



Business Ethics and Social Responsibility Pillars of Good Governance at Voltas Ltd

Dr.Kedar Shukla @ GIDC Rajju Shrof Rofel Institute of Management Studies,VAPI,
Gujarat

Abstract: Good Corporate Governance (CG, hereafter) is indeed a need of the business world. Good governance is not only a planning and control function or, it just happens by itself, but it is more a strategic thinking. Corporate Social Responsibility (CSR, hereafter) is widely known as “Social responsibility of business towards the society”. Now since governance has to do more with planning and controlling and CSR has more to do with discharge of the business responsibility towards the society, how are they linked or are they? In present paper researchers have tried to understand the inter relationship of CSR and CG, as well as it has been attempted how Business Ethics acts in Governance and CSR? For the study of above a Case of Voltas Limited has been discussed. In this descriptive research, qualitative data were collected through the interview method from the 5% top management executives of Voltas Ltd while secondary data were collected from the annual reports, websites and companies press release. The study reveals that there is a close relationship among the CSR, CG and Business Ethics and they are mutually depended. Business Ethics and Corporate Social Responsibility are the fundamental pillars of the Good Governance.

Key Words: Corporate Governance, Business Ethics, Corporate Social Responsibility, Corporate Strategy.

Introduction:

News channels and news papers of India were full of the SATYAM and 2G-Spectrum scam, year before, some of the largest ever corruption case. It turned out as a black day for Indian politics and corporate world when A.Raja, Communication and I.T. minister was forced to resign on 14th November 2010 Sunday. A case of moral bankruptcy of a politicians and corporate leaders. The 2G spectrum scam in India involved the issue of 122 licenses by the ruling Congress-led UPA alliance of the 2G spectrum to 85 companies including many new telecom companies with little or no experience in the telecom sector at a price set in the year 2001 and The scam involved allegations

regarding, The under pricing of the 2G spectrum by the Department of Telecommunications which resulted in a heavy loss to the exchequer, and The illegal manipulation of the spectrum allocation process to favor select companies. The issue came to light after the auction of airwaves for 3G services which amounted to Rs. 67,719 crore (US\$15.1 billion) to the exchequer. A report submitted by the Comptroller and Auditor General based on the money collected from 3G licenses estimated that the loss to the exchequer due to under pricing of the 2G spectrum was 176,379 crore (US\$39.33 billion).

SATYAM was on one had a clear case of Corporate Fraud and improper



Governance on the other hand interestingly SATYAM won all the leading awards for the Business Ethics and Corporate Social Responsibility, for the consecutive years just before the Governance failure. This leads to a question whether, there is any connection between Corporate Social Responsibility (CSR, hereafter), CG (Corporate Governance, CG hereafter) and Business Ethics (BE, hereafter) or not?

Both the above cases certainly focus on the fact that the 'Governance' is utmost needed and it's not only Corporate Governance alone but the academics of the current days and management literature is emphasis on the interlinkage of Business Ethics and Corporate Governance. To study the linkage between CSR, CG and Business ethics, in this research paper we have selected a TATA group of company, Voltas Ltd which is existing since over 70 years and have not found anywhere in the any scam or cases, perceived to be the most ethical group company.

Research Objectives

As stated earlier primary objective of the current paper is to have a conceptual understanding of the 'Corporate Governance' in the risk management, and to understand the linkage between Corporate Governance, Business Ethics and Corporate Social Responsibility.

1. Conceptual understanding of Business Ethics, Corporate Governance and Corporate Social Responsibility.
2. To understand the interlink among Business Ethics, Corporate Governance and Corporate Social Responsibility.

3. Understanding of the CSR and Corporate Governance and Business Ethics of Voltas Ltd. (Case Study)

Research Methodology

Looking at the objectives of the immense literature review has been done to have conceptual understanding of the concepts of Business Ethics, CSR and CG and to establish it's conceptual link as mentioned. Study on Voltas Ltd has been analyzed, and data has been collected through primary interviews of 5% top management executives of Voltas Ltd. Secondary data from the website and visit of the company 'Voltas Ltd' have been obtained from their website. The same has been presented in the form of a 'Case Study' and as objective no.3.

A Case Study of Voltas Ltd. An Example of an Enterprise Governance.

(A) Brief Company Profile

Voltas is the largest project management and airconditioning company under the flagship of the "TATA" group. Since 1954 company has been growing financially and has been a strong and ethical brand name and one of the important feather of "TATA" group of companies in India. With an annual turnover of Rs. 4830 Crores, (Year Ended March,2010) the company has a network of offices all India and 3 manufacturing facilities, and around 3000 employees. (Source : Company website : www.voltas.com). Voltas offers engineering solutions for a wide spectrum of industries in areas such as heating, ventilation and air conditioning, refrigeration and electro-mechanical projects.

