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The Corporate Soul

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The Corporate Soul

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"The Corporate Soul" invites you to contribute original high quality articles, papers, case studies, book reviews and interviews on Corporate Governance, Corporate Social Responsibility and Business Ethics. For submission, please mail to teamcsr@imtnag.ac.in

Dear Readers,

“A Good company delivers excellent products and services, and a great company does all that and strives to make the world a better place.”

- William Ford Jr.



The collapse of Enron in US in 2001 made the importance of the Corporate Governance clear to the Government, Capital Market Regulator, Business Organizations, Institutional Investors and other stakeholders. Corporate Governance violations appeared in other companies like WorldCom, Waste Management, Global Crossing, Tyco in US, Marconi, British Rail, Independent Insurance, Tomkins, Barrings in UK, HIH in Australia, Parmalat in Italy, and Vodafone Mannesmann in Germany, GITIC in Chinas and accounting fraud in Satyam in India. Arthur Anderson, one of the big five global accounting firms, who were the auditors of Enron, Worldcom, and Waste management collapsed after the Enron debacle as clients changed auditors and partners changed the firms. These incidents of fraud reinforced the need to follow the best corporate governance practices.

The perpetrator of all frauds were mostly white collar executives, promoters, Directors, CEOs, CFOs, who had the vital information and unrestricted powers which they used in their own favor. There was a clear breach of trust on their part while discharging their duty as they were holding office in fiduciary positions.

The aforementioned accounting frauds highlighted the importance of the role of the Independent Directors, Auditors, Regulators, Credit Rating Agencies, Institutional Investors and Financial Institutions in protecting the interest of a wide variety of stakeholders.

US enacted Sarbanes Oxley Act (SOX), immediately after the fall of Enron, to rein on the irresponsible Promoters, Directors, CEO, CFO and Auditors, and made the violation of the law a criminal offence. Across the globe, led by Cadbury Committee in UK (1992), Vienot Report in France (1995), King Report in South Africa (1995), all other countries came up with their own set of guidelines and recommendations on the best Corporate Governance practices.

However, time and again it has been proved that external factors cannot enforce good governance, and no real improvement is possible if the board lacks the will to good governance.

Governance is different from Management. Throughout the 20th century, the focus had been on management. But where was the Board on the Management chart? A number of management theories were developed for managing finance, marketing, HR, Operations, IT but little concern was shown towards the role of the Board of Directors.

For long the focus of Corporate Governance was on protecting the shareholder's interest . Now the time has come for business organizations to expand the scope to include the stakeholders and society at large.

Happy Reading!!!

Editorial Team

Influencing Change - Role of MBA students in building an inclusive society

As the world sings the saga of India rising, Indians are confounded with the contrasting realities. Every day, as millions of youth chase their dreams in the rapidly growing economy, million more continue to struggle in poverty, illiteracy and ill health. The ruling UPA project 6.5% growth and promises 'inclusiveness'; the left on the other hand is vehemently critical of all its measures. The newspapers and the news channels are busy blaming the politicians; the common man is left puzzled while trying to make sense of this chaotic mess.

The big question is, "How is India doing today?". And "What is the role of a MBA student in building an inclusive society?"

Economic development during the past four decades has resulted in a little increase in average per capita income. There is no doubt that living conditions have improved everywhere, even in the most backward districts of India. Yet a large number of people have remained poor deprived of basic nutrition, rudimentary shelter, minimally competent medical attention, and primary education.

Today, there are MBA students who are opting out of placement from reputed B-schools to be a part of NGO or starting as social entrepreneur to help the society. They aim at understanding, realizing and analyzing the present scenario prevailing in our society, and thereby take strong actions and efforts to resolve them. They are trying to resolve the issues of the society through creative, innovative, 'out of the box' solutions.



After Rajeev Kher, MD, Sarplast (Shramik) finished his MBA from Symbiosis Institute of Management Studies, Pune, his family and friends expected his internship in the United States to be a stepping stone to a great corporate career. He stunned them all by giving it all up and coming back home to sell portable toilets. Over 1000 children die every day in

India because of the lack of sanitation, and this is something Rajeev Kher wanted to change. Sanitation is a basic need that is denied to a large part of the population, 25% of urban India lives in slums, and the facilities at best are minimal. When he saw portable toilets being used in the United States, he saw the potential impact something like this could have in India.

This type of entrepreneurship has become a global phenomenon that impacts the lives of citizens by using innovative business approaches to solving social problems. They see a whole new world of opportunity by solving problems of the society.

C.K. Prahalad begins his seminal work, "The Fortune at the Bottom of the Pyramid" with the simple, yet revolutionary proposition: *"If we stop thinking of the poor as victims, but rather as resilient and creative entrepreneurs as well as value-conscious consumers, a whole new world of opportunity will open up."*



Many MBA students today are willing to take the risks and accept them as a small price to pay in order that millions of people would have significant impacts in their lives. They see the poor, rural, weaker sections of society and problems relat-

Cover Story

ed to them as a chance of opportunity to help the society by using their business knowledge.

In December 2002, the alumni of the Indian Institute of Management, Ahmedabad met for their 25th reunion at Ahmedabad. One of the things that emerged from the reunion was the recurrent desire to do something socially meaningful. Thus was born “IIMPACT” – reflecting the desire to make a positive impact on the society. Their mission is to mobilize and motivate non-school going girls, between the ages of 6 and 14, from economically and socially backward rural areas of India, and put them firmly on the track of literacy through quality primary education. Many of those who completed class V at IIMPACT have joined formal schools in class VI – and every year their number of graduates is increasing.

Many MBA students in India are doing some great work impacting and changing the lives of people in the society by being part of NGO groups during their MBA and after completion, taking up career in this field to serve the society as social entrepreneur.



