number for their views to carry significant weight in the board’s decision. Non-executive directors should bring an independent judgment to bear on issues of strategy performance, resources including key appointments and standards of conduct.

The majority should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment apart from their fees and shareholding. Their fees should reflect the time which they commit to the company. Non-executive directors should be appointed for specified terms and reappointment

should not be automatic. Non-executive directors should be selected through a formal process and both this process and their appointment should be a matter for the board as a whole.

- (m) Reporting and Controls :** It is the Board's duty to present a balanced and understandable assessment of the company's position. The board should ensure that an objective and professional relationship is maintained with the auditors.

The Directors should explain their responsibility for preparing the auditors about their reporting responsibilities. The Directors should report on the effectiveness of the company's system of their internal control. The directors should report that the business is a going concern with supporting assumption or qualifications as necessary.

Clause 49 of the Listing Agreement of SEBI evolved from the Recommendation of Kumarmanglam Birla Committee :

The recommendations of the Kumarmanglam Birla Committee on corporate Governance had been implemented through the Listing Agreement. Clause 49 of the listing Agreement contains the requirements as regards corporate governance. This clause enjoins on all listed companies to implement and comply with its requirements relating to corporate governance. Now this clause 49 is to be strictly adhered to all listed companies (existing as well as new one) irrespective of their size and status. Some of the salient features of this law is furnished below :

1. Composition of Board of Directors : It is stated that –
 - (i) Not less than 50% of the total number of directors should comprise of non-executive directors,
 - (ii) In case of a non-executive chairman, at least one-third of the total number of directors should comprise of independent directors.
 - (iii) In case of an executive chairman at least half of the total number of directors should comprise of independent directors.
2. Composition of Audit Committee : It is stated that –
 - (i) The audit committee shall have –
 - ★ Minimum 3 members, all being non-executive directors,
 - ★ Majority of the members being independent,
 - ★ At least one member having financial and accounting knowledge,

★ The chairman being an independent director who shall remain present at the company's AGM.

- (ii) The audit committee should invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meeting of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and when required, a representative of the external auditor shall be present as invitee for the meetings of the audit committee.
- (iii) The company secretary of the company shall act as the secretary of the audit committee.

3. Audit Committee-powers and Function :

- (i) The audit committee shall have powers which should include the following :
 - (a) To investigate any activity within its terms of reference.
 - (b) To seek information from any employee,
 - (c) To obtain outside legal or other professional advice,
 - (d) To secure attendance of outsiders with relevant expertise, if it considers necessary,
- (ii) The company agrees that the role of the audit committee shall include the following :
 - (a) Oversight (supervision, direction and control) of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible,
 - (b) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
 - (c) Reviewing with management the annual financial statements before submission to the board, focusing primarily on;
 - ★ Any changes in accounting policies and practices,
 - ★ Major accounting entries based on exercise of judgment by management,

- ★ Qualification in draft audit report,
 - ★ Significant adjustments arising out of audit,
 - ★ The going concern assumption,
 - ★ Compliance with accounting standards,
 - ★ Compliance with stock exchange and legal requirements concerning financial statements,
 - ★ Any related party transactions i.e., transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc, that may have potential conflict with the interests of company at large.
- (d) Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
- (e) Reviewing the adequacy of internal audit function including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- (f) Discussion with internal auditors any significant findings and follow up there on.
- (g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- (h) Discussion with external auditors before the audit commences; nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- (i) Reviewing the company's financial and risk management policies,
- (j) To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- (iii) If the company has set up an audit committee pursuant to provision of the companies act, the company agrees that the said audit committee shall have such additional functions/features as is contained in the Listing Agreement.

4. Audit Committee – Meetings :

- (i) The Audit committee must meet at least three times a year –
 - ★ Once every 6 month and
 - ★ Once before finalization of accounts.
- (ii) The quorum for the meetings of the audit committee will be two or one-third of the total number of members, whichever is higher, at least two of the members constituting a quorum must be independent.

5. Directors - Remuneration :

The remuneration of non-executive directors shall be determined by the board of directors. The following disclosures shall be in the annual report in respect of all the directors –

- ★ All elements of remuneration package of all the directors i.e. salary, benefits, bonus, ESOPs, Pension.
- ★ Details of fixed component and performance linked incentive along with performance criteria.
- ★ Service contracts, notice period, severance fees.

6. Board Meetings & role of Board of Directors – A discussion of regulations :

- (i) Frequency of Board meetings : It is stated that –
 - (a) Minimum four board meetings must be held in each year,
 - (b) There should not be a time gap of more than 4 months between any two Board meetings.
- (ii) Agenda for Board meetings : The following information should be placed at Board meetings :
 - (a) Annual operating plans & budget as well as capital budgets and any updates.
 - (b) Quarterly results for the company and its operating divisions or business segments.
 - (c) Minute of meetings of audit committee and other committees of the board.
 - (d) Information on recruitment and remuneration of senior officers just below the board level including appointment or removal of Chief Financial officer and the Company Secretary.

- (e) Any other financial /non financial significant issues such as joint venture or collaboration agreement, payment of goodwill, brand equity, penalty, prosecution notice, labor problems including wage agreement, Voluntary Retirement Scheme (VRS), sale of investment, public or product liability etc.
 - (f) Quarterly details of foreign exchange exposures and the steps taken by management to limit adverse exchange rate movement of material.
- (iii) Limit on Number of Committee Membership :
- (a) No director should hold membership in more than 10 committees and chairman of more than five companies in all companies in which he/she is a director,
 - (b) Every director must inform the company of changes in regard to membership of committees by virtue of appointments and cessation.

7 Disclosure :

- (i) Disclosure as to Management Discussion & Analysis Report: In annual report, the management discussion and Analysis Report must cover –
 - ★ Industry structure & developments
 - ★ Opportunities & threats.
 - ★ Segment-wise or product-wise performance.
 - ★ Outlook.
 - ★ Risks & concerns.
 - ★ Internal control systems & their adequacy.
 - ★ Discussion on financial performance with respect to operational performance.
 - ★ Material relations front including member of people employed.
- (ii) Disclosure to Board regarding interest of members of management of the company :

The management of the company must disclose to its Board details relating to all material, financial and commercial transactions where

they have personal interest that may have a potential conflict with the interest of the company at large.

(iii) Disclosure regarding appointment/re-appointment of directors :

In relation to the above factor, the company should disclose details regarding-

- (a) Brief resume of the person proposed to be appointed/re-appointed as a director,
- (b) Nature of his expertise in specific functional areas,
- (c) Names of companies in which he holds director ships and committee memberships.

(iv) Disclosure of certain information on web-site or otherwise :

The company should put on its web-site or provide the same to the stock exchange(s) at which the company's securities are listed –

- (a) Quarterly results,
- (b) Presentation made to financial analysts.

8. Shareholders / Investors' Grievance Committee :

A board committee under the chairmanship of a non-executive director should be constituted to look into investors' complaints like transfer of shares, non-receipts of balance sheet, non-receipt of declared dividends etc and redress thereof.

9. Share transfer - Delegation of Power :

The power to deal with an appropriate application for share transfer should be delegated to a committee of the board or to an officer of the company or share transfer agent.

10. Report on Corporate Governance :

There shall be a separate section on corporate Governance in the annual report of the company with a detailed compliance report on corporate governance. Information on the following points should be given in this section :

- ★ Non compliance on any mandatory requirement.
- ★ Reasons for such non-compliance.

- ★ The extent to which the non-mandatory requirements have been adopted by the company.

11. Certificate of compliance :

The company must –

- ★ Obtain a certificate from the auditor of the company regarding compliance of conditions of corporate governance as stipulated in clause 49 of the listing agreement.
- ★ Annex the certificate to the directors' Report, made u/s 217 of the Companies Act and
- ★ Send a copy of the certificate to the concerned stock Exchange (s) along with the annual return to be filed with the Stock Exchange.

Summary of Report of Committee on Corporate Audit & Governance (Naresh Chandra Committee) :

On 21st August 2002, the Department of company Affairs (DCA) under the Ministry of finance and Company Affairs appointed a high level committee, chaired by Mr. Naresh Chandra to examine various corporate governance issues. Some of the important recommendations of Naresh Ch. Committee are prescribed below –

(A) Auditor – Company Relationship :

1. Disqualifications for audit assignments :

In line with international best practices, the committee recommends an abbreviated list of disqualifications for auditing assignments which include-

- (i) Prohibition of any direct financial interest in the audit client by the audit firm, its partners or members of the engagement team as well as their direct relatives (having more than 2% share of profit or equity capital of the audit client).
- (ii) Prohibition of receiving any loans and or guarantees from or on behalf of the audit client by the audit firm, its partners or any member of the engagement team and “their direct relatives”.
- * (iii) Prohibition of any business relationship with the audit client by the auditing firm, its partners or any member of the engagement team and “their direct relatives”.

- (iv) Prohibition of personal relationships which would exclude any partner of the audit firm or member of the engagement team being a relative of any of key officers of the client company i.e. any whole time director, CEO, CFO, company Secretary, senior manager belonging to the top two managerial levels of the company.
- *(v) Prohibition of service or cooling off period, under which any partner or member of the engagement team of an audit firm who wants to join an audit client, or any key officer of the client company wanting to join an audit client would only be allowed to do so after 2 years from the time they were involved in the preparation of accounts and audit of that client.
- *(vi) Prohibition of under dependence on an audit client so that no audit firm is unduly dependent on an audit client, the fees received from any one client and its subsidiaries and affiliates all together should not exceed 25% of the total revenues of the audit firm. However, this requirement will not be applicable to audit firms for the first 5 years from the date of commencement of their activities and for those whose total revenues are less than Rs. 15 lakhs per year.

2. List of Prohibited non-audit services :

The committee recommended that the following services should not be provided by an audit firm to any audit client :

- (i) Accounting and book keeping services,
- (ii) Internal audit services,
- (iii) Financial information systems design and implementation,
- (iv) Actual services,
- (v) Broker, dealer, investment adviser or investment banking services,
- (vi) Outsourced financial services,
- (vii) Management functions including provision of temporary staff to audit clients,
- (viii) Any form of staff requirement,
- (ix) Valuation services and fairness opinion.

Further in case the firm undertakes any service other than audit or the prohibited services listed above. It should be done only with the approval of the audit committee.

3. Independence standards for consulting and other Entities that are affiliated to Audit Firms :

❖ Prohibition of under dependence :

No more than 25% of the revenues of the Consolidated entity, comprising of the parent audit firm is subsidiaries, should come from a single corporate client with whom there is also an audit engagement.

4. Compulsory Audit partner Rotation :

The committee felt that there is no need to legislate in favor of compulsory rotation of audit firms.

However, the partners and at least of the engagement team (excluding article clerks and trainees) responsible for the audit of either a listed company or companies whose paid-up capital and free reserves exceed RS. 10 crore, or companies whose turnover exceeds Rs. 50 crore, should be rotated every 5 years.

Also in line with the provisions of the European Union and the IFAC, persons who are compulsorily rotated, could if need be allowed to return after a break of 3 years.

5. Auditors disclosure of contingent liabilities :

The Committee recommended that management should provide a clear description in plain

English of each material liability and its risks, which should be followed by the auditor's clearly worded comments on the management view.

6. Auditor's disclosure of qualifications and consequent action :

A qualification can be a serious indictment of the financial affairs and management of a company. The following are recommendations of the committee in respect of those cases –

- (i) Qualification to accounts, if any, must form a distinct and adequately highlighted section of the auditor's report to the shareholders,
- (ii) These must be listed in full in plain English starting the nature and causes of such qualifications,

- (iii) In case of a qualified auditor's report the audit firm may read out the qualification, with explanation, to shareholders in the company's AGM.
- (iv) It should also be mandatory for the audit firm to separately send a copy of the qualified report to the ROC, the SEBI and the principal stock Exchange; about the qualifications with a copy of this letter being sent to the management of the company.

7. Management's certification in the event of auditor's replacement :

It is recommended that Section 225 of the companies Act needs to be amended to enable the shareholders to seek the causes why an auditor eligible to re-appointment is sought to be replaced.

The audit committee will have to verify that the explanatory statement provided by management in this purpose is "true and fair" .

8. Auditor's annual certification of independence :

Before agreeing to be appointed, the audit firm must submit a certificate of independence to the audit committee or to the board of directors of the client company certifying that the firm, together with all its wings-

- ❖ Are independent and have arm's length relationship with the client company.
- ❖ Have not engaged in any non-audit services listed and prohibited in earlier section of this report (a)
- ❖ Are not disqualified from audit assignments by virtue of breaching any limits, restrictions and prohibitions listed in (a) & (c) section of the report.

9. Appointment of Auditors :

The audit committee of the board of directors shall be the first point of reference regarding the appointment of auditors. To discharge this fiduciary responsibility the audit committee shall:

- ❖ Discuss the annual work program with auditor,
- ❖ Review the independence of the audit firm in line with recommendation of the committee discussed in section (a), (b) & (c) above and;
- ❖ Recommend to the board with reasons the appointment/ reappointment

or removal of the external auditor along with the annual audit remuneration.

10. CEO and CFO certification of annual audited accounts :

In line with section 302 of Sarbanes-Oxley ACT, 2002, of U.S., Naresh. Ch. Committee also recommended that all listed companies as well as public limited companies whose paid-up capital and free reserves exceed RS. 10 crore.

or turnover exceeds Rs. 50 crore, there should be a certification by the CEO (either the Executive chairman or the managing director) and the CFO (whole-time Finance Director or otherwise) which should state that, to the best of their knowledge and belief :

- ❖ They, the signing officers, have reviewed the balance sheet and profit & loss account and all its schedules and notes on accounts as well as the cash flow statements and the Directors' report.
- ❖ These statements do not contain any material untrue statement or omit any material fact nor do they contain statements that might be misleading.
- ❖ These statements together represent a true and fair picture of the financial and operational state of the company and are in compliance with the existing accounting standards and / or applicable laws/ regulations.
- ❖ They, the signing officer, are responsible for establishing and maintaining internal control and should disclose the deficiencies in the existing internal control system to auditors as well as to the Audit Committee.
- *❖ They have also disclosed to the auditors as well as the Audit committee instances of significant fraud, if any that involves management or employees having a significant role in the company's internal control systems.
- *❖ They, the signing officers, have indicated at the top of the auditor's report as well as the audit committee and in the notes on accounts whether or not there were significant changes in internal control and/ or of accounting policies during the year under review.
- *❖ In the event of any materially significant misstatements or omissions,

the signing officers will return to the company that part of any bonus or incentive or equity based compensation which was inflated on account of such errors, as decided by the Audit committee.

(B) Auditing the Auditors :

1. Setting up of independent quality Review Board :

In line with one of the proposals of Sarbanes-Oxley Act, 2002 in U.S., our Naresh Ch. Committee also recommended that three independent Quality Review Board (QRB) should be established with appropriate legislative support one each for the ICAI, the ICSI and the ICWAI to periodically examine and review the quality of audit secretarial and cost accounting firms and pass judgment and comments on the quality and sufficiency of systems and infrastructure and practices.

In the initial five years, the QRBs will focus their audit quality reviews to the audit firms which have conducted the audit for the top 150 listed companies. Each of these QRBs will be funded by their respective institutes. In the instance of a dispute between the findings of the QRBs and reviewers the matter should be referred to an appropriate appellate forum.

2. Proposed disciplinary mechanism for auditors :

- (i) Classification of offences and merging of schedules is recommended so that council is empowered to award all types of punishment for all types of offences. Further offences need to be categorized according to the severity of misconduct so that processes can be designed, and punishments awarded according to the severity of offences.
- (ii) Prosecution Directorate: an independent permanent directorate within the structure of ICAI shall be created which shall act as the Prosecution Directorate. This office will exclusively deal with all disciplinary cases. The prosecution directorate shall have the same powers as are vested in regard to
 - (I) discovery and production of any document and
 - (II) receiving evidence on affidavit.

Establishment of some of the disciplinary mechanisms are prescribed –

(a) Disciplinary Committee :

Enquires in relation to misconduct of members shall be held by the

disciplinary committee. Each bench should consist of five members headed by president or vice-President of ICAI. The disciplinary Committee referred to by Prosecution Directorate and record their decisions and conclusions in a report. This report shall also record the punishment to be awarded, if any to be member which can constitute (i) reprimand, (ii) removing the name of the member either permanently or for such a period as thought fit, (iii) monetary penalty and / or (iv) a combination of any two.

(b) Council :

All report submitted by the Disciplinary Committee should normally be considered by the council within 45 days from the date of report. It shall be the duty of the council of ICAI to act upon the decisions of the disciplinary committee.

(c) Appellate Body :

Headquartered in New Delhi, the Appellate Body shall consist of a presiding officer and four other members. In the event of the council deciding to appeal against the decisions of the Disciplinary Committee, the council may direct the Prosecution Directorate to place the case before the appellate Body. The presiding officer shall be a retired judge of the Supreme Court or a retired justice of a High Court.

(C) Independent Directors :

(a) Definition : The Naresh Ch. Committee provided an exclusive definition of independent director. It stated that an independent director of a company is a non-executive director of a company.

- (i) Apart from receiving director's remuneration, does not have any other material pecuniary relationships or transactions with the company, its promoters, its senior management or its holding company, its subsidiaries and associated companies.
- (ii) Is not related to promoters or management at the board, or one level below the board (spouse and dependent parents, children or siblings).
- (iii) Has not been an executive of the company in the last three years.
- (iv) Is not a partner or an executive of the statutory auditing firm, legal firm, consulting firm, the internal audit firm that are associated with the company and has not been a partner or an executive or of any such firm for the last three years,

- (v) Is not a significant supplier, vendor or customer of the company,
- (vi) Is not a substantial shareholder of the company, i.e. owning 2% or more of the block of voting shares,
- (vii) Has not been a director, independent or otherwise, of the company for more than three terms of three years each (not exceeding 9 years in any case).
- (viii) Does not play a part of Cross-directorship.

The committee recommended that the above criteria be made applicable for all listed companies as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs. 10 crore and above or turnover of Rs. 50 crore and above w.e.f. the financial year beginning 2003.

(b) Percentage of Independent Directors' & Minimum Board size :-

No less than 50% of the board of directors of any listed company, as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs. 10 crore and above, or turnover of Rs. 50 crore and above, should consist of independent directors.

The minimum board size of all listed company, as well as unlisted public limited companies of above type should be seven of which least four should be independent directors.

However, this will not apply to :

- (i) Unlisted public companies, which have no more than 50 share holders and which are without debt of any kind from the public, banks or financial institutions, as long as they do not change their characters.
- (ii) Unlisted subsidiaries of listed companies.

(c) Disclosure on duration of board meetings / committee meetings :

The minute of board meetings and Audit Committee meetings of all listed companies as well as listed public limited companies of the above discussed must disclose the timing and duration of each such meeting, in addition to the date and member in attendance. If the director(s) participate in the meeting through tele-conferencing and video conferencing then a minute and signed proceedings of tele - conference or video conference should constitute proof of director(s)' participation.

(d) Additional Disclosure to directors :

In addition to the disclosures specified in clause 49 of listing agreement of SEBI, all listed companies as well as unlisted public companies of above type, Marginal Costing should transmit all press releases and presentation to analysts to all board members.

(e) Independent directors on Audit Committees :

Audit committees of all listed companies, as well as unlisted public companies of above type, should consist exclusively of independent directors.

However, this will not apply to : (i) unlisted public companies which have no more than 50 share holders and which are without debt of any kind from any source (ii) unlisted subsidiaries of listed companies.

(f) Audit Committee Charter : Audit committee charter should disclose –

- (i) Names of members of Audit committee,
- (ii) Functions of Audit committee,
- (iii) Dates & frequency of meetings,
- (iv) To what extent each of the functions listed in Audit committee charter were discharged in the course of the year,
- (v) Audit committee's view on internal control systems, perceptions of risks,
- (vi) Why the audit committee accepted and recommended the financial statements with qualifications.

(g) Remuneration of non-executive director:

The maximum sitting fee permitted by the DCA is Rs. 5,000. But the committee is on the view that the amount of fees should be reviewed by the management and the shareholders.

(h) Exempting non-executive directors from certain liabilities :-

The committee is of the opinion that it would be very difficult to attract high quality independent directors on the boards of Indian companies if they have to constantly worry about serious criminal liabilities under different Acts. So, it is recommended that non-executive and independent directors should be exempted from certain criminal and civil liabilities under certain Acts such as companies ACT, Negotiable Instruments ACT, Provident Fund Act etc.

(i) Training of Independent directors :

All independent directors should be required to attend at least one such training course before assuming responsibilities as an independent director, or considering that enough programs might not be available in the initial years within one year of becoming an independent director.

(D) Other important recommendations :

(a) SEBI & Subordinate Legislation :

SEBI may refrain from exercising powers of subordinate legislation in areas where specific legislation exists as in the Companies Act, 1956.

In recognition of the fact that SEBI regulates activities in dynamic market conditions, the DCA should respond to SEBI's requirements quickly. It would be appropriate for SEBI to use its powers of subordinate legislation, in consultation with the DCA and vice versa. A formal structure needs to be set up to ensure that the DCA, which regulates all companies and SEBI which regulates only listed companies, act in coordination and harmony.

(b) Improving facilities in the DCA officer :

The committee recommends a paradigm shift in the approach to staffing and equipping the department of company Affairs (DCA). Companies pay, largely by way of fees, approximately RS. 300 crores annually. In recommending these increases, the committee is only asking that services be commensurate with the income from fees charged,

(c) Corporate serious Fraud office :

Fraudsters are enemies of both the stake holders that they cheat directly of the corporate sector, which loses because the fraudsters scare away existing and potential investors. Corporate frauds are so intricate that they can only be unravelled by a multi-disciplinary task force, to be overseen by a committee headed by the cabinet secretary in respect of appointments and functioning of the office and coordination of works, the committee, therefore, suggests setting up a Corporate Serious Fraud Office (CSFO) without at this stage taking away the powers of investigation and prosecution from existing agencies. A corporate frauds task force has been set up recently in the US.

(d) Filling up of the lacunae of Existing Law: In order to fill up the gap of existing legal practices, the committee had recommended that :

- (i) Penalties ought to be rationalized and related to the sums involved in the offence.
 - (ii) A stricter regime should be prescribed for companies registered as brokers with SEBI,
 - (iii) To ensure that proceeds of illegal acts and frauds do not escape recovery, Companies Act needs to be amended to give DCA the powers of attachment of bank accounts etc on the lines of the powers recently given to SEBI.
 - (iv) Managers / promoters should be held personally liable when found guilty of offences . In such case, the legal fees and other charges should be recovered from the officers in default, especially if the offences pertain to betrayal of shareholders' trust or oppression of minority shareholders.
 - (v) Consolidated Financial Statements should be made mandatory for companies having subsidiaries.
- (e) Miscellaneous Recommendations :
- (i) The committee recommended the strengthening of ROC offices, outsourcing of non-statutory works of ROC offices etc.
 - (ii) Inserted a section analogous to sec. 233A which allow government to order special compliance audits.
 - (iii) Section 239(1) (a) should be strengthened to prevent any unnatural stripping of assets or sale of shares by management / promoters.
 - (iv) The committee felt that in the long run, Indian audit firms will have to consolidate and grow if they are to compete, especially in non-statutory functions, internationally. The committee recommends merging of indigenous audit firm to compete with foreign audit firms.

Narayana Murthy Committee on Corporate Governance-March 2003

The Narayana Murthy Committee, appointed by SEBI, had made a number of recommendations in its draft report. Some of the salient recommendations are furnished below :

- (i) The committee had recommended that the audit committee of publicly listed companies should be required to review the following information mandatory; financial statements, management discussion and analysis of financial

condition and results of operations, reports relating to compliance with laws and risk management among others,

- (ii) The committee had also said that all audit committee members should be “financially literate” and at least one member should have accounting or related financial management expertise,
- (iii) In case a company has followed a treatment different from that prescribed in an accounting standard, management should justify why they believe such alternative treatment is more representative of the underlying business transaction. Management should also clearly explain the alternative accounting treatments in the footnotes to the financial statements.
- (iv) The auditor may draw reference to this footnote without necessarily making it the subject matter of an audit qualification. Companies should be encouraged to move towards a regime of unqualified financial statements. This recommendation should be reviewed at an appropriate juncture to determine whether the financial reporting climate is conducive towards a system of filing unqualified financial statements.
- (v) A statement of all transactions with related parties including their bases should be placed before the independent audit committee at each board meeting for formal approval.
- (vi) This statement should include transactions of a non arm’s length nature also. Management should be required to explain to the audit committee the reasons for the non-arm’s length nature of the transaction.
- (vii) The committee believed that it is important for corporate boards to be fully aware of the risks facing the business and that it is important for shareholders to know about the risk management process. In light of this it was suggested that procedures should be in place to inform board members about the risk assessment and minimization procedures. These procedures should be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.
- (viii) It was also suggested that management should place a report before the board every quarter documenting any limitations to the risk taking capacity of the corporations. This document should be formally approved by the board.
- (ix) Procedures should be placed to inform board members about the risk

assessment and minimization reviewed to ensure that executive management controls risk through means of a properly defined framework.

- (x) Management should place a report before the entire board of directors every quarter documenting such risks and any limitations to the risk taking capacity of the corporation. This document should be formally approved by the board.
- (xi) Companies should be encouraged to train their board members in the business model of the company as well as the risk profile of the business parameters of the company.
- (xii) Companies raising money, through an IPO should disclose the uses and application of funds by major category on a quarterly basis as part of their quarterly declaration of un-audited financial results. This disclosure should distinguish between specified and unspecified uses of IPO proceeds and should be approved by the audit committee.
- (xiii) On annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus. This statement should be certified by the independent auditors of the company and formally approved by the audit committee.
- (xiv) The terms of reference of the committee are to review the performance of corporate governance and to determine the role of companies in responding to rumour and other price sensitive information circulating in the market to enhance the transparency and integrity of the market.