(B) Steps Towards the Inclusive Approach of the Enterprise Governance



Top management and leadership of Voltas Ltd. Has been continuously working for setting up the high ethical standards and a strong enterprise governance like,

(i) Corporate Existence

Voltas is in existence since 1954 and it's listed in both the Indian stock exchanges BSE (Bombay Stock Exchange) and NSE (National Stock Exchange) and has a sound top management leadership which governs the organization have never got engaged in any unfair activities of business.

(ii) Board of Directors – as per Legal and Mandatory Guidelines

Company has a sound Board of Directors, leadership and Governing council as per the legal requirements and they ensure the organization fulfill all the requirements of the controlling agencies like Reserve Bank of India and functions based on their guidelines.

(iii) Code of Conduct and Practices.

“Whether it be product quality, people, business systems or knowledge or customer satisfaction, whether it be in contributing to the development of society or protecting the environment, Voltas sets - and is driven by - new values in all these areas. To institute excellence at work and to achieve a competitive edge in the marketplace, Voltas has made the Tata Business Excellence Model (TBEM) a way of life in all activities. TBEM offers the best way to improve business performance, bringing about a common platform for people to share their knowledge, follow the best business practices and pursue excellence across all

(D) Corporate Social Responsibility At Voltas Ltd.

(a) Environmental Initiatives – A Green Mission Development - At Voltas

functions.” Claims the Voltas Chairman Mr Hussain.

Companies association with brand TATA has bring in the code of conduct for the company being clearly spelled out as per the principles laid down for “TATA” group of companies. At each level of organization a “TATA” code of conduct (TCOC) have been clearly spelled out and company stake holders are expected to adhere to that code of conduct strictly.

(C) Ethics At Voltas Ltd.

The Ethics Counselor, Officers and Ethics Committee promote and facilitate ethical behavior within the Company, and with all agencies or business partners (including but not limited to customers and vendors) in their dealings with the Company. The policy of ethics is followed at all branches, manufacturing units and other locations, overseen by Location Ethics Counselors. Location-level initiatives include:

- Periodically conducting both formal and informal sessions on the TCOC
- Inculcating Voltas’ ethical values among suppliers, vendors and contractors
- Broadening the perception of the TCOC beyond a set of dos and don’ts
- Encouraging employees to think beyond normal solutions

(E) Financial Governance at Voltas Ltd.

Snap shot of the financial Governance and growth of the company in the last five years of Voltas Ltd has been displayed here in Table - I.



Voltas has developed a ‘Green Mission’ in line with their commitment to environment as follows

- We minimize wasteful energy consumption in our branded products
- We form representations and alliances with global technology leaders who also follow a Green path
- We offer -- and encourage the use of -- technologies that purify the air, lower energy costs, and purify polluted water and industrial/urban effluents. For specifics, read about Variable Refrigerant Flow, Vapour Absorption Machines, engineered ozone systems, water management, Vertis Star-Rated ACs, 'green' building projects.
- Finally, we follow the most stringent practices of eco-friendliness, sustainability and safety in our manufacturing operations.

Financial Performance Snap-Shot

Table – I (Financial Snap-shot Voltas)

Financial Performance	March 2005	March 2006	March 2007	March 2008	March 2009	March 2010
Total Income (Rs.Crore)	1441.14	1904.18	2450.78	3086.17	4070.25	4565.08
Operating Profit (Rs. Crore)	52.62	117.9	155.1	277.6	297.95	455.46
Profit before tax	57.66	91.69	227.9	307.5	367.33	485.64
Net Profit (Rs. Crore)	50.41	70.49	186.08	208.37	254.54	384.56
Operating Margin	3.7%	6.19%	6.33%	9%	13.6%	10%
Earnings/ share (Face Value = Rs1) (Rs.)	15.2	21.3	5.62	6.32	7.63	11.51
Equity /share (Rs) Face Value Rs. 1/ Each	22.03	16.27	11.5	72.96	58.48	NA

(Source : Financial Reports M/s Voltas Limited)

Highlights of the Financial Governance

- Audited financial results are declared every quarter end as per the

guidelines and are being analyzed and published time to time. Annual



general meetings with shareholders takes place regularly.

- All the data are declared along with analysis and are accessible to the shareholders time to time.
- Company and the board of directors are sensitive, towards financial performance (Income has gone up from Rs.1441 Crore to Rs. 4565 Crore in last 6 years and Net profit have gone up to Rs. 52 Crore from Rs. 384.0 Crore)
- Company declares dividends and EPS time to time.

