

MANAGEMENT PROGRAMME

Term-End Examination

June, 2012

MS-495 : ETHICS AND CORPORATE  
GOVERNANCE IN BANKS

Time : 3 hours

Maximum Marks : 100

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*Note : There are two sections A and B. Attempt any three questions from Section-A, which carry 20 marks each. Section-B is compulsory and carries 40 marks.*

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SECTION - A

1. (a) Discuss the importance of values and culture in a society , citing examples.  
(b) " God consciousness pervades in most of the institutions and organisations and Banks are not different from them ". Elaborate.
  
2. (a) What is Corporate Governance ?  
(b) What are the key challenges in implementing good corporate governance and how banks are different from other institutions in terms of corporate governance ? Discuss.

3. What are the key challenges facing sustainable development ? Examine the corporate response to sustainable development.
4. What is financial inclusion as a part of CSR in financial sector ? What steps banks have taken to encourage financial inclusion ? What difference, in your opinion, does financial inclusion make ?
5. Write Short Notes on any *four* of the following :
  - (a) Respect for Consumer Rights
  - (b) Internal Audit in Banks
  - (c) The Equator Principles
  - (d) Institutionalising Business Ethics
  - (e) Social Audit

## SECTION - B

6. Read the cases given below and answer the questions at the end of each.

### **Bharat Petroleum and Social Responsibility**

Do we reach out to the people ? Are our efforts visible in the far flung villages in backward areas of the country ? Bharat Petroleum (BP) believes that the answer to these questions is yes. Bharat Petroleum energises the lives of Indians in one way or the other. The corporation has invested heavily in staff, customers, stakeholders and society and this is "because they care".

The essence of Corporate Social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of work force, their families as well as society at large.

Any business needs a stable social environment that provides a predictable climate for investment and trade. At the same time society also has expectations from the business. In this manner, businesses and society are interdependent and businesses must take full account of the social expectations. Increasing regulatory pressures could be one of the reasons for undertaking CSR activities. However in this day and age, CSR is increasingly being viewed not only as making good business sense, but also

as contributing to long-term prosperity of the companies and ultimately their survival.

The challenge for successful company in Indian and global economy is to build and maintain efficient, effective and fair relationship with its global and local stakeholders. An increased brand value, greater access to finance, stronger risk management and corporate governance, healthier and safer work place, motivated people, customer loyalty and enhanced confidence and trust are the benefits of excellent CSR.

As corporates grow in strength in a rapidly globalising environment, their contribution to the development of the society becomes increasingly pertinent. The emergence of CSR has been critical for millions of people left below the poverty line.

Bharat Petroleum receives complete support and direction from board of directors for its CSR activities, with director (HR) at the helm of affairs. D M Reddy, executive director, states that "Corporate Social Responsibility is one of the prime focus areas of a corporation. The whole approach towards contributing to society is very scientific and well thought out. In all such endeavors, the benefits should trickle down to as many people as possible. A corporation should look forward to long term relation with the community whose life it touches. Through community development initiatives, corporation

can strive to evolve community holistically in all spheres, viz health, education, infrastructure, income generation, vocational guidance. Having contributed towards a society after assessing the needs, a corporate can ensure a proper feedback system to realise the impact of its contribution. Based on studies, it can review its approach and implement new strategies”.

### **Social Service Activities Undertaken by BP**

Infrastructure Development - like provision of tube wells, bore wells, dug wells for drinking water and irrigation, construction of multi-purpose community center to accommodate school (non-formal education), balwadi (primary education), health center, community centre, construction of sanitation block to promote hygiene, provision of alternate sources of energy, solar energy-based street lights and lighting for village and community centre.

Education Support - provision of uniforms, notebooks, stationery, teaching material, educational aids, sweater and food supplements, educational scholarships to children from the economically backward classes for pursuing their studies, till complete their education, aptitude testing and vocational guidance for higher secondary children through experienced psychologists.

Health care - regular health checkup for villagers by doctors, provision of free medicines for minor ailments, guidance on family welfare and general health care, free medical dispensaries, cataract surgery and intra-ocular lens treatment.

Skill Enhancement - adult education, modern farming practices, distribution of fruits' saplings, veterinary camps, cattle camps, distribution of smokeless Chulhas, training on income generation vocations, helping women promote awareness on social issues, organising regular lectures for women on family life and education.

**Question :**

1. Why should an organisation like Bharat Petroleum involve in undertaking social activities ?
2. What benefits Bharat Petroleum will get through such Social Service Activities ?

**Infosys and Corporate Governance**

Infosys has been a pioneer in benchmarking its corporate governance practices with the best in South Asia.

**Board Composition**

The current policy of Infosys is to have an

appropriate mix of executive and independent directors to have independence of the board and to separate board functions of governance and management. Currently, there is a fifteen member board with 7 executives or full-time directors and eight independent directors. There is a clear definition of responsibilities of the Chairman, CEO (Chief Executive Officer) and COO (Chief Operating Officer) as the members of board and they have to make periodic presentations in front of the board on their responsibilities, performances and targets.

**Independent Directors** Infosys follows not only the clause 49 (50% independent directors) of the listing agreement of Indian stock exchange but also the more stricter NASDAQ listing rules and Sarbanes-Oxley Act, US while selecting its independent directors on its board.

**Board Member Selection Procedure** The board is responsible for the selection of new director and it delegates the selection of the new members and the nomination committee. The nomination committee further makes recommendation to the board regarding induction of any new member. The board also regularly works with the Chairman, CEO and the COO to determine the plans of internal succession of these posts in case of any emergency.

## **Board Functions**

The board meets to review the quarterly results, discuss issues related to the company's financial performance and the shareholders' interest. The independent directors are always kept up to date with the information regarding the company by the board through separate meetings arranged at regular intervals. The board currently has 6 committees namely, compensation committee, audit committee, nomination committee, investment committee, share transfer committee and investor's grievance committee.

The compensation committee carries out formal evaluation of the employees. The COO and the CEO handle interaction of the board with the clients, employees, institutional investors, the government and the press. The risk management is handled by the board overall with the help of directions from the audit committee.

### **Question**

1. How do independent directors on the board help Infosys to formulate best business policies?
  2. What are the different committees formed as a part of Corporate Governance of Infosys and what role do these committees play?
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