2.4 An Overview on Various Initiatives towards Corporate Governance Movements in India

At the time of Independence India bears the legacy of British-derived convention of corporate governance based on the Anglo- Saxon Model. However, from 1947 through 1991, the Indian government pursued mixed economic policies when the state nationalized banks primarily became the principal provider of both debt and equity capital for private firms, the Public Sector Undertakings were evaluated based on the amount of capital invested rather than on their return on investment, competition, especially the foreign competition, was suppressed. In that time period a little emphasis on corporate governance mechanisms was given in India. Public listed companies in India were only required to comply with limited governance and

disclosure standards enumerated in the Companies Act of 1956, the Listing Norms, and the accounting standards set forth by the Institute of Chartered Accountants of India (ICAI). Faced with a fiscal crisis in 1991, the Indian Government responded by enacting a series of reforms aimed at general economic liberalization, privatization and globalization (LPG) movements. The Securities and Exchange Board of India (SEBI) -- India's securities market regulator – was formed in 1992 and by the mid-1990s, the Indian economy was growing steadily, and Indian firms began to seek equity capital especially from abroad to finance expansion into the market spaces created by LPG movement. Ever since its financial liberalization began in 1991, India has undergone significant Corporate Governance reforms. The need for capital especially that of coveted Foreign Institutional Investments (FIIs) amongst other things, led to Corporate Governance reform and many major Corporate Governance initiatives have been launched in India since the mid-1990s; most of these initiatives were focused on improving the governance climate in corporate India which was far from satisfactory and truly an international standards. A glimpse of such Corporate Governance initiatives taken in India is presented here-

- (a) Confederation of Indian Industry (CII) Desirable Corporate Governance : A Code, 1998

The first major initiative was taken by the Confederation of Indian Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. More than a year before the onset of the East Asian crisis, CII had set up a committee under the able leadership of Sri Rahul Bajaj to examine corporate governance issues, and recommend a voluntary code of best practices. Drawing heavily from the Anglo-Saxon Model of Corporate Governance, CII drew up a voluntary Corporate Governance Code. The first draft of the code was prepared by April 1997, and the final document, Desirable Corporate Governance: A Code, was publicly released in April 1998. The code was voluntary, contained detailed provisions, and focused on listed companies. However, the CII Code's voluntary nature did not result in a broad overhaul of governance norms and practices by Indian companies. Although the CII Code was welcomed with much fanfare and even adopted by a few progressive companies, it was felt that under Indian conditions a statutory rather than a voluntary code would be far more purposive and meaningful. Consequently, the second major corporate governance initiative in the country was undertaken by SEBI.

- (b) Clause 49 of the Listing Agreement of SEBI evolved from the Recommendation of Kumar Manglam Birla Committee, 1999

In early 1999, SEBI had set up a committee under Kumar Mangalam Birla to promote and raise the standards of good corporate governance. The Birla Committee specifically placed an emphasis on independent directors in discussing board recommendations and made specific recommendations regarding board representation and independence. The Committee also recognized the importance of audit committees and made many specific recommendations regarding the function and constitution of board audit committees. Furthermore, the Committee made several recommendations regarding disclosure and transparency issues, in particular with respect to information to be 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, modelled after annual reports issued by companies in the United States, and that companies should transmit certain information, such as quarterly reports and analyst presentations, to shareholders. Furthermore, with respect to shareholder complaints, the Committee recommended that a board committee known as the Investors Grievance Committee, chaired by a nonexecutive director, be formed to address grievances. In early 2000, the SEBI board had accepted and ratified key recommendations of this committee, and these were incorporated into Clause 49 of the Listing Agreement of the Stock Exchanges which is mandatory for almost every listed firm to comply with and report in proper way.

- (c) Committee on Corporate Audit & Governance (Naresh Chandra Committee), 2002

The Naresh Chandra committee was appointed in August 2002 by the Department of Company Affairs (DCA) under the Ministry of Finance and Company Affairs to examine various corporate governance issues. The Committee submitted its report in December 2002. It made recommendations in twokey aspects of corporate governance : financial and non-financial disclosures and independent auditing and board over sight of management and made aseriesofre commendations regarding, among other matters, the grounds for disqualifying auditors from assignments, the type of non-audit services that auditors should be prohibited from performing, and the need for compulsory rotation of audit partners.

(d) Narayana Murthy Committee on Corporate Governance, 2003

The fourth initiative on corporate governance in India is in the form of the recommendations of the Narayana Murthy committee. The committee was set up by SEBI, under the chairmanship of Mr. N. R. Narayana Murthy, to review Clause 49, and suggest measures to improve corporate governance standards. Some of the major recommendations of the committee primarily related to audit committees, audit reports, independent directors, related party transactions, risk management, directorships and director compensation, codes of conduct and financial disclosures. The Murthy Committee, like the Birla Committee, described the international developments as a factor that motivated reform and stated that recent failures of corporate governance, particularly in the United States, combined with the observations of India's stock exchanges that compliance with Clause 49 up to that point had been uneven, recommended further reform. The Murthy Committee examined a range of corporate governance issues relating to corporate boards and audit committees, as well as disclosure to shareholders. The Murthy Committee focused heavily on the role and structure of corporate boards and strengthened the director independence definition in the then-existing Clause 49, particularly to address the role of insiders on Indian boards like the director cannot be related to promoters or management at the board level, or one below the board; an executive of the company in the preceding three years; be a supplier, service provider, or customer of the company; or a shareholder owning two percent or more of the company. The Murthy Committee also recommended that nominee directors (i.e., directors nominated by financial institutions particularly, with relationships with the company) be excluded from the definition of independent director, and be subject to the same responsibilities and liabilities applicable to any other director. In order to improve the function of boards, the Murthy Committee recommended that they should also receive training in the company's business model and quarterly reports on business risk and risk management strategies. The Murthy Committee also paid particular attention to the role and responsibilities of audit committees. It recommended that audit committees be composed of "financially literate" members, with at least one member having accounting or related financial management expertise. It provided a greater role for the audit committee as well. For example, the Murthy Committee recommendations promoted disclosure and approval of related party transactions by the audit committee. In addition, the committee

stated that whistle-blowers must have access to the audit committee without first having to inform their supervisors, and that companies should annually affirm that they have not denied access to the audit committee or unfairly treated whistle-blowers generally. SEBI had initiated certain changes in Listing Agreement in line with the Murthy Report covering the areas of governance requirements with respect to corporate boards, audit committees, shareholder disclosure and CEO/CFO certification of internal controls which led transformation of the governance and disclosure standards of Indian public companies.

(e) J.J. Irani Committee on Company Law, 2004

India's corporate governance reform efforts did not cease after adoption of Clause 49. In parallel, the review and redrafting of the Companies Act, 1956 was taken up by the Ministry of Corporate Affairs (MCA) on the basis of a detailed consultative process and the Government constituted an Expert Committee on Company Law under the Chairmanship of Dr. J.J. Irani on 2nd December 2004 to advise on new Companies Bill. There were significant differences between the proposals contained in the Irani report and the requirements of Clause 49, particularly with respect to the board of directors. First, the requirements for independent directors were different in several respects. Clause 49 required that no independent director should have been an executive of the company in the preceding three financial years, while the Irani Committee's recommendations weaken that requirement so that independent directors, along with their relatives, should not have been an employee of the company in any capacity only in the past single year. Similarly, while clause 49 prohibited an independent director from having served in any executive capacity in a statutory or internal auditing firm that has a material association with the company for the past three years, the Irani report recommended the same requirement for a period of one year only for independent directors and their relatives. The Irani Committee also recommended that a third of company directors be independent.

2.5 Corporate Governance Reform in Post Satyam Saga : Biggest Corporate Scam in India

In the meanwhile in January 2009, the Indian corporate community was rocked by a massive accounting scandal involving Satyam Computer Services (Satyam), one

of India's largest information technology companies. The Satyam scandal prompted quick action by the Indian government, including the arrest of several Satyam insiders and auditors, investigations by the MCA and SEBI, and substitution of the company's directors with government nominees.

Satyam's failures were many and systemic—from a weak auditing process to ineffective board oversight to a leader intent on committing fraud.

Similar to their role in the first phase of corporate governance reforms, in the post-Satyam period, Indian corporate groups have once again advocated for reconsideration of India's corporate governance rules and advocated for reforms. Shortly after news of the scandal broke, the CII began examining the corporate governance issues arising out of the Satyam scandal and in late 2009, the CII Task Force put out recommendations on corporate governance reform. In addition to the CII, a number of other corporate groups have joined the corporate governance dialogue. The National Association of Software and Services Companies (NASSCOM) also formed a Corporate Governance and Ethics Committee chaired by Mr. N. R. Narayana Murthy, one of the founders of Infosys and a leading figure in Indian corporate governance reforms. The Committee issued its recommendations in mid-2010, focusing on stakeholders in the company. The report emphasized recommendations relating to the audit committee and a whistleblower policy. The report also addressed improving shareholder rights. Additionally, the Institute of Company Secretaries of India (ICSI) has also put forth a series of corporate governance recommendations. In 2009, SEBI made several announcements regarding disclosure and accounting reforms that could result in changes to the Listing Agreement and in September 2009, the SEBI Committee on Disclosure and Accounting Standards published a discussion paper seeking public comment on several governance issues for reviewing Clause 49 of Listing Rules. Later the Clause 49 of Listing Agreement of SEBI was revised thoroughly in light of provisions of new Companies Act, 2013.

2.6 A Brief Review of Reforms in Corporate Governance Mechanisms in India under the regime of the New Companies Act, 2013

The Companies Act, 2013 has tried to make a paradigm shift in corporate governance mechanism in India by promulgating various timely and relevant provisions. Here a brief review of such type of provisions for prevailing good governance mechanisms in corporate India has been furnished here vis-à-vis the old

Companies Act, 1956 along with the relevant provisions of Clause 49 and Revised Clause 49 of the Listing Agreement -

(a) Composition of Board of Directors :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
<p>Section 252 (1) Every public company (other than a public company which has become such by virtue of section 43(A) shall have at least three directors. (2) Every other company shall have at least two directors. There are no explicit provisions for independent directors under Companies Act, 1956</p>	<p>Section 149 : Every company shall have a Board of Directors consisting of individuals as directors and shall have—(a) a minimum number of three directors in the case of a public company, two directors in the case of a private company, and one director in the case of a One Person Company; and (b) a maximum of fifteen directors</p>	<p>49(I) (A) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.</p>	No Change

(b) Advocating the independence in board :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
<p>There are no explicit provisions for independent directors.</p>	<p>Section 149(4) read with Rule 4 of Companies (Appointment and Qualification of Directors) Rules, 2014 : The Listed Public Company should have at least one-third of the total number of Directors and the Public Companies</p>	<p>Clause 49 (I)(A) (ii) : Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at</p>	Same as Cl.49

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
	having paid up share capital of 10 crore rupees or more or turnover of 100 crore rupees or more or aggregate outstanding loans, debentures and deposits, exceeding 50 crore rupees must have at least 2 Directors.	least half of the Board should comprise of independent directors.	

(c) Exclusion of Nominee Director from Independent Directors (IDs) :

The nominee directors are a special form of directorship which has been appointed by the lending institutions to the borrower's board primarily to safeguard the interests of the lenders. This form of directorship is the regular feature of Indian corporate sector which may find a close resemblance with the Japanese Model of Corporate Governance. Regarding the status of such type of directorship the understanding of our regulatory mechanisms are bifurcated. While the Listing Agreement stated that the nominee directors appointed by an institution that has invested in or lent to the company are deemed to be independent directors, but on the other hand New Companies Act, 2013 states that a nominee director cannot be an independent director. However, the SEBI Circular in line with the provisions of Companies Act, 2013 has excluded nominee directors from being considered as independent directors.

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
There are no explicit provisions	Section 149(6) : An independent director in relation to a company, means a director other than a MD or a WTD or a nominee director.	Clause 49 (I) (A) Explanation (d) : Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors.	Clause 49 (II) (B) N o m i n e e director is excluded from the definition of IDs.

(d) Tenure of Independent Director :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 149(10) : An ID shall hold office upto 5 consecutive years on the Board of a company, but shall be eligible for re-appointment on passing a special resolution by the company and disclosure of such appointment in Board's report. Moreover, it was mentioned in Sec 149(11) that no independent director should hold office for more than two consecutive terms with a cooling off period of 3 years.	No such provision	Clause 49(II)(B)(3)(a) : The maximum tenure of Independent Directors shall be in accordance with the Companies Act, 2013 and clarifications/circulars issued by the Ministry of Corporate Affairs, in this regard, from time to time.

(e) Qualification of Independent Directors :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 149(6)(f) read with Rule 5 of Companies (Appointment and Qualification of Directors) Rules, 2014 : An independent director shall possess appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations or other disciplines related to the company's business.	No such provision	The qualifications of IDs are not specified in the amended clause 49 of the listing agreement.

(f) Limit on number of directorship :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 165 (1) : No person, after the commencement of this Act, shall hold office as a director, including any alternate directorship, in more than 20 companies at same time provided that the maximum number of public companies in which a person can be appointed as a directors shall not exceed 10.	Clause 49 (I)(C) (i) : A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director.	A person shall not serve as an independent director in more than 7 listed companies. Further, any person who is serving as a whole time director in any listed company shall serve as an independent director in not more than 3 listed companies.

(g) Separate meeting of Independent Directors :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Section 149 read with Schedule IV: IDs of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. All the independent directors of the company shall strive to be present at such meeting.	No such provision	Clause 49 (II) (B) (6) : The IDs of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. All the independent directors of the company shall strive to be present at such meeting.

(h) Performance evaluation of IDs :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Section 178(2) read with Schedule IV : The Nomination and Remuneration Committee shall identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal and shall carry out evaluation of every director's performance. The performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated. On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director.	No such provision	Clause 49(II)(B)(5) The Nomination Committee shall lay down the evaluation criteria for performance evaluation of independent directors. The company shall disclose the criteria for performance evaluation, as laid down by the Nomination Committee, in its Annual Report. The performance evaluation of independent directors shall be done by the entire Board of Directors (excluding the director being evaluated). On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director.

(i) Code for Independent Directors :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Introduced through inclusion of provisions specified in Schedule	No such provision	No separate schedule. Requirements to

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
	IV covering areas like guidelines of professional conduct, role and functions are laid down, duties of IDs, manner of appointment and re-appointments, separate ,meetings, evaluation mechanisms etc.		comply with provisions of Companies Act, 2013 included.

(j) Promoting Gender Diversity in Board :

In line of worldwide trend towards promoting gender diversity in board for inculcating the spirit of a role model, introducing fresh perspectives, promoting effective leadership, bringing a competitive edge, boosting investors confidence etc., the Sec. 149 (1) of Companies Act, 2013 make a revolutionary changes by making it mandatory for every listed company to appoint, at least one woman director within one year as per the second proviso to the Section 149 (1). Moreover, every public company, having paid-up capital of INR 100 crore or more, and turnover of INR 300 crore or more, have to compulsorily appoint, at least, one woman director within three years as per the Act.

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 149(1) and Rule 3 of Companies (Appointment of Directors) Rule, 2014: The following class of companies shall appoint at least one woman director-(i) every listed company, (ii) Every other public company having-(a) paid-up share capital of 100 cr rupees or more or (b) turnover of three hundred cr rupees or more	No such provision	Clause 49 (II)(A)(1) : The provisions regarding appointment of woman director as provided in shall be applicable with effect from April 01, 2015

(k) Introduction of New Form of Directorship-Resident Director :

The Companies Act, 2013 has taken a revolutionary approach by introducing new nomenclature in Corporate India like One Person Company, Limited Liability Firms etc. Likewise, the Companies Act, 2013 introduces the requirement of appointing a resident director, i.e., a person who has stayed in India for a total period of not less than 182 days in the previous calendar year. This provision will prevent the practice of the boards of Indian companies do not comprise entirely of non-resident directors.

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 149(3) : Every company shall have at least one director who has stayed in India for a total period of not less than 182 days in the previous calendar year.	No such provision	No such provision

(l) Introduction of New Form of Directorship-Small Shareholders' Director

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 151: A Listed company may have one director elected by such small shareholders in such manner and with such terms and conditions as may be prescribed	No such provision	No such provision

(m) Frequency of Board Meeting :

The key changes introduced by the Companies Act 2013 with respect to board meetings and processes are like the first board meeting of a company to be held within 30 (thirty) days of incorporation, notice of minimum 7 (seven) days must be given for each board meeting, notice for board meetings may be given by electronic means. However, board meetings may be called at shorter notice to transact "urgent business" provided such meetings are either attended by at least 1 (one) independent director or decisions taken at such meetings on subsequent circulation are ratified by at least 1 (one) independent director. Moreover, the Companies Act 2013 has permitted directors to participate in board meetings through video conferencing or other audio visual means which are capable of recording and recognising the

participation of directors. Participation of directors by audio visual means would also be counted towards quorum.

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
Section 285 : Board to meet at least once in every three calendar months. In the case of every company, a meeting of its Board of directors shall be held at least once in every three months and at least four such meetings shall be held in every year	Sec 173 (1) : Every company shall hold the first meeting of the Board within 30 days of the date of incorporation and thereafter hold a minimum number of 4 meetings of its Board every year in such a manner that no more than 182 days shall intervene between two consecutive meetings of the boards.	49 (1) (C) : The Board shall meet at least 4 times a year, with a maximum gap of 3 months between any 2 meetings.	No Change

(n) Reorganization of Board Committees-a step towards better governance :

The Companies Act, 2013 envisages 4 (four) types of board committees to be constituted for upholding the spirit of good governance like Audit Committee, Nomination and Remuneration Committee, Stakeholders Relationship Committee and Corporate Social Responsibility Committee.

(i) Audit Committee :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
Sec 292A - Audit Committee (1) Every Public Company having paid-up capital of not less than five crores of rupees shall constitute a	Sec 177 : The Board of Directors of all public companies with paid up capital of ten cr rupees or more or having turnover with one hundred crore rupees or more or	Cl. 49 (II) : A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following :	Unchanged

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
committee of the Board known as "Audit Committee" which shall consist of not less than three directors and such number of other directors as the Board may determine of which two-thirds of the total number of members shall be directors, other than managing or whole time directors.	aggregate outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more shall constitute an Audit Committee with a minimum of three directors with independent directors forming a majority provided that majority members of Audit Committee including Chairperson shall be persons with ability to read and understand the financial statement.	(i) The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors. (ii) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.	

(ii) Nomination and Remuneration Committee :

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 178 : The Board of Directors of all public companies with paid up capital of ten cr rupees or more or having turnover with one hundred crore rupees or more or aggregate outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more shall constitute	Non mandatory committee	Clause 49 has the following provisions regarding Nomination and Remuneration Committee : Members : At-least three members, all non-executive directors and at-least half to be IDs

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
	a Nomination and Remuneration Committee consisting of three or more non-executive directors out of which not less than one half shall be independent directors.		Chairman : Chairman to be an ID

(iii) Stakeholders Relationship Committee :

This Board Committee is the new inception of the Companies Act, 2013. The Companies Act 2013 requires every company having more than 1000 (one thousand) shareholders, debenture holders, deposit holders and any other security holders at any time during a financial year to constitute a stakeholders relationship committee to resolve the grievances of security holders of the company. The main responsibility of this board committee is to look after the grievances of the stakeholders of the company in general and shareholders in particular. However, Clause 49 of the Listing Agreement in line with the recommendation of K.M. Birla Committee required listed companies to set up a shareholders / investors grievance committee to examine complaints and issues of shareholders.

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 178(6) : The Board of Directors of a company which consists of more than one thousand shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee consisting of a chairperson who shall be a non-executive director and such	Clause 49 (IV) (G) : A Board committee under the chairmanship of a non-executive directors shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc.	Introduced now to align with the Act

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
	other members as may be decided by the board to consider and resolve the grievances of security holders of the company.	The board committee shall be designated as “Shareholders/ Investors Grievances Committee”	

(iv) Corporate Social Responsibility Committee :

This is another introduction of the New Companies Act, 2013. New Companies Act 2013 formally makes it mandatory for certain group of major companies to constitute a CSR Committee, which would be responsible to devise, recommend and monitor CSR initiatives of the company. The committee is also required to prepare a report detailing the CSR activities undertaken and if not, the reasons for failure to comply.

Companies Act, 1956	Companies Act, 2013	Clause 49	Revised Clause 49
No such provision	Sec 135 : Every Company having net worth of rupees five hundred crore or more or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which one director shall be an independent director. The Board should ensure that the company spends in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR policy as specified in Schedule VII	No such provision	Introduced now to align with the Act

2.7 Summary

New Companies Act 2013 formally makes it mandatory for certain group of major companies to constitute a CSR Committee, which would be responsible to devise, recommend and monitor CSR initiatives of the company. The committee is also required to prepare a report detailing the CSR activities undertaken and if not, the reasons for failure to comply. These recommendations provided by various committees were adopted to enlarge the benefits that CSR can provide.

2.8 Exercise

Group - A

1. Which of the following descriptions applicable to different types of directors and their independence is incorrect ?
 - (a) Independent executive director.
 - (b) Independent non-executive director.
 - (c) Non-independent executive director.
 - (d) Non-independent non-executive director.
2. Which of the following is not a CSR theory?
 - (a) Rights theory.
 - (b) Legitimacy theory.
 - (c) Stakeholder theory.
 - (d) Enlightened self-interest.
3. Which of the following is not an agency cost?
 - (a) Residual loss.
 - (b) Bonding costs.
 - (c) Congruency loss.
 - (d) Monitoring costs.
4. Which of the following is not an example of a duty or responsibility of directors?
 - (a) Having a conflict of interest but declaring it to the board of directors.
 - (b) Continuing to transact with creditors when the company's liabilities exceed the assets.

- (c) Researching and asking questions relating to the company's operations so as to be informed.
 - (d) Choosing to personally carry out instructions from the board rather than requesting subordinates to do so.
5. Which of the following statements regarding institutional shareholders is correct?
- (a) These shareholders have extensive power to monitor the activities of the company.
 - (b) Institutional shareholders prefer to exert their power privately rather than publicly.
 - (c) These shareholders often aim to improve outcomes rather than sell their shareholding.
 - (d) Institutional shareholders are known to publicly use their voting power to encourage sound corporate governance.
6. The framework for establishing good corporate governance and accountability was originally setup by
- (a) Nestle committee
 - (b) Rowntree committee
 - (c) Cadbury committee
 - (d) Thornton committee

Group - B

1. What were the main recommendations of Narayana Murthy Committee on Corporate Governance-March 2003?
2. Mention Cadbury Committee recommendation.
3. What were the main recommendations of Naresh Chandra Committee
4. A Brief Review of Reforms in Corporate Governance Mechanisms in India under the regime of the New Companies Act, 2013

Group – C

1. Give an explanation on recommendations of Cadbury Committee
2. Give a brief review of Reforms in Corporate Governance Mechanisms in India under the regime of the New Companies Act, 2013.

Ans. Group-A : 1. (b), 2. (d), 3. (c), 4. (d), 5. (c), 6. (c)

Unit - 3 □ Shareholders and Corporate Governance

Structure

- 3.1 Objectives**
- 3.2 Introduction**
- 3.3 Rights and Privileges of Shareholders**
- 3.4 Grievance Redressal Mechanism in India**
- 3.5 Investors protection and corporate governance**
- 3.6 Shareholder Activism**
- 3.7 Summary**
- 3.8 Exercise**

3.1 Objectives

After going through this unit you will learn.

- Rights and privileges of shareholders;
- Grievance redressal process in India;
- Relationship between Investor Protection and Corporate Governance;
- Shareholder activism

3.2 Introduction

Corporate governance is important to investors, and shareholders having rights and expectations under good corporate governance principles and practices. Their stake in corporate ownership makes their investments less susceptible to system risks. While good corporate principles are important for an industry, which continuously evolve with the time.. The original intent of good corporate governance principles gives shareholders the right to ask questions to affirm that the board and management are doing their best to increase shareholder value and to ensure that the board will be accountable to them.

3.3 Rights and Privileges of Shareholders

Corporate governance is the system of rules and responsibilities delegated to several groups within a corporation as well as procedures on handling corporate matters. One of the groups, shareholders, is given certain rights as owners of corporations. These rights are protected by law, and honouring them is one of the objectives in corporate governance.

2. **Voting** : Shareholders have rights to vote on company decisions. They can vote on a variety of corporate matters including voting in officers, company acquisitions and mergers or liquidations of company assets. Voting on these matters generally take place when corporations have their annual meetings. Shareholders have the right to vote in person or by proxy if they can't attend the meetings. They can also vote by mail, telephone and/or by mail if corporations have these measures in place.
3. **Inspecting** : Shareholders also have rights to inspect their corporation's financial information. Inspecting the books gives shareholders a chance to view how their corporations are performing. This can be critical to shareholders' decisions to buy more shares or sell off what they already own. This right isn't as important to shareholders in public corporations because they can get the same information from the Securities and Exchange Commission. Public corporations have to file their financial information each year, and it's available to anyone interested in buying shares. Private companies do not have to file this information with the SEC; shareholders in private corporations still have the right to see their corporations' financial information.
4. **Dividend Entitlement** : If corporations are distributing profits in the form of dividends, each shareholder has the right to receive them. Dividend amounts are determined by the corporate officers and not by the ownership interests of the shareholders. These amounts can fluctuate yearly based on the corporations' earnings for that year. With that in mind, corporations with low earnings, net losses or have other plans with the profits to improve their businesses may not pay out dividends. However, corporations must pay every shareholder a dividend if they're distributing them and cannot select just a few to pay profits to and neglect the rest.

