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A STUDY ON IMPLEMENTATION OF BUSINESS ETHICS TO ENSURE GOOD CORPORATE GOVERNANCE AT NESTLE (INDIA)

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ABSTRACT :

Any successful management should have clarity of vision, proper plan of action and execution of those plans of action. The two major reasons for a corporate failure include Greed and Excess Leverage. In either of situations Governance and Ethics plays a major role. Pressure from management to perform more, unrealistic deadlines and objectives put forth by management, increase in competition, economic greed, media provided information to inexperienced businessmen to do unethical business, employees' high salary expectations, directors' high remuneration expectation, poor leadership contributes to unethical conduct by business organization.

The principles underlying a good corporate governance include ethical approach - culture, society; organisational paradigm, balanced objectives - congruence of goals of all interested *parties, each party plays his part - roles of key players: owners/directors/staff, decision-making process in place - reflecting the first three principles and giving due weight to all stakeholders, equal concern for all stakeholders albeit some have greater weight than others, accountability and transparency - to all stakeholders.*

An attempt has been made in this paper to assess the implementation of business ethics to ensure good corporate governance and whether there exists any Corporate Governance at Nestle (India) Ltd.

Keywords : *Corporate Governance, Ethics, accountability, transparency*

Research Paper :

STATEMENT OF THE PROBLEM :

In this competitive world one aspect which sets a company apart from others is its way of functioning towards building up ethical standards. Business must be mainly motivated to achieve ethical standards which go beyond purely profit based motivations. Research suggests that adherence to ethical standards will minimize the chances of getting into trouble. Taking the case of Nestle's maggi product encountered problems on account of the presence of high level of MSG in the product. The trouble started when the Food Safety And Drug Administration (FSDA) Lucknow found a few samples to have led beyond permissible limits and the presence of Monosodium Glutamate (MSG) even though the packet says 'No MSG'. Nestle India turned around and claimed that they do not add any MSG to their product and the kind that was found was natural MSG which is mentioned on the packet.

PURPOSE OF THE STUDY :

To assess the implementation and improvisation in Corporate Governance practices and ethical standards in Nestle India

OBJECTIVES OF THE STUDY :

- To assess about the implementation of business ethics in Nestle
- To assess the improvisation in corporate governance practices and ethical standards of Nestle India over a period of 3 years
- To offer suggestions for ensuring good corporate governance and ethical standards in Nestle India

SCOPE OF THE STUDY :

The area of study is limited to Nestle India.

METHODOLOGY :

Data has been collected through secondary sources only

Secondary Data : Data has been gathered by visiting websites regarding Corporate Governance and Ethics and website of Nestle.

LIMITATIONS OF THE STUDY :

Reliance on Secondary data is the major limitation of this study.

INTRODUCTION :

1.1 CORPORATE GOVERNANCE

Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term. Stakeholders in this case would include everyone ranging from the board of directors, management, shareholders to customers, employees and society. The management of the company hence assumes the role of a trustee for all the others.

Corporate governance is based on principles such as conducting the business with all integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner. Another point which is highlighted in the SEBI report on corporate governance is the need for those in control to be able to distinguish between what are personal and corporate funds while managing a company.

Fundamentally, there is a level of confidence that is associated with a company that is known to have good corporate governance. The presence of an active group of independent directors on the board contributes a great deal towards ensuring confidence in the market. Corporate governance is known to be one of the criteria that foreign institutional investors dare increasingly depending on when deciding on which companies to invest in. It is also known to have a positive influence on the share price of the company. Having a clean image on the corporate governance front could also make it easier for companies to source capital at more reasonable costs. Unfortunately, corporate governance often becomes the centre of discussion only after the exposure of a large scam.

In IT sector corporate governance has been debated after the corporate fraud by Satyam founder and Chairman Ramalinga Raju. In fact, trouble started brewing at Satyam around December 16 when Satyam announced its decision to buy stakes in Maytas Properties and Infrastructure for $1.3 billion. The deal was soon called off owing to major discontentment on the part of shareholders and plummeting share-price. However, in what has been seen as one of the largest corporate frauds in India, Raju confessed that the profits in the Satyam books had been inflated and that the cash reserve with the company was minimal. Ironically, Satyam had received the Golden Peacock Global Award for Excellence in Corporate Governance in September 2008 but was stripped of it soon after Raju's confession.

In food and beverage industry Corporate Governance has been debated after pesticide carbofuran were found in Pepsi, now it is the turn of Nestle India where MSG content found in Maggi.

