



Riyasat IAS Mentorship

To Crack CSE 2027-28

Riyasat IAS Foundation Mentorship Program Prelims + Mains Program

*Shaping Potential
Into Performance*

English - हिंदी माध्यम



Riyasat Ali Sir

IAS Mentor Since 2011

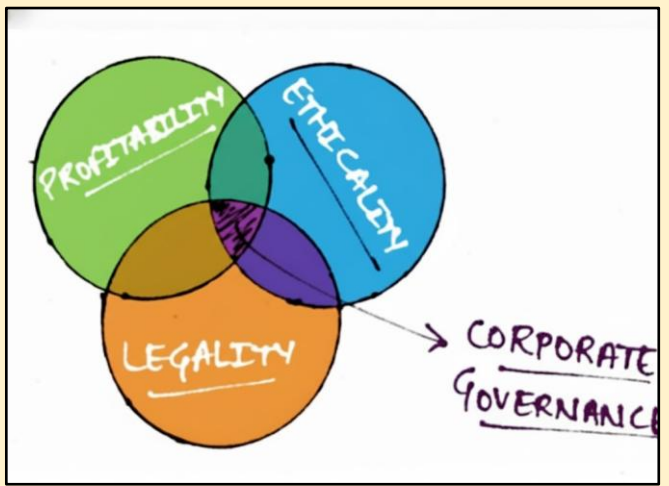
Ethics Sample Handout

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CORPORATE GOVERNANCE

About Corporate Governance:

- Corporate governance refers to the system of **rules, practices, and processes** by which companies are **directed and controlled**. It involves balancing the **interests of a company's various stakeholders**, including shareholders, management, customers, suppliers, financiers, government, and the community. Effective corporate governance ensures **accountability, fairness, and transparency** in a company's relationship with all stakeholders and promotes ethical business practices.



More about it:

Foundations of Corporate Governance

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|  |  |  |  |  |
| Accountability | Transparency | Integrity | Fairness | Corporate Social Responsibility |
| Ensuring responsibility and oversight in corporate actions | Open and clear communication of corporate information | Upholding ethical standards and honesty in operations | Treating all stakeholders equitably and justly | Commitment to ethical and sustainable business practices |

- Preventing Corporate Misconduct:** Governance frameworks reduce corporate fraud, as seen in the **Satyam Scam (2009)** where weak oversight led to ₹7,000 crore accounting fraud.
- Safeguarding Stakeholders:** Good governance protects investors and public trust; **SEBI v. Sahara case (2012)** upheld investor protection over opaque fundraising.
- Ethical Theory Connection:** Corporate governance aligns with **Kantian ethics**—act according to duty and respect stakeholders as ends, not means.
- Sustainability Link:** Governance practices drive **Environmental, Social, and Governance (ESG) integration**, ensuring long-term value creation beyond short-term profits.

- **UN SDG Alignment:** Promotes **SDG-16** (Peace, Justice, and Strong Institutions) and **SDG-12** (Responsible Consumption and Production).
- **Transparency as a Virtue:** Virtue ethics calls for companies to cultivate honesty, courage, and accountability in boardrooms.