5. **Rights to Sue :** Shareholders who have been wronged by their corporations also have the right to sue. For example, if shareholders didn't receive their entitled share of dividends or were denied access to their corporations' financial information, they can bring legal actions against their corporations. Shareholders seeking to sue their corporations should check with their local authorities first on how to proceed.
6. **Considerations :** One of the objectives of corporate governance is to be fair to all shareholders. However, some corporations are issuing dual stocks that challenge the fairness and equality of all shareholders the corporate governance is trying to protect. Dual stocks are not available to all investors, and there are different levels of rights associated with each one. For example, one class of stocks could be issued for common investors, while another class is available to company executives, founders and their families. It's possible that the shareholders who own common stocks have less voting power than those who own the other class.

3.4 Grievance Redressal Mechanism in India

The Securities and Exchange Board of India (SEBI) on August 13, 2020 has issued guidelines on investor grievances redressal mechanism for handling of SCORES complaints by stock exchange and Standard Operating Procedure for non-redressal of grievances by listed companies on non-compliance with certain provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. It lays down the procedure for handling complaints by the stock exchanges as well as standard operating procedure for actions to be taken against listed companies for failure to redress investor grievances.

The following guidelines have been given by SEBI :

- All the investors initially must take their complaints to the listed companies. The grievances can be submitted via SCORE platform as well, which can be used to directly submit the complaints to the companies.
- Further, if the companies fail to resolve the complaints within a period of 30 days, the grievances shall be directly forwarded to the Designated Stock Exchanges (DES) via SCORE platform.
- If the complainant is lodging a complaint on the SCORE platform, which

has already been lodged separately with the listed company, the complainant shall mention the details of the complaint such as the date of lodging, period of cause, name of the company, registered address etc.

- Once the receipt from the DSE is received for the lodging of the complaint via SCORE platform, the listed company shall resolve it within a period of 30 days and submit an Action Taken Report (ATR) for the same.
- If the complainant is satisfied with the resolution from the company, the ATR shall be submitted to the SEBI.
- In cases of failure to resolve the complaint for more than 60 days, the appropriate authorities shall initiate action for the same.

SEBI will levy a fine of Rupees 1000 per day per complaint to the companies who are not able to resolve the issue within 60 days and for the breach of the SEBI (LODR) Regulations, 2015. It may suspend the company as well. The DSE shall issue a notice to such listed companies implying the fine applicable on to them and asking them to submit the ATR report for all the pending complaints within 15 days. Once the fines have been paid, the DSE shall intimate to unfreeze the accounts of the promoters. If the fines have been paid but the companies have not resolved the complaints, the DSE shall levy further fines and take appropriate actions for the same.

3.5 Investors Protection and Corporate Governance

Good corporate governance is a measure to ensure transparency and accountability which helps to prevent corporate scandals, fraud and issues pertaining to corporate liability. A good corporate governance structure prevents major disasters and ensures investors protection. Corporate governance is important to investors, and shareholders having rights and expectations under good corporate governance principles and practices. Their stake in corporate ownership makes their investments less susceptible to system risks. While good corporate principles are important for an industry, which continuously evolve with the time. Modern governance accounts for using digital technology to give boards the right information at the right time. By having this information at their fingertips, boards can start asking the right questions and incorporate the best answers into their decision-making process. Good corporate governance principles provide a system of checks and help to balance the power and

ensure that there are benefits for everyone involved. In essence, corporate governance is a structure whereby the shareholders own the operation, managers run the operation and board directors oversee the operation as agents of the shareholders. Good corporate governance ensures that the company has the proper rules, policies and practices to create long-term shareholder value. When the company's performance is down, shareholders have every right to begin asking questions. Usually, they start asking questions from the start to ensure that the company is practicing good governance. Getting the right answers to these questions means that their investments are in good hands. While shareholders have limited power to intervene, they have a lot of power as owners in the company. Shareholders elect the board of directors with the expectation that the board will fulfill their fiduciary duties and keep the best interests of the shareholders at the forefront of their decision-making. Shareholders expect boards to run as efficiently as possible. Shareholders can also reasonably expect that the board will perform strong oversight to ensure that the performance by officers and managers is ethical and strong. When the company's performance begins to slide in a negative direction, shareholders have the right to question whether board directors are truly independent. The original intent of good corporate governance principles gives shareholders the right to ask questions to affirm that the board and management are doing their best to increase shareholder value and to ensure that the board will be accountable to them.

3.6 Shareholder Activism

A shareholder activist is a person who attempts to use their rights as a shareholder of a publicly-traded corporation to bring about change within or for the corporation. Shareholder activism is a way that shareholders can influence a corporation's behaviour by exercising their rights as partial owners. While minority shareholders don't run the day-to-day operations, several ways exist for them to influence a company's board of directors and executive management actions. These methods can range from dialogue with managers to formal proposals, which are voted on by all shareholders at a company's annual meeting.

Shareholder Activism Has Increased in Recent Years

The term activism often accompanies notions of unrest. On the contrary, activism isn't always a bad thing. It's a process that can often lead to long-term meaningful change. Shareholders can be instrumental as change agents through

private meetings, public votes, media debates and other avenues to drive better corporate governance practices. Corporations will almost surely pay a price for not paying attention to issues that lead to shareholder activism. Some of the big topics related to activism are executive pay, succession planning, diversity and board director independence. Shareholders are looking for assurance that executive pay increases are aligned with performance. Taking it a step further, shareholders are also interested in understanding how boards come up with their guidelines for executive pay structures. Shareholders are also seeking assurance that boards have the experience, skills and diversity to protect their investments and to enable the company to make steady long-term progress. The current climate encourages shareholders to scrutinize all new board director appointments and evaluate them based on how their talents and abilities enhance the board. Board directors need to be aware of other issues that can lead to shareholder activism, including taking a closer look at the board's strategy and use of capital. Another hot topic for shareholders is how corporations factor social, ethical and environmental matters into their strategies and general decision making. Shareholder activism drives better corporate governance because it ensures strong governance and approaches to investment styles that produce value for shareholders. Good corporate governance takes for granted that boards will continuously work toward board compositions that support the necessary skills and experience that will net long-term success for the company. The principles of good corporate governance also place a heavy focus on the fiduciary responsibilities of board directors in managing the corporation's assets. The focus on duty of care creates an environment in which shareholders are more apt to ask more questions about how the board and managers approach strategic planning, risk management and operations. Among other things, shareholders are seeking information about the board's approach to environmental, social and governance issues as well as their investment style and principles. When considering corporate investment styles, shareholders are inclined to be focused on absolute returns, as opposed to relative performance. Shareholders generally review the board's annual report and vote in favor of management's proposals if they're satisfied with them. Questions and red flags may invite formal discussions with the board and executive management. Boards can use these opportunities to attempt to explain and justify their actions. Where companies are regularly underperforming with little indication of improvement, activism may be looming. Dissatisfied shareholders may respond by voting against management at the annual general meeting. Activist shareholders may also follow up

their vote with a letter to the company explaining why they don't support the company's decisions and offer recommendations for changes. Shareholders would likely follow the company to see how willing the board is to make changes.

3.7 Summary

Corporate governance is the system of rules and responsibilities delegated to several groups within a corporation as well as procedures on handling corporate matters. One of the groups, shareholders, is given certain rights as owners of corporations. These rights are protected by law, and honouring them is one of the objectives in corporate governance. Good corporate governance is a measure to ensure transparency and accountability which helps to prevent corporate scandals, fraud and issues pertaining to corporate liability. A good corporate governance structure prevents major disasters and ensures investors protection. A shareholder activist is a person who attempts to use their rights as a shareholder of a publicly-traded corporation to bring about change within or for the corporation. Shareholder activism is a way that shareholders can influence a corporation's behaviour by exercising their rights as partial owners. While minority shareholders don't run the day-to-day operations.

3.8 Exercise

Group – A

1. Who controls the capital market in India?
 - (a) SEBI
 - (b) RBI
 - (c) IRDA
 - (d) NABARD
2. The Securities and Exchange Board of India was not entrusted with the function of
 - (a) Investor protection
 - (b) Ensuring fair practices by companies
 - (c) Promotion of efficient services by brokers
 - (d) Improving the earning of equity holders

3. Which is not a right of share holder?

- (a) Voting
- (b) Right to Sue
- (c) Inspecting
- (d) Fixed interest.

Group – B

- 5. What are the rights enjoyed by Indian Shareholders?
- 6. When a shareholder faces problem regarding its rights what is the redressal he receives.
- 7. How does Corporate Governance help in investor protection?
- 8. What is shareholders activism and how has it evolved in recent years.

Group – C

- 1. What is the grievance redressal mechanism in India and how is corporate governance related to investor's protection.
- 2. What are the rights of share holders and how does activism helps a share holder to seek justice for his rights.

Ans. Group-A : 1. (a), 2. (c), 3. (d)

Unit - 4 □ Corporate Social Responsibility

Structure

- 4.1 Objectives**
- 4.2 Introduction**
- 4.3 CSR and the Stakeholder justification of CSR**
- 4.3 CSR and Indian Corporations**
- 4.5 Scope of CSR**
- 4.6 CSR Reporting**
- 4.7 Summary**
- 4.8 Exercise**

4.1 Objectives

After going through this unit, you will learn.

- CSR and the Stakeholder justification of CSR;
- Scope of CSR;
- CSR and Indian corporations;
- CSR reporting.

4.2 Introduction

Depending upon their core competency and business interest, companies should undertake activities for economic and social development of communities and geographical areas, particularly in the vicinity of their operations. These could include: education, skill building for livelihood of people, health, cultural and social welfare etc., particularly targeting at disadvantaged sections of society. CSR has made its place by providing enormous benefits to the society in India by eradicating hunger, poverty, malnutrition etc. and providing education, water, education, empowerment etc. to the needy ones.

4.3 CSR and the Stakeholder justification of CSR

“Social Responsibilities refer to the businessman’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest.”

---- Keith Davis

So, CSR is the sense of obligation on the part of companies to build certain criteria and manage the business activities by taking strategic decisions.

Each business entity should formulate a CSR policy to guide its strategic planning and provide a roadmap for its CSR initiatives, which should be an integral part of overall business policy and aligned with its business goals. The policy should be framed with the participation of various level executives and should be approved by the Board.

The CSR Policy should normally cover following core elements :

1. Care for all Stakeholders :

The companies should respect the interests of, and be responsive towards all stakeholders, including shareholders, employees, customers, suppliers, project affected people, society at large etc. and create value for all of them. They should develop mechanism to actively engage with all stakeholders, inform them of inherent risks and mitigate them where they occur.

2. Ethical functioning :

Their governance systems should be underpinned by Ethics, Transparency and Accountability. They should not engage in business practices that are abusive, unfair, corrupt or anti-competitive.

3. Respect for Workers’ Rights and Welfare :

Companies should provide a workplace environment that is safe, hygienic and humane and which upholds the dignity of employees.

They should provide all employees with access to training and development of necessary skills for career advancement, on an equal and non-discriminatory basis. They should uphold the freedom of association and the effective recognition of the right to collective bargaining of labour, have an effective grievance redressal system, should not employ child or forced labour and provide and maintain equality of opportunities without any discrimination on any grounds in recruitment and during employment.

4. Respect for Human Rights :

Companies should respect human rights for all and avoid complicity with human rights abuses by them or by third party.

5. Respect for Environment :

Companies should take measures to check and prevent pollution; recycle, manage and reduce waste, should manage natural resources in a sustainable manner and ensure optimal use of resources like land and water, should proactively respond to the challenges of climate change by adopting cleaner production methods, promoting efficient use of energy and environment friendly technologies.

6. Activities for Social and Inclusive Development :

Depending upon their core competency and business interest, companies should undertake activities for economic and social development of communities and geographical areas, particularly in the vicinity of their operations. These could include: education, skill building for livelihood of people, health, cultural and social welfare etc., particularly targeting at disadvantaged sections of society.

4.4 CSR and Indian Corporations

Corporate social responsibility under the company's act 2013: Companies act 2013 has brought a bundle of changes in Indian corporate business. CSR introduction in Section 135 is referred as a give and take policy, as the companies are taking resources from the society it needs to reduce the gap by providing something back the society. The concept goes way back in 1994 when John Elkington coined the need or Triple Bottom Line which was based on 3 pillars namely people planet and profit. Ministry of corporate affairs notified Section 135 and schedule VII and the provisions regarding Companies (Corporate Social Responsibility Policy) Rules, 2014 or generally known as CSR rules which came into effect from 1st April 2014. Companies now need to share a part of their profit on CSR activities as a contribution to the society, and these expenses cannot be claimed as business expenses. The guidelines issued by MCA on social, environmental and economic responsibilities of business mandated adaptation of CSR by the companies having the following during any financial year.

1. Companies with a net worth of Rs. 500 crore or more, or
2. Companies having turnover of Rs.1000 crore or more, or
3. Companies achieving a profit of Rs. 5 crore or more

And shall constitute a CSR committee on the board. Composition of corporate social responsibility committee is subjected to disclosure under sub section (3) of section 134. Which must constitute of minimum 3 director of which one must be independent. SEBI also mandated a top hundred listed companies at BSE and NSE on the basis of market capitalization for proper inclusion and disclosure of business responsibility report in their annual report. Major functions of CSR committee lies in formulation and recommendations about the CSR policy to the board and the amount of expenditure to be incurred in these activities. Monitoring these activities and policies are also another important function of CSR committee.

With great powers come great responsibility that is why CSR committee is bound to some responsibilities which are :

- Recommendations of the CSR committee are approved by the board which eventually becomes the CSR policy and disclosure of the contents of such policy in company report and website is required. Rule 9 of the CSR rules clarifies that a company qualifying under section 135 shall include a CSR report along with board report.
- The company must spend at least 2% of the average net profits of three years immediately preceding financial year. Computation of net profit is as per section 198 of the companies act, MCA clarifies that profit means profit before tax.

4.5 Scope of CSR

CSR is the continuing commitment by business to behave ethically and contribute towards economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

(1) In Schedule VII, for items (i) to (x), the following items and entries shall be substituted, namely :

1. Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water:
2. Promoting education, including special education and employment enhancing

vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;

3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centers and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water;
5. Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional and handicrafts;
6. Measures for the benefit of armed forces veterans, war widows and their dependents;
7. Training to promote rural sports, nationally recognized sports, Paralympic sports and Olympic sports;
8. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Caste, the Scheduled Tribes, other backward classes, minorities and women;
9. Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government
10. Rural development projects.

4.6 CSR Reporting

According to the Global Reporting Initiative, a CSR report can be defined as :

“A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.”

CSR and sustainability reports can be used to achieve both internal and/or external goals. Internally speaking, CSR reports are important since they allow

companies to estimate the impact of their activities on the environment, on society and on the economy. Through the detailed and meaningful data collected for the CSR report, companies have a chance to improve their operations and to reduce costs. Not only because they are empowered to optimize and reduce their energy consumption but also as they review their waste cycles and disposal which often leads to product innovation or circular economy opportunities. Finally, as collecting this data requires joint efforts from different departments, employees end up knowing that the company is focusing on CSR and sustainability, which is proven to increase employee retention and decrease turnover (and its costs).

When it comes to external benefits, a CSR and sustainability report can help companies to better engage with their interested parties which may bring some benefits to the table. By letting their stakeholders know about the organization's short, medium and long-term projects decisions, companies can be better understood which may have positive financial outputs. For instance, it can allow stakeholders to be aware that a specific company is positively contributing to minimize the negative impacts of an environmental hazard or that it is only focused on growing profits for its managers and investors. In this way, consumers can decide whether they want to buy from a brand that protects orangutans by sourcing sustainable palm oil or not, investors can anticipate if companies are aware of the consequences of climate change is and will further have on their value chains and on business continuity, journalists can share best case practices, NGOs can put pressure so that companies review their sustainability policies, etc.

Rule 8 of the CSR Rules provides that the companies, upon which the CSR Rules are applicable on or after 1st April, 2014 shall be required to incorporate in its Board's report an annual report on CSR containing the following particulars :

- A brief outline of the company's CSR Policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs;
- The composition of the CSR Committee;
- Average net profit of the company for last three financial years;
- Prescribed CSR Expenditure (2% of the amount of the net profit for the last 3 financial years);
- Details of CSR Spent during the financial year;
- In case the company has failed to spend the 2% of the average net profit of the last three financial year, reasons thereof;

- A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

The disclosure of contents of Corporate Social Responsibility Policy in the Board's report and on the company's website, if any, shall be as per annexure attached to the CSR Rules.

4.7 Summary

Companies now need to share a part of their profit on CSR activities as a contribution to the society, and these expenses cannot be claimed as business expenses. The guidelines issued by MCA on social, environmental and economic responsibilities of business mandated adaptation of CSR by the companies. Through the detailed and meaningful data collected for the CSR report, companies have a chance to improve their operations and to reduce costs. Not only because they are empowered to optimize and reduce their energy consumption but also as they review their waste cycles and disposal which often leads to product innovation or circular economy opportunities.

4.8 Exercise

Group - A

1. Sustainable development will not aim at :
 - (a) Social economic development which operose the economic and societal benefits available in the present, without spoiling the likely potential for similar benefits in the future.
 - (b) Reasonable and equitably distributed level of economic well-being that can be perpetuated continually.
 - (c) Development that meets the need of the present without compromising the ability of future generations to meet their own needs.
 - (d) Maximising the present day benefits through increased resource consumption

2. Corporate Social Responsibility (CSR) consists of which four kinds of responsibilities
 - (a) Economic, ethical, societal, and altruistic
 - (b) Economic, legal, ethical, and altruistic
 - (c) Fiscal, legal, societal, and philanthropic
 - (d) Economic, legal, ethical, and philanthropic
3. Which of the following does the term Corporate Social Responsibility relate to ?
 - (a) Ethical conduct
 - (b) Human rights and employee relations
 - (c) All of the above
 - (d) None of the above

Group – B

1. What are the core policies that must be followed by CSR ?
2. Explain the Indian scenario of CSR.
3. How is CSR helpful in India and mention the sectors in which CSR is considered.
4. What is CSR reporting ?

Group – C

1. What are the mandated rules of CSR that are to be followed to conduct business in India.
2. Mention the areas of Schedule 7 of CSR in which companies can make CSR contribution.

Ans. Group-A : 1. (d), 2. (d), 3. (a)

Module - 2

Unit - 5 □ Meaning and Nature of Business Ethics

Structure

- 5.1 Objectives**
- 5.2 Introduction**
- 5.3 Meaning -Business Ethics**
- 5.4 Nature of Business Ethics**
- 5.5 Relationship between business ethics and corporate governance**
- 5.6 Kohlberg's Stages of Moral Development**
- 5.7 The Three Levels of Ethics**
- 5.8 Corporate Integrity and its Importance**
- 5.9 Summary**
- 5.10 Exercises**

5.1 Objectives

After going through this unit you will learn.

- The nature of business ethics;
- the relationship between business ethics,
- corporate governance and ethical leadership;
- Kohlberg's six stages of moral development;
- levels
- of ethical analysis;
- concept of corporate integrity.

5.2 Introduction

Ethics is the basic concepts and fundamental principles of decent human conduct. It includes the study of universal values of such as the essential quality of

all men and women, human or natural rights, obedience to the law of land, concern for health and safety and increasingly, also for the natural environment. There are numerous reasons why organizations should act ethically. Since behaviour varies as per the values priorities, a mutual effort at all levels to deal with corporate ethics start with a clear understanding of core values, both organizationally as well as individually. Integrity is important for businesses and individuals alike. You can think of ethics as the twin of integrity : Business ethics are the code of morals adopted by an organization, representing the values the company runs on. Every stakeholder who interacts with the organization will be related to these morals.

5.3 Meaning-Business Ethics

“Ethics itself is not the end, but the means to the end.”

– Swami Vivekanada

Ethics, which is coined from the latin word ‘Ethos’ means character, is moral philosophy in action. Morality is described as a combination of concepts and beliefs by which a culture or a group regulates individual behaviors in society. So, Ethics is a set of standards, or a code, or value system, worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If an action agrees with these standards, it is ethical: if it does not agree, it is unethical. Actually, ethics is the discipline that examines one’s moral standards or the moral standards of a society. Ethics is the basic concepts and fundamental principles of decent human conduct. It includes the study of universal values of such as the essential quality of all men and women, human or natural rights, obedience to the law of land, concern for health and safety and increasingly, also for the natural environment. Ethics are the set of moral principles that guide a person’s behavior. These morals are shaped by social norms, cultural practices, and religious influences. Ethics reflect beliefs about what is right, what is wrong, what is just, what is unjust, what is good, and what is bad in terms of human behavior. They serve as a compass to direct how people should behave toward each other, understand and fulfil their obligations to society, and live their lives.

- “Ethics itself is not the end, but the means to the end.”–Swami Vivekanada.
- “And upon this wealth of goodness-where honesty is not only valued for being the best policy, but because it can afford to go against all policies man’s ethics are founded”. Rabindranath Tagore.

- “Economics that hurts the moral well-being of an individual or a nation is immoral and, therefore, sinful... True economics never militates against the highest ethical standard, just as all true ethics to be worth its name must at the same time be also good economics.” Mahatma Gandhi.

5.4 Nature of Business Ethics

The characteristics or features of business ethics are :

1. Code of conduct : Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.
2. Based on moral and social values : Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.
3. Gives protection to social groups : Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.
4. Provides basic framework : Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.
5. Voluntary : Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.
6. Requires education and guidance : Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.
7. Relative Term : Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.
8. New concept : Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

5.5 Relationship between business ethics and corporate governance

Companies need to return good favour to every stakeholder; great returns for shareholders, jobs for employees, reliable products for consumers, responsible relations with the community and a clean environment. Business ethics is basically the implementation of general ethical principles to business dilemmas and brings a broader range of problems and concerns than law because everything that is legal might not be ethical. Ethics is the knowledge and awareness of what is right and wrong, and then pursuing the right path but, the right path can be difficult to follow. Business ethics provides people tools to deal with moral complexity in business, business decisions have ethical components- ethical implications should be weighed before acting. Ethics provides moral guidelines so that organizations can speed up the process of making decisions. Ethics that applies to business means business ethics is not a separate theory of ethics; instead, it is an application of ethics to business situations.

Good Corporate Governance is a key to empower profits and reputation. It represents the relations among stakeholders used to determine and control the strategic direction and performance of companies. Accountability is a major element and needs for corporate governance, fortifying the latter in the way that it offers a transparent template for governing critical decisions, activities, and procedures. Corporate Governance focuses on two major concerns about who benefits from corporate decisions/senior management actions and who should benefit from management action or corporate decisions? There are numerous reasons why organizations should act ethically. Since behaviour varies as per the values priorities, a mutual effort at all levels to deal with corporate ethics start with a clear understanding of core values, both organizationally as well as individually. Good corporate governance relates to internal practices and policies of a company. Although the issues regarding corporate governance are common across companies, each organization follows its own unique governance principles. It also ensures that long term strategic objectives and plans are well set up and the proper management structure is in place. The corporate governance actually presents the moral framework, the ethical frameworks and the value framework under which decisions are taken in an organization.

5.6 Kohlberg's Stages of Moral Development

Kohlberg identified three levels of moral reasoning: pre-conventional, conventional, and post-conventional. Each level is associated with increasingly complex stages of moral development.

Level 1 : Preconventional

Throughout the preconventional level, organisations sense of morality is externally controlled. An organisation with pre-conventional morality has not yet adopted or internalized society's conventions regarding what is right or wrong, but instead focuses largely on external consequences that certain actions may bring.

Stage 1 : Obedience-and-Punishment Orientation

Stage 1 focuses on the child's desire to obey rules and avoid being punished. For example, an action is perceived as morally wrong because the perpetrator is punished; the worse the punishment for the act is, the more "bad" the act is perceived to be.

Stage 2 : Instrumental Orientation

Stage 2 expresses the "what's in it for me?" position, in which right behavior is defined by whatever the individual believes to be in their best interest. Stage two reasoning shows a limited interest in the needs of others, only to the point where it might further the individual's own interests. As a result, concern for others is not based on loyalty or intrinsic respect, but rather a "you scratch my back, and I'll scratch yours" mentality. An example would be when a child is asked by his parents to do a chore. The child asks "what's in it for me?" and the parents offer the child an incentive by giving him an allowance.

Level 2 : Conventional

Throughout the conventional level, a child's sense of morality is tied to personal and societal relationships. Children continue to accept the rules of authority figures, but this is now due to their belief that this is necessary to ensure positive relationships and societal order. Adherence to rules and conventions is somewhat rigid during these stages, and a rule's appropriateness or fairness is seldom questioned.

Stage 3: Good Boy, Nice Girl Orientation

In stage 3, children want the approval of others and act in ways to avoid disapproval. Emphasis is placed on good behavior and people being "nice" to others.

Stage 4 : Law-and-Order Orientation

In stage 4, the child blindly accepts rules and convention because of their importance in maintaining a functioning society. Rules are seen as being the same for everyone, and obeying rules by doing what one is “supposed” to do is seen as valuable and important. Moral reasoning in stage four is beyond the need for individual approval exhibited in stage three. If one person violates a law, perhaps everyone would—thus there is an obligation and a duty to uphold laws and rules. Most active members of society remain at stage four, where morality is still predominantly dictated by an outside force.

Level 3 : Postconventional

Throughout the postconventional level, a person’s sense of morality is defined in terms of more abstract principles and values. People now believe that some laws are unjust and should be changed or eliminated. This level is marked by a growing realization that individuals are separate entities from society and that individuals may disobey rules inconsistent with their own principles. Post-conventional moralists live by their own ethical principles—principles that typically include such basic human rights as life, liberty, and justice—and view rules as useful but changeable mechanisms, rather than absolute dictates that must be obeyed without question. Because post-conventional individuals elevate their own moral evaluation of a situation over social conventions, their behavior, especially at stage six, can sometimes be confused with that of those at the pre-conventional level. Some theorists have speculated that many people may never reach this level of abstract moral reasoning.

Stage 5 : Social-Contract Orientation

In stage 5, the world is viewed as holding different opinions, rights, and values. Such perspectives should be mutually respected as unique to each person or community. Laws are regarded as social contracts rather than rigid edicts. Those that do not promote the general welfare should be changed when necessary to meet the greatest good for the greatest number of people. This is achieved through majority decision and inevitable compromise. Democratic government is theoretically based on stage five reasoning.