Vinayak Lohani, the Founder of “Parivaar”, has done MBA from Indian Institute of Management Calcutta (2003). He did not appear for the placement process at IIM, and immediately after his MBA, started “Parivaar”. Parivaar is a humanitarian service organization, based in ‘24 Parganas (S)’, West Bengal, and at present is chiefly working for total care and overall development of children from categories like orphans, girl children highly vulnerable to exploitation, victimization, and trafficking; street children, abandoned children, extremely impoverished children from tribal areas and other such highly vulnerable children.

“iVolunteer” is an initiative of MITRA started by Shalabh Sahai, alumni of IRMA and Co-Founder Director of MITRA in November 2000. It enables people to bring skills and expertise to the rural and social development sector in India. Another alumnus of IRMA, Rahul Barkatky is the Co-Founder and CEO of “Community Friendly Movement”, (CFM) which aims

to create wealth for its primary stakeholders-artisan communities at the bottom of the supply chain offering quality handmade products at competitive prices.

“Padhaaro”, a newbie startup offering greeter service to foreign tourists visiting India, is to give the traveller a local experience through the eyes of a person native to a place. Many students from B-schools are taking active part in it. These are focused on changing the perception about India and also to promote tourism to benefit the local rural people in India.

All the above are great inspirational examples to all of us, about the power of commitment and belief in driving change and innovation in the social arena. I believe today’s MBA students have two kinds of power. One is the power to bring specific change through the work that they do. The other is the power to inspire—to bring other people and organizations to work together, to scale solutions, and to find new ways to solve problems.

Thus, the role of today’s MBA student is to look for opportunities to create social value, uncover the best approaches for realizing those opportunities, and build social “capital.” That capital we can pass on as inheritance, rather than debt, to the next generation. They should be innovative people who can deliver change at the root of the problem, change that transforms unfair equilibrium into better, sustainable balances between different sections of the society.

This is the direction we’re headed—toward a new model of social change—of smarter, broader collaborations with businesses, governments, universities and of course, with each other.



.....Bijoy Kumar Nath –
PGDM 1st Year, 2012-14
Batch, IMT Nagpur.

PSUs Spending on CSR

Corporate Social Responsibility is fundamentally a company's commitment to operate in a socially, economically and environmentally in a sustainable manner, without forgoing the interests of its stakeholders. Through CSR, the organizations act in favour of society by taking responsibility for the impact of their activities on customers, internal & external shareholders, communities and the environment in all aspects of their operations. Public sectors in India, always play an indispensable role when it comes to Socio-economical development. They completely focus on inclusive growth, sustainable development and capacity building with due attention to the social and economical needs of the neglected and marginalized sections of the society.

The Department of Public Enterprises has issued the Corporate Social Responsibility Guidelines in April 2010, which is applicable to all Central Public Sector Enterprises (CPSEs). As per the guidelines, the CSR budget has to be fixed for each financial year and funds are non-lapsable. Special stress has been laid on the proper monitoring of the CSR projects undertaken. Again, in case of CPSEs having profit less than Rs. 100 crore, the expenditure range for CSR in a financial year is 3-5% of the net profit of previous year; 2-3% (subject to minimum of Rs. 3 crore) in case the profit ranges from Rs. 100 crore to Rs. 500 crore and 0.5-2% in case of CPSEs having a net profit of more than Rs. 500 crore in the previous year. Loss making companies are not mandat-



ed to earmark specific funds for CSR activities but may achieve this objective by integrating business processes with social processes, wherever possible. The Boards of the CPSEs are responsible for the implementation of the CSR activity which forms a part of the annual Memorandum of Understanding (MoU) signed between CPSEs and the Government.



At a time the government is planning to make it mandatory for all companies to set aside 2% of their previous year's profit for corporate social responsibility (CSR) activity, data released by Govt shows that maharatna and navratna public sector undertakings (PSUs) have not been able to fully spend their CSR budget.

Data released by the ministry of heavy industries & public enterprises show that the five maharatnas – ONGC, Coal India, IOC, NTPC and SAIL – managed to spend just 49% of the combined budget for three years beginning 2009-10.

The spending budget for most PSUs is updated till end September 2011. The combined spending of the navratnas was higher at 65%. But at least five of these 21 PSUs managed to spend less than 25% of the CSR budget of the three years. National Aluminium Ltd, or Nalco, was the only one that managed to fully spend its Rs 31.55 crore budget.

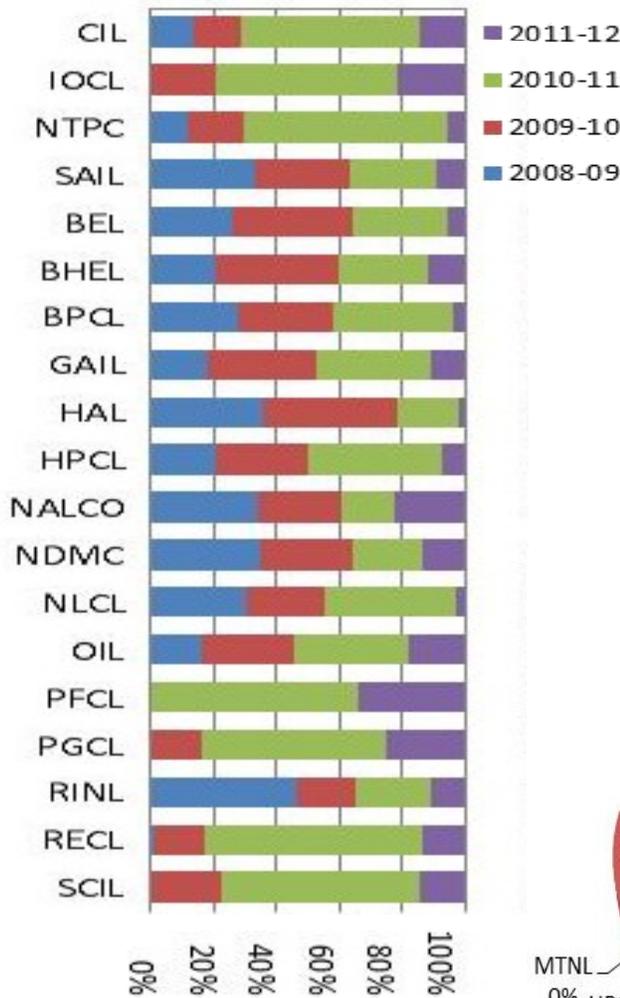
The central PSUs are required to set aside a portion of their profits for spending on CSR activities – about 0.5-2% in case of enterprises with net profit in excess of Rs 500 crore in the previous year and about 3-5% where profits are less than Rs 100 crore.

