

**NCRD's Sterling Institute of Management Studies,
Nerul, Navi Mumbai**

TERM END EXAMINATION MMS SEM IV APRIL 2014

Sub: - Business Ethics & Corporate Governance

Date: 9/04/2014

Time: 10.30 am to 1.30 pm

Day: Wednesday

Marks: 60 Marks

Roll No:

Instructions: Section I is compulsory. (1 Question x 20 Marks = Total 20 Marks)

Section II - Attempt any two. (2 Questions x 10 Marks = Total 20 Marks)

Section III - Attempt any four. (4 Questions x 5 Marks = Total 20 Marks)

Section I

Q.1 Read the attached case and answers the questions given at the end.

Section II

Q.2 Read the article & answers the question given below.

SEBI to issue details of corporate governance norms

Market regulator SEBI will soon come out with a detailed framework for the implementation of new corporate governance norms that pertain to protecting whistle-blowers, having orderly succession plans and keeping at least one woman director on company boards. A circular with regard to detailed corporate governance norms for listed companies is in the process of being issued, official sources said. The board of Securities and Exchange Board of India last month approved a proposal to amend the Listing Agreement with respect to these norms for listed companies. The clearance follows months-long discussion among various stakeholders on draft regulations released last year. The SEBI board was informed about the status of new norms at its meeting yesterday. They will take effect for all listed companies from October 1, 2014.

Every listed company will need to have at least one woman director on the board. Also, boards will have to adopt a policy on succession planning. The companies would also need to adopt a whistle-blower policy for employees. That apart, the norms seek to check all related party transactions with entities linked to promoters and directors. Besides, the number of directorship a person can hold on

company boards would be capped, along with various other measures to safeguard the interest of minority shareholders.

The norms also provide for greater oversight by minority shareholders and independent directors for checking any unjustifiable payments to related parties. The new regulations seek to align the existing SEBI regulations with the new Companies Act and will soon be incorporated into the listing agreement for implementation. Meanwhile, CNBC TV 18 quoted SEBI Chairman U K Sinha as saying that the area of corporate governance remains an issue in India and more work needs to be done to improve standards.

"Shareholders are increasingly becoming more active and corporate authority is being challenged," he said in a conference organized by the International Bar Association. He said public authorities, including regulators were facing 'comprehensive evaluation'. "SEBI is trying to follow the primary legal mandate of investor protection. Our enforcement actions are due to close scrutiny and feedback from stakeholders," Sinha said, adding that more work was required in the field of surveillance

Question : From above article and comments of SEBI Chairman do you feel that good Corporate Governance practices are in nascent state in India and more room available for improvement?

Q.3 Write short note on Birla Committee Report.

Q.4 Write in short about Ethical Issues in International Business

Section III

Q.5 Define business ethics. Why it is essential to follow ethical practices in business?

Q.6 Write the difference between Ethics and value.

Q.7 Can consumer or business partner force companies to follow ethical practices in manufacturing to product or rendering services discuss in brief by sighting national and international example

Q.8 What is Corporate Governance & reasons of implementation of corporate governance in India?

Q.9 Write short note on Gandhian Philosophy of Wealth Management.

Q.10 Write in short about Role & Responsibilities of Independent Directors

an arrangement when MSIL has the necessary capital raising ability to make investments. It looks like the SMC subsidiary will enjoy the benefits of no business risk with assured vehicle off take by MSIL and assured return on investments, while MSIL will bear the business risk of cyclical vehicle sales, competitive pressures, pricing and cost pressures. Inventory levels, car pricing and discounts, cost increases, dealer network management, post-sale servicing, brand management would all be risks that will continue to be borne by MSIL, while the 100% SMC subsidiary enjoys an assured vehicular offtake at pre-determined prices.

What can Minority Shareholders of MSIL Do?

Minority shareholders should oppose this move, and register a complaint with SEBI. They will have to be given a chance to vote on the contractual arrangements with the 100% subsidiary as the contracts are related party transactions. Suzuki as the promoter would not get to vote on such related party transaction. Shareholders should oppose and vote against such contracts. Shareholders should also write to the Foreign Investment Promotion Board (FIPB) opposing any approval for setting up the 100% subsidiary. A Pliable Board The Board of Directors and independent directors, in particular, are accountable for approving such a transaction, and not safeguarding the interests of minority shareholders. Minority shareholders of Maruti should be aggrieved as they continue to get short-changed by the company. The company lacks an independent chairman. Also, independent directors constitute only 33% of the Board. Although the composition satisfies the requirements of Clause 49 of the listing agreement, the outnumbering of independent directors by non independent directors may be one of the reasons for the Board to lack true independence in thinking.

