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Introduction

This is a corporate social responsibility and governance assignment, which is part fulfilment of the award of Diploma in Accounting and Finance level 7. The company I studied is; **"Jeis Construction and Property Development and Maintenance Ltd".** The company is on-going concern and it's into; roads and property construction and maintenance with approximately seventy million pounds annual turnover. It has long-term contacts with local authorities all over the country (UK) as well as subcontracting with big national and international construction companies in the UK; and has total permanent workforce of one thousand. The essay is presented by discussing six sub-issues relevant to the company and they are as follows:

1. An Indication and assessment of key Laws and Practice on Both a National and International context

The bankruptcies of well-known companies sent major shock waves across the world, resulting stricter regulations than before. This served as a red alert to all the countries worldwide to concentrate more on how companies are run. Companies must have closer focus on regulatory compliance and corporate governance principles and be mindful of how they are influencing behavioural change in organisation. The high profile cases (such "WorldCom and Enron"), of corporate governance failure around the world let to vigorous reform in the already prevailing regulatory framework. Thus, the corporate governance and reporting requirements applicable to all companies significantly changed with the enactment and publications of series of laws, guidance on good practice in corporate governance, reports and code of principles of corporate governance.

For example, the UK commissioned a number of reports and guidance such as the Cadbury report (1992), the Hample report (1998) and guidance on good practice in corporate governance disclosure (2008). Equally, the USA enacted the SOX Act (2002), the EU commissioned the Euro shareholders corporate guideline (2002) and

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the OECD (2004) produced the principles of corporate governance and also the UK's Company Act (2006) added sections on corporate governance.

However, one of the most critical inputs to this monitoring process is accurate information and disclosure of facts on the company's operating performances in a given period. If a board of directors has inaccurate information, it cannot do its job. While the SOX Act (2002) for example contains many provisions, the overall interest of the legislation, guidance and, or codes was to improve the accuracy of information given to both the board and to shareholders. The SOX Act as well as other regulatory frameworks attempted to achieve this goal in there ways: 1). By overhauling incompetence and independence in the audit process. 2). By stiffing penalties for providing false information. 3). By forcing companies to validate their internal financial control processes.

For example, many of the problems at "Enron, WorldCom, and Northern Rock" and elsewhere in the world was that management had hidden facts from boards and shareholders until it was too late. In the wake of all these scandals, it was felt that the accounting statements of these companies, while often remain true to the later of the GAAP, did not present accurate pictures of the financial health of the company.

On reflection, the company I studied for example **"Jeis Construction and Property Development Ltd",** has a number of lapses with the laws and guidance/code of corporate governance such as disclosure issues, conflict of interest, poor records keeping and absence of standard codes (see details on q3 below). The management is more or less oblivion of the requirements of the laws and regulatory frameworks therefore, seen as opponent of corporate governance and believe that shareholders can and should take care of themselves. Unfortunately, shareholders often cannot exercise the control necessary to solve agency problems that they could not have anticipated when the firm was first founded. The company's governance structure, while many have been sensible when the firm was a small company founded primarily by the founder, may no longer be appropriate for a large.

Although, there are a number of laws and guidance of corporate governance scattered all over the globe yet, they have universal principles in common which are as follows:

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1. Equitable treatment of shareholders: All shareholders must be treated fairly, including minority and foreign shareholders..
2. The role of shareholders: The corporate governance frameworks should recognise the rights of all stakeholders, establish by laws and regulations of the land.
3. Disclosure and transparency: The corporate governance frameworks should ensure that truly and accurate disclosure is made on all material regarding the organisation.
4. Audit: An annual audit should be constructed by an independent competent and qualified auditor in order to provide an external and objective assurance to the board and shareholders.
5. The rights of the board: The corporate governance frameworks should ensure the strategic guidance of the company, the effective monitoring of management and the board's accountability to the company and its shareholders.

The legislation and guidance/code of corporate governance are generally good but, it has some notable unintended consequences in practice. The power it gives to audit firms over their corporate clients allows them to interpret the laws to their own advantages and thereby increases the work necessary to comply with guidance and regulatory frameworks. Also, the regulations impose unnecessary costs upon the companies to abide by and practice within the laws, this has some implications on the profits of the organisation (Sharma 2015; Berk and Demarzo 2010; Rossouw and Sison 2010).