Stage 6 : Universal-Ethical-Principal Orientation

In stage 6, moral reasoning is based on abstract reasoning using universal ethical principles. Generally, the chosen principles are abstract rather than concrete and focus on ideas such as equality, dignity, or respect. Laws are valid only insofar as they are grounded in justice, and a commitment to justice carries

with it an obligation to disobey unjust laws. People choose the ethical principles they want to follow, and if they violate those principles, they feel guilty. In this way, the individual acts because it is morally right to do so (and not because he or she wants to avoid punishment), it is in their best interest, it is expected, it is legal, or it is previously agreed upon. Although Kohlberg insisted that stage six exists, he found it difficult to identify individuals who consistently operated at that level.

5.7 The Three Levels of Ethics

Most concrete ethical issues involve questions about what we ought to do in a given situation. Underlying these questions are more abstract ones about right and wrong and good and bad more generally. And some discourse in moral philosophy is even more abstract. Philosophers divide ethics into three different levels, which range from the very abstract to the concrete: metaethics, normative ethics, and applied ethics. Understanding these levels is a good step toward grasping the breadth of subject.

Metaethics

Metaethics is the most abstract and philosophical level of ethics. Where normative and applied ethics seek to determine what is moral, metaethics concerns itself with the nature of morality itself. It deals with the following types of questions :

What does it mean when someone says something is “good” or “right”?

What is moral value, and where does it come from?

Is morality objective and universal, or is it relative to specific individuals or cultures?

Do moral facts exist?

These and other metaethical questions are important, but to figure out if a particular action is right or wrong, never get there pondering them. Answering these questions can resolve the problems of ethics and morality.

Normative Ethics

Normative Ethics is concerned with the appropriate standards for right and wrong behavior. Normative ethical theories establish prescriptions – whether by foundational principles or good character traits – for how one ought to act or live. The following are prominent normative ethical approaches :

Virtue Ethics focuses on a person's moral character. Virtue ethicists say we ought to develop virtuous characteristics – such as generosity, courage, and compassion – and exhibit virtuous behavior. This is different from other normative theories that propose more precise principles and rules for conduct.

Deontological theories emphasize one's moral duties and obligations. They focus on the act itself, as either intrinsically good or bad, regardless of its consequences.

Consequentialist theories determine whether something is right or wrong by looking at its consequences. The ethical thing to do is that which has the best consequences (i.e., results in the most benefit, happiness, good, etc.) among the alternatives.

Applied Ethics

Applied ethics consists of the analysis of specific moral issues that arise in public or private life. Whereas normative ethics attempts to develop general standards for morality, applied ethics is concerned with specific moral controversies. Applied ethics can use normative ethical theories, principles or rules derived from such theories, or analogical reasoning. Context-specific norms or expectations, such as those characterizing a particular profession, arrangement, or relationship are also relevant to applied ethical analysis.

The different levels of ethics can overlap and inform one another. Normative theories, for instance, are based on metaethical assumptions (or even explicit metaethical propositions), such as the existence or non-existence of objective and universal notions of right and wrong. And, as noted above, applied ethics can draw on normative theories to resolve moral disputes. Metaethical perspectives can also drip into applied ethical analysis. A moral relativist, for example, may contend that a practice deemed egregious by his own culture's standards is truly morally permissible, or even obligatory, in the culture in which it occurs. Despite the overlap between the three levels, distinguishing between them is useful for clarifying one's own views and analyzing those of others.

5.8 Corporate Integrity and its Importance

Corporate integrity is defined as a state or condition in which the objectives of the managers and the shareholders of a corporation are undivided and complete. The compensation of the managers and the shareholders is selected as a subset of the objectives. Integrity is important for businesses and individuals alike. You can think

of ethics as the twin of integrity: Business ethics are the code of morals adopted by an organization, representing the values the company runs on. Every stakeholder who interacts with the organization will be related to these morals. That's why it's so important for a business to have clear ethical standards. Here are seven great principles of business integrity for companies, their leaders and employees at all levels.

1. Trust - Customers and clients always rely on trustworthy companies. When trust is at the core of a company, it is easy to recognize. People know they can rely on the character, ability and value provided, and they feel valued in every interaction.
2. Quality - A dedication to high quality standards across the board shows that the company is committed to standing behind what it does and delivering the value it promises. Companies that regularly put out shoddy work or provide inconsistent service are telling customers and would-be customers that they really don't care about them.
3. Follow-through - Trust is built on follow-through, on meeting your obligations and commitments as promised. Follow-through also means being transparent about potential problems that might affect the timing or the end-result. It may not be the best outcome, but you can salvage the relationship by being upfront and honest.
4. Corporate Citizenship. As Deloitte notes, "Stakeholders today are taking an intense look at organizations' impact on society, and their expectations for good corporate citizenship are rising." It's not just customers who care. Employees are increasingly looking to work for companies that contribute positively to society. There's even evidence of a direct correlation between CSR index ranking and profitability.
5. Value Creation - Businesses are designed to create value, but in ethical companies, people view value creation in multiple ways — the company's profitability is just one of those lenses. They also feel obligated to create value for customers and "do right" by them. As such, it becomes a mutual exchange of value, one that builds strong bonds of loyalty.
6. Willingness to Change - Companies only change if there is a willingness to change and, specifically, a willingness to keep getting better. This starts with leaders who are willing to change and listen to other opinions. Getting feedback from team members and employees is the best way to understand different perspectives and improve the company for the future.

7. Respect - Last but not least is respect. Regardless of titles, ages, gender, race, positions or any other differences, everyone should be treated with respect. This goes for employees as well as the public at large.

5.9 Summary

Ethics is a set of standards, or a code, or value system, worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If an action agrees with these standards, it is ethical; if it does not agree, it is unethical. Good corporate governance relates to internal practices and policies of a company. Although the issues regarding corporate governance are common across companies, each organization follows its own unique governance principles. It also ensures that long term strategic objectives and plans are well set up and the proper management structure is in place. Philosophers divide ethics into three different levels, which range from the very abstract to the concrete: metaethics, normative ethics, and applied ethics. Corporate integrity is defined as a state or condition in which the objectives of the managers and the shareholders of a corporation are undivided and complete. That's why it's so important for a business to have clear ethical standards.

5.10 Exercise

Group - A

1. Values and ethics shape the-
 - (a) Corporate unity
 - (b) Corporate discipline
 - (c) Corporate culture
 - (d) Corporate differences
2. Which of the following factors encourage good ethics in the workplace?
 - (a) Transparency
 - (b) fair treatment to the employees of all levels
 - (c) both (a) and (b)
 - (d) bribe

3. Most companies begin the process of establishing organizational ethics programs by developing :
 - (a) ethics training programs.
 - (b) codes of conduct.
 - (c) ethics enforcement mechanisms.
 - (d) hidden agendas.
4. What is ethics?
 - (a) Ethics is a system of moral principles
 - (b) Ethics is the rules defined by the government
 - (c) Ethics is the rules defined by the community
 - (d) Ethics is the rules defined by the Society

Group – B

2. Explain Kohlberg's Stages of Moral Development.
3. Describe the relation between business ethics and corporate governance.
4. What are the characteristics of business ethics ?
5. What is Corporate Integrity ? Explain its importance.

Group – C

1. What is business ethics and explain the levels of business ethics.
2. Explain Kohlberg's Stages of Moral Development.

Ans. Group–A : 1. (c), 2. (c), 3. (b), 4. (a)

Unit - 6 □ Ethical Principles in Business

Structure

6.1 Objectives

6.2 Introduction

6.3 Teleological Ethical Theory

6.4 Deontological Ethical Theory

6.5 Virtue ethics

6.6 System Development Ethical Theories

6.6.1 Major Types of System Development Ethical Theories

6.7 Summary

6.8 Exercise

6.1 Objectives

After going through this unit, you will learn.

- The teleological approach;
- the deontological approach;
- the virtue ethics approach;
- the systems development approach;

6.2 Introduction

Teleological means thinking rationally about the ends. Therefore this theory is also known as Consequential theory which denotes that an action is morally correct if the consequences of that action are more favourable than adverse to the target audiences. The System Development Ethical Theories state that the extent to which organization system is sensitive to the need to develop a work culture supportive of ethical conduct determines the ethical value of actions. Virtue or moral character of the person carrying out an action, rather than at ethical duties and rules, or the consequences of particular actions is equally important to assess.

6.3 Teleological Ethical Theory

This word 'Teleological' is derived from two Greek words-Telos and Logos. Where telos means the purpose, goal or end, the logos on the other hand means reason. So together Teleological means thinking rationally about the ends. Therefore this theory is also known as Consequential theory which denotes that an action is morally correct if the consequences of that action are more favourable than adverse to the target audiences.

Classification of Teleological Theory :

The Teleological theory may be classified into three categories based on the consequences of the actual activity-

1. Egoism : It denotes that the consequences of the action are more favourable only to that individual performing the action. Egoism may be three types. It can be both descriptive and normative.
 - (a) Psychological Egoism : This descriptive egoism denotes that each person has but one ultimate aim: her own welfare.
 - (b) Normative Egoism : It claims about what one ought to do, rather than describe what one does do.
 - (c) Ethical egoism : This form of egoism claims that it is necessary and sufficient for an action to be morally right that it maximize one's self-interest.
 - (d) Rational egoism : It claims that it is necessary and sufficient for an action to be rational that it maximize one's self-interest.
 - (e) Conditional egoism : This modern concept of egoism asserts that egoism is morally right and acceptable if it leads to morally acceptable ends; self-motivated actions can be considered morally acceptable, if they lead to the betterment of society and the public as a whole.
2. Utilitarianism : It means that the consequences of the action are more favourable than unfavorable to everyone. The utilitarianism may be of various types.
 - (a) Positive Utilitarianism : This form of utilitarianism is based on the rule that to maximise the **greatest amount of pleasure** for the greatest number of people.

- (b) Negative Utilitarianism : This type of utilitarianism requires us to promote the **least amount of suffering** for the greatest number of people.
- (c) Sentient Utilitarianism : This is a type of utilitarianism that gives equal consideration to all sentient beings and not just humans in particular. Therefore, this utilitarian view can be incorporated in with all of the others.
- (d) Average Utilitarianism : Average utilitarianism suggests that we measure the utility of a population by calculating the average utility (finding out the utility of all people and then dividing by the amount of people) of that population.
- (e) Total Utilitarianism : This is an alternative view to average utilitarianism and gets around the mere addition paradox by stating that it is best to measure happiness/utility by the total utility/happiness that a society has.
- (f) Motive Utilitarianism : This type of utilitarianism incorporates the motives people have for their actions and gives weight to this when deciding if an action is morally right or wrong. If someone is known to be doing a seemingly good action with immoral motives then that action might be deemed as immoral when using motive utilitarianism.
- (g) Rule Utilitarianism : Rule Utilitarianism concerns itself with general moral rules that you should follow when making decisions.
- (h) Act or Case Utilitarianism : This Utilitarianism requires each case to be taken individually and appropriate calculations made for each one of them. The likelihood of consequences must be calculated for each potential action known and from there the action that will result in the most happiness should be chosen.
- (i) Two-level Utilitarianism : Level one is using Rule Utilitarianism (based on our intuitions) because it is efficient (in both time and effect). Level two however is using Act Utilitarianism when a situation requires more thought and more critical reflection. This system of using general moral rules for everyday simple decisions and serious analysis and calculation for more important decisions attempts to take the best of both (utilitarian) worlds and make utilitarianism more practical

3. Altruism : It signifies that the consequences of the action are more favourable than unfavorable to everyone except that individual. The altruism may be of different types-
- (a) **Nepotism Altruism** : This type of altruism is based on the activities centered around the family. Let's say your parents work every day to ensure that you has shelter, food, clothing, educational facilities and all the emotional support and nurturing you need to survive and thrive. Your parents self-sacrifice to care for the wellbeing of you would be seen as nepotistic altruism.
 - (b) **Reciprocal Altruism or Mutualism** : It is the form of altruism, which is altruism seen through a give and take relationship. Your friend helps you both financially and morally when you are down, and whenever chances come you tried to stand behind your friend when he badly needs you.
 - (c) **Group-based** : Altruism-Group altruism – more generally, group solidarity – is very important in human society, and occurs there at multiple levels, ranging from small groups, organizations, communities, ethnic groups, nations, followers of the same religion, etc. Solidarity with other members of one's community or ethnic group is a ubiquitous and important social phenomenon. Nationalism is also a potent historical force, as is class solidarity. It has been argued (Wilson 2002) that the evolutionary “function” of religion is precisely to promote group cohesion.
 - (d) **Moral Altruism** : The moral altruism entails sacrifice for others mediated via the individual's justification system. Moral altruism is uniquely human, although it likely has its motivational and emotional roots in the other three forms, especially reciprocal and group-based altruism.

Hunt-Vittel Model of Teleological Evaluation

$$TE_K = \sum [IW_1 \times PosCon_1 \times P_{Pos}] - [IW_1 \times NegCon_1 \times P_{Neg}] + [IW_2 \times PosCon_2 \times P_{Pos}] - [IW_2 \times NegCon_2 \times P_{Neg}] + \dots$$

IW_1 = Importance of Stakeholder 1

$PosCon_1$ = Positive Consequences on Stakeholder 1

$NegCon_1$ = Negative Consequences on Stakeholder 1

P_{Pos} = Probability of +ve consequences occurring

P_{Neg} = Probability of -ve consequences occurring

6.4 Deontological Ethical Theory

The word 'deontological' is derived from the Greek word 'deno' which means duty or obligation. This theory focuses on certain fundamental duties that the human being should perform in his/her life. The duties of general human being covers the issues like duties toward oneself like preserving one's life and sharing happiness, duties to others like family duties, social duties, political duties etc and also indicates the duty towards spiritual forces. The greatest advocate of this theory was the eminent philosopher Immanuel Kant where he emphasised on the act through morally right way purely from duty with an argument that the highest good must be both good in it and good without qualification. In his words-

“Nothing in the world—indeed nothing even beyond the world—can possibly be conceived which could be called good without qualification except a good will.”- Kant (1785).

The rights of the individual as reflected by this theoretical understanding may be of different types-

- (a) Negative rights theory : It asserts that an action is right if it protects the individual from harm or unwarranted interference from other people or any institution while exercising his right.
- (b) The positive rights theory : It advocates that an action is right if it provides or tends to provide an individual with anything that he needs to exist.
- (c) Social Contract Theories : It denotes that people contract with each other to abide by the moral and political obligations towards the society in which they live. This theory is based on the notion people should enter into an agreement with each other to give up some of their freedoms and accept the obligation to respect and safeguard the rights of the others. Thus, an individual gains the civil rights that constitute the social benefits that he is entitled to the extent he fulfills his due obligations towards the society.
- (d) Social Justice Theory : It denotes that the action will be considered right if it confirms the fairness in the distributive, retributive and compensatory dimensions of cost and rewards. The distributive dimension means the perceived fairness in the distribution of social benefits and burden among

the group members. The retributive dimension considers the punishment proportionate to the extent of crime while the compensatory dimension is the way people are compensated in relation to the injuries inflicted upon them.

6.5 Virtue ethics

Virtue ethics is person rather than action based : it looks at the virtue or moral character of the person carrying out an action, rather than at ethical duties and rules, or the consequences of particular actions. It focuses on the actions that a person would have taken in different circumstances on the basis of their virtue. Being a kind of ethics it basically judges what's right and what's wrong. Virtue ethics provides guidance as to the sort of characteristics and behaviours a good person will seek to achieve. Virtue ethics is concerned with the whole of a person's life, rather than particular episodes or actions. A good person can be defined as someone who lives virtuously - who possesses and lives the virtues. Human beings are often more interested in assessing the character of another person than they are in assessing the goodness or badness of a particular action. This suggests that the way to build a good society is to help its members to be good people, rather than to use laws and punishments to prevent or deter bad actions. But it wouldn't be helpful if a person had to be a saint to count as virtuous. For virtue theory to be really useful it needs to suggest only a minimum set of characteristics that a person needs to possess in order to be regarded as virtuous.

Virtue ethics teaches us about :

- An action is only right if it is an action that a virtuous person would carry out in the same circumstances.
- A virtuous person is a person who acts virtuously
- A person acts virtuously if they “possess and live the virtues”
- A virtue is a moral characteristic that a person needs to live well.

Most virtue theorists would also insist that the virtuous person is one who acts in a virtuous way as the result of rational thought (rather than, say, instinct).

The modern theologian James F Keenan suggests :

- Justice : Justice requires us to treat all human beings equally and impartially.

- Fidelity : Fidelity requires that we treat people closer to us with special care.
- Self-care : We each have a unique responsibility to care for ourselves, affectively, mentally, physically, and spiritually.
- Prudence : The prudent person must always consider Justice, Fidelity and Self-care. The prudent person must always look for opportunities to acquire more of the other three virtues

6.6 System Development Ethical Theories

The System Development Ethical Theories state that the extent to which organization system is sensitive to the need to develop a work culture supportive of ethical conduct determines the ethical value of actions.

6.5.1 Major Types of System Development Ethical Theories

1. **Personal Improvement Ethics** : The personal improvement ethics states that an action is right if it is intended to promote the individual's personal responsibility for the continuous learning, improvement, holistic development and moral excellence.

For example, the employees in order to gain expertise in their work enroll in the company's training programmes with a view to improving themselves as well as the organization's functioning.

2. **Organizational Ethics** : The organizational ethics any action intended for the development of the formal and informal organizational processes which in turn enhances the procedural outcomes, respectful caring, innovation in ethical work culture and systematic justice is right.

For example, If there is no employee complaints Redressal system in the organization and also the employees do not have a voice system for feedback then it is the responsibility of the manager to implement such system and give a voice to the employee. By doing so, the manager supports individual and organizational moral development and reduce the intense resistance to the overall moral development.

3. **Extraorganizational Ethics** : The extra organizational ethics asserts that the action is right if it promotes or tends to promote the collaborative partnerships and respect the global and domestic constituencies representing the diverse political, economic, legal, social ecological and philanthropic concerns that affect the firm.

For example, it is the social responsibility of a manager to consider all the factors external to the organization such as political, legal, social, environmental, etc. that can affect the organizational business processes.

Thus, the managers who cautiously assess the moral conduct of his employees and retribute (punish) their wrong doings then he is said to have successfully developed the system of ethics. In case, the manager relies exclusively on the character of his employees and do not implement morally supportive Intra-organizational systems and stable processes; then the organization is exposed to the future ethical risk.

6.7 Summary

The Teleological theory may be classified into three categories based on the consequences of the actual activity-Egoism, Utilitarianism and Altruism. Deontological Ethical Theory focuses on certain fundamental duties that the human being should perform in his/her life. Virtue ethics provides guidance as to the sort of characteristics and behaviours a good person will seek to achieve. Virtue ethics is concerned with the whole of a person's life, rather than particular episodes or actions. System Development Ethical Theories state that the extent to which organization system is sensitive to the need to develop a work culture supportive of ethical conduct determines the ethical value of actions. Organization is exposed to the future ethical risk if these ethical theories are not implemented properly.

6.8 Exercise

Group – A

1. Which moral philosophy seeks the greatest good for the greatest number of people?
 - (a) Consequentialism
 - (b) Utilitarianism
 - (c) Egoism
 - (d) Ethical formalism
2. What is meant by the phrase 'teleological ethics'?
 - (a) Is used to judge is an action is right, fair and honest.

- (b) An action can only be judged by its consequences
 - (c) Developing the individual personal characteristics
 - (d) The key purpose of ethics is to increase freedom
3. Moral principles provide _____ for moral judgments.
- (a) Circular
 - (b) Law
 - (c) Confirmatory standard
 - (d) Behavior

Group – B

1. Explain teleological ethical theory.
2. What are the major types of system development ethical theories?
3. What is virtue ethics?
4. What are the different rights under Deontological Ethical Theory

Group – C

1. What are the ethical principles followed in a business.
2. What is system developmental ethics theory and explain the types of system developmental ethics theory.

Ans. Group-A : 1. (b), 2. (a), 3. (c)

Unit - 7 □ Business Ethics as a Strategic Response

Structure

7.1 Objectives

7.2 Introduction

7.3 Strategic Vision

7.4 Corporate Philosophy

7.5 Stakeholder Theory

7.6 “Stakeholder” inclusive organization

7.7 Stakeholder mapping

7.8 Ethical leadership

7.8.1 The Importance of Ethical Leadership

7.9 Summary

7.10 Exercise

7.1 Objectives

After going through this unit, you will learn.

- Strategic vision, corporate philosophy and the concept of enterprise strategy;
- Stakeholder theory and the “stakeholder” inclusive organization;
- Stakeholder mapping;
- Ethical leadership

7.2 Introduction

Strategic visions are ideas for the direction and activities of business development. Generally included in a document or statement so all company managers can share the same vision for the company and make decisions according to the shared principals and company mission. Corporate philosophy is the basic beliefs that

people in the business are expected to hold and be guided by maintaining high ethical standards in external and internal relationships to maximise success. On the other hand stake holders theory reflects the idea that companies create value through the cooperation of its stakeholders. Stakeholders engagement in management is also a vital part in ethical recognition of a company. Ethical leadership is defined as “leadership demonstrating and promoting ‘normatively appropriate conduct through personal actions and interpersonal relations’”.

7.3 Strategic Vision

Ethics are a set of moral standards that are relied upon to reach conclusions and make decisions. In a business environment, ethics is a key factor in responsible decision making. Maintaining a high ethical standpoint when operating your business can provide benefits to both the internal and external stakeholders of your business. Strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy and then over time initiating whatever corrective adjustments required for achieving the long-term objectives and goals of an organization. Strategic vision : Strategic visions are ideas for the direction and activities of business development. Generally included in a document or statement so all company managers can share the same vision for the company and make decisions according to the shared principals and company mission. A vision reflects management aspirations for the organization and its business providing a panoramic view of “where we are going” and giving specific about its feature business plans. It spells-out long-term business purpose and moods organization identity. A strategic vision points on an organization in a particular direction and charts a strategic path for it to follow. The mission statement a starting point for forming a strategic vision: Coming up with a vision statement that defines what business the company is presently in. it conveys the essence of “who we are, what we do, and where we are now”. From mission statement to strategic vision: using the mission statement as a basis for deciding on long-term course making choices about “where we are going” and charting a strategic path for the company to pursue.

7.4 Corporate Philosophy

A company philosophy is “The way we do things around here.” A business of high principles establishes a code of conduct and other prescriptive guidelines that strengthen corporate culture. In other words, corporate philosophy is the basic beliefs

that people in the business are expected to hold and be guided by maintaining high ethical standards in external and internal relationships to maximise success. Maintaining few guidelines can help in generating corporate philosophy like decisions should be based on facts, objectively considered, or the thought-through approach to decision making, the business should adjust with work forces in its environment, employees should be judged based on their performance, not on personality, education, or personal traits and skills and the business should be administered with a sense of competitive urgency. What can a business expect to gain by committing to high ethical standards? Basically, it is that better decisions are made: Facts are identified and evaluated with respect to ethical principles thereby stimulating a thoughtful process that weighs the costs and benefits of alternative actions; respects the rights of stakeholders; and commits to acting in accordance with the company's philosophy

A Company Philosophy is not the same as a code of ethics. A code of ethics or code of conduct goes beyond the basic philosophy that guides decision-making and incorporates specific activities and relationships, and the behaviors expected of employees and management in these situations. From an ethical perspective, a company philosophy begins with a set of core values. For example, IBM's Leadership Principles state : "Our basic belief is respect for the individuals, for his rights and dignity." An example of a more product-oriented philosophy is Oracle's statement that: "Oracle's employees make excellence and quality a part of day-to-day work processes and seek continuous improvement in all that they do." The common element is a commitment to individuals that should guide the company in better serving their customers.

Steve Jobs is quoted as saying: "Great things in business are never done by one person. They're done by a team of people." This sums up the true meaning of a company philosophy. It provides a roadmap to get from point "A" to point "B" and to do so in a way that honors the core values of the company, is consistent with its mission, adheres to the provisions in the code of ethics, and all of which is internalized by top management.

7.5 Stakeholder Theory

A **stakeholder** is an individual or group whose interests are affected by the operations of a business. To have a stake simply means that one's interests intersect with those of the business. In business ethics, stakeholders are mainly thought of normatively as sources or objects of a company's ethical duties. Stakeholder theory

is a point of view within business ethics, popularized by Edward Freeman, holding that a company's managers are ethically obligated to pursue jointly or to balance the interests of its stakeholders in the conduct of its business. This reflects the idea that companies create value through the cooperation of its stakeholders.

Stakeholder theory was offered initially as an approach to corporate governance; one operating in contradiction to the idea that managers' ethical obligation as managers is to advance the interests of a company's shareholders. More recently, it has been offered mainly as a theory of ethical management that may be compatible with managers' fiduciary duties to shareholders.

Principles of Stakeholders Theory and Strategy

Freeman outlined six principles that should govern the relationship between the stakeholders and the corporation.

- **The principle of entry and exit** : According to this principle, there must be clear rules that delineate, For example, the rules when it comes to hiring employees and terminating their employment should be clear-cut and transparent.
- **The principle of governance** : This principle is concerned with how the rules governing the relationship between the stakeholders and the firm can be amended. With unanimous consent, any changes
- **The principle of externalities** : This is concerned with how a group that does not benefit from the actions of the corporation has to suffer certain difficulties because of the actions of the corporation. The principle of externalities suggests that anyone who has to bear the costs of other stakeholders has the right to become a stakeholder as well based on stakeholder theory. Anyone who is affected by a business becomes a stakeholder.
- **The principle of contract costs** : Each party to a contract should either bear equal amounts when it comes to cost, or the cost they bear should be proportional to the advantage they have in the firm. Not all of these costs are financial in nature, so they may be difficult to quantify.
- **Agency principle** : This principle states that the manager of a firm is an agent of the firm and therefore has responsibilities to the stakeholders as well as the shareholders.
- **The principle of limited immortality** : This principle deals with the

longevity of a firm. To ensure the success of the organization and its owners alike, it is necessary for the organization to exist for a prolonged period of time. If the firm only exists for a very limited period of time, it would be advantageous for some of the stakeholders and disadvantageous for others. This violates the concept of a stakeholder theory. Thus the firm must remain in existence for a length of time, and it should be managed in a way that ensures its survival. “Limited” immortality refers to the fact that the firm can be long-lasting but it is impossible for it to actually be immortal.