Coal India spent only 27% of the budget, according to information released. Its CSR budget in 2011-12 was about doubled to Rs 553.33 crore and it managed to spend only Rs 37.26 crore till September 2011. In the first year, it spent 92% of the budget and in the second year, about 58%.

Maharatna CPSEs	Fund in Cr.	2008-09	2009-10	2010-11	2011-12 (Sep.11)
CIL	Allocated	38.9	43.8	262.3	553.3
	Utilized	37.1	40.1	152.3	37.3
IOCL	Allocated	52.2	37.7	131.1	95.6
	Utilized	19.3	46.9	128.4	48.8
NTPC	Allocated	1794.0	16.7	72.4	45.5
	Utilized	12.9	20.4	72.2	6.5
ONGC	Allocated	125.3	322.5	335.4	378.5
	Utilized	169.1	268.9	219.0	21.9
SAIL	Allocated	114.0	80.0	94.0	64.0
	Utilized	83.0	78.8	69.0	22.9

CSR Insight

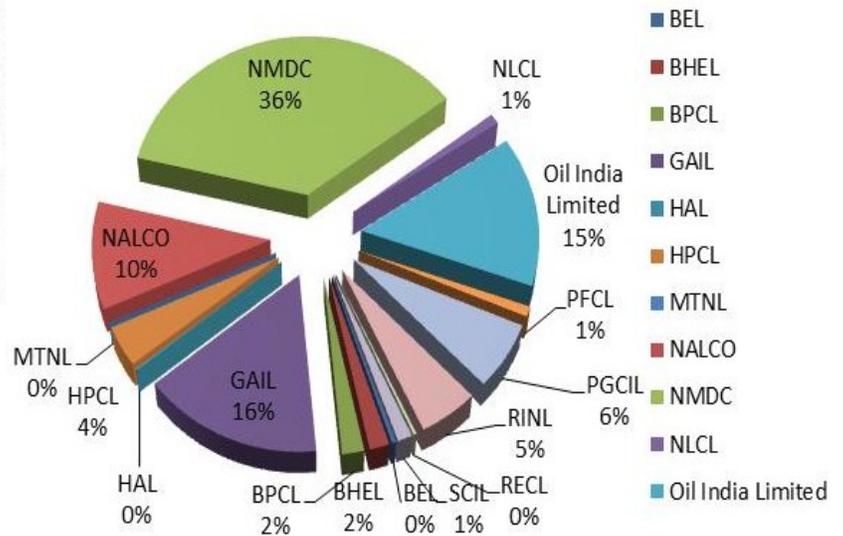
PSUs Spending on CSR from 2008 till 2011(Sept)



Oil and gas explorer ONGC did better, it spent 49% of the budget in the three years. Like Coal India, its performance in the third year was disappointing. It spent only 6% of the budget till September 2011. Indian Oil Corporation spent 85% of the Rs 264.4 crore it set aside and Sail 72% of the Rs 179.68 crore.

The CSR activities are part of the annual memorandum of understanding (MoU) with the government, where each PSU commits to meet targets for revenues and profits. Normally, CSR activities are taken up around area where the company is operational, but as per the CSR guidelines, the CSR projects/activities may be undertaken where a company carries out its operational activities, but where this is not possible, the CPSEs may choose to locate CSR projects anywhere in the country. CPSEs are also free to choose CSR activi-

% Contribution to CSR by Navratnas 2011



Contribution towards CSR has been declining for most PSU (Source: IndiaStat)

ties within the frame work of DPE guidelines with the approval of their Boards.

Here, the question arises that, "How could Govt. expect others to spend their Profits for Social Cause, when our "Navratnas" & "Mahratnas" are failing on their commitments to the society?"



Vedanta—CSR Activities in India

Indian billionaire Anil Agarwal led Vedanta Resources is a global diversified and integrated metals and mining group. The company is not only ambitious about its business but also vigorously committed to its Corporate Social Responsibilities. Metal czar Anil Agarwal's aggression is not limited to only business. With a mission to impact the lives of over 2.5 million under-privileged children; Vedanta Resources group has already strengthened its corporate social responsibility (CSR) programmes across all operating states in India. With an investment of Rs 186.50 crores in CSR in the last 4 years, the Group has spent another Rs. 103 crores in India and Rs. 205 crores (US\$38m) around the globe in 2010-11 which include CSR expenses, spent on company run school and spent on company run school.

A holistic approach encompassing health, education, livelihood, self help group - women empowerment, vocational training to rural youth, schools, mid - day meal to children, infrastructure development, integrated child development scheme and other projects are impacting the lives of millions of people in the states where the group operates in India, viz. Rajasthan, Orissa, Chhattisgarh, Tamil Nadu and Goa.