2. An Explanation of the Importance of Corporate Governance and Ethical Behaviour

Corporate governance is the broader views of corporate governance that focuses on relationships between a company and broader range of their stakeholders. It is based on the satisfaction all kinds of stakeholders (shareholders, employees, creditors and the wider community), corporate social responsibilities and ethics.

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Corporate governance is about how an organisation is managed and that embraces; commitment to values, ethical business conducts and exercises of powers in a responsible way. Sharma (2015) however, outlines the benefits and importance of good corporate governance, which includes: 1) Increase in revenue and growth. 2). Increase in profitability and return on investment. 3). Increase in market shares, provides stability and growth of the company. 4). Building brand image of the company. 5). Building confidence amongst stakeholders.

In hindsight, corporate governance is an integral part of business ethics, since the morality of the board and its directors does not and should abide by the organisational policies and procedures that is based on ethical principles. Berk and DeMarzo (2010) explain that a number of high profile corporate scandals have occurred – manifesting poor corporate governance and other lapse of business ethics, which include; greed, lying and misrepresentations of facts, breach of trust in fiduciary relationships by management, conflict of interest, a lack of transparency, insider dealing and fraud.

On reflection, the principal characteristics of effective corporate governance and ethical behaviour are; 1). Transparency of information and this includes; disclosure of relevant financial and operational information and internal processes of management oversight and control. 2). Protection and enforcement of the rights and privileges of all stakeholders. Sharma (2015) considers corporate governance and ethical behaviour as entire system with codes, values and structures to control the goals and good performance of companies and also as a method by which to evaluate the working of an organisation in terms of how rights of various parties are defined and distributed.

Similarly, Berk and DeMarzo (2010) as well as Rossouw and Sison (2010) advance that corporate governance and ethical practice is a synonym for good business ethics, which propagates ethical behaviour. A company that is well governed in every aspect of internationally accepted corporate governance norms would put in place the following ethical behaviour and practice:

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1. Act honestly and integrity, avoiding actual or apparent conflict of interest in personal and professional practice.
2. Follow transparency and provide information that is accurate, complete, objective, and relevant, timely and understandable to ensure full, fair and timely understandable disclosure in financial reporting statements and documents that companies file with or submit to regulators.
3. Comply with the laws of the land, rules and regulations set forth by different layers of government and those of the regulatory bodies concerned with the affairs of the company
4. Exhibits trustworthiness, create faith among the stakeholders and act in good faith, responsibly with due care, competence and diligence without misrepresenting material facts or allowing one's judgement to be subordinated
5. Protect the confidentiality of information provided at the workplace and not to disclose it to any one unless authorised or legally bound to do so.

Equally, Rossouw and Sison (2010) as well as Kothari and Barons (2010) contend that corporate governance and ethical practice is intended to mitigate the conflict of interest that results from separation of ownership (agency theory) and control without unduly burdening managers with the risk of the firm. The system attempts to align those interests by providing incentives for taking the right actions and punishments for perpetrators who may disregard ethical principles and are takes wrong actions. Therefore, the system of control, regulation and incentive is designed to prevent fraud.

However, Sharma (2015) concludes that, there are certainly those who oppose the on-going process of corporate governance and ethical behaviour's reforms. He stated that many company directors opposes the loss of individual decision making powers, which comes from the presence of non-executive directors and independent directors on their board. Some reflect the growing pressure to communicate their strategies and policies to their primary institutional investors. Nonetheless, there is a growing perception in the financial markets that good corporate governance and ethical behaviour is associated with competitive advantage and longevity of the business.

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3. An Evaluation of the Ethical Issues arising in Relation to Corporate Activities and a Review of any Solutions to Overcome These Issues

A business is considered to be ethical only if it tries to reach trade-off between its economic objectives and its social obligations such as obligations to the society where it exists and operates; its people who it pursues economic goals; its environment from where it takes its resources and the likes. Although, business ethics focus on what is good and bad; based on moral grounds whereas, corporate social responsibility focuses on a corporate' social responsibility and environmental contributions.

However, with regard to my studied company **"Jeis Construction and Property Development Ltd",** my observations revealed that there are many ethical issues that frustrate the quest for good ethical practice and corporate governance in the firm. Prominent on the issues of ethics and corporate governance are as follows:

Lacking transparency; The Company appear to lack transparencies and business discipline to effectively abided by regulatory environment and code of practice, which has deterred it from listing on the stock exchange. The organisation's records keeping and disclosure of relevant information is desirable and information is not adequately recorded and communicated to stakeholders.