7.6 “Stakeholder” Inclusive Organization

Inclusive stakeholder engagement requires a paradigm shift. A different mindset will alter the nature and construction of our vision, shifting the focus to holistic sustainability as a key outcome and criterion for success. Sustainable approaches go beyond the environment: they include the social sustainability of the wider community. Organisational and project values, priorities and goals should be linked by a common thread of inclusion. It does not end at our organisation’s front door, and failing to address it adequately has implications. Ethical behaviour underpins the concept of social value and the UN’s Sustainable Development Goals. Current thinking and practices are yet to fully embed these, although some projects utilise knowledge-transfer to communities and training through apprenticeships and jobs. Mindsets can restrict how innovatively social value and sustainable benefits are delivered through projects. Inclusion as an integral element of project vision alters this, transforming both process and outcome. Too often, the focus is on outcome without fully tapping the opportunities available through the strategic vision and process. Inclusively engaging a wider definition of stakeholders, and redefining who should be positively affected by our projects, generates a wider buy-in, sense of inclusion and energy, driving project success – and ultimately delivering more sustainable benefits.

Stakeholders emerge as a common thread linking issues that impact on project outcome. The position of people at the heart of project success is already well recognised, with stakeholder interaction a key cornerstone of project delivery. Effective stakeholder engagement (rather than merely management) is now recognised as essential in our approach to stakeholder strategy and delivery processes. Identifying and analysing stakeholders is a key initial stage of engagement. A stakeholder, by definition, is anyone who has an interest in, or is affected by, the outcomes of the project. That could encompass almost anyone, so analysis to determine significance

becomes critical. Asking others to identify stakeholders can assist, but may be problematic. When we and others map stakeholders, past experiences and practices inform our assessments of who stakeholders are. Despite our best efforts, we still miss those stakeholders who reveal themselves at a later stage of projects.

7.7 Stakeholder Mapping

Stakeholder mapping is the visual process of laying out all the stakeholders of a product, project, or idea on one map. The main benefit of a stakeholder map is to get a visual representation of all the people who can influence your project and how they are connected. People confuse stakeholders with shareholders. While shareholders own a part of a public company (through shares of stock) and are interested in the company's performance, it doesn't mean they should be stakeholders of each project or product launched by the company. Stakeholders can work on a more granular level and they are also often interested in the project's or product's performance, not just because it affects the company's stock performance.

When a stakeholder map is critical

It's good to have a detailed stakeholder map and know how to involve the right people when you plan to launch a major project or product.

Building a product—When building a new product from scratch you'll need to know the stakeholders for different groups. The number and the roles of stakeholders may vary depending on the type of product you are working on. Here is a list of potential stakeholders for this situation:

- **Customers/Users** : Knowing your audience is critical for creating a product that people will love. Think of the groups of people you are serving and their needs. To better segment your customer base, we recommend using our User Personas template.
- **Industries/Markets** : As a product developer, you can't ignore what's happening in your field, so brainstorming potential competitors, outlining market regulations, and writing down major trends can be very useful.
- **Suppliers** : For certain products (and especially for digital platforms like Airbnb, Uber, BlaBlaCar, and others), generating a supply of certain services is as important as creating demand. If you are building a platform, what are the key suppliers and how you can 'subsidize' one side of the demand/supply equation if needed.

- **Investors :** If your product needs substantial investments, you might want to include venture capital firms as major stakeholders since they will have the power to influence your product's future.

Penetrating a market–If you're trying to penetrate a new market with your product you'll also need to designate a few stakeholder groups :

- **New Customers.** Trying asking yourself what are the needs of those who haven't heard about your product yet. Are there any subgroups within this group? We suggest using Personas template to better understand your new customers.
- **Old Customers.** Which Personas are critical for your sustainable growth? Adding them to your map and understanding their challenges is key to your product's success.
- **New Retailers.** Who are the main external stakeholders for your project? Whether you are creating a physical or a digital product, you need strong partnerships to reach new audiences.

Starting a new project–Starting a new project will also need stakeholders internally. Here is how a list of stakeholders might look like:

- Project Manager
- Developer
- Designer
- CEO/C-Level exec

Benefits of Stakeholder Mapping

Stakeholder mapping allows you to identify key players that will influence your project and its success.

1. **Find out who has the most influence :** When you build a stakeholder map, you can easily see who will have the highest level influence over a project, whether it's the CEO or a project manager.
2. **Focus on those who benefit most :** Stakeholder maps help you see who will benefit most from the end-product, so you can focus on marketing to that person for either sales or resources.
3. **See where resources are most plentiful :** Often when you build a stakeholder map, you'll see who has restraints on the project and who has more resources, so internally you can put the right people on your team.

- 4. Have a game plan :** Overall, a stakeholder map gives you a good idea of who you're trying to satisfy when building this product/project.

Four steps to building a stakeholder map

Here is how you build a stakeholder map :

- 1. Brainstorming :** Start by identifying all the potential stakeholders — people, groups, or organizations affected by your product or project, those who have influence over it, or have an interest or concern in its success. Write down their names on a whiteboard or in a shared virtual space. At this point, try to be as granular as possible — you can always eliminate duplicates or those who actually don't have 'skin in the game' later.
- 2. Categorization :** Now it's time to group the results of your brainstorming. Are there any stakeholders that can be put into one category? How can you name this category? Are there any types of stakeholders you forgot about? To make sure you didn't forget about any of the key players, check out the 'When stakeholder map is critical' section to see examples of the types of stakeholders different projects require.
- 3. Prioritization :** To create a communication plan, you have to prioritize key stakeholders and make sure you start talking to them early in the project. There are different ways you can prioritize the stakeholders. You can use the matrix we shared above, or you can ask your team to vote so you can see how the group defines the main players.
- 4. Stakeholder communications :** Once your priorities are defined, it's important to come up with a plan for engaging all the major stakeholders. There is no single recipe that can fit all possible situations, but here are some best practices that can help you create transparency and accountability for your project :
 - You should have a lot of face-to-face communication with high-power, highly interested people. Building trust with them first is critical for your project.
 - If someone is opposed to the project, you can get a buy-in from someone with the same level of power first and then ask the latter to persuade the former.
 - Communicating early and often is also important, because people will need time to think before making a decision.

- Give each stakeholder a right amount of information depending on their interest. Some people need just an executive summary, while others will want to dive deeper.

7.8 Ethical Leadership

Ethical leadership is defined as “leadership demonstrating and promoting ‘normatively appropriate conduct through personal actions and interpersonal relations’.” When you boil it down, this really means that ethical leadership is defined as putting people into management and leadership positions who will promote and be an example of appropriate, ethical conduct in their actions and relationships in the workplace.

In the business world today, ethics are an increasingly important element and point of discussion. So leadership with ethics is very important to understand, to develop, and to recognize in the business world. If you want to become a business leader, learning about ethical leadership is crucial to help you get there. It’s your responsibility to model moral behaviour in the workplace when you’re in a position of power in an organization. Integrity, moral behaviour, and ethics are key to being a great leader.

Learn about the value of ethical leadership, how to become an ethical leader, and see examples of leadership with ethics around us in the business world today.

7.8.1 The Importance of Ethical Leadership

- Leadership that is ethical is important for a variety of reasons, for customers, employees, and the company as a whole. Leadership skills are crucial to help create a positive ethical culture in a company. Leaders can help investors feel that the organization is a good, trustworthy one. Customers are more likely to feel loyal when they see leaders in place in an organization. Good press is likely to come when there are ethical leaders in an organization. Partners and vendors will similarly feel they can trust and work well with an organization when they see leadership that is ethical displayed.
- In the short-term, ethical leaders can help boost employee morale and help them feel excited about their management and their work. It can increase positivity and collaboration in your organization and make everyone feel happier to be at work.

- In the long-term, ethical leadership can prevent company scandals, ethical dilemmas, and ethical issues. It can also help organizations gain more partnerships and customers, which can lead to more money at the end of the day. Loyal employees are also a crucial element of long-term success for a business.
- At the end of the day, Leadership with ethics and ethical principles have major short-term and long-term benefits for organizations and individuals alike.

7.9 Summary

Strategic visions are ideas for the direction and activities of business development. Generally included in a document or statement so all company managers can share the same vision for the company and make decisions according to the shared principals and company mission. A Company Philosophy is not the same as a code of ethics. A code of ethics or code of conduct goes beyond the basic philosophy that guides decision-making and incorporates specific activities and relationships, and the behaviour's expected of employees and management in these situations. Leaders can help investors feel that the organization is a good, trustworthy one. Customers are more likely to feel loyal when they see leaders in place in an organization.

7.10 Exercise

Group – A

1. The primary stakeholders are :
 - (a) Customers.
 - (b) Suppliers.
 - (c) Shareholders.
 - (d) Creditors.
2. To be successful, business ethics training programs need to :
 - (a) focus on personal opinions of employees.
 - (b) be limited to upper executives.
 - (c) educate employees on formal ethical frameworks and models of ethical decision making.

- (d) promote the use of emotions in making tough ethical decisions.
3. _____ is what constitutes right and wrong or good and bad, in human conduct in the context of an organization.
- (a) Work ethics
 - (b) Organization ethics
 - (c) Personal ethics
 - (d) Values

Group – B

1. What is stakeholders theory ?
2. Explain the importance of stakeholders inclusion in business ethics.
3. What are the steps to be considered in shareholders mapping ?
4. What is ethical leadership ?

Group – C

1. What is ethical leadership and mention its importance.
2. What is stakeholder's theory and what are the principles of Stakeholders Theory and also mention its strategy.

Ans. Group-A : 1. (c), 2. (c), 3. (b)

Unit - 8 □ Managing Ethical Dilemmas in Business

Structure

8.1 Objectives

8.2 Introduction

8.3 Ethical Dilemma versus Ethical Issues

8.4 Characteristics of Ethical Dilemmas

8.5 The Dilemma Resolution Process

8.5.1 How to Solve an Ethical Dilemma ?

8.6 Ethical Issues in Business and how to address them

8.7 Summary

8.8 Exercise

8.1 Objectives

After going through this unit, you will learn.

- Ethical dilemma versus ethical issue;
- Characteristics of ethical dilemmas;
- The dilemma resolution process;
- Common ethical dilemmas in different business areas-finance, marketing, HRM and international business

8.2 Introduction

This is true even if you aren't sure yet what the right thing is! Sometimes the right choice is very clear, but sometimes it requires more work to figure it out. Ethical Issue is when a matter has both aspects of right and wrong. In an ethical dilemma, you must decide between doing the right thing and the wrong thing. The biggest challenge of an ethical dilemma is that it does not offer an obvious solution that would comply with ethical norms. Throughout the history of humanity, people have faced such dilemmas, and philosophers aimed and worked to find solutions to them.

This chapter helps us to recognise the most common ethical issues and how to handle them.

8.3 Ethical Dilemma Versus Ethical Issue

Ethical Issue is when a matter has both aspects of right and wrong. Ethical issues in business encompass a wide array of areas within an organization's ethical standards. Fundamental ethical issues in business include promoting conduct based on integrity and trust, but more complex issues include accommodating diversity, empathetic decision-making, and compliance and governance that is consistent with the organization's core values. According to the Global Business Ethics Survey of 2019, 25% of employees still feel that their senior managers do not have a good understanding of key ethical and compliance business risks across the organization. In order to manage the ethical issues in business that arises in your organization, you first need to develop a thorough understanding of what those issues can look like. Understanding how to detect and, most importantly, deter these issues before they become a problem can ensure your focus stays on business growth and success instead of remediation.

8.4 Characteristics of Ethical Dilemmas

When you're unfamiliar with ethical dilemmas, it can be difficult to tell them apart from regular dilemmas and simple problems. Before you can attempt to recognize ethical dilemmas or respond to them, you need to know what sets ethical dilemmas apart. Although each ethical dilemma looks different, there are a few characteristics that they all share.

- **There is a right and wrong choice.** In an ethical dilemma, you must decide between doing the right thing and the wrong thing. This is true even if you aren't sure yet what the right thing is! Sometimes the right choice is very clear, but sometimes it requires more work to figure it out. If you're dealing with a regular dilemma or an everyday problem, there may not necessarily be a choice that is wrong or right.
- **Someone (or something) could be hurt.** In an ethical dilemma, someone or something could be harmed if the wrong decision is made. However, that harm doesn't just refer to physical pain—it can also mean being emotionally hurt. This could happen if the wrong decision causes someone to be upset, offended, or insulted. The hurt could also refer to harm that a business's

reputation or financial situation might encounter if someone makes an unethical decision. Imagine that you work on a project with a classmate, and then the classmate takes all the credit for your work. Your classmate isn't being respectful, and now your grade will likely suffer. Or imagine that you don't want to get blamed for a mistake you made at work, so you tell your boss that your coworker made the mistake. This isn't honest, and your coworker will get in trouble. On the other hand, if you have two job offers and you're trying to decide which job is the best one for you, this isn't an ethical dilemma. It might be a tough decision for you, but no one is likely to be harmed.

- **They often deal with what's legal.** A large part of ethical behavior is following the law. For example, if someone is considering stealing money, that's an ethical dilemma because there is a right and wrong choice—and one choice is clearly illegal. That doesn't mean that simply doing what's legal is enough, though! There are many behaviors that are technically legal but that may still be untrustworthy, dishonest, or otherwise unethical.

So, in review : **dilemmas** are difficult situations in which you are required to make a decision. **Ethical dilemmas** (also sometimes referred to as ethical situations) involve deciding whether something is right or wrong.

8.5 The Dilemma Resolution Process

1. *Establish the facts surrounding the ethical dilemma.* Facts are important in law enforcement. To investigate all cases, officers must rely on facts to guard against misinformation and cognitive biases. This is also true in ethical dilemmas that we face. If the facts are not known to us, we must investigate everything that surrounds the dilemma to ensure we are acting on the right information. Avoid acting on rumours and gossip by verifying information through factual information and evidence.
2. *Determine your legal obligations and duties.* We must be sure what our professional and legal obligations are. Professional and legal obligations will likely allow us to easily decide on a course of action to take in an ethical dilemma. However, while professional and legal obligations may not always require a course of action that coincides with these obligations, our awareness of any professional and legal obligations must be known to allow us to be fully cognizant of the consequences of our actions should we choose to ignore professional or legal obligations.

3. *Establish the interested participants involved.* It is important to know who will be impacted by the course of action that we decide upon. Often the primary participants are easy to identify and it is the secondary participants that are often not considered. These may include friends, families, or employees that are related somehow to the primary participants in the ethical dilemma. Knowing the impact of the decision made to secondary participants may be particularly important for a decision made with utilitarian underpinnings; where the rights of those who are not part of the majority may not be considered.
4. *Determine the ethical values of each participant.* Determining ethical values is important to allow us an understanding of what is truly at stake. A participant in an ethical dilemma may value loyalty as the most important value. However, another participant may value equality as the more important value. When considered, the value of loyalty may not compare with equality, depending upon the ethical dilemma.
5. *Consider normative ethical theories as an aide to determine a course of action.* When considering options, normative ethical theories may assist us in determining the consequences of actions, or the duties we may be obligated to follow that fall outside of the laws, rules, and procedures. We may also assess whether the decision we are considering is rational from another perspective we have not considered. We may also settle on an option, and rely on an ethical theory to assist us in articulating the reasoning behind the option we have chosen.
6. *Consider options that would be ethically sound.* There may be several options to consider, and each option ought to be considered critically by determining what harm it would cause and what values the person being harmed holds. The participant should consider the positives and negatives of the decision and determine the risks and benefits associated with each option, as well as the benefits of each action, with these values in mind.
7. *Consideration of the possible negative and positive outcomes of each possible option.* Try to predict what may otherwise be unintended consequences of your decision. These consequences may not be readily apparent, but they require a critical analysis of the consequences of your decision. To help with this, try asking the following questions :
 - Would the action taken be well received if it was on the front page of a newspaper? While this should be a consideration, keep in mind that often the right decision may be the least popular in public opinion.

- If the decision is job-related, would the agency or company you work for still hire you if it knew you would make this decision? If the answer is yes, then this should give weight to the decision you are about to make.
- If the decision is not job-related, would the agency you would like to work for still hire you if it knew all the facts surrounding the dilemma and the decision you would make? If the answer is yes, then this should give weight to the decision you are about to make.

Ethical Dilemma is when one is faced with a binary or multiple options of choice, or a confusion of understanding, based on ethics or the lack of it. An ethical dilemma (ethical paradox or moral dilemma) is a problem in the decision-making process between two possible options, neither of which is absolutely acceptable from an ethical perspective. Although we face many ethical and moral problems in our lives, most of them come with relatively straightforward solutions

8.5.1 How to Solve an Ethical Dilemma?

The biggest challenge of an ethical dilemma is that it does not offer an obvious solution that would comply with ethical norms. Throughout the history of humanity, people have faced such dilemmas, and philosophers aimed and worked to find solutions to them.

The following approaches to solve an ethical dilemma were deduced :

- **Refute the paradox (dilemma) :** The situation must be carefully analyzed. In some cases, the existence of the dilemma can be logically refuted.
- **Value theory approach :** Choose the alternative that offers the greater good or the lesser evil.
- **Find alternative solutions :** In some cases, the problem can be reconsidered, and new alternative solutions may arise.

8.6 Ethical Issues in Business and how to address them

1. Harassment and Discrimination in the Workplace

Harassment and discrimination are arguably the largest ethical issues that impact business owners today. Should harassment or discrimination take place in the workplace, the result could be catastrophic for your organization both financially and reputationally.

Every business needs to be aware of the anti-discrimination laws and regulations that exist to protect employees from unjust treatment.

Age : applies to those 40 and older, and to any ageist policies or treatment that takes place.

- **Disability :** accommodations and equal treatment provided within reason for employees with physical or mental disabilities.
- **Equal Pay :** compensation for equal work regardless of sex, race, religion, etc.
- **Pregnancy :** accommodations and equal treatment provided within reason for pregnant employees.
- **Race :** employee treatment consistent regardless of race or ethnicity.
- **Religion :** accommodations and equal treatment provided within reason regardless of employee religion.
- **Sex and Gender :** employee treatment consistent regardless of sex or gender identity.

2. Health and Safety in the Workplace

Health and safety measures must be taken by an organisation to provide work safe and life safety of workers.

1. **Fall Protection**, e.g. unprotected sides and edges and leading edges
2. **Hazard Communication**, e.g. classifying harmful chemicals
3. **Scaffolding**, e.g. required resistance and maximum weight numbers
4. **Respiratory Protection**, e.g. emergency procedures and respiratory/filter equipment standards
5. **Lockout/Tagout**, e.g. controlling hazardous energy such as oil and gas
6. **Powered Industrial Trucks**, e.g. safety requirements for fire trucks
7. **Ladders**, e.g. standards for how much weight a ladder can sustain
8. **Electrical, Wiring Methods**, e.g. procedures for how to circuit to reduce electromagnetic interference
9. **Machine Guarding**, e.g. clarifying that guillotine cutters, shears, power presses, and other machines require point of operation guarding
10. **Electrical, General Requirements**, e.g. not placing conductors or equipment in damp or wet locations

3. Whistleblowing or Social Media Rants

The widespread nature of social media has made employees conduct online a factor in their employment status. The question of the ethics of firing or punishing employees for their online posts is complicated. However, the line is usually drawn when an employee's online behavior is considered to be disloyal to their employer. This means that a Facebook post complaining about work is not punishable on its own but can be punishable if it does something to reduce business.

In the same vein, business owners must be able to respect and not penalize employees who are deemed whistleblowers to either regulatory authorities or on social media. This means that employees should be encouraged, and cannot be penalized, for raising awareness of workplace violations online.

4. Ethics in Accounting Practices

Any organization must maintain accurate bookkeeping practices. "Cooking the books", and otherwise conducting unethical accounting practices, is a serious concern for organizations, especially in publicly traded companies.

5. Nondisclosure and Corporate Espionage

Many employers are at risk of current and former employees stealing information, including client data used by organizations in direct competition with the company. When intellectual property is stolen, or private client information is illegally distributed, this constitutes corporate espionage. Companies may put in place mandatory nondisclosure agreements, stipulating strict financial penalties in case of violation, in order to discourage these types of ethics violations.

6. Technology and Privacy Practices

Under the same umbrella as nondisclosure agreements, the developments in technological security capability pose privacy concerns for clients and employees alike. Employers now have the ability to monitor employee activity on their computers and other company-provided devices, and while electronic surveillance is meant to ensure efficiency and productivity, it often comes dangerously close to privacy violation.

8.7 Summary

In order to manage the ethical issues in business that arises in your organization, you first need to develop a thorough understanding of what those issues can look like. Understanding how to detect and, most importantly, deter these issues before

they become a problem can ensure your focus stays on business growth and success instead of remediation. Ethical Dilemma is when one is faced with a binary or multiple options of choice, or a confusion of understanding, based on ethics or the lack of it. An ethical dilemma (ethical paradox or moral dilemma) is a problem in the decision-making process between two possible options, neither of which is absolutely acceptable from an ethical perspective. Although we face many ethical and moral problems in our lives, most of them come with relatively straightforward solutions. Throughout the history of humanity, people have faced such dilemmas, and philosophers aimed and worked to find solutions to them.

8.8 Exercise

Group - A

1. A _____ is a problem, situation, or opportunity requiring an individual, group, or organization to choose among several actions that must be evaluated as right or wrong.
 - (a) Crisis
 - (b) ethical issue
 - (c) indictment
 - (d) fraud
2. Ethics covers the dilemma : our rights and responsibilities
 - (a) True
 - (b) False

Group – B

3. What are the characteristics of ethical dilemma ?
4. Explain the most common ethical dilemmas faced across the globe.
5. What are the steps involved in dilemma resolution process ?

Group – C

1. Explain the most common ethical dilemmas faced across the globe.
2. What is ethical dilemma and what are the steps to be followed for dilemma resolution.

Ans. Group–A : 1. (a), 2. (b)

Corporate Governance Report

Appointment/Re-appointment of Directors

Mr. Rajan B Raheja, Non-executive Director retires by rotation in accordance with the provisions of the Companies Act, 2013 and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

During the year, Mr. Bharat D Shah was re-appointed as Independent Director for a second term of five consecutive years w.e.f. 30th April 2020 and Mr. Asish Kumar Mukherjee was re-appointed as Whole-time Director designated as Director-Finance and CFO w.e.f 1st May 2020. Shareholders approved their re-appointments by way of Postal Ballot with the requisite majority on 25th March 2020.

Your Board of Directors wishes to record its sincere appreciation for the services rendered by Mr. Vijay Aggarwal during his long association with the Company.

Mr. Raheja does not hold any Equity Shares in the Company and details as required under Regulation 36(3) of SEBI Listing Regulations has been appended to the Notice of the Annual General Meeting which is being circulated to the Members along with this report.

Any person who becomes Director or Officer, including an employee who is acting in a managerial or supervisory capacity, shall be covered under Directors' and Officers' Liability Insurance Policy. The Company has provided insurance cover in respect of legal action brought against its Directors and officers for alleged wrongful acts under the Directors' and Officers' Liability Insurance subject to certain terms and conditions.

Meetings and Attendance

During the financial year ended 31st March 2020, five (5) board meetings were held on 30th April 2019, 2nd August 2019, 6th November 2019, 4th February 2020 and 24th February 2020 respectively. The previous Annual General Meeting was held on 3rd August 2019.

Directors' attendance at Board Meetings and at Annual General Meeting (AGM) :

Name of Director	No. of Board Meetings Attended	Attendance at last AGM
Mr. Bharat Dhirajlal Shah	5	Yes

Name of Director	No. of Board Meetings Attended	Attendance at last AGM
Mr. Rajan B Raheja	3	–
Mr. Gautam Chatterjee	5	Yes
Mr. Asish Kumar Mukherjee	5	Yes
Mr. Subir Chakraborty	4	Yes
Mr. Arun Mittal	5	Yes
Mr. Vijay Aggarwal*	2	–
Ms. Mona N Desai	5	Yes
Mr. Sudhir Chand	5	Yes
Mr. Nawshir H Mirza	5	Yes
Mr. Surin Shailesh Kapadia	5	–

Independent Directors

Independent Directors play a significant role in the governance processes of the Board by enriching the Board's decision making and also preventing possible conflicts of interest that may emerge in such decision making.

The Company has appointed Independent Directors for a term of five years from their respective dates of appointment as per the requirements of the Companies Act, 2013 ("Act") and Securities & Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015 (hereinafter referred to as "SEBI Listing Regulations"). The Nomination and Remuneration Committee identifies candidates based on certain laid down criteria and takes into consideration the need for diversity of the Board and accordingly makes recommendation to the Board.

None of the existing Independent Directors serves as Independent Director in more than seven listed companies in line with the requirements of SEBI Listing Regulations. The said Independent Directors have also confirmed that they meet the criteria of independence as laid down in the Act and SEBI Listing Regulations, as amended and they are not aware of any circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact their ability to discharge their duties with an objective independent judgment and without any external influence. In the opinion of the Board, the Independent Directors fulfill the conditions specified in the SEBI Listing Regulations and are independent of management.

Directors' Induction, Training and Familiarisation

The Board is responsible for the selection of new directors on the recommendations received from the Nomination and Remuneration Committee. After getting appointed, the directors receive a formal letter of appointment which, inter alia, explains the role, functions, duties and responsibilities expected from him/her as a director of the Company. The director is also explained in detail the compliances required to be made under the Act and the SEBI Listing Regulations and other relevant regulations.