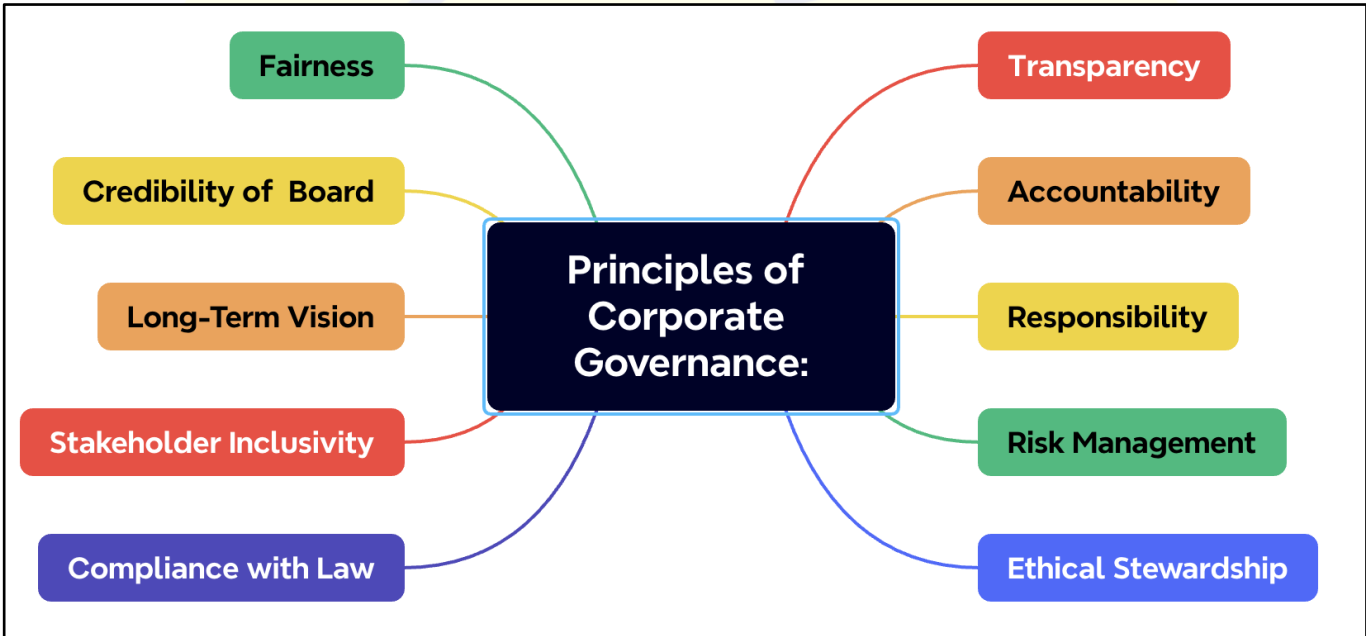
Ethical Theories and Scholar on Corporate Governance:



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| Utilitarianism — Jeremy Bentham & J.S. Mill: | <ul style="list-style-type: none"> • Utilitarian ethics argues that every corporate decision should aim to maximise the overall welfare of all stakeholders. According to this theory, the ethically correct action is one that produces the greatest good for the greatest number. • In corporate governance, it guides policies like CSR, sustainability, fair wages, and consumer protection because these generate maximum social benefit. |
| Deontological (Duty-Based) Ethics — Immanuel Kant | <ul style="list-style-type: none"> • Kantian ethics emphasises that companies must follow moral duties and respect the rights of individuals irrespective of consequences. This means corporate leaders must ensure honesty, transparency, respect for employees' dignity, and • It forms the basis for ethical norms like whistleblower protection, accurate disclosures, and fiduciary responsibility of directors. |
| Virtue Ethics — Aristotle | <ul style="list-style-type: none"> • Virtue ethics highlights that ethical corporate governance arises from the character of business leaders. Aristotle believed virtues like integrity, fairness, courage, prudence, and accountability define ethical behaviour. • A company led by virtuous leaders naturally builds an ethical culture, promotes fairness, and avoids fraud or exploitation. |
| Gandhian Ethics — Mahatma Gandhi | <ul style="list-style-type: none"> • Gandhi's Trusteeship Model treats business leaders as trustees of society's resources. According to this approach, corporations should work for the welfare of employees, ensure fair wages, maintain honesty, and avoid exploitation. It strongly influences India's CSR philosophy and ethical business traditions. |

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| Ethical Egoism — Ayn Rand: | <ul style="list-style-type: none"> Ethical Egoism argues that individuals and corporations should act in self-interest as long as they do not violate the rights of others. While this can encourage efficiency and innovation, it may weaken concern for social responsibility. It is often discussed in case studies involving conflict of interest and corporate misconduct. |
| Triple Bottom Line — John Elkington | <ul style="list-style-type: none"> The Triple Bottom Line framework argues that companies should measure their success not only through profit but also through their impact on people and the planet. Ethical governance under this theory promotes environmental protection, social responsibility, climate-conscious decisions, and sustainable business practices. |

