

# PONDICHERRY UNIVERSITY

*(A Central University)*

DIRECTORATE OF DISTANCE EDUCATION

## **BUSINESS ETHICS**

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**Bachelor of Business Administration - B.B.A**

**II Year**

*DDE – WHERE INNOVATION IS A WAY OF LIFE*

## **PAPER X - BUSINESS ETHICS**

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# **PAPER X - BUSINESS ETHICS**

## **Syllabus**

### **UNIT I**

Introduction to Business Ethics: Meaning, Definition and importance - nature, purpose of ethics and morals for organizational interests – Cultural and Human values in management – Indian and Global perspective

### **UNIT II**

Consequential and non- consequential theories – Ethical dilemma – Ethical decision making

### **UNIT III**

Environment Issues - Protecting the Natural Environment - Prevention of Pollution and Depletion of Natural Resources - Conservation of Natural Resources.

### **UNIT IV**

Workplace Ethics – personal and professional ethics in the organisation - discrimination, harassment - gender equality

### **UNIT V**

Organisation Ethics Development System – Organisational Culture and values – Code of Ethics – Value based Leadership and its effectiveness

### **UNIT VI**

Marketing Ethics and Consumer Protection – Healthy competition and protecting consumer's interest – Advertising ethics -Ethics in Accounting and Finance: Importance, issues and common problems

### **UNIT VII**

Corporate social responsibility – Strategic components- Different approaches to CSR - Globalization - Sustainability - CSR standards- Best practices

### **UNIT VIII**

Corporate Governance – Audit committees – Role of Independent Directors – Protection of Stake holders

### **TEXT BOOK:**

**Crane & Matten**, Business Ethics,

### **REFERENCES:**

**Chakraborty,S.K.**, Management by Values,

**Ferrell, Fraedrich**, Business Ethics: A Case Perspective,

**Velasquez**, Business Ethics.

## **UNIT – I**

### **INTRODUCTION**

#### **Learning objectives**

After studying this unit you will be able to understand –

- ❖ Meaning and definition of business ethics
- ❖ Importance of business ethics
- ❖ Nature and purpose ethics
- ❖ Morals for organisational interest
- ❖ Cultural and human values in management
- ❖ Indian and global perspective of business ethics

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#### **1.1 Concept of Business Ethics**

Ethics is as to principles or standards of human conduct that govern the behavior of individuals or organizations. Using these ethical standards, a person or a group of persons or an organization regulate their behavior to distinguish between what is right and what is wrong as

perceived by others. It is not a natural science but a creation of the human mind. For this reason, it is not absolute and is open to the influence of time, place and situation.

Business ethics refers to a 'code of conduct' which businessmen are expected to follow while dealing with others.

'Code of conduct' is as to principles and expectations that are considered binding on any person who is a member of a particular group. The alternative names for code of conduct are 'code of ethics' or 'code of practice'.

Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximize profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, rules—articulated and implicit, are developed to guide the businesses to earn profits without harming individuals or society as a whole.

The coverage of business ethics is very wide as it deals with norms relating to a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. It reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Corporate entities are legally considered as persons.

## **1.2 Introduction to Business Ethics**

A business is any organisation or entity whose primary objective is to provide goods or services for profit. Otherwise, Ethics is the study of morality. In short, the moral status of the sorts of decisions that are made in the context of buying and selling goods and services can be assessed as narrated below.

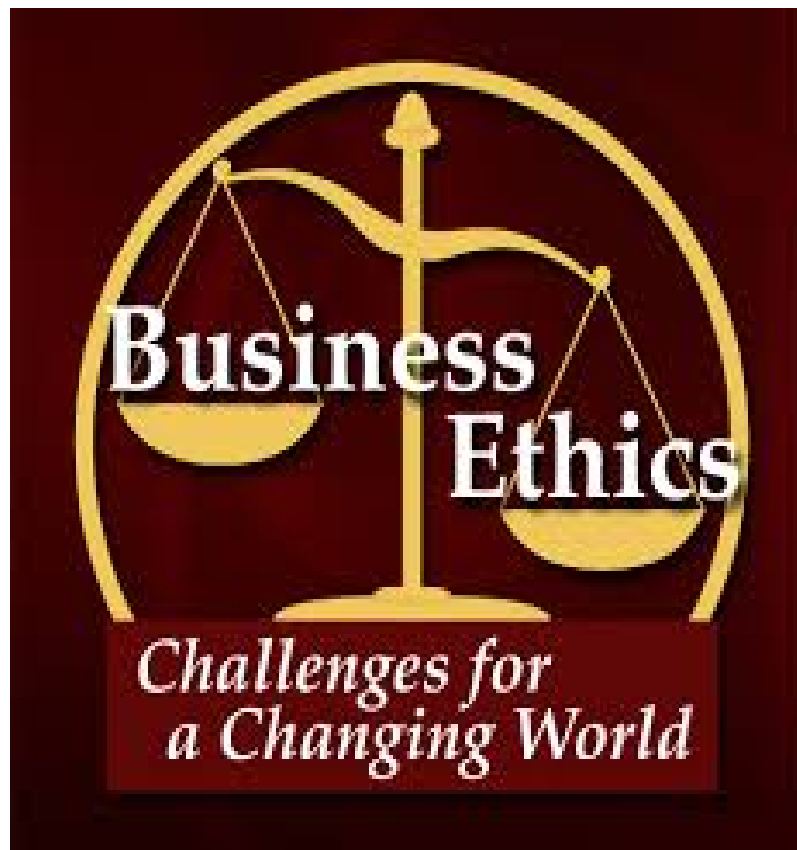
For any decision that affects some individual in a positive or a negative way is a moral decision—and decisions made by businesses are among those that affect individuals the most! That being said, anyone who owns, or runs, or works for a business—in short, almost all of us!—needs to be in the position to know which decisions are the morally acceptable, and which are the morally not acceptable.