By way of an introduction to the Company, the director is presented with the Company profile, annual reports and an overview of the Company's manufacturing facilities. All Non-executive directors newly inducted in the Board are introduced to the Company through appropriate orientation sessions. Presentations are made by various Executive Directors and Senior Management Personnel and site visits to various plant locations are organised for them to provide a complete oversight into the Company's operations and business. Detailed presentations on Company's business segments, if any, performance updates, global business environment, business strategy and risks involved are periodically made at the board meetings during the year.

The details of such familiarisation programmes for Independent Directors along with the familiarisation policy are available on the company's website at <http://www.exideindustries.com/investors/governance-policies.aspx>

Board Portal – Meetings Management System

With a view to leverage advancement in technology and reducing paper consumption, the Company has a web-based application for transmitting Board/Committee agenda. The Directors of the Company receive the agenda in electronic form through this application, which can be accessed through browsers and iPads/tablets. The application meets high standards of integrity and ensures confidentiality that is required for storage and transmission of Board/Committee agenda in electronic form.

Code of Conduct for Directors and Senior Management Personnel

All Directors and members of the Senior Management have affirmed their compliance with the Code of Conduct for Board of Directors and Senior Management Personnel (SMP) as on 31st March 2020 and a declaration to that effect, signed by the Managing Director & CEO is enclosed and forms part of this report. The Code

of Conduct for Board of Directors and SMP has also been posted on the website of the Company at <http://www.exideindustries.com/investors/governance-policies.aspx>

Committees of the Board

The constitution, terms of reference and the functioning of the existing Committees of the Board is explained below. Each of these Committees demonstrates the highest levels of integrity and has the requisite expertise to handle issues relevant to their field.

A. Audit Committee

The Audit Committee acts as an interface between the Statutory Auditors and Internal Auditors, the Management and the Board of Directors. The Committee is governed by a Charter which is in line with the regulatory requirements mandated by the Act and SEBI Listing Regulations which was reviewed and amended by the Board of Directors during the year.

The role / terms of reference of the Audit Committee is to –

- (a) Assist the Board of Directors of the Company in fulfilling its responsibilities to oversee the :
 - (i) Company's financial reporting process;
 - (ii) the integrity of the Company's financial statements according to the authority and responsibilities provided in the Charter;
 - (iii) Auditors' appointment, qualifications and independence;
 - (iv) the performance of the Company's internal audit function and that of statutory auditors.
- (b) Oversee the reporting requirements for inclusion in the Company's annual report.
- (c) Laying down the criteria for granting the omnibus approval in line with Policy on Related Party Transactions and such approval shall be applicable in respect of transactions which are repetitive in nature.
- (d) Review with management of quarterly and annual financial statements.
- (e) Review the compliance of risk management system, adequacy and effectiveness of internal financial controls and system to ensure compliance with the provisions of all applicable laws.
- (f) Review the compliance of SEBI (Prohibition of Insider Trading) Regulations, 2015, as amended from time to time and verify adequacy and effectiveness of internal control system to ensure its compliance.

The role / terms of reference of the Audit Committee are in conformity with the SEBI Listing Regulations read in conjunction with Section 177 of the Companies Act, 2013.

In addition to quarterly meetings for consideration of financial results, special meetings of the Audit Committee are convened. In these meetings, the Audit Committee, inter-alia, reviews various matters arising out of internal audit, control assurance reports and other areas as per its terms of reference.

Composition and Attendance

The Audit Committee at present has five (5) directors out of which four (4) are Non-executive Independent Directors. Mr. Nawshir H Mirza, Chairman of the Committee, is a Non-executive Independent Director and a Chartered Accountant, acknowledged as a financial expert in his own right. All the other members are well-versed in corporate finance and related areas.

During the financial year ended 31st March 2020, six (6) Audit Committee meetings were held on 30th April 2019, 2nd August 2019, 30th September 2019, 6th November 2019, 4th February 2020 and 19th March 2020 respectively. The composition and attendance of the Committee meetings are as follows :

Name of Director	Category	Designation	Number of meetings attended
Mr. Nawshir H. Mirza	Independent Non-executive	Chairman	6
Mr. Vijay Aggarwal*	Independent Non-executive	Member	2
Ms. Mona N Desai	Independent Non-executive	Member	6
Mr. Sudhir Chand	Independent Non-executive	Member	6
Mr. Surin Shailesh Kapadia	Independent Non-executive	Member	6
Mr. Gautam Chatterjee**	Executive	Member	—

* Ceased to be director upon completion of tenure on 3rd August 2019

** Inducted as Member w.e.f. 20th April 2020

The Chairman of the Committee was present at the Annual General Meeting of the Company held on 3rd August 2019.

The Managing Director & CEO, Director- Finance & CFO and other executive directors are permanent invitees to the Audit Committee meetings. The representative(s) of the Statutory Auditors also attend the Audit Committee meetings. The Company Secretary acts as the Secretary to the Committee. Other members of the management and Chief-Internal audit are also invited as may be required from time to time.

During the year under review, the Audit Committee held a separate meeting with the Statutory Auditors to obtain their inputs on significant matters relating to their respective areas of audit without the presence of the management.

B. Nomination & Remuneration Committee

The terms of reference of the Nomination and Remuneration Committee inter alia includes the following :

- (i) To identify persons who are qualified to become directors and who may be appointed in the senior management and to lay down the criteria thereof;
- (ii) To recommend to the Board appointment of Directors and Senior Management Personnel and their removal;
- (iii) To evaluate the individual director's performance;
- (iv) Formulate the criteria for determining the qualification, positive attribute and independence of the directors;
- (v) Recommend to the Board policy relating to remuneration for Directors, Key Managerial Personnel and other employees; and
- (vi) Devising a policy on board diversity.

During the year under review, the Nomination & Remuneration policy was reviewed and amended by the Board of Directors. The revised policy is available on the website of the Company at <http://www.exideindustries.com/investors/governance-policies.aspx>

For the performance evaluation criteria for Independent Directors, please refer to the Board's Report.

Composition and Attendance

The Nomination and Remuneration Committee at present has four (4) Non-

executive Directors. Mr. Surin Shailesh Kapadia, Chairman of the Committee, is also a Non-executive Independent Director. The Company Secretary acts as the Secretary to the Committee.

During the financial year ended 31st March 2020, four (4) meetings of the Nomination & Remuneration Committee were held on 30th April 2019, 2nd August 2019, 6th November 2019 and 4th February 2020 respectively.

The composition and attendance details of the Committee meetings are as follows :

Name of Director	Category	Designation	Number of meetings attended
Mr. Vijay Aggarwal [#]	Independent Non-executive	Chairman	2
Mr. Surin Shailesh Kapadia ^{##}	Independent Non-executive	Chairman	4
Ms. Mona N Desai	Independent Non-executive	Member	4
Mr. Sudhir Chand	Independent Non-executive	Member	4
Mr. Rajan B Raheja	Non-executive Non-independent	Member	3

[#] Ceased to be director upon completion of tenure on 3rd August 2019

^{##} Appointed as Chairman w.e.f. 4th August 2019

Remuneration of Directors

Details of Remuneration paid/payable to the Directors for the year ended 31st March 2020 are as follows :

(in Rs.)

Name of Director	Salary & Performance Bonus	Contributions to retiral funds	Perquisites & Other benefits	Commission ¹	Sitting Fees ²	Total
Executive Directors						
Mr. Gautam Chatterjee	2,75,97,480	61,39,698	21,67,850	98,66,640	–	4,57,71,668
Mr. Asish Kr. Mukherjee	1,51,32,780	35,35,754	16,43,964	56,82,040	–	2,59,94,538
Mr. Subir Chakraborty	1,13,92,875	26,72,428	16,34,561	42,84,500	–	1,99,84,364
Mr. Arun Mittal	94,07,754	21,52,436	12,23,903	34,48,500	–	1,62,32,593
Non-executive Directors						
Mr. Rajan B Raheja	–	–	–	–	2,25,000	2,25,000
Mr. Vijay Aggarwal ³	–	–	–	–	2,50,000	2,50,000
Ms. Mona N Desai	–	–	–	15,00,000	6,75,000	21,75,000
Mr. Sudhir Chand	–	–	–	15,00,000	6,75,000	21,75,000
Mr. Bharat Dhirajlal Shah	–	–	–	40,00,000	3,75,000	43,75,000
Mr. Nawshir H Mirza	–	–	–	40,00,000	6,75,000	46,75,000
Mr. Surin Shailesh Kapadia	–	–	–	15,00,000	6,75,000	21,75,000

1. The Commission for the year ended 31st March 2020 will be paid, subject to deduction of tax, after adoption of accounts by the Members at the ensuing Annual General Meeting.

2. The sitting fee paid to the Non-executive Directors is towards attending the Board and Audit Committee meetings held during the year.

3. Ceased to be director upon completion of tenure on 3rd August 2019

Notes :

All the Executive Directors of the Company have been appointed on a contractual basis. According to the contract, the notice period is three months.

Payment of remuneration to the Executive/Whole-time Directors of the Company is governed by the terms and conditions of their appointment as recommended by the Nomination and Remuneration Committee and approved by the Board subject to the approval of the Shareholders and the Central Government, where applicable.

Non-Executive/Independent Directors of the Company receive remuneration by way of fees for attending meetings of the Board or Committee thereof as approved by the Board from time to time within the prescribed limits. Non-executive Independent Directors may also be paid commission as approved by the Shareholders subject to a limit of 1 per cent of the net profits of the Company computed under the applicable provisions of the Companies Act, 2013. The Commission payable to the Independent Directors is determined by the Board upon the recommendation of Nomination & Remuneration Committee within the aforesaid limit of 1 per cent of the net profits after taking into account their attendance roles and responsibilities in various Committees of the Board, their operational and functional expertise and contribution made by them.

Following the approval of the Shareholders in the Annual General Meeting held on 3rd August 2019, the payment of commission to Non-executive Directors has been determined by the Board, which is well within the ceiling of 1 per cent of net profits of the Company for the year ended 31st March 2020 as computed under applicable provisions of the Companies Act, 2013. The allocation of the Commission amongst the eligible Non-executive Independent Directors has been decided by the Board with each interested director present not participating in the deliberations in respect of his/her own commission.

Shareholding of Non-executive Directors

Name of Director	No. of shares held as on 31st March 2020
Ms. Mona N Desai	78,666
Mr. Sudhir Chand	18,872
Mr. Nawshir H Mirza	437

Apart from the above, there was no pecuniary relationship or transactions between the Company and Non-executive Directors.

The performance criteria for the payment of remuneration to the Directors are in line with the Nomination and Remuneration Policy of the Company.

Board Membership Criteria and list of core skills / expertise / competencies identified in the context of the business :

In terms of requirement of SEBI Listing Regulations, the Board has identified

the following core skills / expertise / competencies of the Directors in the context of the Company's business for effective functioning as given below :

Definitions of Director's Qualifications	Particulars
Leadership	Extended leadership experience for a significant enterprise, resulting in a practical understanding of organisations, processes, strategic planning, and risk management. Demonstrated strengths in developing talent, planning succession, driving change and long-term growth
General management Governance	Strategic thinking, decision making and protect the interest of all stakeholders
Global business	Experience in driving business success in markets around the world, with an understanding of diverse business environments, economic conditions, cultures and regulatory frameworks and a broad perspective on global market opportunities. Experience in leading businesses in different geographies/ markets around the world.
Financial, Regulatory/ Legal & Risk Management	Understanding the financial statements, financial controls, risk management, mergers and acquisition, etc.
Technology	Strong technological background resulting in continuous improvement, knowledge of how to anticipate technological trends, adapt to the market developments, generate disruptive innovation and create new business models.
Industry knowledge and experience	Experience in Manufacturing, Quality, Safety, Project Management and knowledge of Corporate Research and Development pertaining to automotive/industrial battery and allied industries.
Sales and marketing	Experience in developing strategies to grow sales and market share, build brand awareness and equity and enhance enterprise reputation.

In the table below, the specific areas of focus or expertise of individual Board members have been highlighted. However, the absence of a mark against a member's name does not necessarily mean the member does not possess the corresponding qualification or skill.

Name	Leadership	General management/ Governance	Global business	Financial, Regulatory/ Legal & Risk Management	Technology	Industry knowledge and experience	Sales and marketing
Mr. Bharat Dhirajlal Shah	√	√	√	√			
Mr. Rajan B Raheja	√	√	√	√		√	√
Mr. Gautam Chatterjee	√	√	√	√	√	√	√
Mr. Asish Kumar Mukherjee	√	√	√	√	√	√	
Mr. Subir Chakraborty	√	√	√	√	√	√	√
Mr. Arun Mittal	√	√	√	√	√	√	√
Ms. Mona N Desai	√	√	√	√			
Mr. Sudhir Chand	√	√	√	√	√	√	√
Mr. Nawshir H Mirza	√	√	√	√			
Mr. Surin Shailesh Kapadia	√	√	√	√			

C. Corporate Social Responsibility Committee

The Corporate Social Responsibility (CSR) Committee is responsible for -

1. Formulating the CSR policy and proposing revisions as and when required subject to the approval of the Board of Directors;
2. Proposing budget allocation for the CSR activities, subject to the approval of the Board of Directors;
3. Identifying modalities of implementing the CSR activities;
4. Formulation of an effective monitoring system;
5. Monitoring the progress of the CSR programmes regularly;
6. Review the impact assessment; and
7. Annually report to the Board, the status of CSR activities and contributions made.

The Committee has formulated a Corporate Social Responsibility policy indicating the activities to be undertaken by the Company and recommend the expenditure on the specified CSR activities pursuant to Schedule VII of the Companies Act, 2013 and also monitor the policy from time to time. The said policy is available on the website of the Company at <http://www.exideindustries.com/investors/governance-policies.aspx>

Composition & Attendance

The Corporate Social Responsibility Committee comprises of four (4) members with Mr. Bharat D Shah, Non-executive Independent Director acting as Chairman.

Four (4) meetings of the CSR Committee were held on 30th April 2019, 2nd August 2019, 6th November 2019 and 4th February 2020 respectively. The composition and attendance details of the Committee are given below :

Name of Director	Category	Designation	Number of meetings attended
Mr. Bharat Dhirajlal Shah	Independent Non-executive	Chairman	4
Mr. Sudhir Chand	Independent Non-executive	Member	4
Mr. Gautam Chatterjee	Executive	Member	4
Mr. Subir Chakraborty	Executive	Member	4

D. Risk Management Committee

The Risk Management Committee has five (5) members with Mr. Surin Shailesh Kapadia, Non-executive Independent Director acting as Chairman. Two (2) meetings of the Committee were held during the year on 30th September 2019 and 19th March 2020. The composition and attendance details of the Committee are given below :

Name of Director	Category	Designation	Number of meetings attended
Mr. Surin Shailesh Kapadia	Independent Non-executive	Chairman	2
Mr. Gautam Chatterjee	Executive	Member	2
Mr. Subir Chakraborty	Executive	Member	2
Mr. Asish K Mukherjee	Executive	Member	2
Mr. Arun Mittal	Executive	Member	2

The broad area of terms of reference of the Committee, inter alia, includes the following :

- Identify risks and suggest measures to mitigate them;
- Monitoring and reviewing risk management plan;
- Evaluation & mitigation of cyber-security related risks; and
- To deal with such matters as may be referred to by the Board of Directors from time to time

E. Stakeholders Relationship Committee

The terms of reference of the Stakeholders Relationship Committee includes, inter alia, the following :

- (a) Resolving grievances of security holders of the Company including complaints related to transfer/transmission of shares, non-receipt of the annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings, etc;
- (b) Review of measures taken for the effective exercise of voting rights by shareholders;

- (c) Review of adherence to service standards adopted by the Company in respect of various services being rendered by R & TA;
- (d) Review of the various measures and initiatives taken by the Company for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the Shareholders of the Company.

Composition and Attendance

The Stakeholders Relationship Committee of the Company has three (3) Directors. Mr. Sudhir Chand, Non-executive Independent Director is the Chairman of the Stakeholders Relationship Committee. Mr. Jitendra Kumar, Company Secretary and Executive Vice President (Legal & Administration) is the Compliance Officer and acts as the Secretary to the Committee.

During the financial year 2019-20, the Committee met once, on 13th March 2020. The composition and attendance details of the Committee meeting are as follows :

Name of Director	Category	Designation	Number of meetings attended
Mr. Sudhir Chand	Independent Non-executive	Chairman	1
Mr. Subir Chakraborty	Executive	Member	1
Mr. Gautam Chatterjee	Executive	Member	1

The Chairman of the Committee was present at the Annual General Meeting of the Company held on 3rd August 2019.

Investor Grievance Redressal Mechanism

During the financial year ended 31st March 2020, a total number of 16 complaints were received from shareholders. Out of these, 14 complaints have been redressed to the satisfaction of the shareholders and 2 complaints were pending.

Number of complaints received and resolved during the year and pending share transfers as on 31st March 2020 :

Number of complaints pending at the beginning of the financial year 2019-20	NIL
Number of complaints received during the financial year 2019-20	16
Number of complaints redressed during the financial year 2019-20	14
Number of complaints pending redressal at the end of the financial year 2019-20	2*
Number of pending share transfers as at 31 st March 2020	NIL

* These complaints relate to non-receipt of 2nd interim dividend declared by the Company during the FY 2019-20. The dividends remitted to the respective shareholders through electronic means were rejected and the physical Demand Drafts prepared by Bank could not be dispatched to the shareholders due to the nationwide lockdown announced by the Government of India and consequential suspension of postal services in the country.

F. Share Transfer Committee

The Share Transfer Committee approves the transfer/transmission of shares, sub-division or consolidation of shares and issue of new/duplicate share certificates and related matters. The Share Transfer Committee presently comprises of three (3) Executive Directors.

Composition and Attendance

During the financial year ended 31st March 2020, six (6) meetings of Share Transfer Committee were held on 29th July 2019, 9th September 2019, 12th December 2019, 17th December 2019, 23rd December 2019 and 6th March 2020 respectively. The composition and attendance details of the committee meetings are as follows :

Name of Director	Category	Designation	Number of meetings attended
Mr. Gautam Chatterjee	Executive	Chairman	6
Mr. Asish Kumar Mukherjee	Executive	Member	6
Mr. Subir Chakraborty	Executive	Member	6

All routine matters including, inter alia, formalities pertaining to transfer, transmission, etc. within specified threshold limits as delegated by the Board are

being dealt by “Share Transfer Committee of Executives” comprising of a representative from the Registrar & Share Transfer Agent, the Compliance Officer and an Officer from the Secretarial team which meets at least once in a fortnight.

G. Banking Operations Committee

The Banking Operations Committee has been constituted to approve opening and closing of bank accounts, change in signatories and carrying on other routine banking operations. The Committee presently comprises of three (3) Executive Directors, viz. Mr. Gautam Chatterjee, Mr. Asish Kumar Mukherjee and Mr. Subir Chakraborty.

H. Executive Committee

The Executive Committee comprises of the Executive Directors, Key Management Personnel and Senior Management Personnel viz. Mr. Gautam Chatterjee, Mr. Asish Kumar Mukherjee, Mr. Subir Chakraborty, Mr. Arun Mittal, Mr. Jitendra Kumar, Mr. Arnab Saha, Mr. Ranjan Sarkar, Dr. Dipak Sen Choudhury, Ms. Nupur Roy Choudhury and Mr. Avik Roy.

The Committee focuses on the strategic management issues of the Company, subject to the overall supervision of the Board of Directors. The Committee reports to the Board and the minutes of these meetings are placed before the Board.

I. Independent Directors Meeting

During the year under review, the Independent Directors met once on 4th February 2020 inter alia, to discuss:

- (i) Evaluation of the performance of Non-independent Directors and the Board of Directors as a whole;
- (ii) Evaluation of the performance of the Chairman of the Company, taking into account the views of the Executive and Non-executive Directors;
- (iii) Evaluation of the quality, content and timelines of flow of information between the management and the Board to effectively and reasonably perform its duties.

All the Independent Directors were present at the said meeting.

General Body Meetings

Particulars of last three Annual General Meetings :

AGM	Year Ended	Venue	Date	Time
70th	31.03.2017	Kala Mandir, 48 Shakespeare Sarani, Kolkata – 700 017	27.07.2017	11.30 AM
71st	31.03.2018	Kala Mandir, 48 Shakespeare Sarani, Kolkata – 700 017	02.08.2018	10.30 AM
72nd	31.03.2019	Kala Mandir, 48 Shakespeare Sarani, Kolkata – 700 017	03.08.2019	10.00 AM

Special Resolutions

The details of the special resolutions passed by the Company at the last three Annual General Meetings (AGMs) are given herein below :

Date of AGM	Subject matter of the resolution	Triggering Section of the Companies Act
27th July 2017	–	–
2nd August 2018	–	–
3rd August 2019	(i) Re-appointment of Ms. Mona N Desai (DIN : 03065966), as an Independent Director of the Company for a second term	Section 149
	(ii) Re-appointment of Mr. Sudhir Chand (DIN : 01385201), as an Independent Director of the Company for a second term	Section 149
	(iii) Re-appointment of Mr. Gautam Chatterjee (DIN : 00012306) as Managing Director and Chief Executive Officer	Section 196 & 197
	(iv) Approval u/s 180(1)(a) of the Companies Act, 2013	Section 180 (1)(a)

Postal Ballot

Details of Special Resolution(s) passed through Postal Ballot during the Financial Year 2019-20

No Special Resolution is proposed to be passed through Postal Ballot as on the date of this Report.

During the year under review, approval of shareholders of the Company was sought through Postal Ballot and details of the same are given below :

Date of Postal Ballot Notice : 4th February 2020

Voting period : 25th February 2020 to 25th March 2020

Date of declaration of result : 26th March 2020

Date of passing of resolution(s) : 25th March 2020

A summary of the voting pattern is as follows :

Resolution	Votes cast in favor (in %)	Votes cast against (in %)
Special resolution for re-appointment of Mr. Bharat Dhirajlal Shah as an Independent Director of the Company to hold office for a second term from 30 th April 2020 to 29 th April 2025	99.14%	0.86%
Ordinary resolution for re-appointment of Mr. Asish Kumar Mukherjee as Whole-time director designated as Director-Finance & CFO from 1 st May 2020 to 30 th April 2025	99.54%	0.46%

Mr. A. K. Labh, Practising Company Secretary (FCS-4848/ CP-3238) of A. K. Labh & Co., Company Secretaries, was appointed as Scrutiniser to scrutinise the Postal Ballot (including Remote E-voting) process in a fair and transparent manner.

Procedure for Postal Ballot :

In accordance with Sections 108 and 110 of the Act, read with the Companies (Management and Administration) Rules, 2014 and Regulation 44 of SEBI Listing

Regulations, the Company had provided remote e-voting facility for voting electronically on the Resolutions set out in the Postal Ballot Notice. The Company had engaged National Securities Depository Limited (NSDL) to provide remote e-voting facility to its Members. The Members had an option to vote either by postal ballot or through remote e-voting.

The Company dispatched the postal ballot notices and forms along with postage prepaid business reply envelopes to its members whose names appear on the Register of Members/ list of beneficiaries as on 4th February 2020. The postal ballot notice was sent to members in electronic form to the email addresses registered with the Company/Depository Participants. Newspaper advertisement containing the requisite particulars as required under Rule 22 of Companies (Management and Administration) Rules 2014 and Secretarial Standards issued by Institute of Company Secretaries of India was published in Business Standard (English) and Aajkaal (Bengali) on 25th February 2020.

Voting rights were reckoned on the paid-up value of shares of the Company registered in the names of the shareholders as on the cut-off date, i.e., 4th February 2020. Members were requested to return the Postal Ballot Form duly completed and signed with their Assent (For) or Dissent (Against) in postage pre-paid self-addressed Business Reply Envelope so as to reach the Scrutiniser not later than 5.00 P.M (IST) on Wednesday, 25th March 2020. In case of remote e-voting, Members were requested to cast their votes electronically upto 5.00 PM on Wednesday, 25th March 2020.

The Scrutiniser submitted his report to the Chairman, after the completion of scrutiny and the consolidated results of the voting by postal ballot were then announced by Company Secretary, being the person authorised to declare the results of the Postal Ballot. The results were displayed on the website of the Company (www.exideindustries.com), besides being communicated to the Stock Exchanges and e-voting website of NSDL.

Disclosures

(a) Related Party Transactions

All transactions entered into with the related parties during the financial year ended 31st March 2020 were in the ordinary course of business and on an arm's length basis and without any conflict of interest in accordance with the provisions of the Companies Act, 2013 and SEBI Listing Regulations.

Moreover, there were no materially significant related party transactions entered into by the Company with promoters, directors, key managerial personnel or other persons which may have a potential conflict with the interest of the Company. Suitable disclosures as prescribed under the applicable Accounting Standard have been made in the notes to the Financial Statements.

The policy for related party transactions has been uploaded on the Company's website. The web-link is <http://www.exideindustries.com/investors/governance-policies.aspx>

- (b) **Details of non-compliance by the Company, penalties, strictures imposed on the Company by the stock exchanges or SEBI or any statutory authority on any matter related to capital markets during the last three years.**

There was no such instance of non-compliance during the last three years.

- (c) **Whistle Blower Policy/Vigil Mechanism**

In accordance with the provisions of the Companies Act, 2013 read with the Companies (Meeting of Board and its Powers) Rules, 2014 and SEBI Listing Regulations, every listed Company is required to have a vigil mechanism for the directors, employees and stakeholders to report their genuine concerns and grievances. The Company has a whistle-blower policy in place and the same is also available on the website of the Company. The Audit Committee of Directors is entrusted with the responsibility to oversee the vigil mechanism. During the year, no personnel were denied access to Audit Committee.