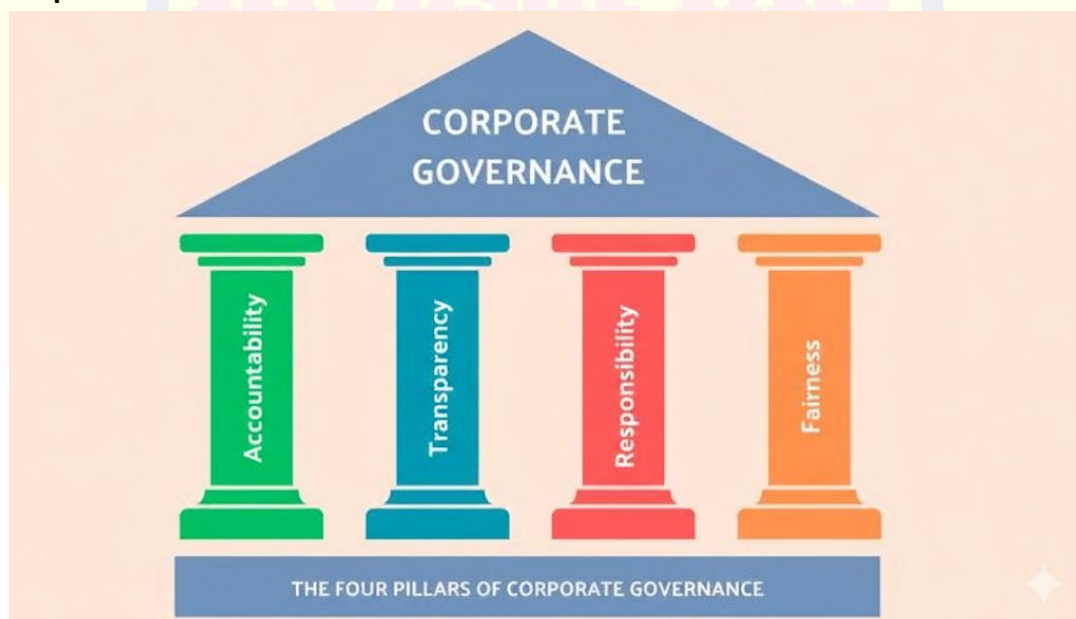
Principles of Corporate Governance:



- **Fairness:** Fairness means ensuring equal treatment for all shareholders and stakeholders. The **Kotak Committee (2017)** strengthened this principle by mandating women independent directors to improve equity and diversity in board decisions.
- **Transparency:** Transparency requires timely and truthful disclosure of company information. Firms like Infosys set high standards by publicly reporting whistleblower cases, which enhances stakeholder trust and reduces information asymmetry.
- **Accountability:** Accountability ensures that boards and CEOs justify their actions and decisions. **SEBI's CEO pay disclosure** norms push corporate leaders to align compensation with performance and shareholder interests.
- **Responsibility:** Responsibility implies acting in the broader interest of society, not just shareholders. **CSR provisions** under the **Companies Act 2013** institutionalize this moral obligation by requiring firms to invest in social welfare.

- **Risk Management:** Effective governance includes identifying and mitigating financial, cyber, and operational risks. After the **IL&FS crisis (2019)**, boards are now expected to maintain robust risk oversight frameworks.
- **Ethical Stewardship:** Boards must act as ethical guardians who protect long-term stakeholder value. This ideology promotes stakeholder capitalism, going beyond profit-maximizing behaviour.
- **Compliance with Law:** Good governance requires adherence to both the letter and spirit of regulations. Companies like Tata Group exemplify this by maintaining a strong culture of legal and ethical compliance.
- **Stakeholder Inclusivity:** Inspired by Rawls' theory of justice, inclusivity requires safeguarding the interests of vulnerable stakeholders. Ethical boards thus consider employees, communities, and small investors—not just majority shareholders.
- **Long-Term Vision:** Ethical governance favours long-term sustainability over short-term gains. Kotak Mahindra Bank's long-term ESG strategy reflects how future-oriented policies strengthen a firm's ethical standing.
- **Credibility of the Board:** A board with diversity, independence, and expertise reduces ethical failures. **SEBI's 2018 mandate** for annual board evaluations ensures the board remains competent, transparent, and trustworthy.