History of Shortchanging Minority Shareholders

On May 5th 2010, the Government of India amended the Foreign Exchange Management (Current Account Transactions) Rules, 2000, omitting the requirement for prior approval from Ministry of Commerce and Industry for royalty payments to technical collaborators exceeding 5% of domestic sales and 8% of export sales. On May 13th 2010, RBI correspondingly issued a notification permitting banks to release foreign exchange for making such royalty payments. Thus, regulatory requirements that capped royalty payments to foreign collaborators had been removed. In July 2010, MSIL was the first multinational company that made use of this relaxation and disclosed that it had paid 5.1% of its sales for the quarter ended June 30, 2010 as royalty to its parent Suzuki Motor Corporation of Japan. Thus, while sales increased by 27% year-on-year for the quarter, it was accompanied by a 20% fall in net profit year-on-year. To put the quantum of royalty payments into perspective, the royalty amounted to almost 64% of Maruti's pre-tax profit or 88% of its post-tax profit. In July 2010, Maruti made a post facto disclosure of the royalty payments and the stock price dropped sharply by 12% on the day after the Q1FY11 results. Now in January 2014, yet again the Board of MSIL has demonstrated subservience to the dominant shareholder Suzuki. In agreeing to a proposal by Suzuki Motor Corporation to provide assistance and expansion at a 100% subsidiary, the Board of MSIL has not demonstrated independent thinking and doing what is right for MSIL and its shareholders.

Questions:

- a. Greed is universal phenomenon be it MNC or Domestic company. Do you think MSIL board's decision is more favorable to promoter Suzuki Co. and Japanese share holder and how. (Answer this question by considering strategic location of plant, future anticipated benefits and strategic concepts).
- b. Explain how this decision will impact minority shareholders (Other than promoters) of MSIL.

CORPORATE GOVERNANCE ALERT

MARUTI SUZUKI INDIA LIMITED ISSUE: 100% Subsidiary of Suzuki Motors Corporation

Maruti Suzuki India Limited (MSIL) made an announcement to the stock exchanges on January 28th 2014 regarding an arrangement with the promoter – Suzuki Motor Corporation (SMC).

As per the press release, the company had purchased 640 acres of land in Becharaji and 550 acres in Vithalapur in Mehsana district of Gujarat in 2011 for expansion of manufacturing facilities. However, after the purchase of land, expansion plans were kept on hold due to market conditions.

Now, acting on a proposal sent by SMC, the Board of MSIL has agreed to an arrangement as per which expansion and production in Gujarat will be undertaken by a 100% subsidiary of SMC. The subsidiary will produce vehicles in accordance with requirements of MSIL and the vehicles will be sold only to MSIL. The price of the vehicles to MSIL would include cost of production by the 100% subsidiary and adequate cash to cover incremental capital expenditure requirements. The return on this investment for SMC would be realized only through the growth and expansion of MSIL's business. The subsidiary will always remain a 100% subsidiary of SMC.

Affected Party - Minority Shareholders Minority shareholders hold 43.79% of shares of Maruti Suzuki India Limited. Some of the prominent shareholders holding more than 1% of the shares as of Dec 31, 2013 are:

Sr. No	Name of Shareholder	% Holding
1	Life Insurance Corporation of India	6.93
2	Credit Suisse (Singapore) Limited	2.26
3	ICICI Prudential Life Insurance Company Ltd	1.74
4	HSBC Global Investment Funds	1.16
5	Government Pension Fund Global	1.03
	Total	13.13

A very pliable Board of Maruti Suzuki India Limited (MSIL) has done grave injustice to minority shareholders of MSIL. The Board has agreed to enter into contractual arrangements for expansion with a 100% subsidiary of Suzuki Motor Corporation, the dominant shareholder of MSIL. This is not a simple contract manufacturing arrangement as the dominant shareholder of MSIL is "the contract manufacturer" and can dictate the terms of any contractual arrangement. Various contractual arrangements that give scope for conflicts of interest are:

- Transfer pricing of vehicles from 100% subsidiary to MSIL. The cost of production and adequate cash to recover the capital expenditure would be returned to the 100% subsidiary.
- Lease rental on land, as land continues to be on the books of MSIL.
- All assistance in executing the project to be provided by MSIL.
- Ownership and development of newer products and brands.
- Vehicular offtake.

The positives stated by the company that MSIL benefits from the interest expense of not investing is not tenable as MSIL is a net cashflow positive company, and incremental cash generated would be better utilized for capital investment for this expansion. There is no compelling business logic for such