1.2 CORPORATE GOVERNANCE AT NESTLE :

After studying 3 years data pertaining to Corporate Governance at Nestle the following data was arrived:

- Nestle followed SIX swiss Exchange Directive on Information, they use Swiss code of best practice for Corporate Governance
- All 3 years report comply with Internal Financial Reporting Standards (IFRS) by International Accounting Standard Board (IASB)
- In 2012 Share capital was reduced 3 times in last 3 financial years because of Buy back resulting in the cancellation it was reduced 2 times in 2013 and once in 2014.
- All the 3 years report showed that the total share capital was 3,22,48,00,000 shares and no profit sharing certificate and no participation certificate.
- There were no convertible bonds and only Nestle' MSOP was present
- There are 14 members on board for all the 3 years and except the chairman all are independent directors who are non executive members. There are 13 members in Executive Board.
- Cross involvement of 3 BOD s present where one of the BOD works for Loreal
- All the directors are appointed by election and the term of BOD is 3 years. After 3 years BOD are re-eligible.
- Different committees like compensation committee, nomination committee, audit committee is present.
- In all the 3 years 8 to 9 BOD meeting, Compensation and Corporate Governance Meeting, Nomination meeting and Audit Meeting were conducted with 99% attendance.
- The company paid Audit fees of 43 million Swiss Franks and 14 million Additional fees in 2012; 39 million Audit fees and 9 million Additional Fees in 2013 and 40 million and 20 million Additional fees in 2014.

The company is maintaining standard Corporate Governance principles for the past 3 years.

1.3 ETHICS & CODE OF CONDUCT :

Ethics concern an individual's moral judgements about right and wrong. Decisions taken within an organisation may be made by individuals or groups, but whoever makes them will be influenced by the culture of the company. The decision to behave ethically is a moral one; employees must decide what they think is the right course of action. This may involve rejecting the route that would lead to the biggest short-term profit. Ethical behaviour and corporate social responsibility can bring significant benefits to a business. For example, they may:

- Attract customers to the firm's products, thereby boosting sales and profits
- make employees want to stay with the business, reduce labour turnover and therefore increase productivity
- attract more employees wanting to work for the business, reduce recruitment costs and enable the company to get the most talented employees
- Attract investors and keep the company's share price high, thereby protecting the business from takeover.
- Unethical behaviour or a lack of corporate social responsibility, by comparison, may damage a firm's reputation and make it less appealing to stakeholders. Profits could fall as a result.

1.4 CODE OF CONDUCT AT NESTLE :

Referring to the code of conduct published in company's website the following are the ethical practices followed at nestle:

- Nestle's business practices have been governed by integrity honesty and fair dealing and full compliance with all applicable laws.
- It avoids any conduct that could damage or risk its reputation and act legally and honestly
- They put company's interest ahead of personal interests, and act in the best interest of Nestle.
- Hiring decisions are fair and objective and employees of Nestle shall not compete with the company.
- They respect and follow insider trading rules when buying and selling Nestle Securities.
- They believe in the importance of free competition and value and protect confidential information of company and respect others' confidential information.
- They insist on honesty and respect company's assets and property and condemn any form of bribery and corruption.

- They embrace diversity and respect the personal dignity of fellow employees.

Expectation from Food industry in Corporate Governance and Ethics

Often a company's behaviour is the reflection of its values. If it has to develop positive perception, trust and confidence in the minds of its consumers, this valued behaviour should be authenticated and communicated. A good and active Public Relations is required whenever company's reputation is endangered.

- Satisfying the stakeholders: stake holders demand proof that what you say is what you do. Hence documentation and communication of past, present and future are a must. True transparency often requires an independent third party to confirm a correct and balanced communication between the company and stake holders. If you are able to be transparent and able to communicate your actions and real value can be achieved through increased financial values, greater reputation to company's brand, market and so on.
- Improve and demonstrate your commitment, by being socially responsible.
- Equality and indiscrimination
- Free market economics (letting markets forces decide)
- Dishonesty, withholding information, distortion of facts
- Misleading o confusing communications or positioning or advertising
- Excessive profit, greed
- Anything liable to harm or endanger people.

MAGGI CASE :

Nestle is not new to controversies. Right from baby food controversy to bottled water controversy to Horsemeat in Nestle Beef products to child labour violation. Now it faces storm again over excessive lead content in its noodles. The controversy broke out on 30th April with authorities in Lucknow asking the company to recall Maggi noodles after tests revealed excessive lead content and MSG which led to ban by different states all over India.

CONCLUSION :

Use of harmful ingredients, refusal to regret the mistake in a public statement and Celebrity endorsements landed Nestle in the magi mess. Nestle has taken liberties with the quality issue in India. MNCs are more likely to be targeted than a domestic seller of a similar local product as MNCs have lower standards for developing countries while higher standards while meeting the needs of developed countries. Recall of certain batches and corrective measures probably would have been some of the damage control measures which could have been adopted.

SUGGESTIONS :

In spite of standard Corporate Governance practices and principles Nestle failed in handling the crisis which arose out of defective product and which created in the minds of consumers that instant noodle is harmful for consumption. It drastically failed to reach out to consumers and disclose what went wrong resulting in crores of money lost by destroying lots of produced product. When they claim that there is no MSG present, what was the purpose of destroying the product raising a question in the minds of consumers: Is instant noodles really bad?

Absence of communication by Nestle in time is what caused such a big loss to well-reputed company.

It has been happening over two decades; should some authority which monitors quality be held responsible for being negligent?

The ones should really be on the Government to have responsible agencies which set standards and ensure their compliance on an ongoing basis.

To understand the food we buy, we need to first look at what goes into it.

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