Ethics And Corporate Governance In Banks

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Short Description
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Description
Risk Management In Banks

SECTION-A

1. Describe the meaning of ethics and values and discuss them in detail giving suitable examples, in context of banks.

2. Analyse the corporate governance regulations applicable to companies in India.

3. How to integrate CSR into every aspect of the company's operations ? Discuss in detail.

4. (a) Explain the process of institutionalising ethics in financial sector.

(b) Highlight the guidelines issued by Federal Deposit Insurance Corporation (FDIC) for implementing effective ethics programme in financial sector.

5. Write short Notes on any four of the following :

(a) Ethical Dilemmas

(b) Forms of Business Organisation

(c) Triple Bottom Line Approach of CSR

(d) Corporate Citizenship

(e) Business Ethics and Strategy

SECTION-B

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

Reliance Industries Ltd (RIL)

Reliance Industries Ltd is India's largest private sector company.

The Reliance group was founded by Dhirubhai H. Ambani. He set up the Reliance

Textile Industries in 1967. Mukesh Ambani and Anil Ambani are two sons of. Dhirubhai Ambani. The group's activities span exploration and production of oil and gas, refining and marketing, petrochemicals, textiles, financial services, insurance, power, telecom, and infocom services. The group exports its products to more than 100 countries the world over. Reliance emerged as India's most admired business house, for the fourth successive year in a TNS mode survey for 2004. Reliance was one of the pioneers in the

country in implementing the best international practices of corporate governance. In recognition of this pioneering effort. the Institute of Company Secretaries of India bestowed on the company the National Award for excellence in corporate governance for 2003. In July 2002, Dhirubhai Ambani passed away. In September 2004, the board decided to give all financial decision-making power to Mukesh. Anil allegedly protested.

On November 18,2004, Mukesh hinted at ownership issues, which was in the private domain, and markets reacted strongly. RIL share prices dropped from Rs 572 to 454, Rs 3,400 crore of market capitalisation was shared off. Anil Ambani criticised the corporate

governance practices of Reliance Industries. The battle between Mukesh and Anil Ambani over serious corporate governance issues affecting Reliance Industries Ltd Shifted from the media to the RIL boardroom. The Anil Ambani camp said a 500- page note detailing huge corporate failures by Reliance Industries has been sent to the RIL board three days before its meeting on January 18,2005. Finally, RIL decide to buy back the equity shares to solve this conflict. On January 11, 2005, a joint director in the finance ministry's Department of Economic Affairs wrote a letter to SEBI asking it to "look into the matter" of a "note received from Shri Anil D. Ambani regarding buyback of equity shares of up to Rs. 3,000 crore by Reliance Industries Ltd." The ministry wanted to be kept informed about the SEBI findings. Anil Ambani's note was written on a plain sheet of paper instead of his official letterhead or under his insignia as Member of Parliament. He had also publicly voiced his objection to the share buy back just before the board meeting that decided the issue. At the meeting itself which was the appropriate forum for raising objections, he did not file a formal dissent note; instead he made a presentation to the board and merely abstained from voting. The other charges that Anil Ambani listed in his letter to the finance ministry were "leaked" to the media by what was euphemistically referred to as the "Anil Ambani Camp". This was probably the first time in Indian corporate history that a vice-chairman and managing director has written to the government demanding an investigation against a company while he continued to hold important fiduciary positions in top management. The action raises important issues about corporate governance and the responsibility of senior management towards the company as well as its shareholders. Before going into those issues, here is a gist of concerns that Anil Ambani wants the finance ministry to investigate through SEBI, ostensibly in order to protect the "integrity of the capital market and the interests of RIL's 30 lakh investors". Firstly, he alleged that RIL's statutory public announcement of the share buyback on December 29,2004, failed to reveal that SEBI was investigating insider trading and price manipulation of Reliance shares before the buyback and that the two major stock exchanges were investigating compliance with listing norms. (For the record, SEBI did force Reliance to make additional disclosures, but not necessarily all those that Anil Ambani had demanded.) Secondly, he alleged that RIL failed to reveal the fact the SEBI was investigating a complaint by S. Gurumurthy into the ownership and financing of a web of 400 companies which own Reliance shares. Interestingly, Anil Ambani claimed that these "Investigations are in progress." In fact, he first reported Gurumurthy's

allegation about a "gigantic fraud" by Reliance in February 2002 and SEBI did not even bother to initiate an investigation into those charges. Instead, SEBI went on to exonerate Reliance of all charges of manipulation and insider trading in its controversial sale of its 10 percent stake in Larsen and Toubro of which nearly 6 per cent was acquired through

open market purchase just two weeks before the block deal with Grasim. A third issue raised by Anil Ambani was that "two unknown individuals" were reported to be in control of the 20 percent promoter stake in Reliance valued at Rs. 20,000 crore. He further said that buyback would increase the RIL promoter holding by a further 2 percent using Rs 3,000 crore of shareholders' funds and that there was a major public controversy over the classification of a 12 per cent stake in RIL valued at Rs 10,000 crore, which actually belonged to RIL's 30 lakh investors and not the promoters. Ambani's final point was that the "major issues of ownership, management, corporate governance transparency, and disclosures in RIL have publicly surfaced in relation to transactions between Reliance and Reliance infocom", which were not disclosed in the advertisement. All these charges indeed merit investigation. Newer revelations about a series of friends and corporate entities who seem to have Reliance Infocom shares at Rs 1 each also raised serious questions about why the publicly listed company ended up paying a high price for its Rs 12,000 crore investment and whether RIL shareholders have been badly shortchanged in the process. But Reliance had never been a stranger to serious controversy, and until end July 2004 (when many of his powers were curtailed through a board resolution), Anil Ambani was part of the top management , privy to all confidential information and in fact, the group's public face. He presented its financial results to the media and analysts and even collected a clutch of good governance awards on its behalf. That is why his sudden activism. On behalf of shareholders does not ring true, although it is in public interest. Anil Ambani was clearly at liberty to wage a war against his brother over his share of the Reliance family holding and to fight for management control if he believed that he had been unfairly ousted. But the governance issue raised by his damaging revelations and many allegations are clearly at conflict with his role as vice-chairman and managing director of Reliance. If these charges are true, regulatory action can only damage Reliance's valuation and destroy shareholders' wealth instead of protecting their interests. If Reliance had been a professionally managed company instead of a family-controlled group, would Anil Ambani have been allowed to remain a director when he was fighting a war against several people in top management ? Also, if a company is a distinct and separate legal entity in the eyes of the law, can a board director, or in this case the vice-chairman and managing director, retain his official status while working against its interest ? And can he continue to get hefty salary from the company ? There are some of the governance issues that are also raised by Anil Ambani's action and allegations and they need to be openly debated by peer groups industry bodies and corporate governance experts. But what can one really expect when injuries of these very peer groups have showered the group with awards for corporate excellence
(Institute of Company Secretaries in 2003) and corporate and socially responsibility awards (Golden Peacock by the Institute of Directors in 2004) ?

Case Question

1. What do you think this issue has happened in RIL because of lack of corporate

governance.

2. What are SEBI guidelines in context of corporate Goverance to be followed by RIL ?

Details
1. Case study solved answers

2. pdf/word

3. Fully Solved with answers