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ETHICAL ISSUES IN BUSINESS & CORPORATE GOVERNANCE A CASE STUDY OF NTPC-RAMAGUNDAM

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Abstract

This paper investigates the relation between corporate governance and business ethics in Indian business contest. Many issues of corporate governance centre on reconciling different legitimate values. Though return on equity is important, equally important is conducting business without compromising on principles. Stakeholder's activism is valuable, but they must also be willing to let management discharge its duties. The paper highlights different orientations to stakeholder management and integrity, behavior in the boardroom and executives' offices. The aim of the present study is to explain and discuss the propositions in the above mentioned statement. It will also provide arguments based on ethical issues and will be supported by a case study.

Key words: Ethics, business ethics, corporate governance, stakeholders

1. INTRODUCTION

The word "Ethics" is derived from Greek word "Ethos" which slandered or ideals that should prevail. Business ethics are the moral principles which should govern business activities. These provide code of conduct that guides business managers in performing their jobs. A 'Code of Ethics' goes beyond separate values to become a set of principles that makes a clear statement of what the business corporation is willing to do, or not do, like forbidding staff to take bribes. Many different Codes of Ethics, or Conduct, now exist, ranging from those issued by international bodies, such as the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, to individual Codes adopted by different business corporations around the world.

To define 'Business Ethics', then, it is made up of three main components:-

* Ethical values;
* A Code of Ethics, and
* Good Corporate Governance

1.1. Business Ethics

A company's managers play an important role in establishing its ethical tone. If managers behave as if the only thing that matters is profit, employees are likely to act in a like manner. A company's leaders are responsible for setting standards for what is and is not acceptable employee behavior. It's vital for managers to play an active role in creating a working environment where employees are encouraged and rewarded for acting in an ethical manner.

Managers who want employees to behave ethically must exhibit ethical decision making practices themselves. They have to remember that leading by example is the first step in fostering a culture of ethical behavior in their companies. No matter what the formal policies say or what they are told to do, if employees see managers behaving unethically, they will believe that the company wants them to act in a like manner.

2. ETHCS IN INDIAN COMPANIES:

In Indian environment INFOSYS and TATA are known for their ethical behavior. It is a tough job to get all employees in an organization to understand the company's value system and philosophy. Value System is the backbone of a company to stand steady on its feet and grow. How long the company can adhere to its Core Values when the organization grows very fast- by adding a lot of fresher and laterals. Even if organizations have lateral induction programs, it takes time for the laterals, especially in the middle management, to adhere to the current company's philosophy and core values, because they are already used to a different culture. This deviation from the company's culture affects the employees badly. This is a difficult job for management to ensure in order to sustain respect. Ethics has strong basis on values and trust.

The importance of values and trust in Organizations.

a) Unless we make a difference to the society and earn their trust, we cannot be long-term players. Therefore, in everything we do, we must ask ourselves whether we are adding value to the society around us, regardless of where we are US or India.
b) The trust of employees is the most important ingredient for successful leadership. To gain the trust of people, there is no more powerful leadership style than leadership by example. The world respects performance and action, not rhetoric.
c) An emphasis on meritocracy and data-orientation enhances the confidence of employees in the fairness of the corporation. We believe in the adage, 'in God we trust everybody else brings data to the table'.
d) No single person is indispensable. It is important that you give challenging engagements to deserving people, whether they are young or new in the organization. Youth and empowerment are the keys to scalability and longevity.

3. CORPORATE GOVERNANCE:

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. It also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management, and the board of directors. Other stakeholders include employees, customers, creditors, suppliers, regulators, and the community at large.

3.1 History

In the 19th century, state corporation laws enhanced the rights of corporate boards to govern without unanimous consent of shareholders in exchange for statutory benefits like appraisal rights, to make corporate governance more efficient. Since the late 1970's, corporate governance has been the subject of significant debate in the U.S. and around the globe. In the early 2000s, the massive bankruptcies (and criminal malfeasance) of Enron and WorldCom, as well as lesser corporate debacles, such as Adelphia Communications, AOL, Arthur Andersen, Global Crossing, Tyco, led to increased shareholder and governmental interest in corporate governance.

3.2 Corporate Governance-Principles:

Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Commonly accepted principles of corporate governance include:

Commonly accepted principles of corporate governance include:

3.2.1 Rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.

Shareholder Perspective:

Those who approach ethical decision making from a shareholder perspective focus on making decisions that are in the owners' best interest. Decisions are guided by a need to maximize return on investment for the organization's shareholders. Individuals who approach ethics from this perspective feel that ethical business practices are ones that make the most money.

3.2.1 Interests of other stakeholders:

Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.

Stakeholder Perspective:

The phrase corporate social responsibility is often used in discussions of business ethics. The idea behind this concept is the belief that companies should consider the needs and interests of multiple stakeholder groups, not just those with a direct financial stake in the organization's profits and losses.

Organizations that approach business ethics from a stakeholder perspective consider how decisions impact those inside and outside the organization. Stakeholders are individuals and groups who affect or who are affected by a company's actions and decisions. Shareholders are definitely stakeholders, but they are not the only ones who fall under the definition of stakeholder.