Diagram 1 below represents the interlinkage between CSR, CG and BE at Voltas Ltd. As informed by the Voltas leadership, at Voltas they priorities and build the Business Strategy keeping "Business Ethics" and "TATA Values" at the core center. Governance is integrated part of the business ethics. CSR and CG are independent of each other, however their central philosophy is on the laid down principle of Business Ethics. Entire business need to perform with Ethical standard defined by the "TATA" group of companies and CSR and CG follows the same.

(6) Interlink of Business Ethics, Corporate Governance and CSR at Voltas

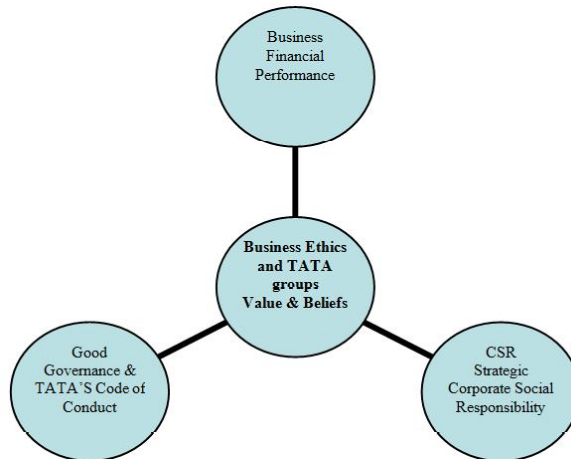


Diagram 1 : Inter linkage of CG CSR and Business Ethics at Voltas Ltd.

Conclusion

There are two dimensions of enterprise governance— conformance and performance. In general, the conformance dimension takes an historic view while the performance view is forward-looking. Conformance feeds directly to accountability (where Corporate

Governance and Financial Governance plays a main role) and Performance feeds directly to the value creation (Strategic Holistic Value Creation.). In most of the organizations unlike in the case of the conformance dimension, the performance dimension lacks a formal board oversight mechanism, and it is recommended to



bridge this gap. It is the recommendation of the researchers to bridge the gap by 'strategic score card' which will be helping the board of directors ensure that all the aspects of the strategic process have been completed thoroughly. Voltas Ltd. Inclusive performance and conformance approach of the enterprise governance and the steps taken to build the ethical company as well as ethical brand has played a main role in the growth development and sustainability of the company. Companies financial performance reports a strong corporate governance and conformance approach and companies efforts towards building ethical brand with 'Green Mission' makes company strong on the value creation also. It is indeed necessary for the organizations to go beyond corporate governance and have enterprise governance in to the today's competitive business environment. Study reveals that at Voltas Ltd CSR and CG are completely independent activities , however they are centrally driven by the "ethical values and beliefs" of the company. All three Business strategy , Corporate Governance and CSR though they are independent of each other and have been functioning differently , but all three are centrally linked with the Business Ethics – Values and Beliefs of "TATAs Business Ethics Codes". Corporate Governance also has a specified "Code of Conduct" defined as "TATA's code of conduct".

References:

1. http://en.wikipedia.org/wiki/2G_spectrum_scam
2. Goswami O. (2008) " For-God-Sake-Go" , Business world – December , 2008
<http://www.businessworld.in/index.php/Columns/For-Gods-Sake-Go.html>
3. Luck, D.J. and Rubin, R.S. (1987). 'Marketing Research' , Seventh Edition, Prentice - Hall.
4. Cadbury, Adrian, Report of the Committee on the Financial Aspects of Corporate Governance, Gee, London, December, 1992, p. 15
5. Bowen, William G., Inside the Boardroom: Governance by Directors and Trustees, John Wiley & Sons, 1994, ISBN 0-471-02501-1
6. Tricker, Adrian, Essentials for Board Directors: An A-Z Guide, Bloomberg Press, New York, 2009, ISBN 978-1-57660-354-3
7. "OECD Princiles of Corporate Governance, 2004". OECD. Retrieved 2011-07-20.
8. Spotlight on Governance, Stacey Hamaker, Information Systems Control Journal, Volume 1, 2003
www.shamrock-technologies.com/Journal_article2.pdf
9. CIMA Discussion Paper on Enterprise Governance : 2010.
10. CIMA Discussion Paper on Enterprise Governance : 2010.
11. <http://www.voltas.com/home>
12. <http://www.voltas.com/corporatesocialresponsibility>
13. <http://www.voltas.com/corporatesocialresponsibility/codeofconduct>.
14. Financial Reports Voltas Ltd. 2006
15. Financial Reports Voltas Ltd. 2007
16. Financial Reports Voltas Ltd. 2008
17. Financial Reports Voltas Ltd. 2009