The Whistle-Blower Policy is uploaded on the Company's website under the following web-link <http://www.exideindustries.com/investors/governance-policies.aspx>

- (d) **Policy on Material Subsidiaries**

In accordance with the requirements of Regulation 16(1)(c) of SEBI Listing Regulations the Company has a policy on material subsidiaries. The policy on material subsidiaries have been uploaded on the Company's website under the following web-link <http://www.exideindustries.com/investors/governance-policies.aspx>

(e) **Dividend Distribution Policy**

In accordance with Regulation 43A of SEBI Regulations, 2015, the Company has framed the Dividend Distribution Policy approved by the Board of Directors of the Company. The Dividend Distribution Policy of the Company endeavors to maintain a consistent approach towards dividend payment to its shareholders and regulate the process of dividend declaration and its payout by the Company in line with the laws in force. The Policy, inter alia, covers the financial parameters that will be considered when declaring dividends, internal and external factors that would be considered for declaring dividends and the circumstances under which shareholders can or cannot expect dividend. The Policy has been uploaded on the Company's website. The web-link is <http://www.exideindustries.com/investors/governance-policies.aspx>

- (f) As required under the provisions of the law, all other policies and disclosures are uploaded on the website of the Company at <http://www.exideindustries.com/investors/governance-policies.aspx> Investors are encouraged to visit the website of the Company to access such documents.
- (g) All mandatory requirements have been appropriately complied with and the non-mandatory requirements are dealt with at the end of the report.
- (h) **Disclosure of commodity price risk and commodity hedging activities**

Lead and lead alloys are the primary materials consumed in the manufacture of batteries representing more than 70 per cent of total material consumption by value.

The Company procures about 30 per cent of its lead and lead alloys requirement through imports or import parity pricing based on prices quoted on London Metal Exchange (LME). Balance 70 per cent of its lead and lead alloys are procured from local smelters, including its own smelters, prices of which are influenced by demand/supply situation as well as LME price movement.

At times, prices of lead and lead alloys become volatile due to sudden changes in demand/supply situation as well as LME price movement due to international forces. The Company procures lead and lead alloys mostly at current pricing or on LME averages and there is no long-term contract for pricing.

About 30 per cent of the Company's business with OEMs as well as institutional customers have a "Lead price variation clause" (Lead price denominated pricing). Hence, this portion of the business is protected from lead price volatility. Balance 70 per cent of the Company's business to retail customers are exposed to lead price volatility as prices are determined by market forces. However, increasing usage of recycled lead, replacing consumption of pure lead, which is cheaper than pure lead and not directly exposed to LME price movement, to some extent reduces the risk of lead price volatility.

Exposure to currency fluctuations and its impact on the Company's business is significant since about 30 per cent of lead and lead alloys procurement is based on "import parity price." Moreover, there are imports of a few other materials as well as most of the capital goods (machineries).

While exposure to currency fluctuation on lead and lead alloys cost is to some extent mitigated as stated above, exposure on account of other imports remains. However, exports, which constitute about 7 per cent of the Company's business, act as an automatic hedge against risks resulting from currency fluctuation.

As a policy, the Company does not enter commodity hedging. Accordingly, as on the date of reporting, there was no open position held by the Company on commodity futures or options. Same principle applies in case of currency also. Very few "forward covers" are taken, at times, against import liabilities, when the situation warrants. As at end of March 2020 there was no "forward cover contract" which remained open, for foreign currency liability.

(i) Certificate from Practising Company Secretary

Certificate as required under Part C of Schedule V of SEBI Listing Regulations, received from Sushil Tiwari & Associates (ACS-6199/CP-1903), Company Secretary, in practice certifying that none of the directors on the Board of the Company is debarred or disqualified from being appointed or continuing as directors of companies by the Board/Ministry of Corporate Affairs or any such statutory authority, is annexed at the end of this Report.

(j) Total fees paid to Statutory Auditors of the Company

Total fees for all services paid by the Company and its subsidiaries, on a

consolidated basis, to the statutory auditor and all entities in the network firm/
network entity of which the statutory auditor is a part –Rs. 2,19,99,413/-

(k) Disclosures in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 :

The status of the complaints filed, disposed and pending during the financial year ended 31st March 2020 is given below :

No. of complaints filed during the year 2019-20	1
No. of complaints disposed during the year 2019-20	Nil
No. of complaints pending during the year 2019-20	1*

*The complaint was received in March 2020 and was under investigation by the Internal Complaints Committee at the end of the financial year. The investigation has since been completed and necessary action has been taken by the Company as on the date of this report.

- (l) The disclosures on corporate governance as required under Regulation 17 to 27 and Clause (b) to (i) of sub regulation (2) of Regulation 46 have been adhered and complied with.

Shri Anil Kumar Upadhyay (DIN 07724769)

Independent Director

Shri Anil Kumar Upadhyay had been appointed as an Additional Director in the designation of an Independent Director on the Board of the Company on 18th July, 2019 based on the direction received from the MoPNG. He was further appointed as an Independent Director of the Company at the 102nd AGM of the Company held on 18th September, 2019 for a period of 3 years from the date of notification of his appointment or until further orders of the Administrative Ministry, whichever is earlier.

Shri Upadhyay has done B.Sc in Zoology, Botany and Chemistry and M.Sc in Botany from Udai Pratap College, Gorakhpur University, Varanasi. He also holds a Post Graduate Diploma (AIFC) in Forestry & Allied Subjects (equivalent to M.Sc in Forestry) from Indian Forest College, Dehradun.

Shri Upadhyay has over 10 years of experience as Joint Secretary and above. He superannuated from Indian Forest Service (IFS) on 28th February, 2017. Prior to his superannuation, he held the position of Additional Principal Chief Conservator of Forests (APCCF)- Liaisoning & Sales, Government of Madhya Pradesh, Delhi.

Shri Upadhyay is having specialization in Biodiversity, Natural Resource Management, Climate Change, Forestry, Rural Planning & Infrastructure Development, Finance & Budgeting, Administration, Wildlife Management, Media Relations, Environment Protection, Forest Conservation, Sales, Marketing, Research & Corporate Governance.

Shri Bhagawan Das Shivahare (DIN 08514350)

Independent Director

Shri Bhagawan Das Shivahare had been appointed as an Additional Director in the designation of an Independent Director on the Board of the Company on 18th July, 2019 based on the direction received from the MoPNG. He was further appointed as an Independent Director of the Company at the 102nd AGM of the Company held on 18th September, 2019 for a period of 3 years from the date of notification of his appointment or until further orders of the Administrative Ministry, whichever is earlier.

Shri Shivahare is a qualified Chartered Accountant. He has an experience of over 38 years in the profession of Chartered Accountancy. He is a senior partner in M/s. R. Gopal & Associates. He is actively involved in handling major assignments, such as Statutory Audits of various PSUs and PSBs. The areas of involvement have been planning and execution of the audit assignments, participating in discussions with the Audit Committees and Boards. SAIL-Bokaro Steel Plant and Raw Materials Division, South Eastern Coalfields Ltd., Indian Bank, were some of the major assignments handled by him.

Shri Shivahare was also involved in handling Internal/ Systems Audit of BSNL, Mahanadi Coalfields Ltd. and various other PSUs and PSBs. He was also involved in handling tax matters of various Corporate and Non-Corporate clients having diversified business and substantial exposures towards tax.

Shri Shivahare is a senior faculty of the Art of Living and also a motivational speaker and is also involved with various NGOs.

Smt. Perin Devi Rao (DIN 07145051)

Government Nominee Director

Smt. Perin Devi Rao was appointed as additional Director under the category of Government Nominee Director on the Board of the Company on 28th July, 2018 based on direction received from the MoPNG. She was further appointed as the Government Nominee Director of the Company at the 101st AGM of the Company

held on 12th September, 2018 for a period of 3 years with effect from 26th July, 2018 on co-terminus basis or until further orders of the Administrative Ministry, whichever is earlier.

Smt. Perin Devi Rao is currently Director (IFD) in Finance Division of MoPNG – the administrative ministry of the Company.

Shri Vijay Sharma (DIN 08045837)

Government Nominee Director

Shri Vijay Sharma was appointed as additional Director under the category of Government Nominee Director on the Board of the Company w.e.f 15th January, 2018 based on direction received from the MoPNG. He was further appointed as the Government Nominee Director of the Company at the 101st AGM of the Company held on 12th September, 2018 for a period of 3 years with effect from 24th November 2017 (being the date of his nomination by the Administrative Ministry) on coterminus basis or until further orders from the Administrative Ministry, whichever is earlier.

Shri Sharma holds a Master's degree in History. Shri Sharma has a working experience of about 18 years wherein he developed expertise in functional areas of - Administration, Refinery, Excise and Vigilance. Shri Sharma has recently been transferred to a different Ministry. However, an official direction from the administrative Ministry in this regard is awaited.

The composition of Board of Directors as on 31st March, 2020 and the number of other Boards or Committees in which the Director is a member/Chairperson are enumerated as follows :

Brief profile and other details of the directors of the Company retiring by rotation and directors seeking appointment at the AGM

The brief profile and other details of the directors of the Company retiring by rotation and directors seeking appointment at the AGM is attached to the Notice of the 103rd Annual General Meeting.

Attendance at the Board Meetings during the Financial Year 2019-2020 and at the last Annual General Meeting (AGM)

The Board of Directors met eight (8) times during the Financial Year 2019-2020. Attendance of the Directors at the Board meetings and at the last AGM held during the Financial Year 2019-20 is shown below :

Name, designation and category of the Director	Total No. of Directorship in other Companies the category of directorship	Names of the other Listed entities in which the director is a director and	Number of memberships in Committee(s) of other Companies	Number of post of Chairperson in Committee of other Companies
a	b	c	d	e
Shri Prabal Basu Chairman & Managing Director, Executive Director	2	Nil	4	2
Shri Shyam Sundar Khuntia Director (Finance), Executive Director and Chief Financial Officer (Shri Khuntia ceased to be a Director of the Company w.e.f. 30 th April 2020)	5	Balmer Lawrie Investments Limited- Non-executive Director	7	2
Shri Adika Ratna Sekhar Director (Human Resource and Corporate Affairs), Executive Director	0	Nil	0	0
Shri Adhipnath Palchaudhuri Director (Service Businesses), Executive Director	1	0	0	0
Shri Sumil Sachdeva Independent Director,	1	0	0	0
Shri Vikash Preetam Independent Director, Non-Executive Director	0	0	0	0
Shri Arun Tandon Independent Director, Non-Executive Director	0	0	0	0

Name, designation and category of the Director	Total No. of Directorship in other Companies in the category of the directorship	Names of the other Listed entities in which the director is a director and	Number of memberships in Committee(s) of other Companies	Number of post of Chairperson in Committee of other Companies
a	b	c	d	e
Shri Arun Kumar Independent Director, Non-Executive Director	1	Petronet LNG Limited - Independent Director	2	1
Shri Anil Kumar Upadhyay Independent Director, Non-Executive Director	0	0	0	0
Shri Bhagawan Das Shivahare Independent Director, Non-Executive Director	0	0	0	0
Smt. Perin Devi Rao- Government Nominee Director, Non-Executive Director	3	Balmer Lawrie Investments Limited- Government Nominee Director Chennai Petroleum Corporation Limited- Government Nominee Director	8	1
Shri Vijay Sharma Government Nominee Director, Non-Executive Director	1	Mangalore Refinery and Petrochemicals Limited-Government Nominee Director	0	0

Board Meetings held during the Financial Year 2019-20											Attendance at last AGM
Name of the Director	28th May 2019	18th July 2019	13th August 2019	17th September 2019	11th November 2019	7th December 2019	30th December 2019	4th February 2020			
Shri Prabal Basu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shri D. Sothi Selvam*	✓	✓	✓	✓	✓	✓	NA	NA	✓	✓	✓
Shri K Swaminathan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shri Shyam Sundar Khuntia	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shri Adika Ratna Sekhar	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Smt. Areyee Borooh Thekedath\$	✓	✓	✓	✓	✓	✓	✓	NA	✓	✓	✓
Shri Sunil Sachdeva	✓	✓	✓	×	✓	✓	✓	✓	✓	✓	✓
Shri Vikash Preetam	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	✓
Shri Arun Tandon	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shri Arun Kumar®	NA	NA	✓	✓	×	✓	✓	✓	✓	✓	✓
Shri Anil Kumar Upadhyay##	NA	NA	✓	✓	×	✓	✓	✓	✓	✓	✓
Shri Bhagawan Das Shivahare**	NA	NA	×	✓	✓	✓	✓	✓	✓	✓	✓
Smt. Perin Devi Rao	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	✓
Shri Vijay Sharma	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	✓

Notes : * Shri D. Sothi Selvam ceased to be the Director of the Company w.e.f. 16th December, 2019.

\$ Smt. Areyee Borooh Thekedath ceased to be the Director of the Company w.e.f. 31st January, 2020.

@ Shri Arun Kumar has been appointed as an Independent Director on 18th July, 2019.

Shri Anil Kumar Upadhyay has been appointed as an Independent Director on 18th July, 2019.

** Shri Bhagawan Das Shivahare has been appointed as an Independent Director on 18th July, 2019.

Disclosure of relationship between directors inter-se :

Directors do not have any relationship inter-se amongst them.

Number of shares and convertible instruments held by Non-executive Directors :

Name of Non-executive Director	Number of shares held in the Company	Percentage of shares and convertible instruments
Shri Sunil Sachdeva	NIL	NIL
Shri Vikash Preetam	NIL	NIL
Shri Arun Tandon	NIL	NIL
Shri Arun Kumar	NIL	NIL
Shri Anil Kumar Upadhyay	NIL	NIL
Shri Bhagawan Das Shivahare	NIL	NIL
Smt. Perin Devi Rao	NIL	NIL
Shri Vijay Sharma	NIL	NIL

Web link where details of familiarization programmes imparted to Independent Director is disclosed.

https://www.balmerlawrie.com/admins/dl_u/Familiarization_programme_of_Atreyee_Borooah.pdf https://www.balmerlawrie.com/admins/dl_u/

[Familiarization_Programme_of_Sunil_Sachdeva.pdf](https://www.balmerlawrie.com/admins/dl_u/Familiarization_Programme_of_Sunil_Sachdeva.pdf)https://www.balmerlawrie.com/admins/dl_u/

[Familiarization_programme_of_Shri_Vikash_Preetam-independent_director.pdf](https://www.balmerlawrie.com/admins/dl_u/Familiarization_programme_of_Shri_Vikash_Preetam-independent_director.pdf) https://www.balmerlawrie.com/admins/dl_u/

[Familiarization_programme_of_Arun_Tandon.pdf](https://www.balmerlawrie.com/admins/dl_u/Familiarization_programme_of_Arun_Tandon.pdf) https://www.balmerlawrie.com/admins/dl_u/

[familiarisation-program-of-shri-arun-kumar.pdf](https://www.balmerlawrie.com/admins/dl_u/familiarisation-program-of-shri-arun-kumar.pdf) https://www.balmerlawrie.com/admins/dl_u/

[familiarisation-program-of-shri-anil-kumar-upadhyay.pdf](https://www.balmerlawrie.com/admins/dl_u/familiarisation-program-of-shri-anil-kumar-upadhyay.pdf) https://www.balmerlawrie.com/admins/dl_u/

[familiarisation-program-of-shri-b-d-shivahare.pdf](https://www.balmerlawrie.com/admins/dl_u/familiarisation-program-of-shri-b-d-shivahare.pdf)

A chart or a matrix setting out the skills/expertise/ competence of the Board of directors

Balmer Lawrie & Co. Ltd. being a Government Company under the administrative control of the Ministry of Petroleum & Natural Gas (MoPNG), the power to appoint Directors (including Independent Directors) vests with the Government of India. The Independent Directors are selected by the Government of India from a mix of eminent personalities having requisite expertise and experience in diverse fields. In view thereof, the Board of Directors are not in a position to identify list of core skills/ expertise/ competencies required by a Director in the context of the Company's business, as required under SEBI (LODR) Regulations, 2015 (as amended).

Confirmation regarding Independent Director(s)

As per Section 149(6) of the Companies Act, 2013 read with exemption granted to Government Companies vide Notification No, GSR 463(E) dated 5th June, 2015, an Independent Director is a Director, who in the opinion of the Administrative Ministry is a person of integrity and possesses relevant expertise, experience. As already stated, all the Directors including Independent Directors are appointed by the Administrative Ministry. Further, the mechanism of evaluation of the Independent Directors as stated in paragraph VIII of Schedule IV to the Companies Act, 2013 does not apply in the case of a Government company, if the requirements in respect of matters specified in the said paragraph are specified by the concerned Ministries or Departments of the Central Government. Since the evaluation of performance of all the Directors is carried out by the Administrative Ministry and the Department of Public Enterprises, the Board of Directors is not in a position to give such confirmation as required under para C 2(i) of Schedule V to SEBI (LODR) Regulations, 2015 (as amended).

Reasons of resignation of Independent Director(s)

During the year none of the Independent Director(s) resigned before the expiry of his/her tenure. The directorship of Smt. Atreyee Borooh Thekedath ceased on account of completion of her tenure.

Committees of the Board

Audit Committee

Terms of Reference

The terms of reference of the Audit Committee was revised with effect from 1st April, 2019 to make it in line with the Companies Act, 2013, ("the Act"), SEBI (LODR) Regulations, 2015 (as amended) and the Guidelines on Corporate Governance for Central Public Sector Enterprises, 2010 by Department of Public Enterprises (DPE). The terms of reference (as amended) of the Committee are as follows :

- (i) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- (ii) Recommendation for appointment, remuneration and terms of appointment of auditors of the Company;
- (iii) Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- (iv) Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the Board for approval, with particular reference to :
 - Matters required to be included in the Directors' Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
 - Changes, if any, in accounting policies and practices and reasons for the same;
 - Major accounting entries involving estimates based on exercise of judgement by management;
 - Significant adjustments made in the financial statements arising out of audit findings;
 - Compliance with Listing and other legal requirements relating to financial statements;
 - Disclosure of any Related Party Transactions;
 - Modified opinion(s)/ qualification in the draft audit report;
- (v) Examination of the financial statement and the auditor's report thereon;
- (vi) Reviewing, with the management, the quarterly financial statements before submission to the Board for approval;
- (vii) Reviewing with the management, the statement of uses/application of funds raised through an issue (public issue, right issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps, in this matter;

- (viii) Monitoring the end-use of funds raised through public offers and related matters;
- (ix) Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
- (x) Approval or any subsequent modification of transactions of the Company with Related Parties;
- (xi) Scrutiny of inter-corporate loans and investments;
- (xii) Valuation of undertakings or assets of the Company, wherever it is necessary;
- (xiii) Evaluation of internal financial controls and risk management systems;
- (xiv) Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- (xv) Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- (xvi) Discussion with internal auditors and/or auditors any significant findings and follow-up thereon;
- (xvii) Reviewing the findings of any internal investigations by the internal auditors / auditors/ agencies into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- (xviii) Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern and to review the co-ordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources;
- (xix) The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the Company;
- (xx) To look into the reasons for substantial defaults in the payment to the

depositors, debentureholders, shareholders (in case of non-payment of declared dividends) and creditors;

- (xxi) To review the functioning of the whistle blower mechanism;
- (xxii) Approval of appointment of Chief Financial Officer after assessing the qualifications, experience and background, etc. of the candidate;
- (xxiii) Reviewing the utilization of loans and/or advances from /investment by the holding company in the subsidiary exceeding Rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans/advances/ investments existing as on the date of coming into force of this provision (i.e., 1st April, 2019);
- (xxiv) The Audit Committee shall mandatorily review the following information :
 - Management Discussion and Analysis of financial condition and results of operations;
 - Statement of significant Related Party Transactions (as defined by the Audit Committee), submitted by management;
 - Management letters/ letters of internal control weaknesses issued by the statutory auditors;
 - Internal audit reports relating to internal control weaknesses; and
 - The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee.
 - Statement of deviations :
 - (a) Quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1).
 - (b) Annual Statement of funds utilized for purposes other than those stated in the offer document /prospectus/notice in terms of Regulation 32(7).
- (xxv) To review the follow up action on the audit observations of the C&AG audit;
- (xxvi) To review the follow up action taken on the recommendations of Committee on Public Undertakings (COPU) of the Parliament;
- (xxvii) Provide an open avenue of communication between the independent auditor, internal auditor and the Board of Directors;

- (xxviii) Consider and review the following with the independent auditor and the management :
- The adequacy of internal controls including computerized information system controls and security; and
 - Related findings and recommendations of the independent auditor and internal auditor, together with the management responses.
- (xxix) Consider and review the following with the management, internal auditor and the independent auditor :
- Significant findings during the year, including the status of previous audit recommendations.
 - Any difficulties encountered during audit work including any restrictions on the scope of activities or access to required information.
- (xxx) Investigate into any matter in relation to the items specified in Section 177 of the Companies Act, 2013 or referred to it by the Board or pertaining to any activity within its terms of reference and to this purpose, shall have full access to information contained in the records of the Company and external professional advice, if necessary, seek information from any employee in the matter and secure attendance of outsiders with relevant expertise, if considered necessary;
- (xxxi) Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Composition

During the Financial Year 2019-20, the Audit Committee was reconstituted with effect from 7th December, 2019. The Audit Committee, as on 31st March, 2020 was consisted of five (5) members out of which one was Whole-time Director and four were Independent Directors. Shri Sunil Sachdeva, Independent Director is the Chairperson of the Committee. The composition of the Committee as on 31st March, 2020 was as follows :

- (i) Shri. Sunil Sachdeva, Independent Director-Chairperson
- (ii) Shri Vikash Preetam, Independent Director-Member
- (iii) Shri Arun Tandon, Independent Director-Member
- (iv) Shri Bhagawan Das Shivahare, Independent Director-Member
- (v) Shri Shyam Sundar Khuntia (erstwhile Director Finance)-Member

All the members of the Audit Committee are financially literate and some members possess accounting/ financial management expertise also. The Company Secretary acts as the Secretary to this Committee. The Audit Committee met 5 (five) times during the Financial Year 2019-20. The details regarding the attendance of the Members at the meetings are enumerated as follows :

Audit Committee Meetings held during the Financial Year 2019-20

Name of the Members	27th & 28th May, 2019	18th July, 2019	13th August, 2019	11th November, 2019	4th February, 2020
Smt. Atreyee Borooh Thekedath*	√	√	√	√	NA
Shri Sunil Sachdeva	√	√	√	√	√
Shri Vikash Preetam	√	√	√	√	√
Shri Arun Tandon	√	√	√	√	√
Shri Bhagawan Das Shivhare**	NA	NA	NA	NA	√
Shri Shyam Sundar Khuntia	√	√	√	√	√

NOTE : The Audit Committee was reconstituted with effect from 7th December, 2019.

*Smt. Atreyee Borooh Thekedath ceased to be the Director of the Company w.e.f. 31st January, 2020.

**Shri B D Shivhare was appointed as member of the Committee w.e.f. 7th December 2019

Nomination & Remuneration Committee

The Company being a Government Company within the meaning of Section 2(45) of the Companies Act, 2013, all the Directors of the Company are appointed by the MoPNG. The remuneration of the whole-time directors is fixed and their performance evaluation is carried out by the Government of India from time to time. Nevertheless, a “Remuneration Committee” had been constituted by the Board at its meeting held on 30th January, 2009. The said Committee was renamed as “Nomination & Remuneration Committee” on 6th February, 2015. During the financial year 2019-2020, the Committee was reconstituted on 7th December, 2019.

Terms of Reference

The terms of reference of the Nomination and Remuneration Committee was revised w.e.f. 1st April, 2019 to make it in line with the Companies Act, 2013, (“the

Act”), SEBI (LODR) Regulations, 2015 (as amended) and the Guidelines on Corporate Governance for Central Public Sector Enterprises, 2010 by the Department of Public Enterprises. The revised terms of reference include the following :

- (i) Formulation of the criteria for determining qualifications, positive attributes and independence of a Director and recommend to the Board a policy, relating to the remuneration of the Directors, Key Managerial Personnel and other employees. The Company shall disclose the remuneration policy and the evaluation criteria in its Annual Report;
- (ii) Formulation of criteria for evaluation of performance of Independent Directors and the Board;
- (iii) Devising a policy on Board Diversity;
- (iv) To identify persons who are qualified to become Directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal and shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance ;
- (v) The Nomination and Remuneration Committee shall, while formulating the policy ensure that -
 - the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the Company successfully;
 - relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
 - remuneration to Directors, Key Managerial Personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the Company and its goals and such policy shall be disclosed in the Board’s Report.
- (vi) Whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;

- (vii) Recommending to the Board, all remuneration, in whatever form, payable to senior management.

Note : Your Company being a Government Company, vide Notification No. GSR 463(E) dated 5 June 2015 as amended by Notification No. GSR 582(E) dated 13 June 2017 and notification No. GSR 802(E) dated 23 February 2018, has been exempted from applicability of Sections 178(2), (3) and (4) of the Companies Act, 2013.

The annual performance appraisal of Top Management incumbents of Central Public Sector Enterprises is done through the Administrative Ministry as per the DPE Guidelines in this regard. Your Company being a Central Public Sector Enterprises under the administrative jurisdiction of Ministry of Petroleum & Natural Gas also has to follow the similar procedure.

Further, as per Section 149(6) of the Companies Act, 2013 read with exemption granted to Government Companies vide Notification No, GSR 463(E) dated 5th June, 2015, an Independent Director is a Director, who in the opinion of the Administrative Ministry is a person of integrity and possesses relevant expertise experience. In view of the above mentioned exemption, serial no. (i), (ii), (iii), (iv), (v), (vi) and (vii) of the terms of Reference would not be applicable.