Stakeholders may include: employees, suppliers, customers, competitors, government agencies, the news media, community residents and others. The idea behind stakeholder based ethical decision making is to make sound business decisions that work for the good of all affected parties.

3.2.3 Role and responsibilities of the board:

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

3.2.4. Integrity and ethical behavior:

Ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical and legal boundaries.

3.2.5. Disclosure and transparency:

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

4. CORPORATE GOVERNANCE IN INDIA:

Issues of corporate governance have been hotly debated in the United States and Europe over the last decade or two. In India, these issues have come to the force only in the last couple of years. For example, the corporate governance code proposed by the Confederation of Indian Industry is modeled on the lines of the Cadbury Committee (Cadbury, 1992) in the United Kingdom. On account of the interest generated by Cadbury Committee Report, the Confederation of Indian Industry (CII), the Associated Chambers of Commerce and Industry (ASSOCHAM) and, the Securities and Exchange Board of India (SEBI) constituted Committees to recommend initiatives in Corporate Governance. The main objective of it was to develop and promote a code for Corporate Governance to be adopted and followed by Indian companies, be these in the Private Sector, the Public Sector, Banks or Financial Institution, all of which are corporate entities.

In the Indian context, the need for corporate governance has been highlighted because of the scams occurring frequently since the emergence of the concept of liberalization from 1991. We had the Harshad Mehta Scam, Ketan Parikh Scam, UTI Scam, Vanishing Company Scam, Bhansali Scam and so on. In the Indian corporate scene, there is a need to induct global standards so that at least while the scope for scams may still exist, it can be at least reduced to the minimum.

Corporate governance covers a large number of distinct concepts and phenomenon as we can see from the definition adopted by Organization for Economic Cooperation and Development (OECD) **"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance".** From this definition we see that corporate governance includes the relationship of a company to its shareholders and to society; the promotion of fairness, transparency and accountability; reference to mechanisms that are used to *"govern"* managers and to ensure that the actions taken are consistent with the interests of key stakeholder groups.

"A recently conducted survey came up with some interesting facts. When the respondents were asked about the reasons of failure of corporate governance about the bigger risks to corporate governance in India and key reasons for corporate failures in the West. 35 percent considered weak oversight and monitoring as the biggest risk to corporate governance. This is lower in comparison to

55 percent of the respondents who participated in that poll and considered this factor to be the single biggest reason for corporate failures in the west".

5. ETHICAL ISSUES IN CORPORATE GOVERNANCE:

There are certain issues in corporate governance which calls for an ethical stance.

These are:

5.1. Legal vs. Ethical Compliance Mechanisms

Factors	Legal	Ethical
Ethos	Regards ethics as a set of limits and something that has to be done	Defines ethics as a set of principles to guide choices
Objectives	Geared toward preventing unlawful conduct	Geared toward achieving responsible conduct
Method	Emphasizes rules and uses increased monitoring and penalties to enforce these rules	Treats ethics as infused in business practice (leadership, core systems, decision-making processes ,etc)
Behavioral Assumptions	Rooted in deterrence theory (how to prevent people from doing bad things by manipulating the costs of misconduct)	Rooted in individual and communal values (both material and spiritual)

6. ETHICAL ISSUES AT NTPC-RAMAGUNDAM :

NTPC, the largest power Company in India, was setup in 1975 to accelerate power development in the country. It is among the world's largest and most efficient power generation companies. In Forbes list of World's 2000 Largest Companies for the year 2007, NTPC occupies 411th place.

NTPC has installed capacity of 29,394 MW. It has 15 coal based power stations (23,395 MW), 7 gas based power stations (3,955 MW) and 4 power stations in Joint Ventures (1,794 MW). The company has power generating facilities in all major regions of the country. It plans to be a 75,000 MW company by 2017. NTPC has gone beyond the thermal power generation. It has diversified into hydro power, coal mining, power equipment manufacturing, oil & gas exploration, power trading & distribution. NTPC is now in the entire power value chain and is poised to become an Integrated Power Major. NTSC's share on 31 Mar 2008 in the total installed capacity of the country was 19.1% and it contributed 28.50% of the total power generation of the country during 2007-08. NTPC has set new benchmarks for the power industry both in the area of power plant construction and operations.

With its experience and expertise in the power sector, NTPC is extending consultancy Services to various organizations in the power business. It provides consultancy in the area of power plant constructions and power generation to companies in India and abroad. In November 2004, NTPC came out with its Initial Public Offering (IPO) consisting of 5.25% as fresh issue and 5.25% as offer for sale by Government of India. NTPC thus became a listed company with Government holding 89.5% of the equity share capital and rest held by Institutional

Investors and Public. The issue was a resounding success. NTPC is among the largest five companies in India in terms of market capitalization.