Anil Agarwal says “CSR is close to my heart and we are working day and night for the benefit of the under-privileged children in the country. Through computer education, mid-day meal and Bal Chetna Anganwadi Project, we would be touching the lives of about 2.5 million children in coming 3-5



Education and Nutrition for Children at Vedanta Bal Chetna Centre

Vedanta Bal Chetna Centre

years time.” Stressing the need for nutritious diet for young children, he says, “Children are underweight, almost half of their regular weight. They do not get good nutritious food. We are trying to

make sure that through our Bal Chetna Anganwadi Project (Integrated Child Welfare Scheme) and Mid-Day Meal Programme children get proper diet.” Working in over 1,000 anganwadis under partnership with the State Governments of Rajasthan, Chattisgarh and Orissa, in a public private partnership mode, the Group is already reaching out to about 35,000 under-privileged children.



Today, these anganwadis have a planned diet for the children, water filters for safe drinking water, hygienic toilets, toys, colourful books, utensils, to name a few. The children are healthy and happy and their attendances in these an-

ganwadis have increased immensely. A doctor visits them regularly for checkups. Utmost care is taken to ensure that their weight is proper. Lanjigarh in district Kalahandi in Orissa; Udaipur, Chittorgarh, Rajsamand and Bhilwara in Rajasthan; and Korba in Chattisgarh are the districts where these anganwadis are operating.



FOCUS AREA



Vedanta is planning to increase the impact by adopting more anganwadis and cover about 500,000 children in the coming year under Vedanta Bal Chetna Anganwadi Project. In Orissa, Vedanta Aluminium Limited; in Rajasthan, Hindustan Zinc Limited; in Tamil Nadu, SIIL in Goa, Sesa Goa; and in Chattisgarh, BALCO is spearheading the CSR Projects and covering more and more underprivileged children.

Taking further, another programme through which the nutrition to children is being taken care is “Mid Day Meal” Programme.

About 180,000 children of over 2,400 primary and middle schools are being provided mid-day meal by the Vedanta Group Company, Hindustan Zinc in Rajasthan. At present 6-Hi-tech kitchens are operating and the group is already moving ahead to set-up 31 more such hi-tech

9-Hi-tech kitchens have come up - 2 in Orissa in Jharsuguda and Lanjigarh, 3 in Rajasthan, 2 in Chhattisgarh, 1 in Bihar and 1 in Jharkhand. On an average, setting up of kitchen costs about Rs. 1.25 crore. The target is to serve about 10, 00,000 children and provide them nutritious food and ensure continuity in education.

Computer education is another area Vedanta Re-



sources group is concentrating. Computer education to all underprivileged children in the country is the dream of Anil Agarwal, Group Chairman, Vedanta Resources plc. At present 200 schools are

covered in Rajasthan and 1,000 computers have been distributed.

These schools are government schools and priority has been given to girls' schools. About 40,000 students are already benefiting from this initiative and the Group proposes to cover about 10,00,000 children in coming 3-5 years. The Computer Education Project has itself played a big role in retention of students and has positively impacted the attendance in schools.

Several Health Awareness Camps have been organized to sensitize the community about various health issues such as malaria, HIV/AIDS, TB etc. Family welfare program are also organized to sensitize the community on family planning and mother-child care. The company has been instrumental in reducing malaria

in Lanjigarh area by about 45%. Besides health initiatives, Vedanta Group is also operating Child Care Centres. Farmers are being educated on benefits of multi-crop cultivation. Recently, Vedanta Group has trained 120 women of Dongria Kondh tribe in leaf-plate making for enhancing their livelihood.

Anil Agarwal is also building 'Vedanta Cancer Hospital & Research Centre' in Raipur, in the State of Chattisgarh through Vedanta Medical Research Foundation, a nonprofit organization. The objective is to develop a "Centre of Excellence" for high quality referral medical



care in Oncology rendered in a scientific and academic environment and to bring ultra modern, multi-modality diagnostic and therapeutic facilities to the common man at an affordable price. The hospital would be of 360 beds and in the first phase about 100 beds are being put-up. With the proposed built-up area of about 4.45 Lac sq. feet, the Vedanta Cancer Hospital & Research Centre will be a state-of art with all modern technology. Vedanta Resources group, under the leadership of Anil Agarwal, Group Chairman, has an unparalleled vision not only for businesses but for social change in India as well.

Microsoft—CSR Activities Abroad

“Technology creates opportunities for people and organizations to realize their full potential” is the thought driving Microsoft’s corporate citizenship program. With the enduring commitment to serve needs of communities worldwide Microsoft is playing the role of a responsible global citizen. Going far beyond its products and services it has collaborated with business partners, governments and non profit organizations around the globe to fulfil its commitment. It delivers new technology to people and organizations to unleash their creativity, productivity and opportunity across borders.

In today’s world there is no scarcity of opportunities yet there is a growing divide between young people who have the chance to succeed owing to their enhanced skills and those who don’t. In response to this divide Microsoft has targeted its corporate citizenship program particularly towards youth empowerment.

Microsoft Youth Spark is a youth empowerment initiative that connects millions of youth the world over and provides them with opportunities for education, employment and entrepreneurship. It brought together more than 350,000 students from more than 260 regions and countries to participate in the 2012 Imagine Cup—the world’s largest student technology competition. In the auspicious event students from different parts of the world and cultures use their skills to solve world’s most challenging problems. Such competitions are



great motivators for youth as it provides them with a platform to showcase their talent across borders and to explore and enhance global opportunities.

