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Corporate Governance and Business Ethics

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Corporate Governance and Business Ethics

Practice: 6 MCQs
Companies hold power over many lives. Ethics keeps that power honest.

This lesson covers **ethics in governance**, **stakeholders**, **CSR**, **India's reporting rules**, **the Satyam case** and **keeping governance honest**.

- **Ethics:** governance is more than following the law.
- **Stakeholders:** employees, community and environment count too.
- **CSR:** at least two per cent of average net profit.
- **BRSR:** mandatory for the top 1000 listed firms from FY 2022-23.
- **Satyam:** the 2009 letter admitted inflated cash.



The Satyam campus in Hyderabad, home of one of India's best known governance failures. Photo: Veera.sj, Wikimedia Commons, public domain.

Contents

1. What is corporate governance
2. Who is a stakeholder
3. CSR
4. India’s reporting rules
5. The Satyam case
6. Keeping governance honest
7. 4 understanding checks
8. Related Articles
9. 6 practice MCQs

1. What is corporate governance?

A company is run by a few people. Many others depend on it. Corporate governance is the set of rules and habits that keep those few people honest.

1.1 Why does ethics matter in a company?

India's Vice President once said that India needs ethical corporate governance. He said a company's ethics, values and social responsibility help build its reputation.

He also said honest business builds trust among buyers and investors.

1.2 Is governance only about following the law?

No. Justice Dipak Misra, a former Chief Justice of India, called ESG a philosophical thought. He said it must be imbibed. It should not be treated as a mere legal compliance task.

ESG means environmental, social and governance concerns. A company can obey every rule and still fail the ethical test.

Sources:

- PIB: Ethical corporate governance
- PIB: Responsible governance dialogue

True or false: Justice Misra said ESG is only a legal compliance task.

2. Who counts as a stakeholder?

2.1 Who is affected by a company?

The Companies Act, 2013 gives a company wider duties. It looks beyond shareholders to stakeholders. These include employees, the community and the environment.

A shareholder owns shares. A stakeholder is anyone affected by the company, with or without shares.

2.2 Why do children and families matter?

A UNICEF speaker said ESG is not complete without healthy children and families. She asked businesses to respect the rights of the youngest stakeholders.

Misconception: A company does not answer only to its owners. The law names employees, the community and the environment as well.

2.3 What has the Supreme Court said?

Justice Misra pointed to a Supreme Court case, National Textile Workers' Union against P R Ramkrishnan. The Court there recognised a new idea. A corporation can adopt the socialistic pattern of society as a goal.

He added that caring for the environment is a categorical imperative. A firm's value depends on its green behaviour. So ESG now shapes how the public sees a firm.



Who a company answers to. Original explanatory diagram.

Sources:

- PIB: ESG and the Companies Act
- PIB: National Conference
- PIB: Responsible governance dialogue (section 2)

True or false: The Companies Act, 2013 gives a company duties beyond its shareholders.

3. What is CSR?

3.1 How much must a company spend?

CSR means corporate social responsibility. Under the Companies Act, the Board must see that the company spends at least two per cent of its average net profit. The average is taken over the three preceding years.

Net profit here is worked out under section 198 of the Act.

3.2 What if the money is not spent?

The Board must explain why. It gives the reasons in its report. So a company cannot simply skip the duty in silence.

Think about it: A firm earns Rs 100 crore average profit over three years. Two per cent means Rs 2 crore. Spending it is the rule, and explaining a shortfall is the duty.

3.3 Where can CSR money go?

The Vice President urged private firms to help farmers through CSR. He suggested cold storage facilities. He also suggested transport from villages to nearby market yards.

3.4 Which companies must do CSR?

Not every company is covered. The duty applies to a company with any one of three marks in a financial year. The marks are: net worth of Rs 500 crore or more. Or turnover of Rs 1,000 crore or more. Or net profit of Rs 5 crore or more.