Composition

As on 31st March, 2020, the Committee consisted of six (6) members, out of which two were Government Nominee Directors and four were Independent Directors. Shri Arun Tandon, Independent Director is the Chairperson of the Committee. The Composition of the Committee as on 31st March, 2020 was as follows :

- (i) Shri Arun Tandon, Independent Director - Chairperson
- (ii) Shri Sunil Sachdeva, Independent Director – Member
- (iii) Shri Vikash Preetam, Independent Director – Member
- (iv) Shri Anil Kumar Upadhyay, Independent Director – Member
- (v) Smt. Perin Devi Rao, Government Nominee Director - Member
- (vi) Shri Vijay Sharma, Government Nominee Director – Member

The Committee held five (5) meetings during the financial year 2019-2020, as detailed hereunder :

Nomination and Remuneration Committee Meetings held during the Financial Year 2019-20					
Name of the Member	27th May 2019	18th July 2019	13th August 2019	11th November 2019	4th February 2020
Smt. Atreyee Borooh Thekedath*	√	√	√	√	NA
Shri Arun Tandon	√	√	√	√	√
Shri Sunil Sachdeva	√	√	√	√	√
Shri Vikash Preetam	√	√	√	×	√
Shri Anil Kumar Upadhyay#	NA	NA	NA	NA	√
Smt. Perin Devi Rao	√	√	√	×	√
Shri Vijay Sharma	X	√	√	×	√

NOTE : The Nomination & Remuneration Committee was reconstituted with effect from 7th December, 2019

*Smt. Atreyee Borooh Thekedath ceased to be the Director of the Company w.e.f. 31st January, 2020.

Shri Anil Kumar Upadhyay was appointed as member of the Committee w.e.f. 7th December 2019.

Remuneration Policy

Balmer Lawrie (BL) is a CPSE under the administrative control of MoPNG and for all purpose we follow the relevant and applicable guidelines. There are four levels under which the matter is dealt with, these are as under :

- (a) For Members of the Board
- (b) For Executives below the Board Level
- (c) For non-Unionised Supervisors
- (d) For unionised categories of employee through collective bargaining.

In matters related to the members of the Board, Executives below the Board Level, we are strictly governed by the Department of Public Enterprises [DPE] guidelines, issued from time to time and ensure compliance to all such guidelines and practices. The matter of finalization of remuneration, including wages and

benefits of non-Unionised Supervisors is overseen by the Board of BL and it is essentially in line with DPE guidelines as applicable.

For the unionised category the matter is decided based on a 5 years settlement period where the terms are decided based on collective bargaining. In this case the basic premises that governs the boundaries of any agreement is as laid out by the DPE.

In all cases the Board of BL oversees all the above matters in the light of compliance of Government Guidelines and ethical Corporate Governance practices. Balmer Lawrie in fulfilling the statutory requirements has also a fully functional Nomination & Remuneration Committee.

Performance evaluation criteria for Independent Directors on the Board.

The Company being a Government Company, the criteria of independence as per Section 149 of the Companies Act, 2013 is determined by the Administrative Ministry. Hence, the evaluation criteria and such evaluation of Directors is done by the MoPNG.

Remuneration of Directors

- (a) There was no pecuniary relationship or transaction of any non-executive director vis-à-vis the Company except the sitting fees paid to the Independent Directors, which has been detailed in this report as well as MGT-9 as attached to the Board's Report.
- (b) By virtue of Article 7A of the Articles of Association of the Company, the President of India is entitled to decide the terms and conditions of appointment of the Directors. This, *inter alia*, includes determination of remuneration payable to the Whole-time Directors. Non-Executive Independent Director is entitled to sitting fee for attending the Board and Committee Meetings. The sitting fee has been revised by the Board of Directors w.e.f. 5th February 2020 at Rs. 20,000/- (Rupees Twenty Thousand only) per meeting of the Board and at Rs. 15,000/- (Rupees Fifteen Thousand only) for every Committee meeting attended by them. No sitting fee is paid to the Whole-time Director /Non-Whole time Government Nominee Director for the meetings of Board of Directors or Committees attended by them.

Disclosure with respect to remuneration of Directors
(1) Details of remuneration paid to Executive Directors (Whole time Directors) during Financial Year 2019-20 are enumerated hereunder :

	(All figures in Rs.)					
	Shri Prabal Basu	Shri D. Sothi Selvam (01/04/19 -15/12/2019)	Shri Kalyan Swaminathan (01/04/19 -28/02/2020)	Shri Shyam Sundar Khuntia	Shri Adika Ratna Sekhar	Shri Adhip Nath Palchaudhuri (01/03/20 -31/03/20)
Salary and allowances	3424004	2970792	3168510	3740529	2540048	216753
Incentive	1821780	1455643	1277343	1445381	1123976	62471
Provident Fund	563147	492555	478246	592360	470642	39595
Gratuity	85274	37390	68636	30516	35503	3708
Perquisites	1069970	328289	166111	439642	610479	48408
TOTAL	6964175	5284669	5158846	6248429	4780648	370935
	As contained in letter from Ministry of Petroleum & Natural Gas bearing reference no.- C-31024 /7/2012-CA(I)/FTS (36715) dated 1 st February, 2019	As contained in letter from Ministry of Petroleum & Natural Gas bearing reference no.- C-31024 /2/2013-CA (Part-I)/FTS (39922) dated 4 th February, 2019	As contained in letter from Ministry of Petroleum & Natural Gas bearing reference no.- C-31024 /4/2015-CA(II)/FTS (42956) dated 1 st February, 2019	As contained in letter from Ministry of Petroleum & Natural Gas bearing reference no.- C-31024 /2/2017-PNG (49) dated 4 th January, 2019	As contained in letter from Ministry of Petroleum & Natural Gas bearing reference no.- CA-31024 /1/2018-PNG (23808) dated 20 th December 2019	

	<p>Shri Prabal Basu</p> <p>C-31024/3 /2013-CA(Part-I)/ FTS: 39921 dated 23rd October, 2015</p> <p>C-31024/3/ 2013-CA/ FTS: 26993 dated 18th May 2015</p>	<p>Shri D. Sothi Selvam (01/04/19 -15/12/2019)</p> <p>C-31024 /7/2012- CA (Part -1)/ FTS: 36715 dated 4th August, 2016</p> <p>C-31024 /07 /2012-CA (Part II)/ FTS:40153 dated 29th March 2016</p> <p>C- 31024/7 /2012- CA /FTS:23176 dated 09th October, 2014</p>	<p>Shri Kalyan Swaminathan (01/04/19 -28/02/2020)</p> <p>C-31024/2/2013 (Part I) CA FTS: 39922 dated 21st March, 2017</p> <p>C-31024/ 2 / 2013- CA /FTS:26994 dated 18th May 2015</p>	<p>Shri Shyam Sundar Khuntia</p> <p>C-31024/04/2015 – CA/ FTS: 39711 dated 22nd March, 2016</p> <p>C-31024/ 4 / 2015- CA (Part I) / FTS: 39711 dated 7th December 2015</p>	<p>Shri Adika Ratna Sekhar</p> <p>CA-31024 /2 / 2017-PNG (49) dated 2nd May, 2018</p>	<p>Shri Adhip Nath Palchaudhuri (01/03/20 -31/03/20)</p>
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(2) Details of remuneration paid to Non-Executive Directors during Financial year 2019-20 are enumerated hereunder :

(All figures in Rs.)

Name of Director	Sitting fees Paid	Total Remuneration	Terms of Appointment
Smt. Atreyee Borooah Thekedath	1,80,000	1,80,000	C-31034/1/2016-CA/FTS: 46118 dated 31 st January, 2017 and appointment letter dated 15 th February, 2017
Shri Sunil Sachdeva	2,25,000	2,25,000	C-31034/2/2017-CA/FTS:49128 dated 8 th September 2017 and appointment letter dated 5 th April 2018
Shri Vikash Preetam	1,30,000	1,30,000	C-31033/2/2018-CA (22758) dated 24 th July, 2018 and his appointment letter dated 2 nd August, 2018
Shri Arun Tandon	1,80,000	1,80,000	C-31033/2/2018-CA (22758) dated 3 rd August, 2018 and his appointment letter dated 12 th September, 2018
Shri Arun Kumar	75,000	75,000	C-31033/2/2018-CA /PNG (25758) dated 12 th July, 2019 and his appointment letter dated 23 rd July 2019
Shri Anil Kumar Upadhyay	95,000	95,000	C-31033/2/2018-CA / PNG(25758) dated 12 th July, 2019 and his appointment letter dated 23 rd July 2019

Name of Director	Sitting fees Paid	Total Remuneration	Terms of Appointment
Shri B D Shivahare	70,000	70,000	C-31033/2/2018-CA /PNG (25758) dated 12 th July, 2019 and his appointment letter dated 23 rd July 2019
Shri Vijay Sharma	0	0	C-31033/1/2016-CA/FTS: 42979 dated 24 th November, 2017
Smt. Perin Devi Rao	0	0	C-31033/1/2016-CA/FTS: 42979 dated 26 th July, 2018
TOTAL	9,55,000	9,55,000	

Notes :

1. During the year no stock option was issued by the Company to any Director.
2. Performance linked incentives are paid to the whole-time directors as per the DPE Guidelines.
3. The remuneration enumerated above does not include – Long Service Award and Post retirement Medical Benefit Scheme which are based on actuarial valuation and are not separately ascertainable for individual directors.
4. There was no expenditure debited in the books of accounts, which represent personal expenditure of the Board of Directors and Top Management.
5. Severance fee and notice period for the whole-time directors is NIL and the terms of disengagement for the Independent Directors is governed by the terms of the respective appointment letter issued to them.

Stakeholders' Relationship Committee

As on 31st March, 2020, the Committee consisted of six (6) members. Shri Anil Kumar Upadhyay, Independent

Director is the Chairperson of the Committee. The Composition of the Committee as on 31st March, 2020 was as follows :

- (i) Shri Anil Kumar Upadhyay, Independent Director - Chairperson
- (ii) Shri Sunil Sachdeva, Independent Director-Member

- (iii) Shri Vikash Preetam, Independent Director-Member
- (iv) Shri Adika Ratna Sekhar, Director (HR & CA)-Member
- (v) Shri Shyam Sundar Khuntia, erstwhile Director (Finance) - Member
- (vi) Shri Vijay Sharma, Government Nominee Director-Member

A meeting of this Committee was held on 27th May, 2019. All the members of this committee, as per the constitution at that time were present at the said Meeting.

Compliance Officer :

Name : Shri Kaustav Sen

Designation : Compliance Officer

The investors may lodge their complaint/grievance, if any, at the e-mail address : sen.k@balmerlawrie.com

Status of Investor Complaints :

Pending at the beginning of the year as on 1 st April 2019	NIL
Received during the year	507
Disposed of during the year*	507
Remaining unresolved at the end of the year as on 31 st March, 2020	NIL
Complaints not solved to the satisfaction of shareholder*	0

*Since the complaints have been resolved and the concerned shareholder has not signified his/her dissatisfaction, hence it is presumed that the said complaints have been resolved to the satisfaction of the respective shareholders.

General Body Meetings

Details of the last three Annual General Meeting(s) (AGM) held by the Company are enumerated as under :

Date and Time	Venue	Meeting Number	Special Resolution Passed in Previous 3 AGMS
18 th September, 2019 at 10.30 a.m.	Ghanshyam Das Birla Sabhagar 29, Ashutosh Choudhury Avenue, Kolkata – 700 019	102 nd Annual General Meeting	No special resolution was passed at the 102 nd Annual General Meeting.

Date and Time	Venue	Meeting Number	Special Resolution Passed in Previous 3 AGMS
12 th September, 2018 at 10.30 a.m.	Ghanshyam Das Birla Sabhagar 29, Ashutosh Choudhury Avenue, Kolkata – 700 019	101 st Annual General Meeting	One Special Resolution was passed at the 101 st AGM for increase in Authorized Share Capital and consequent amendment in Memorandum of Association.
14 th September, 2017 at 10.30 a.m.	Ghanshyam Das Birla Sabhagar 29, Ashutosh Choudhury Avenue, Kolkata – 700 019	100 th Annual General Meeting	One Special Resolution was passed at the 100 th AGM for fixation of fee for delivery of document through a particular mode.

Special Resolutions passed in last year through Postal Ballot

No special resolution was passed through postal ballot during the Financial Year 2019-20.

Special Resolution proposed to be conducted through Postal Ballot.

NIL

Means of Communication and Address for Correspondence

The quarterly un-audited and audited annual financial results were submitted to the Stock Exchanges. Simultaneously, the said results were published in the newspapers and also uploaded on the website of the Company.

- Quarterly/half yearly/audited financial results, notices, etc., for the Financial Year 2019-20 were published in the newspapers, The Financial Express (English), AajKaal (Bangla) and Jansatta (Hindi).
- The financial results and other corporate announcements issued by the Company and other shareholder's information is posted on the Company's website at https://www.balmerlawrie.com/static/corporate_announcements.
- The investors may lodge their complaint/grievance, if any, at sen.k@balmerlawrie.com .
- Official news releases are also available on the Company's website viz. www.balmerlawrie.com.
- All communications relating to share registry matters may be addressed to :

<p>KFin Technologies Private Limited, Apeejay House Block “C”, 3rd Floor, 15 Park Street, Kolkata 700 016, Tel : 033 6628 5900 or KFin Technologies Private Limited, Selenium Building, Tower-B, Plot No. 31 & 32, Financial District, Nanakramguda, Serilingampally, Hyderabad, Rangareddi, Telangana-500032, Tel : 040-67161500, Toll free No. 1800 3454001, Email : einward.ris@kfintech.com, website : www.kfintech.com.</p>	<p>Balmer Lawrie & Co. Ltd. Secretarial Department, 21, Netaji Subhas Road, Kolkata-700001 Phone-(033) 2222 5329 E-mail : sen.k@balmerlawrie.com</p>
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General Shareholders’ Information

Day, Date & Time	Friday, 25 th September, 2020 at 12.noon. IST	
Venue	The Ministry of Corporate Affairs (“MCA”) has vide its circular dated May 5, 2020 read together with circulars dated April 8, 2020 and April 13, 2020 and SEBI vide its Circular number SEBI/HO/CFD/CMD1/CIR/P/2020/79, permitted convening the Annual General Meeting (“AGM” / “Meeting”) through Video Conferencing (“VC”) or Other Audio Visual Means (“OAVM”), without the physical presence of the members at a common venue. Accordingly, the 103 rd AGM of the Company is being held through VC/OAVM and the detailed instructions for participation and voting at the meeting is available in the notice of the 103 rd AGM.	
Financial year	1 st April, 2019 to 31 st March, 2020.	
Book Closure Dates	From : 19 th September 2020, Saturday To : 25 th September 2020, Friday.	(both days inclusive)

Dividend Payment Date

Upon declaration at the ensuing 103rd Annual General Meeting scheduled on 25th September, 2020, dividend shall be paid to those shareholders holding shares as on 18th September, 2020, (End of Day) within statutory period of 30 days from the date of declaration.

Dividend History & Amount of Unclaimed Dividend to be transferred to the 'Investors' Education and Protection Fund'

Date on which, Dividend declared/ Financial year	Total amount of Dividend (in Rs.)	Amount of unclaimed Dividend as on 31st March, 2020 (In Rs.)	% of unclaimed Dividend to total dividend	Due date of transfer to the "Investors' Education and Protection Fund"*	Type of Dividend
24 th September, 2013 2012-13	50,16,11,281.60	46,53,171	0.93	31 st October 2020	Final
25 th September, 2014 2013-14	51,30,11,538.00	31,83,912	0.62	1 st November 2021	Final
22 nd September, 2015 2014-15	51,30,11,538.00	40,04,550	0.78	29 th October 2022	Final
22 nd September 2016 2015-16	57,00,12,820.00	49,49,700	0.87	29 th October 2023	Final
14 th September 2017 2016-17	79,80,17,948.00	73,16,911	0.92	21 st October 2024	Final
12 th September, 2018 2017-18	114,00,25,640.00	99,42,760	0.87	19 th October, 2025	Final
18 th September, 2019 2018-19	125,40,28,204.00	118,94,817	0.95	25 th October 2026	Final

* These are indicative dates. Actual Deposit dates may vary but would be as per Sections 124 & 125 of the Companies Act, 2013 read with the applicable Rule(s).

Payment of Dividend through Electronic Mode

The electronic mode of payment brings in further efficiency and uniformity in credit of the dividend amount. The advantages of electronic mode over physical mode includes faster credit of remittance to beneficiary's account, wider coverage with no limitations of location in India.

Your Company accordingly encourages the use of electronic mode for payment of dividend wherever available. To avail such facility the shareholders, are requested to fill-in the mandate form thereby providing the MICR and IFSC code number of their bank and branch along with the bank account number and other details to the Registrar & Share Transfer Agent of the Company, (where the shares are being held in physical form) or to their Depository Participant (where the shares are being held in dematerialized mode) on or before 18th September 2020, (end of day).

This would facilitate prompt encashment of dividend proceeds and also enable the Company to reduce cost of dividend distribution.

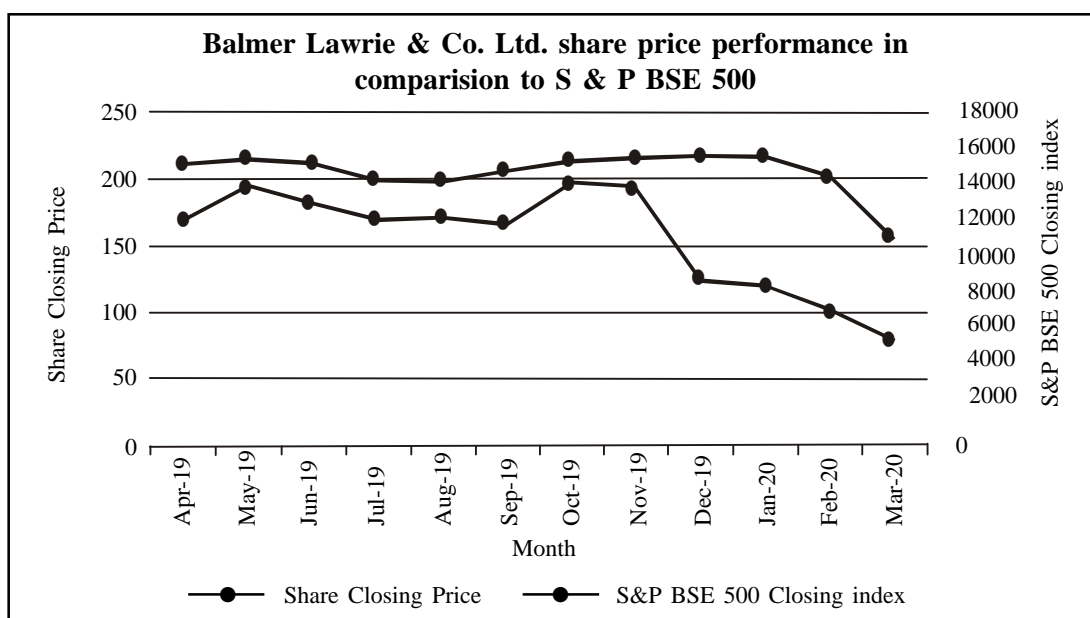
Stock Exchanges where the equity shares of the Company are listed and other related information

Name and address of the Stock Exchanges	Stock code	Confirmation about payment of Annual Listing Fee for Financial Year 2019-20 to the Stock Exchanges
National Stock Exchange of India Limited Exchange Plaza, C-1, Block-G, Bandra-Kurla Complex, Bandra (East), Mumbai 400051	BALMLAWRIE	Yes
BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai 400 001	523319	Yes
ISIN Code of the Company	INE 164A01016	

Market Price (High and Low) of the Company as per National Stock Exchange of India Limited and BSE Ltd. (for the period April 2019 to March 2020)

Month	National Stock Exchange of India Limited		BSE Ltd.	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April-19	178.00	161.10	189.95	169.00
May-19	203.00	163.00	203.40	161.65
June-19	197.45	177.90	196.80	178.00
July-19	184.90	168.10	185.45	168.10
August-19	178.00	161.10	177.00	162.50
September-19	192.50	165.00	191.20	165.30
October-19	213.30	163.50	212.00	160.00
November-19	210.65	188.00	210.20	188.10
December-19	199.70	124.50	199.75	124.50
January-20	136.00	117.30	136.00	120.00
February-20	123.60	100.60	123.15	100.90
March-20	106.00	69.00	105.25	69.85

Market Price of the Equity Shares of the Company vis-a-vis the S&P BSE 500



Registrar & Share Transfer Agent

At present, the share registry functions, in both physical and de-mat segments are handled by a single common agency, namely :

- **KFin Technologies Private Limited**, Apeejay House Block “C”, 3rd Floor, 15 Park Street, Kolkata 700 016, Tel : 033 6628 5900

or

- **KFin Technologies Private Limited**, Selenium Building, Tower-B, Plot No. 31 & 32, Financial District, Nanakramguda, Serilingampally, Hyderabad, Rangareddi, Telangana, India - 500 032. Tel: 040-67161500, Toll free No. 1800 3454 001, Email: einward.ris@kfintech.com, website: www. kfintech.com.

Share Transfer System

The physical share transfer procedure and miscellaneous share registry matters are overseen by KFin Technologies Private Limited, the Registrar and Share Transfer Agent of the Company.

Distribution of Shareholding as on 31st March, 2020 on the basis of category of Shareholders

Category & Name of the shareholders	Total no. of Equity Shares	% (On the total Equity holding)
Promoters and Promoter Group	0	0
Mutual funds	11,043	0.01
Financial Institutions / Banks	98,20,386	5.74
Foreign Portfolio Investors	25,80,308	1.51
Central Government/State Government(s)/ President of India	42,210	0.02
Others	15,85,49,899	92.72
Total	17,10,03,846	100.00

Distribution of Shareholding Report (NSDL+ CDSL+ Physical) on the basis of number of Equity shares held as on 31st March, 2020 :

Distribution of Shareholding ALL (NSDL+ CDSL+ Physical)						
SL. No.	Shareholding of Shares		Number of Shareholders	% of Total Shareholders	Number of Shares	% of Total Share Capital
	1	to				
1	1	500	44955	75.70	5766768	3.37
2	501	1000	6366	10.72	4484156	2.62
3	1001	2000	3985	6.71	5486206	3.21
4	2001	3000	1463	2.46	3684974	2.16
5	3001	4000	588	0.99	2055756	1.20
6	4001	5000	456	0.77	2049108	1.20
7	5001	10000	849	1.43	5886546	3.44
8	10001	above	722	1.22	141590332	82.80
		TOTAL :	59384	100.00	171003846	100.00

Dematerialization of Shares and Liquidity

The Equity shares of your Company are to be traded compulsorily in dematerialized mode and are available for trading, with both the Depositories in India, i.e., National Securities Depository Ltd. ('NSDL') and Central Depository Services (India) Ltd. ('CDSL').

As on 31st March 2020, the distribution of Equity Shares held in physical and dematerialized mode, are produced below :

Percentage of physical and dematerialized shares as on 31st March, 2020

Type of shares	%
Physical	01.39
Dematerialized	98.61
TOTAL :	100.00

Your Company, has paid the annual custody fee for the Financial Year 2019-20 to both the Depositories, i.e., NSDL & CDSL.

Outstanding Global Depository Receipts or American Depository Receipts or Warrants or any convertible instruments, conversion date and likely impact on equity

The Company does not have any outstanding Global Depository Receipts or American Depository Receipts or warrants or any convertible instruments.

Commodity Price Risk or Foreign Exchange Risk & hedging Activities

The details of Financial Risk Management including Foreign Currency Risk and the overall strategy to mitigate the same has been disclosed in Note No. 44 of the Standalone Financial Statements.

Plant Location :

Name of the business	Location	Location
Greases & Lubricants	Manufacturing Units :	Marketing Offices :
	Chennai	Bengaluru
	Kolkata	Bhopal
	Silvassa	Chandigarh
	Application Research	Chennai
Laboratory :	Coimbatore	
	Hyderabad	

Name of the business	Location	Location
		Jaipur Kolkata Mumbai New Delhi Patna Pune Raipur Vadodara
Industrial Packaging	Manufacturing units : Asaoti Chennai Chittoor Kolkata Navi Mumbai Silvassa Vadodara	SBU Office: Mumbai Sales Office : New Delhi
Leather Chemicals	Manufacturing units : Chennai Technical Service Centers : Ambur & Vaniyambadi Kanpur Kolkata Ranipet	SBU Office : Chennai Marketing office : Chennai Product Development Centre : Chennai
Logistics Services	Ahmedabad Bengaluru Chennai Coimbatore Goa Gwalior Hyderabad Kanpur Karur	Kochi Kolkata Mumbai New Delhi Pune Thiruvananthapuram Tuticorin Visakhapatnam

Name of the business	Location	Location
Logistics Infrastructure	Container Freight Station- Chennai Kolkata Navi Mumbai	Warehousing & Distribution- Coimbatore Kolkata-Hide Road Complex, Kolkata-Sonapur
	Temperature Controlled Warehouse Navi Mumbai Rai- Haryana Medchal-Village-Telangana	Integrated Check Post Jogbani- Bihar Raxaul - Bihar
Refinery & Oilfield Services	Kolkata	
Travel	Ahmedabad Bengaluru Bhubaneswar Chennai Delhi Guwahati Hyderabad Kanpur	Kochi Kolkata Lucknow Mumbai New Delhi Port Blair Pune Thiruvananthapuram Vadodara Visakhapatnam
Vacations	Ahmedabad Bengaluru Bhubaneswar Chennai	Hyderabad Kolkata Mumbai Delhi

Suggested Readings

- Crane, A. And Matten, D. Business Ethics; Oxford University Press.
- Fernando, A. C. : Corporate Governance : Principles, Policies and Practices, Pearson Education; New Delhi.
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- Cherunilam, F. : Strategic Management, Himalaya Publishing House, New Delhi.
- Petrick, J. A and Quinn, J. F., Management Ethics : Integrity at Work, Response Books.
- Boatright, J. R., Ethics and Couduct of Business, Pearson Education.
- Trevino, L. K. and Nelson, K. A. Managing Business Ethics; John Wiley and Sons.
- Satheesh Kumar, T. N. : Corporate Governance, Oxford University Press, New Delhi.