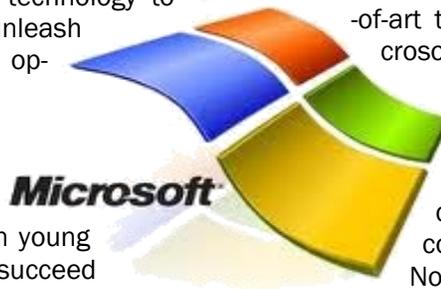
Microsoft has provided students free access to state

-of-art technology facilities at more than 90 Microsoft innovation centres in 44 countries to accelerate their career opportunities. It

has also provided innovative designer and web developer tools to students and teachers around the globe under the Microsoft Dreamspark initiative. Most of the company’s donations are targeted towards Non-profit organizations addressing the need of youth skill development. Also, through Microsoft BizSpark the company is helping young entrepreneurs launch new businesses by providing access to software development tools, industry connections, and investors.

Empowering non profits: It goes without saying that the biggest problem a non-profit organization faces is raising funds for the upgrade and betterment of its core processes. “Non-profits need powerful tools to transform passion into progress. Modern productivity, communication, and collaboration solutions help people drive social change where it’s needed most.” says Kurt DelBene,

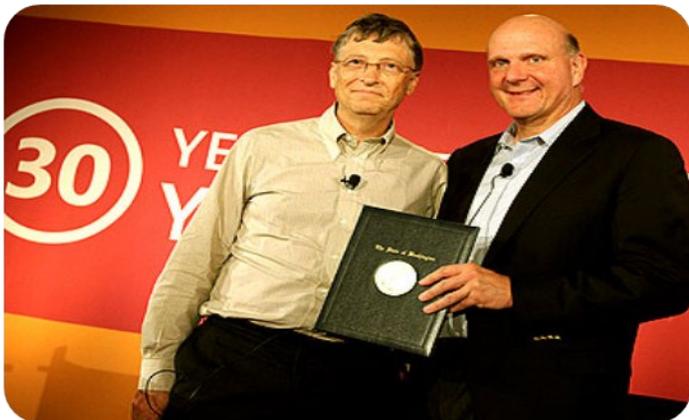
President, Microsoft Office Division. Through its technology for good program Microsoft is helping 62,000 non profit organizations around the globe to get affordable access to technology for serving communities with a greater zeal. Some activities under the initiative were donating hardware and



software to non profit organizations and providing them with refurbished laptops at relatively cheaper rates. Microsoft also collaborates with non-profits for hosting more than 100 NGO Connection Days and in educating NGO staff on how to get the most value from donated software via webinars. Other than the above mentioned points Microsoft also provides technological process solutions to the non profits so that they can reach out to the people in need efficiently and effectively.



centage of 65%. The company Encourages employee giving and volunteering by offering company matching contributions for US employees up to



Microsoft’s Employee giving program:

Employees are the heart of any organization and the initiatives taken by them are prone to be embedded in the core of the organizational culture .The Microsoft’s employee giving program is a campaign by which employees devote their time and money as a service to the communities. Since its inception in 1983 the company has raised nearly \$ 1 billion as donations. On 18th Oct, Microsoft CEO Steve Ballmer and Chairman and Founder Bill Gates commemorated Microsoft’s 30th Employee Giving Campaign during a special town hall event where the congratulated the employees for their efforts. In FY12 the employees gave nearly \$100 million with a volunteering per-

\$12,000 for total time and cash donations. It gives employees at least three days off from their office work if they want to volunteer outside the United States. The volunteering percentage has increased 12.5% year over year and more than 12000 employees and 2,000 non-profits have been registered on Volunteer Manager, Microsoft’s opportunity matching system for bringing needs and skills together. The organization motivates volunteering through the Give SharePoint site, where employees can share experiences and opportunities with the rest of the Microsoft community.

Beyond direct service to the community, Microsoft has made significant strides in the areas of human rights and environmental sustainability. It consulted with businesses, government and other key stakeholders to develop a human rights statement that brings together long-standing policies on issues such as privacy, security, free expression and labour rights. It exceeded its goal to cut carbon emissions by 30 per cent compared with 2007, due in part to the 1.1 billion kilowatt hours of green power it purchased, the third most of any US company. Its endorsement of the United Nations Global Compact drives Microsoft to continually improve its business practices and increase its accountability. “Stick to your core competencies”– the famous business jargon is what Microsoft is incorporating in its pursuit of becoming a world leader in Corporate citizenship.

Corporate Governance

DIRECTORS REMUNERATION: SHOULD THERE BE A CEILING?

Introduction

The market is up, and the CEO is rewarded with a huge compensation package. The market is down, and the CEO is rewarded with a huge compensation package. There's plenty wrong with this picture, not the least of which is the lack of any link between pay and performance, and the absence of any long-term performance measures. (The Wall Street Journal).

The global financial crisis has highlighted the importance of ensuring that remuneration packages are appropriately structured and do not reward excessive risk taking or promote corporate greed. The central problem in Indian Corporate Governance is the conflict between dominant and minority shareholders which is further aggravated by the statutory imposition of ceiling on remuneration of executives and inadequacy of remedies available to the minority shareholders to object to such remuneration.



Companies Act provisions pertaining to Director's Remuneration

The collective remuneration of 15 highest-paid executives rose by about Rs 38 crore to Rs 478 crore and there are only four Sensex companies, whose top executives figure among the ten top-paid persons.

Back in 1977, Peter Drucker wrote that CEO pay should be no more than 20 - 25 times average worker pay. He believed that the leadership, motivation and teamwork needed for a successful business are undermined when the CEO is overpaid. He maintained that business leaders should set an example of responsibility, not privilege.

Section 198 and 309 of the Companies Act, 1956 fixes a ceiling on the overall

maximum remuneration payable to the Directors. It mandates that the total remuneration payable to Directors of a public company, in respect of a financial year, shall in no case exceed 11% of the net profits of the company. It further prescribes that the remuneration of all Whole Time or Managing Directors taken together shall not exceed 10% of the net profits in respect of a financial year and remuneration of one such Whole Time or Managing Director shall not exceed 5% of the Net Profits of the Company.