Lacking effective regulatory and instructional frameworks: The firm has sketchy manuals for instructional guide and logs keeping, which counter the ethos of ethical behaviour and corporate social responsibility. These documents are meant to ensure corporate responsibility that would help the enforcement of standards and good corporate governance and ethical behaviour. The firm fear that the greater scrutiny of the affairs of the company, activities and disclosure demands that inevitably go along with being listed can be exploited by the government and competitions.

Poor rewards and recognition: There are inconsistent incentives programme for workers in the firm and, or potential recruits to join the firm. This has raised ethical and corporate responsibility; given that remuneration and staff welfare are not

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comparable to national or regional pay scales, which can stimulate the workforce. Their hard work is not recognised in term of promotion and career opportunities in the firm. There are little or no prospects for training courses that could enhance employees' continuous professional development (CPD).

Conflict of interest: The firm set poor examples for good governance and ethical practice and the board of directors do not display either the competence and, or independence that reflect good ethical behaviour. Not only are the board is not properly structured, but also the board and senior managers appointment are made by the chief executive officer (CEO) purely based on chronism and family connections.

Absence of standard code and guideline: the CEO is the supreme power in the company and the functioning of the directors may only be adopted for "name sake" rather than the spirit of actual disposal of authority. In addition the board of directors are liberated from adopting the recommendations of management except in few cases where the board has to satisfy in writing that the proposal was declined in the larger interest of the company.

On reflection, business ethics and good corporate governance play important role in business success, abiding by ethical behaviour not only enhances business reputation but also paves way for growth and development. Various arguments such as Rossouw and Sison (2010), Scharma (2015) and Pike and Neale (2010) support good ethical and corporate governance. They advocate solutions to minimise the impact of poor ethical behaviour and corporate governance as follows:

Code of ethics: A code should embody with business standards and values such as trust, respect and honesty. A good code builds in ethics in the long-term goal for the organisation, stipulates operational process, guides and monitors the behaviour of the managers and employees. It brings the company's values to the knowledge of outside stakeholders and also, inspires the employees giving them pride in working for the company.

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Transparency and disclosures: Business ethic incorporates issues of transparency, accountability, honesty and trust. All these are interlinked and without a proper cohesion among these interlinked factors, it is difficult to survive in expanding business world.

Building long-term relationships: A continuous nurturing of ethical conduct and culture enthuse stakeholders and building a reputation of socially responsible organisation. The track record to follow such behaviour is vital for deploying long-term relationships with employees, investors and customers.

Sustainability: The purpose of ethics is to sustain a good corporate social responsibility and profitability of the company; this enhances the stakeholders' support for the company which helps to preserve the company's future. This perspective can improve the employees' work life balance by making the work place more fun and challenging. It can heighten relationships with stakeholders and can instil a more positive mid-set that forester creativity and innovation.

Profits maximisation: Good business ethics and corporate social responsibilities maximises long-term profitability of the company. Therefore, ethical business tends to make much profit than others. The reason for this is that customers of business, which adopt ethical measures are loyal and satisfy with the services and product offered by such business.

Management credibility with employees: Business ethics and good corporate governance provides a common language for aligning a company's leadership and its people. Ethics when perceived by employees as genuine, that creates common goals, value and language.

4. An Identification and Assessment of the Impact of financial reporting on the Stakeholders

Inaccurate financial reporting may be the result of carelessness, lack of information, misinterpreting data and, or dishonest employees. Whatever the cause, the results can range from inconvenience to major problems. The entity's management need to be conscious of the potential problems and be sure that accounting is managed correctly. Some of those stakeholders may have likely superior knowledge in assessing the quality of financial reporting statements and can impose cost on the

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firm, if they consider the financial statements are of low quality. Also any detection by the board of directors or the firms auditors that management produced financial statements of low quality, may result in loss of trust between those parties and the firm's management. This may then impose cost on the management of the company and profitability of the firm as well as return on investment whilst the company is trying to correct inadequacies in the statements.