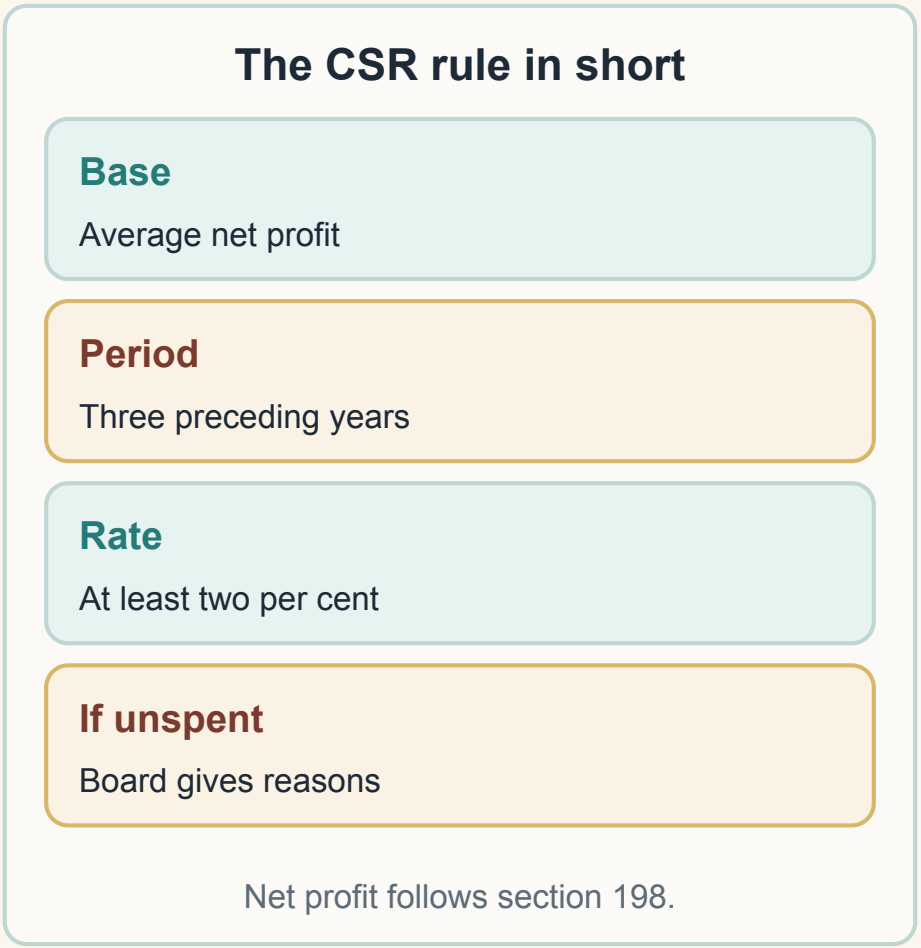
A small shop is therefore outside the rule. A large listed firm is inside it.

3.5 Who plans the spending?

A covered company sets up a CSR Committee of the Board. It has three or more directors. At least one must be an independent director, someone with no stake in the firm’s daily business.

The Committee writes the CSR policy and suggests the amount. It also watches how the policy works. The Board then approves the policy and places it on the company website.

The company must also give preference to the local area where it works. So a factory’s neighbours should see some of the benefit.



How the CSR duty works. Original explanatory diagram.

Sources:

- Odisha Government: CSR statutory provisions
- PIB: Ethical corporate governance (section 3)

True or false: The CSR rule uses average net profit of the three preceding years.

Think it through: why must the Board explain an unspent CSR amount?

A rule that allows silence is easy to dodge. The Board must give its reasons in a report. That keeps the duty open to scrutiny.

4. How does India make companies report?

4.1 Where did the guidelines begin?

The first steps came in 2011. The National Voluntary Guidelines were released that year. In 2019 they were upgraded into the National Guidelines on Responsible Business Conduct.

4.2 What is BRSR?

BRSR is Business Responsibility and Sustainability Reporting. SEBI first asked the top 500 listed companies to disclose such facts. The rule later covered the top 1000 listed companies. It became mandatory from FY 2022-23.

4.3 What is BRSR Core?

SEBI added BRSR Core. It holds a small set of key indicators that need assurance. It started with the top 150 listed entities from FY 2023-24.

These rules apply to both private and public sector companies.

4.4 Why does India say “climate-plus”?

The Minister said India’s approach to ESG is not merely climate-first. It is climate-plus. It joins care for nature with fairness to all and ethical rule.

A speaker at the same event warned against the indiscriminate import of subjective ESG metrics. He meant metrics shaped by developed countries without reference to India’s priorities.

4.5 How far will BRSR Core reach?

The reach grows in steps. It began with the top 150 listed entities from FY 2023-24. By FY 2026-27 it applies to the top 1000 listed entities.

This step-by-step plan is called a glide path. It gives firms time to prepare.

4.6 Does reporting reach a company's suppliers?

Yes, in a gentle way. SEBI also introduced ESG disclosures for the value chain of the top 250 listed entities. This is voluntary from FY 2025-26. Voluntary assurance of the same follows from FY 2026-27.

The value chain means the suppliers and partners who help make a company's goods.

4.7 Which ESG duties are already in the Companies Act?

ESG ideas are not new to company law. The Board Report must carry facts on energy conservation and the appointment of women directors. It must also carry facts on maternity benefit.

The Board is responsible for these disclosures. They are part of the financial statements.

4.8 Does the national conference make the law?

No. IICA runs an annual National Conference on Responsible Business Conduct. It is a forum for dialogue and learning. It is not meant to be a policymaking or regulatory forum.



From guidelines to reports. Original explanatory diagram.