Executive Remuneration in Indian Listed Companies for 2011-2012

The top fifteen executives who were paid highest remuneration for the financial year 2011-12 are Jindal Steel and Power's Mr. Naveen Jindal (Rs. 73.42 cr.), Sun TV Network's Mr. Kalanithi Maran (Rs. 57.01 cr.) and Ms. Kavary Maran (Rs. 57.01 cr.), Hero MotoCorp's Mr. Pawan Munjal (Rs. 34.47 cr.) and Mr. Brijmohan Lall Munjal (Rs 34.44 crore), Madras Cements' Mr. P. R. R. Rajha (Rs 29.34 crore), Maruti Suzuki's Mr. Shinzo Nakanishi (Rs 28.14 crore), BGR Energy's Mr. B.G. Raghupaty (Rs 25.98 crore), Tata Motors' Mr. Carl-Peter Forster (Rs 23.97 crore), Divi's Labs' Mr. Murali K Divi (Rs 23.15 crore), Airtel's Mr. Sunil Mittal (Rs 21.3 crore), Hindalco's Mr. D Bhattacharya (Rs 19.5 crore), JSW Steel's Mr. Sajjan Jindal (Rs 18.18 crore), Amara Raja Batteries' Mr. Jayadev Galla (Rs 17.23 crore) and RIL's Mr. Mukesh Ambani (Rs. 15 cr.).



The aforesaid provisions of the Companies Act has been criticized by many experts on the ground that capping the directors/executive remuneration will adversely affect incentives to effort and risk taking. Another argument against the capping of remuneration through law is that the shareholders as owners of the company should only decide what remuneration to be paid to the directors based on the profitability and the performance of the company. A further argument is that the remuneration of executives must depend upon the prevailing market standards and their ability and should not be predetermined by the government through prescribed ceilings.



these Independent Directors are hand-picked by the promoter Directors. In

turn, most of the Independent Directors owe their allegiance to the promoter directors instead of the shareholders and the Board in turn becomes a cozy club.

Conclusion

The solution to aforesaid dilemma is Shareholder Activism. The active involvement of shareholders in their organization is shareholder activism. Shareholders can ensure that the company follows good corporate governance practices and implements beneficial policies. Shareholder activism can be exercised through proxy battles, publicity campaigns, shareholder resolutions, litigation and negotiations with management, independent research agencies, proxy advisory services.

The removal of caps/ceiling on remuneration of Directors might do more harm than good since the same may be manipulated by the dominant shareholders to the detriment of the interests of the minority. As per the Companies Act, Directors shall be appointed by the shareholders and the remuneration of Directors shall be fixed by the shareholders at the AGM. Practically, the dominant shareholders (even with 25% stake or less) are in a far better position to either appoint themselves as the Directors or they appoint their relatives or friends or associates as the Directors. Simultaneously they also fix their own remuneration. Minority shareholders who are scattered are not in a position to oppose and defeat the dominant shareholders. In India, where there is no segregation between management and ownership and with more than 80% of the listed controlled, the family members decide most of the decisions in the Board and Shareholders meeting, as what was witnessed in case of Satyam, where promoters holding only around 5% were able to control the company. All listed companies are required to appoint Independent Directors and constitute Remuneration committee to fix the remuneration of Directors. But again



As minority shareholders are scattered and do not have the adequate knowledge and understanding of their rights, shareholders activism can be spearheaded by the Institutional investors (like Mutual funds, Insurance funds) or through the voting recommendations of the proxy advisory services firms.

Voluntary Guidelines for Companies for providing General Information on their Websites about the Company to Promote Good Corporate Governance

“A Corporate is a congregation of various stakeholders, namely, customers, employees, investors, vendors, government, and society. A Corporation should be fair and transparent to its stakeholders in all its transactions.”

- Narayana Murthy Committee

In short, Corporate Governance is about enhancing Fairness, Transparency, Disclosure and Accountability, while directing a company.

To promote good corporate governance and enhance investor's awareness; the Ministry of Corporate Affairs (MCA) has issued voluntary guidelines for disclosing certain information on the website of the company. The guidelines are applicable to companies having paid up capital of not less than Rs. 10 crores or having more than 100 members.

The guidelines prescribe that the aforesaid companies may maintain a functional web-site containing the following information about the company as at the close of the previous year stating the date thereof within three months in order to boost investor confidence and to foster economic growth of the country:

1. Details of the *company's business* including risks & concerns, industry scenario, brand information, how long in the market and core competence and market share in company's products/services.
2. Names & addresses of *Directors*, details of *promoters* of the company and their shareholding, Code of conduct for board members & senior management of the company, remuneration of Managing / Whole time Directors, if any, number and dates of Board meetings & AGMs held in last 3 years and attendance of each director at the meetings.
3. *Audit Committee*, its reference, composition and the meetings & attendance during last 3 years.
4. Important *financial information*/ratios, such as total paid up capital, equity/preferential share capital, nominal value of shares, total turnover, profit

after tax, EPS, P/E ratio and total amount spent on Corporate Social Responsibility (CSR) & its percentage of profits after tax and comparison of important ratios with industry including EPS, P/E ratio and dividend.

