

**MANAGEMENT PROGRAMME (MP)**

**Term-End Examination**

**June, 2020**

**MS-495 : ETHICS AND CORPORATE  
GOVERNANCE IN BANKS**

*Time : 3 Hours*

*Maximum Marks : 100*

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*Note : (i) There are two Sections, A and B.*

*(ii) Attempt any three questions from  
Section-A.*

*(iii) All questions carry equal marks.*

*(iv) Section-B is compulsory and carries  
40 marks.*

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**Section—A**

1. Describe how values of organisations are developed and reinforced. Discuss the responsibilities that organisations have towards its stakeholders.

2. "Good corporate governance in banks is even more important in developing economies like India." In this context, discuss in detail corporate governance in Indian banking sector with suitable examples.
3. Explain the concept of sustainable development and examine the corporate responsiveness towards sustainable development norms in India.
4. What are the benefits of ethics, governance and CSR to companies and how these can be integrated into strategy ? Discuss by giving examples.
5. Write short notes on any *four* of the following :
  - (a) Institutionalising Business Ethics
  - (b) The Equator Principles
  - (c) Corporate Citizenship
  - (d) Consumers' Rights
  - (e) Challenges facing sustainable development

**Section—B**

Read the following case and answer the questions given at the end :

**Corporate governance of professional football clubs : for profit or for glory ?**

This case analyses the corporate governance issues that arise from the professionalization of modern football clubs in Europe. The case analyses the issues that have led to the transformation of football clubs into modern, multi-million pound business enterprises. It explores alternative organizational forms of football clubs and provides an opportunity to understand the tensions between shareholding and stakeholding.

United not for sale'—proclaimed the banners at Manchester United's home stadium, Old Trafford, in response to plans announced by the American millionaire Malcolm Glazer to buy a 75 per cent controlling stake in the club. Ultimately though,

the fans were wrong and by May 2005 the club was taken over by Glazer in a move that crystallized the movement from football as a community sport to a multi-million pound international industry much like any other.

The commercialization of football has been a significant trend over the past few decades—and one that has transformed the way the sport is organized, controlled, marketed and financed almost beyond recognition. Long gone are the days of England's 1966 heroes, most of which played for clubs paying them wages not much different from what a factory worker next door would earn. Players' wages at the time were largely paid for by gate ticket revenues and football was chiefly a matter of entertaining local fans. Being a supporter or member of a football club was a lifelong commitment, part of one's personal identity and often handed down for generations within a family.

One of the key changes of course came through the involvement and growth of commercial television in the game. This not only led to vast increases in income for the clubs themselves but also to a larger, global audience and fan base for clubs. It is by now commonplace to find fans of Europe's top clubs, such as Manchester United, Real Madrid, or AC Milan, in Africa, Asia, and Latin America. Parallel to these vast TV contracts, opportunities for generating revenue from merchandising club paraphernalia and advertising contracts came to fill the club's coffers. In 2003/4 Manchester United, just to name one prominent example, had a turnover of £169m with an annual pre-tax profit £27.9m.

These developments have had significant impacts on how the sport is organized. Most of the clubs now are public limited companies (PLC) such as

any other business, and in the 2004/5 season, twelve of the Premier League clubs in England were listed at the stock exchange. For many investors, football has proved to be a lucrative deal : one of the early investors in Manchester United was able to increase his wealth from an initial £840,000 investment to a whopping £93m in 2002 ! Combined with fairytale salaries for players— Chelsea's most recent acquisition Michael Ballack was signed for £130,000 a week—today's football landscape is hardly anymore the world of ordinary working men and women's weekend entertainment.

With these developments towards commercialization, significant challenges await the football 'industry'. With roots in what was a simple local institution for fans and communities, many football clubs have struggled to enter the world of

professional business. Not only in the UK but all over Europe, spectacular bankruptcies such as the one of Borussia Dortmund in Germany, or corruption scandals, such as the one involving Juventus that saw the Italian club relegated to Serie B and stripped of two titles in 2006, have put serious doubts on whether football clubs have really accomplished a smooth transition into the professional business world.

Another serious issue concerns the role of the fans in the running of football clubs. After all, at the end of the day, clubs depend on their fans for their livelihood, either as spectators, TV audiences, or consumers of merchandise. Yet, since 2002/3, attendances at English Premier League matches have fallen by 10 per cent on average and similar figures apply to TV audiences. Fans appear to feel increasingly alienated by players' wages, and by the

high cost of tickets for games. For example, a season ticket for Arsenal cost between £885 and £1,825 in 2005/6, and the frequent changes in traditional kick off times due to programming demands from TV stations has further fuelled the feeling that football is no longer the fan's game but simply a business oriented to shareholder revenue. In a recent survey by Michie and Oughton, 60 per cent of the fans who responded said that the dialogue between them and their club was ineffective and nearly half said that their club was not protecting and promoting their interests as fans.

Ironically, it is particularly from the business angle where these developments have caused concerns. After all, a dwindling fan base threatens the very basis of the business success. And even with supporters shifting from attendance in the stadium to TV—who wants to watch a game that takes place in front of empty seats in the stadium?

In recent years, several initiatives have been taken to address fans' interests more directly, as two examples from the UK illustrate. A government-funded initiative, 'Supporters Direct', has initiated the creation of supporters' trusts, which basically are a new form of fan organization for the club. As independent representatives of the fans, the trusts have grown in membership, and in 2004/5, 57 per cent of clubs in the UK had a supporters' trust. However, roughly only a fifth of them were represented on the board of their respective clubs. Another initiative by the clubs themselves has been the 'Football in the Community' scheme. This involves the clubs in various social projects generally targeted at embedding the club into the local community and addressing social exclusion, unemployment, or anti-social behaviour in the immediate vicinity of the clubs.

The incident of the takeover of Manchester United; however, demonstrates the continuing difficulty that fans and other stakeholders have in influencing 'their' clubs. This goes as much for clubs taken over by business tycoons—such as Roman Abramovich at Chelsea or Silvio Berlusconi at AC Milan—or family-owned enterprises such as Juventus or Liverpool. Whilst under family ownership, the club and its sporting ambitions are normally the prime considerations, the participation of fans typically remains limited.

Perhaps the most striking alternative is illustrated by clubs such as Real Madrid and FC Barcelona which are member-owned, democratic, not-for-profit organizations. Here, the club leadership is accountable to the people who watch and pay, and the primary rationale for the club is to play football. Unsurprisingly, unlike their English counterparts these clubs have seen a steady surge in membership (Barcelona : 20 per cent in 2005)

and with a membership fee of about £100—and a season ticket for just £ 250—it is no surprise that these clubs are becoming more and more the destination of English football fans hopping on a low cost flight to enjoy one of their games in Spain.

### Questions :

1. Set out the main stakeholders of football clubs. Describe their 'stake' in the company and assess the legitimacy of these interests.
2. What are the key governance issues each of these stakeholder groups might have ?
3. The case describes some solutions and approaches to the issue raised. How do you evaluate the current situation of corporate governance in football clubs ?
4. What are your suggestions to improve the governance of professional football clubs beyond what this case explores ?