Four Ps of Corporate Governance:



- **People:** Board members must be ethical, diverse, and independent—**Tata Sons' reconstitution** post-Mistry case highlighted this.
- **Purpose:** Companies must align business goals with ethical purpose, e.g., **Mahindra & Mahindra's rural sustainability initiatives**.
- **Processes:** Ethical SOPs, checks and balances, audit trails must be in place to avoid misuse of authority.
- **Practices:** Day-to-day business actions must reflect company values—**Wipro's code of conduct** ensures consistency between talk and action.

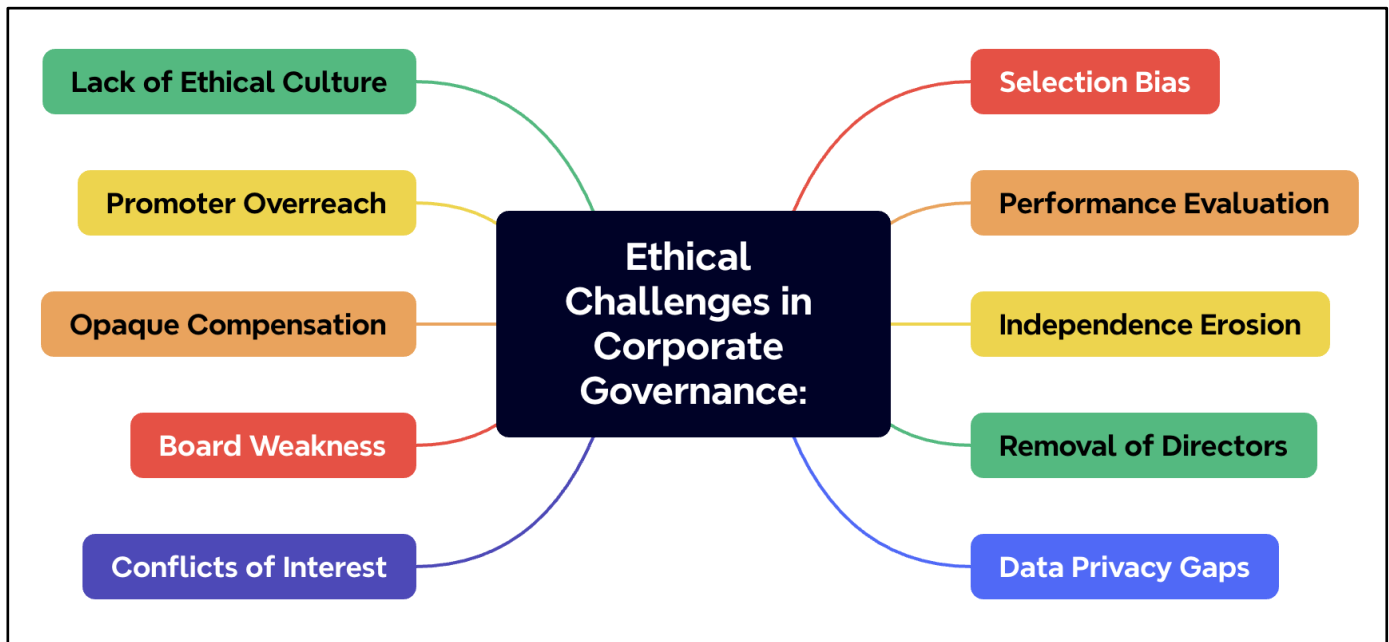


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Key Components of Corporate Governance:

- **Board Composition:** Listed companies must appoint **at least one woman director and one-third independent directors** (SEBI). This ensures gender diversity and prevents promoter dominance, strengthening oversight and balanced decision-making.
- **Board Committees:** Specialised committees—**Audit, Nomination, and Remuneration**—create checks and balances. They separate monitoring from management, reducing CEO-centric control and ensuring transparent appointments, pay structures, and financial scrutiny.
- **Shareholder Rights:** Shareholders can **vote, inspect accounts, file resolutions, and receive dividends**, enabling them to question management and prevent misuse of company assets. This democratizes corporate decision-making.
- **Minority Protection:** Under **Section 245 (Companies Act)**, minority investors can file **class action suits** against directors or auditors. This prevents majority shareholders or promoters from exploiting small investors.
- **Disclosure Norms:** Listed firms must follow **GAAP/IFRS accounting systems** and publish quarterly and annual financial statements. This improves transparency and allows investors to assess the company's health objectively.
- **Non-Financial Reporting (ESG/BRSR):** Top 1000 companies must follow **BRSR (Business Responsibility and Sustainability Reporting)**, revealing data on environment, social impact, and governance practices—promoting sustainable and ethical business conduct.
- **Role of Promoters:** SEBI restricts excessive promoter influence. For example, the **2019 SEBI order** highlighted conflict of interest when the same promoter served as **chairperson and CEO**, reinforcing separation of powers.
- **Whistleblower Protection:** SEBI LODR mandates internal whistleblower mechanisms. The **Infosys 2019 whistleblower case** showed how anonymous complaints can uncover governance lapses and trigger independent investigations.
- **Stakeholder Engagement:** Companies must conduct **AGMs, Q&A sessions, investor presentations**, and publish public responses. This facilitates two-way communication and ensures accountability toward employees, investors, customers, and communities.
- **Ethical Auditing:** Internal, statutory, and forensic audits identify fraud and governance failures early. Scandals like the **ICICI–Videocon loan case** proved the necessity of strong audit systems to detect unethical conduct.

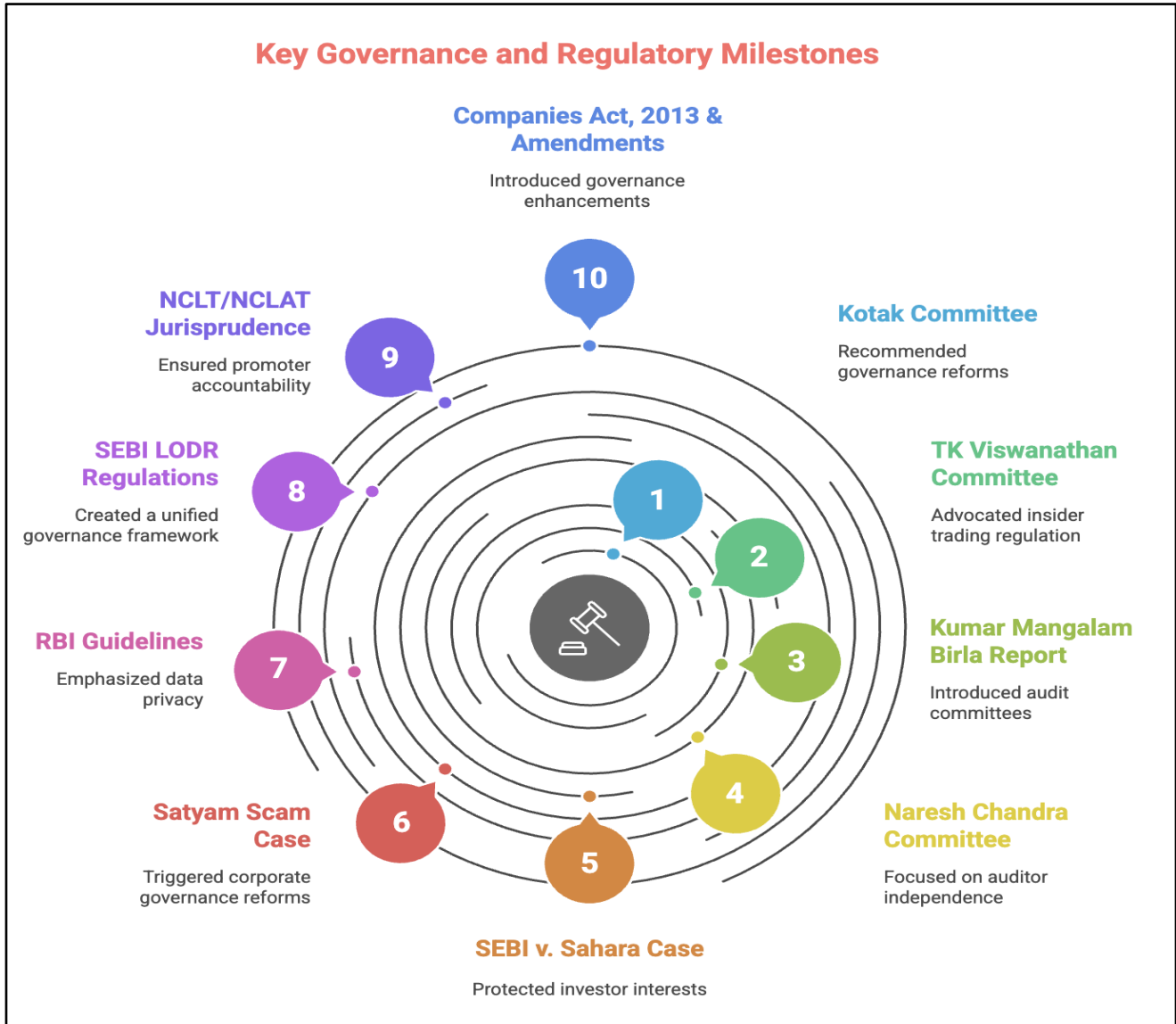
Ethical Challenges in Corporate Governance:



- **Selection Bias:** Promoters often influence the appointment of directors, compromising board independence; the **Tata–Mistry conflict** revealed how board appointments can become tools of internal power struggle rather than merit-based selection.
- **Performance Evaluation:** When boards lack transparent evaluation criteria, accountability weakens; SEBI now mandates **public disclosure of evaluation methods** so that boards cannot hide inefficiency behind vague processes.
- **Independence Erosion:** Independent directors lose objectivity if they have close ties to promoters; the **ICICI–Videocon loan scandal** showed how personal relationships can undermine ethical judgement and lead to conflicts of interest.
- **Removal of Directors:** Independent directors can face retaliation for raising concerns; in the **Fortis Healthcare case (2018)**, dissenting directors were removed, discouraging ethical oversight within the board.
- **Data Privacy Gaps:** Boards often neglect data governance, risking customer trust; **RBI's 2018 fintech data guidelines** were introduced because several institutions mishandled sensitive financial data.
- **Conflicts of Interest:** Insider trading and related-party transactions compromise fairness; the **NSE co-location scam** demonstrated how misuse of privileged access can distort markets and betray investor trust.
- **Board Weakness:** Low diversity in skills and backgrounds weakens decision-making; SEBI's rule on having **at least one woman director** aims to strengthen board capability and reduce homogeneous thinking.
- **Opaque Compensation:** When CEO pay is misaligned with company performance, it creates inequality and weak governance; **YES Bank's crisis** was fuelled by **excessive compensation despite deteriorating financials**.
- **Promoter Overreach:** Excessive promoter control prevents independent functioning of the board; SEBI's **2019 norms** on separating the chairperson and CEO roles were designed to curb promoter dominance.

- **Lack of Ethical Culture:** Without a values-driven culture, firms rely merely on compliance, increasing the risk of scandals, fraud, and reputational loss; ethical culture ensures long-term sustainability beyond regulatory checks.