5. *Subsidiary company*, details thereof stating the name of the company, percentage of share holding, total paid up capital, turnover, profit after tax of the subsidiary during last three years.
6. *Information about shares issued during last five years*, including share price, if listed, shareholding pattern, details of the Registrar & Transfer agents, dates of book closures, date of dividend payment for the previous year, name, designation & contact number of compliance officer and information about company's IPO/FPO including withdrawn, if any.
7. *Investor's information* like composition of Shareholders Committee/Investors Grievances Committee and its reference, details of shareholder's complaints during the last three years - received, resolved and pending - and press release, if any for investors/shareholders, auditor's qualification if any, penalty imposed by any Govt. agency / court, *complaints about insider trading transaction in the last three years*.
8. Particulars of *shares of the company acquired/sold by the Directors and their relatives* during last three years.
9. *Investor's complaint mechanism* - Under investor's section of website, the company should also have facility for lodging online investor complaint & its follow up till resolution.
10. *Details of related parties and transactions with them* for the last three years and details of the compliance of mandatory requirements.
11. *Company's initiatives towards corporate social responsibilities* and environment protection with the details of initiative taken and expenditure incurred by the company during the last three years.
12. Details about important pending *litigations* likely to affect the financial position and the working results of the company.



Business Ethics

Immanuel Kant's Idea of Human Dignity and Respect



“Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end.”

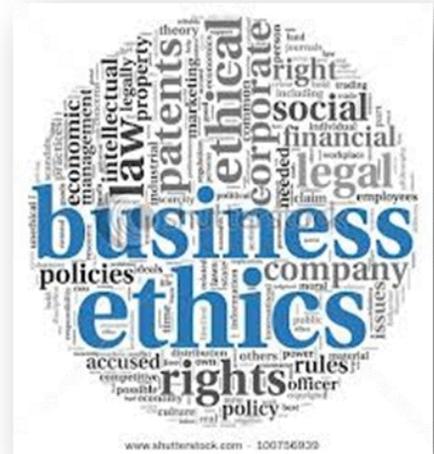
-Immanuel Kant

Immanuel Kant was a German philosopher. Immanuel Kant is famous within philosophy for his formulation of something called “the Categorical Imperative.” This categorical imperative basically says that humans should never be used as a means, and should be treated as ends in themselves. When we use a knife to cut through rope, we are using that knife as a means to cut through the rope. We don’t place any value on the knife itself, except insofar as it can cut. Kant’s point is that we should never treat people the way we treat knives, or other material things.

According to Kant, every rational being has intrinsic and not merely instrumental value. Every rational being exist as an end in itself and not merely as a means to an end. Kant here stresses the rational nature of humans as free, intelligent, self-directing beings. In saying they must never be treated as a means only, he means that we must not merely “use” them as means to our selfish ends. They are not objects or instruments to be used. To use people is to disrespect their humanity.

Kant does not say that there is anything wrong with using someone as a means. We have to use people as a means in any cooperative scheme of action. The food we eat, the clothes we wear, the chairs we sit on and the computers we type at are gotten only by way of talents and abilities that have been developed through the exercise of the wills of many people. I cannot, for example, repair my shoes without using the cobbler as a means. This is

acceptable because each side consents to the transaction and thus both sides are respecting the humanity of the other person. Categorical Imperative does not prohibit using a person as a means; it prohibits using a person only as a means. As long as we are also respecting a person as an end-in-itself, we may permissibly regard them as also having instrumental value.



If a sales representative while selling the goods to the customer hides certain defects of the goods to complete the sale transaction, he is merely using the customer as a means (to accomplish the sales target and earn commission). If the sales representative provides the information pertaining the defect in the goods to the customer, he is respecting the humanity (or ability of rational thought) and the customer’s right to say no and this is the right thing to do as per Immanuel Kant.



GANGNAM STYLE—LESSONS IN MICRO ECONOMICS

-By Daniel Albuquerque

It is funny. It is crazy. It is comical. It is wild. It is more – it is a money spinner. The craze about the crazy rap song *Gangnam Style* appears to be unstoppable and the rap singer Psy from South Korea is an overnight multi-millionaire. The significance of the song to this column lies in the economic lessons it draws for individuals in managing their finances, household budgets or plainly to make two ends meet.

Living beyond the Means

It is a hi-fi parody of the rich and famous of Seoul, South Korea's elite, who live in a super high-class district by the name Gangnam, literally *South River Side*, who splurge money, overindulge in luxury, gorge on gourmet, and generally live in lavish and extravagant life-styles – hence, Gangnam Style. These account for about 7% of the S. Korean GDP, a colossal amount considering that it is spread over just seven square kilometres. But that is not the problem. The problem is when the rest of the people in the country, over 99%, try to imitate them. Result: financial fiasco. They are vanity obsessed; they buy the most fanciful, most fashionable, and most costly gadgets, wrist watches, pens studded with diamonds and handbags, and other whimsical stuff.



ed to the excessive credit card transactions where there were per capita six credit cards in S. Korea. The government had to bail out – which we hear these days regularly – the credit card companies.

Warning a Bust

Psy's parody of people imitating Gangnam Style is quite an eye catching music video that is sold on the Internet by the millions. People live in a fantastic bubble such as a beachside paradise, cavorting with wine and women, and rocking away on a bus only to be kicked into reality - eating humble noodles and retirees trying to fend off poverty.

“... avoid falling into credit card liability; evade unproductive expenditure such as on gold as is Indians' wont; learn to acquire joys of life that lie beyond what money can buy.”

The Koreas – the Communist North and the Capitalist South – are a test tube case of the clash of economic ideologies. While the North languishes in hunger and poverty and thrives on nuclear bombs, the South's prosperity bubble is near bursting point as its energy from capitalism is unsustainable.

Credit-Card Culture

At present an average S. Korean borrows more than 155% of the disposable income, mainly using credit cards. The Americans did the same – approximately 130% above the disposable income – before the financial melt-down began. Chances are S. Korea may do an USA very soon. It is not that Koreans have no idea where debt lands them. In 2002, as the Tiger Economies crashed, the cause was relat-

Lessons

The lessons are many if one cares to learn: Live within the boundaries of budget; avoid falling into credit card liability; evade unproductive expenditure such as on gold as is Indians' wont; learn to acquire joys of life that lie beyond what money can buy.