Sources:

- PIB: ESG and the Companies Act (section 4)
- PIB: National Conference (section 4)

5. What went wrong at Satyam?

5.1 What did the letter say?

On January 7, 2009, SEBI received an email from B. Ramalinga Raju. He was the former chairman of Satyam Computer Services. He confessed that the balance sheet carried false numbers.

The cash and bank balances were inflated by 50.40 billion rupees. That money did not exist.

5.2 How did the lie last so long?

The letter says the gap grew from inflated profits over several years. It began small and kept growing.

He wrote that it was like riding a tiger. He did not know how to get off without being eaten. One small lie needed bigger lies to cover it.



What the letter admitted. Original explanatory diagram.

Sources:

- SEBI: Satyam order

True or false: Raju's letter said Satyam's cash balances were genuine.

Think it through: why does one small lie grow so big?

A small gap needs a bigger story to hide it. Raju compared this to riding a tiger. Stopping felt more dangerous than going on.

6. How can governance stay honest?

6.1 Can trust replace punishment?

The Minister said India is moving from punishing firms to trusting them. Trust works only when firms are honest in return.

6.2 What can the public sector show?

A senior official said public sector entities can be early adopters. Their size and visibility make them good demonstration cases for responsible business.

SEBI's own officer added that sustainability disclosure can be a tool for market access. It need not feel like a compliance burden.

6.3 Is this idea new to India?

A speaker said Kautilya's Arthashastra already held ideas like modern ESG. India has an old tradition of ethical governance.

6.4 Is governance only about the environment?

No. IICA held a consultation on the social dimension of ESG. It worked with the International Labour Organisation. The aim was one clear policy on responsible business.

Sources:

- PIB: National Conference (section 6)
- PIB: Inter-Ministry talks

Your understanding checks

Your 4 quick checks Answered 0 of 4 · Correct 0
This score resets when the page reloads.

Practice: 6 MCQs

Practice MCQs

1. What is the minimum CSR spend the Board must ensure under the Companies Act?

A. 1% of last year's turnover

B. 10% of paid-up capital

C. 5% of shareholder dividends

D. 2% of average net profit of the three preceding years

See answer ↓

2. Under the Companies Act, 2013, whom must a company look after beyond its shareholders?

A. Only its lenders and auditors

B. Only the government

C. Only its promoters

D. Employees, the community and the environment

See answer ↓

3. If a company does not spend its required CSR amount, what must the Board do?

A. Return the amount to shareholders as dividend

B. Seek court approval for the shortfall

C. Appoint a new auditor

D. Give the reasons in its report

See answer ↓

4. Which reporting framework became mandatory for the top 1000 listed companies from FY 2022-23?

A. National Voluntary Guidelines

B. Annual tax reporting

C. Business Responsibility and Sustainability Reporting

D. Related-party reporting

See answer ↓

5. In his January 2009 letter, what did Ramalinga Raju say was inflated on Satyam's balance sheet?

A. Tax refunds

B. Cash and bank balances

C. Employee numbers

D. Office rent

See answer ↓

6. What did Justice Dipak Misra say about ESG?

A. It is a task for auditors alone

B. It is only a tax matter

C. It is a philosophical thought, not mere legal compliance

D. It is a duty only for foreign firms

See answer ↓

Answer Key

1. **D.** The answer is **2% of the average net profit of the three preceding years**. The Board must see that the company spends at least this much. Why the others fail: turnover, dividends and paid-up capital are not the base. Memory hook: two per cent, three years, net profit. ↑ Q1
2. **D.** The answer is **employees, the community and the environment**. The Act gives a company wider duties than to its owners alone. Why the others fail: lenders, the government and promoters are not the only groups named. Memory hook: stakeholders are wider than shareholders. ↑ Q2
3. **D.** The answer is **give the reasons in its report**. The Board must explain why the amount was not spent. Why the others fail: the Act asks for reasons, not a dividend, a court order or a new auditor. Memory hook: no silence, explain the gap. ↑ Q3
4. **C.** The answer is **Business Responsibility and Sustainability Reporting (BRSR)**. It was voluntary in FY 2021-22 and mandatory from FY 2022-23. Why the others fail: the voluntary guidelines came in 2011, and tax reporting is a different regime. Memory hook: BRSR, top 1000, FY 2022-23. ↑ Q4
5. **B.** The answer is **cash and bank balances**. He wrote that about 50.40 billion rupees in cash did not exist. Why the others fail: the letter did not name staff numbers, rent or tax refunds. Memory hook: the cash was not real. ↑ Q5
6. **C.** The answer is that **ESG is a philosophical thought, not a mere legal compliance task**. He said it must be imbibed. Why the others fail: he did not call it a tax matter or an auditor-only task. Memory hook: ESG is a mindset, not a checklist. ↑ Q6

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