Measures/Initiatives taken for Corporate Governance:



Reforms Needed in Corporate Governance:

- **Strengthening Board Independence:** Board independence must be ensured by insulating director appointments from promoter influence through an independent selection panel. A **cooling-off period** should be mandatory for former auditors, consultants, and KMPs before they join corporate boards.
- **Mandatory Separation of Chairperson & CEO:** Separation of the Chairperson and CEO roles prevents concentration of power and promotes effective checks and balances. This reform aligns India with global best practices recommended by the **Cadbury Committee, OECD principles, and the Kotak Committee.**



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- **Reforming Independent Director Selection & Removal:** Independent directors should be appointed through a transparent and merit-based nomination process similar to the **UK’s Nomination Committee model**. Arbitrary removal must be prevented with stricter norms, and companies should be required to publicly disclose detailed resignation reasons.
- **Enhancing Board Diversity & Competence:** Corporate boards must include women directors and experts in finance, risk, cybersecurity, and ESG domains. Mandatory certified training programmes will ensure directors possess updated knowledge and professional competence.
- **Strengthening Audit Quality:** Audit quality should be reinforced by mandating rotation of audit firms every five years, prohibiting auditors from offering non-audit services, and requiring forensic audits for financially stressed or high-risk companies, as highlighted after the **IL&FS crisis**.
- **Stronger Whistleblower Protection:** A **third-party managed whistleblower system** must be established to ensure independence and confidentiality. Whistleblower complaints should undergo time-bound investigations with board-level oversight and legal immunity for employees reporting fraud.
- **Improving Disclosure & Transparency:** Companies must enhance real-time disclosures on related-party transactions, CEO compensation ratios, ESG metrics, and political donations. Uniform XBRL-based reporting should be made mandatory for ensuring financial accuracy and comparability.
- **Strengthening Minority Shareholder Protection:** Minority shareholders require stronger protection through expanded class-action suit provisions under **Section 245** and statutory backing for proxy advisory firms. Major RPTs, mergers, and asset sales should require super-majority approval.
- **Robust Risk Management Framework:** Boards should create mandatory committees for cyber-risk, climate-risk, and enterprise-risk management. Advanced AI-based fraud detection tools and periodic risk audits will help prevent failures like the **Yes Bank crisis**
- **Data Protection Compliance:** Corporations must comply with the Data Protection Act inspired by the **Srikrishna Committee** recommendations, including mandatory data audits and privacy-by-design protocols embedded in organisational systems.
- **Strengthening Regulatory Oversight:** SEBI requires greater autonomy, resources, and enforcement powers to regulate modern corporate practices. Coordination among SEBI, RBI, CCI, SFIO, and ED will ensure faster investigation of complex corporate frauds
- **Adopting Global Best Practices:** India should align its governance framework with **OECD Principles**, the **UK Corporate Governance Code**, and **US Sarbanes–Oxley norms**. Adoption of Integrated Reporting (IR) will further enhance transparency and global competitiveness.

Major Committees on Corporate Governance & Their Key Recommendations:

| Birla Committee (SEBI – 1999) | Naresh Chandra Committee (2002) | Narayana Murthy Committee (SEBI – 2003) |
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| <ul style="list-style-type: none"> • Separation of Chairman & CEO: To prevent concentration of authority, reduce conflict of interest, and ensure balanced decision-making. | <ul style="list-style-type: none"> • Auditor Rotation & No Non-Audit Services: To maintain auditor independence and eliminate conflict arising | <ul style="list-style-type: none"> • Independent & Competent Audit Committee: Required financial literacy to ensure informed scrutiny of |



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| <ul style="list-style-type: none">• Code of Conduct: Mandated ethical guidelines for directors and senior managers to promote transparency and integrity in governance. | <p>from consultancy + audit by the same firm.</p> <ul style="list-style-type: none">• CEO/CFO Certification of Accounts: Ensures top leadership takes responsibility for financial accuracy, reducing corporate fraud.• Criteria for Independent Directors: Banned financial relationships with the company to preserve objectivity in board decisions. | <p>company accounts and internal controls.</p> <ul style="list-style-type: none">• Mandatory Whistleblower Mechanism: Provided a formal system for employees to report corruption or unethical practices without fear. |
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Conclusion: Corporate governance is the ethical backbone of a sustainable business. As scandals like Satyam, IL&FS, and ICICI-Videocon show, ethical failures damage public trust and economic stability. Therefore, aligning governance with moral theories, global norms, and legal reforms is vital. As **Mahatma Gandhi** said, **“A business that makes nothing but money is a poor business.”** Good governance, thus, is not just a legal duty but a moral responsibility.