Daniel Albuquerque formerly Professor, Goa Institute of Management, Goa, is currently a visiting professor of management at various business schools. He also taught at the Julius Maximilian University, Wuerzburg, Germany. He is also a member of the World Ethics Center of the University of Jena, Germany. He is the author of over half a dozen books, several scientific papers, and freelance articles.

News & Events

Business Obligations in Face of Natural Disaster.

With the ongoing mass destruction on Atlantic City, New York, and (eventually) parts of eastern Canada due to hurricane, several of the business organizations are facing with a dilemma related to doing business in the face of impending state of calamity. Some of them sure do not have a choice to make as the natural calamity would have totally wipes out their business. But for the remaining firms few vital choices are to be made. The first choice pertains to the vital issue of staying open. Here, business decision makers need to balance the safety and security of their employees and buildings, on one hand, with the necessities of their customers on the other. The second choice has to do with next question of whether companies should require their employees to work before, during, and after a natural disaster. The risks to health and safety arise sometimes being at work and sometimes in getting to work. The final Issue is related to price of the commodities manufactured. In face of disaster the prices tend to go up because of the supply chain which gets cut off, thus the fundamental question then arises that how the companies can avoid this adverse situation and still be ethical in times of distress and maintain their goodwill.



field of CSR would not change drastically but it would somewhat integrate itself with the various business process. It would become a part of daily management practices well. To make good use of the week, fund raisers are finding innovative ways to generate higher amount from the corporate. The joy of giving week, launched in 2009, is a whole week of philanthropy marked every year in during Gandhi Jayanti, from 2-8 October. It is not organized by any specific NGO or organization. It is fully driven by a large group of volunteers from all over the country. Also, the week sets to be a perfect time for companies to showcase their corporate social responsibility (CSR) and for NGOs it is the best time to boost inflow of funds and visibility in the public space. As per the data collected, over one million people participated in 600 plus events across 60 cities during JGW 2011, raising over Rs 30 crore, resources and millions of volunteer hours. (<http://articles.economicstimes.indiatimes.com>, 14th Oct)

5th International Conference discusses the future of CSR.

The 5th International Conference on Corporate Social Responsibility held in Berlin raised a vital issue. "What is the future of Corporate Social Responsibility?" More than 500 CSR practitioners, scholars, business executives, consultants, students, politicians and NGO representatives from 50 countries participated in the discussion. A wide range of answers also popped up trying to explain the situation. From the worth of integrated reporting to the compatibility of CSR and Islamic Sharia law; from managing global stakeholders to managing stakeholders globally – participants were confronted with a comprehensive array of issues that will face CSR researchers and industry practitioners long into the future. However they all agreed that the scenario in the

ITC bags Asian CSR Award

ITC bags Asian CSR Award ITC has been conferred the AIM Asian CSR Award by the Asian Forum on Corporate Social Responsibility (AFCSR), in recognition of its meaningful contribution to the creation of sustainable livelihoods and fostering economic growth in rural communities in India. ITC won the award in the Governance and Society category for adopting the Triple-Bottom-Line model, which focuses on augmenting economic, social and environmental capital. ITC was also recognized for designing innovative social investment programs that are integrated into its business models and support competitive value chains, encompassing the weaker sections of society. ITC's businesses and value chains support more than 5 million livelihoods. The awards event was held in Bangkok on October 26, 2012. Thailand's Deputy Prime Minister and guest of honour, Kittiratt Naranon, gave away the prizes to the winners. (Indianinfoline.com, 31st October)



EXPERT'S VIEW

“Creating a strong business and building a better world are not conflicting goals – they are both essential ingredients for long-term success” – **William Clay Ford Jr. Executive Chairman, Ford Motor Company.**



“To build and sustain brands people love and trust, one must focus—not only on today but also on tomorrow. It’s not easy...but balancing the short and long term is key to delivering sustainable, profitable growth—growth that is good for our shareholders but also good for our consumers, our employees, our business partners, the communities where we live and work, and the planet we inhabit” – **Irene B. Rosenfeld, CEO Kraft**

“If you can shift your thinking away from merely selling and into building trust instead, even if it costs you a few bucks in profit, you’ll begin to see opportunities you never imagined once you understand what it means to ‘wow’ that customer by giving them more than they expected!” – **Chris Zane, Business Owner and Author.**



“We know that the profitable growth of our company depends on the economic, environmental, and social sustainability of our communities across the world. And we know it is in our best interests to contribute to the sustainability of those communities” – **Travis Engen, CEO, Alcan**

“Where sustainability works best is where an organization’s leadership gets it and wants it to happen and enables it to happen – so everyone from the person who sweeps the floor to the finance director feels part of that conversation”

– **Will Day, Chairman, Sustainable Development Commission (2010)**



“The business of business should not be about money. It should be about responsibility. It should be about public good, not private greed” – **Anita Roddick, Founder, Body Shop**

Flicker



Reader's Quest!

On the basis of your understanding of the articles in the magazine answer the following:

Win Surprise Gifts

1. According to the CSR guidelines of Department of Public Enterprises expenditure for CSR in a financial year should lie between ___ for companies with profit more than 500crores.
2. Who was the highest paid CEO in India for the financial year 2011-12?
3. "Bal Chetna Aanganwadi" is a initiative of which company?
4. Microsoft is supporting young entrepreneurs through ___
5. At present an average S. Korean borrows more than ___% of the disposable income, mainly using credit cards.

Send your answers to teamcsr@imtnag.ac.in
Surprise gifts for the winners.

Winners Gallery(Oct'12)





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