Recognizing its excellent performance and vast potential, Government of the India has identified NTPC as one of the jewels of Public Sector 'Navratnas'- a potential global giant. Inspired by its glorious past and vibrant present, NTPC is well on its way to realize its vision of being "A world class integrated power major, powering India's growth, with increasing

6.1. Core Values - BCOMIT

- Business ethics
- Customer Focus
- Organizational & Professional Pride
- Mutual Respect & Trust
- Innovation & Speed
- Total Quality for Excellence

6.2. Ethical issues in terms Human Resource:

NTPC believes in achieving organizational excellence through Human Resources and follows "People first" approach to leverage the potential of its 23,500 employees to fulfill its business plans. Human Resources Function has formulated an integrated HR strategy which rests on four building blocks of HR viz. Competence building, Commitment building, Culture building and Systems building premed. All HR initiatives are undertaken within this broad framework to actualize the HR Vision of "enabling the employees to be a family of committed world class professionals making NTPC a learning organization".

6.3. Community development

NTPC has been a committed and socially responsible corporate citizen since its inception and formulated specific guidelines for the welfare of Project Affected Persons (PAPs) and community development in the neighborhood villages around its power stations as early as 1980s. It is one of the first in the corporate sector to formulate comprehensive resettlement and rehabilitation policy for addressing the issue of PAPs. NTPC has been a committed and socially responsible corporate citizen since its inception and formulated specific guidelines for the welfare of Project Affected persons (PAPs) and community development in the neighborhood villages around its power stations as early as 1980s. It is one of the first in the corporate sector to formulate comprehensive resettlement and rehabilitation policy for addressing the issue of PAPs.

NTPC's approach towards CSR, further articulated in the corporate objectives on sustainable power development, is as follows: "To contribute to

- Sustainable power development by discharging corporate social responsibilities. NTPC's fresh impetus on Community Development is reflected through formulation of CSR-CD Policy, July 04, establishing NTPC foundation as a trust and initiating scheme for economic self reliance of physically challenged persons (PCP).

  For achieving its vision - "To be one of the world's largest and best power utilities, powering India's growth", NTPC mission statement on CSR states - "Be a socially responsible corporate entity with thrust on environment protection, ash utilization, community development, and energy conservation".

  NTPC's approach towards CSR has also been articulated in the corporate objectives on sustainable power development as stated below:
- To contribute to sustainable power development by discharging corporate social responsibilities.
- To lead the sector in the areas of resettlement and rehabilitation and environment protection including effective ash-utilization, peripheral development and energy conservation practices."

NTPC is a member of Global Compact, a UN initiative launched by its Secretary General Mr. Kofi Annan and is committed to adhere to its ten principles in the areas of Human Rights, Labor, Environment and Anti-corruption. NTPC is also a member of Corporate Roundtable on Development of Strategies for Environment (CoRE) initiated by TERI and confirmed its support for the principles outlined in the CoRE Sustainability Charter drawn from International Chamber of Commerce's Business Charter for Sustainable Development. NTPC has also adopted the Social Code framed by India Partnership Forum promoted by Confederation of Indian Industries (CII) and UNDP. NTPC thus follows the global practice of addressing the CSR issue in an integrated multi-stakeholder approach covering the environment and social aspects.

6.4. Environmental Issues:

The environmental concerns include Environment Impact Assessment, Environment Management Plans, Ash

Utilization, Energy Efficiency, A forestation, Decentralized Distributed Generation and supply of power, Rain water harvesting, Energy Conservation and adoption of international standards like ISO-14000. These are administered through specific policy frameworks and dedicated institutional set up like Environment Engineering Group (EEG), Environmental Management Group (EMG), Ash Utilization Department (AUD), CENPEEP, SPV-A, Non-conventional Energy Sources Group etc. Similarly the social concerns include Resettlement & Rehabilitation, Community Development, Safety, Adoption of International Standards like OHSAS-18000, Social Security for Old Age, Health, Education, Gender Equality, National Calamity, and special focus on the marginalized section of society during recruitment etc. These are administered through specific policy framework and dedicated institutional set up like R&R cell, Safety Department and respective sections of HR Department.

CONCLUSION:

Failure in corporate governance is a real threat to the future of every corporation. With the effective corporate governance based on core values of integrity and trust, companies can gain much competitive advantage which attracts and retains best multiple alternatives and generates positive reactions in the market place- if any company got reputed for ethical behavior in this competitive market place it engenders not only customer loyalty but also employee loyalty. Effective corporate governance can be achieved by adopting a set of principles and best practices. A great deal depends upon fairness, honesty, integrity and the manner in which companies conduct their affairs. Companies must make a profit in order to survive and grow; however, the pursuit of profits must stay within ethical bounds.

Companies should adopt policies that include environmental protection, whistle blowing, ethical training programs and so on. Such compliance mechanisms help develop and build corporate image and reputation, gain loyalty and trust from consumers and heighten commitment to employees. Ethical compliance mechanisms contribute to stability and growth since it instills confidence; management, leadership, and administration are essentially ethical tasks. The focus of the virtues in governance is to establish a series of practical responses which depend on the consistent application of core values and principles as well as commitment to ethical business practice.

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