Costs: Financial reporting imposes costs; the benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs will usually be more quantitative that qualitative. In addition, the qualitative assessment of benefits and costs often will be incomplete. The costs of providing information include costs of collecting and processing the information, cost of verifying it and costs of disseminating it. Stakeholders incur the additional cost of analysis and interpretation of financial statements. Omission of decision – useful information also imposes costs, which includes; the cost that users of financial reports incur; to obtain or attempt to estimate needed information using incomplete data in the report or data available elsewhere.

Apparently, errors in financial reporting can be deceitful and potentially blindfolds stakeholder decision-making relating to their investment in the company. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial reporting does not comply with "International Financial Regulations Standards (IFRS 2005), if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position.

Materiality: Misrepresentation of information in the financial reporting can potentially derail the feasibility of the company and its entire stakeholders' investment and future earnings. Thus, information is material if its omission or misstatement could influence the decisions that the users make on the basis of an entity's financial information. Because materiality depends on the nature and amount of the item judged in the particular circumstances of its omission or misrepresentation. It is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material. When considering whether financial information is a faithful representation of what it purports to represent, it is important to take into

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account materiality because material omission or misstatements will result in information that is incomplete, biased or not free from errors.

Concerns of Imprecisions: For many stakeholders who are unable to engage independent accountant, inaccurate reporting may be difficult to flush out. The users/stakeholders may accept the reports on face value, which will alter the ability to monitor income and expenses as well as to budget accurately. Misjudging profit is damaging whether the figures and statements are fictitious or misrepresented in the financial reporting. However, if profit is reported too low, it will result in the firm being undervalued.

Stakeholders may be affected by inaccurate reporting, especially if they uncover the inaccuracies in the financial reporting statements for which were not disclosed. Defective reporting will hurt the company's credibility with creditor as well as potential investors, market and environment. On the other hand, if the company is up for sell, the unmasking of the inaccuracies by external auditors can render the company worthless as a result all stakeholders' investment might collapse.

5. An Identification of Principal Approaches of Governance

Arguably, even the proponents of good governance and ethical corporate behaviour such as Sharma (2010), Rossouw and Sison 2010) differ in opinion of what constitutes universally accepted approaches of governance. However, the national and international laws, guidance and codes of practice have outlined applicable principles and models of good governance (OECD 2004). Most principal approaches that should be adhered to in good governance are; transparency, accountability, responsibility, and probity.

The various aspects of governance such as the board's compliance to the laws and regulations, performance frameworks and functioning, reporting, disclosure and risk management are seen as instrumental in realising good governance. Thus, Sharma (2015) claims that good governance approaches have resulted to what he calls

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"corporate excellence" and that is achieved through; satisfied stakeholders, closeness to customers, productivity through people and value driven organisation.

Linking with good governance and approaches, Sharma (2015) as well as Berk and Demarzo (2010) highlight four different approaches to governance and they are as follows:

1. Normative approach: Normative and descriptive governance are two key branches of moral philosophy or ethics and each takes a different perspective. Thus, if every company follows these approaches, then there would be an automatic enhancement of overall social wellbeing as per its proponents.
2. Functional approach: A functional approach attempts to divide and apply the subject of business ethics and governance into separate functional areas such as accounting, finance, marketing or strategy.
3. Issues approach: This discusses and applies contemporary business issues like employer- employee relationships, customer relationship and societal relationship. These have the propensity to facilitate good governance and build sustainable future for the company.
4. Stakeholder approach: This attempt to analyse the subject of business ethics from a stakeholders perspectives based on the following: ownership, employees, consumers, supplies and government. Building on this relationship, all stakeholders would be endeavoured to remain loyal to the company in order to maximise investment and returns.

Besides these underlying approaches to good governance, there is a need for moral obligations that the board of directors and the company should abide by. High on the list of corporate governance are; obligations are insuring that the company; always acts on high ethical standards so that the reputation of the company is protected as well as respecting the rights of all stakeholders and particularly those of the minority shareholders. Therefore, this brought to life the duty of the board and the company to look after the safety and health of its employees becomes a priority (Rossouw and Sison 2010).

Rossouw and Sison (2010) expresses the fact that corporate governance codes provides some guidance on the process of managing and achieving effective corporate governance however, managing risks could go furthers rather than relying

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solely on codes. They suggest proponents to effective risk management approaches, which are as follows:

1. Identifying through stakeholders' engagement the perceptions and expectations that they have of the ethical and performance of the company.
2. Determining the ethical and governance value standards of the company and codifying it in a code of ethics and governance responsibilities.
3. Institutionalising the governance principles and ethical practice of the company on both the strategic and systems levels, this will form the basis through which the company would mitigate unethical or divergence from the company's practice.
4. Monitoring and evaluating compliance to the codes of good governance and ethics. This ensures quality assurance and control mechanism in management objective to governance.
5. Accounting and auditing ethical performance according to emerging global standards on principles of good governance and ethical behaviour on accounting and auditing.
6. Disclosing ethical performance to relevant stakeholders as and when appropriate.

Thus, to address poor corporate governance and unethical behaviour, the company must promote regular risk assessment, confidential reporting systems through which unethical or suspicious behaviour or divergence could be reported, the integration of ethical performance into existing performance appraisal system and integrity assessment as part of selection and promotion procedures.

Therefore, approaches to good governance is a perception that goes beyond the conventional rules of society by suggesting that what is moral must also come from what is a mature organisation with good moral character, which is deem a right approach. Society's rules provide a moral compos and then companies can transcend rules by applying their organisational virtue such as honesty and integrity.

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6. An Indication of Corporate Social responsibility (CSR)

Different people at different times, under different situations and circumstances have taken a different meaning of the word "corporate social responsibility". However, for clear understanding; CSR can be interpreted to mean; a duty of the company to take CSR activities because company and society are mutually interdependent on each other. The health, stability and prosperity of the communities are a matter of concern for the company. Companies are no longer those economic independent entities intended to earn profits which do not care for the general public. Therefore, there is a need to ensure that there is no social unrest and there are adequate provisions for health, education, literacy of the workforce and the wider community (Rossouw and Sison 2010).

Equally important to note is that corporate social responsibility is a balancing act in satisfying the company's stakeholders. By this assertion, it meant that all companies have both direct and indirect stakeholders. Direct stakeholders would include all employees, creditors, suppliers and shareholders. Indirect stakeholders would comprise communities living near the production units, customers and others whose livelihood could be influenced by the activities of the producing company. Thus, CSR takes into account each and very stakeholder and assume responsibility to improve their living standard by undertaking welfare programmes to create stable and social environment. In retrospect, adoption of effective CSR would enhance the company's sustainability. In light of these, business case for CSR will include the following:

1. Human resource: Corporate social responsibility can be an important aim to recruitment and retention of, particularly within the competitive skills and scares workforce. Potential recruits are increasing likely to ask questions about a firm's CSR policy during interviews.
2. Risk management: Managing risk is a central plank of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accident.
3. Brand differentiation: In crowded marketplace or institution, companies strive for quality, which can separate them from competition in the minds of consumers. Business service organisations can benefit from building a reputation for integrity and best practice.

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4. Diverting attention: companies which have existing reputational problems due to their core business activities may engage in high profile CSR programmes to draw attention away from their perceive negative impacts.

Similarly, the growing awareness of CSR among the public has compel companies to take serious look over their consequences or face the public campaigns and action against irresponsible behaviour. Therefore, companies are answerable to all the people associated directly or indirectly with the company. On that note, other drivers for CSR include:

- Economic considerations and access to capital
- Ethical considerations and Employee' motivation
- Innovation and learning as well as cost savings
- Risk management and strengthen supply relationship

In today's company's activities on the relationship of corporate social responsibility and corporate governance, some of the proponents such as Watson and Head (2004) and Pike and Neale (2010) as well as Sharma (2015) suggest that there is positive and negative relationship between them. Therefore, governance issues are outlined as follows:

- Governance criteria slows down decision making given competition in the market that requires prompt decision to maximise opportunities in the market
- Governance adds unnecessary layers of bureaucracy and red tapes, which could sometimes lead to loss of profits.
- Governance sometimes makes the running of the company unnecessarily difficult, hindering innovation and creativity.
- Governance promotes nil secrecy; and there is growing pressure to communicate their strategies and policies to all stakeholders.
- Human nature cannot be altered through legislation, checks and balances.

Nonetheless, corporate social responsibility and corporate governance are complementary in the shaping of the objectives' functions and constraints faced by companies. Therefore, an effective corporate governance system would prevent legal actions from stakeholders whilst effective socially responsible corporate codes

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would prevent actions, which are legal but, inappropriate because of their consequences on some of their shareholders (Reilly and Brown 2011).

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