So, business ethics is the applied ethics discipline that addresses the moral features of commercial activity. In practice, however, a dizzying array of projects is pursued under its

rubric. Programs of legal compliance, empirical studies into the moral beliefs and attitudes of business people, a panoply of best-practices claims (in the name of their moral merit or their contribution to business success), arguments for (or against) mandatory worker participation in management, and attempts in applying traditional ethical theories, theories of justice, or theories applicable to firms or to the functional areas of business are all advanced as contributions to business ethics and especially in its academic literature. These projects vary considerably and often seem to have little in common other than the conviction, held by those who pursue them, that whatever each is pursuing *is* business ethics.

Therefore,

- Business ethics is a branch of ethics which prescribes standards regarding how the business is to be carried out.
- Business ethics guidelines to stakeholders.
- Business ethics is the responsibility of the managers and employees.
- Business ethics is the application of ethical judgments to business activities.



### **1.3 MEANING OF ETHICS**

It refers not to the disinterested or unconcerned observer, or a passive or unaffected and reluctant individual, or a person who is weak – willed, biased, self centered or irrational, or even the person who is not placed or positioned in the critical place of action. It refers necessarily to the rational and responsible person who finds himself obliged and constrained to act by virtue of the position or the office he occupies and the function he is called upon discharge.

### **1.4 Meaning of Business Ethics**

Business ethics means both as written and unwritten codes of moral standards that are critical to the current activities and future aspirations of a business organisation. They can differ from one company to another because of differences in cultural perspectives, operational structures and strategic orientations. The guiding framework of business ethics exists at all levels of the organisation. It is all about having the wisdom to determine the difference between right actions and wrong decisions.

In simple terms, business ethics fundamentally denotes the organization's codes of corporate governance. It stipulates the morality standards and behavioral patterns expected of individuals and the business as a whole. These moral benchmarks can be perceived in terms of the microenvironment and macro environment of the business.

Ethics is a set of standard, or a code value system worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If an action agrees with these standards, it is ethical; if it does not agree, it is unethical.

### **1.5 Definition of Business Ethics**

According to Kirk O. Hanson, a renowned ethics expert who also doubles as the Executive Director of the Markkula Center for Applied Ethics, "business ethics is the study of the standards of business behavior which promote human welfare and the good."

"Business Ethics" can be defined as the critical, structured examination of how people & institutions should behave in the world of commerce. In particular, it involves examining appropriate constraints on the pursuit of self – interest or (for firm).

"Business ethics" is defined by the IBE as 'the application of ethical values to business behavior'.

According to Kenneth Kernaghan is defined as “Ethics is concerned not only with distinguishing right from and good from but also with commitment to do what is right or what is good. The concept of ethics is inextricably linked to that of value, that is enduring belief that influence the choices we make from available means and ends.”

According to R.E. Freeman, A.F. Stoner is defined as “Ethics broadly and simply is the study of how our decisions affect other people. It is also the study of people’s rights and duties and of the rules that people apply in making decisions.”

According to Wiley is defined as “Ethics reflects the character of the individual and more contemporarily, perhaps the character of the business firm, which is a collection of individuals”.

According to Baumhart “Ethical standards are principles of ideals of human conduct”.

### **1.6 Importance of Business Ethics**

Gouthama Buddha enunciated a beautiful truth. He was not against business; but insisted on being on being ethical activities. He said, the trader is like honey bee, which sucks honey out of the flower; but does not harm the flower what Buddha wanted to emphasise was that no harm must be done by the businessmen in quest of personal gains. We can go a step forward about this analogy. The honey bee, while taking the little honey of the flower, without harming flower, actually helps the flower in the process of fertilization by pollinating it. In other words, the bee (businessman) in the activity of sucking honey, helps the flower to multiply and grow its species. Thus, there is symbiosis in the activity. The flower helps the bee with honey; and the bee in turn helps the flower to multiply. The business grows with the help of consumers; and consumers grow with the help of business, provided the activities are done with ethical base. Thus, ethics forms the foundation of good business system in the society which will be mutually helpful for growth.

This is the sum and substance of modern advertisements: Help us to grow, so that we may serve you better. We grow to serve and we serve to grow.

Importance of ethics in business can be enumerated as follows:

1. Business is not entity in the society, totally jettisoned from the main stream of society. It is only part and parcel of the society and its activities. As a matter of fact, all activities in the society have ethical bearing and we cannot dissociate business from ethical conduct.



People of any profession, viz., Doctor, Lawyer, Engineer, Minister, Policeman or judge should have their professional ethics and conduct.

2. There are several stake holders in the business. They will be particularly interested in the behavior of the business organization. Naturally, they will expect a very high standard of morality and ethics in business.
3. A business firm thrives with the trust and goodwill of its employees. The firm is expected to maintain high moral standard, treating all the employees with equality, encouraging team and work culture with ethical practices.
4. Building the image of a business firm is an arduous task. This can be done only by upright and honest methods. An ethical organization commands not only trust, but also respect from all stakeholders. All stake holders gain a lot by the ethical image of the business. The moral standard of workers, the ethical base built up by the company and the excellent and systematic service rendered by the organization, could not be even dreamt in the present day transport companies under nationalization.
5. Lack of ethical standards will result in deterioration of relationship between employees and employers which will in the due course lead to decline in productivity and escalation of costs.
6. Companies with high ethical standards command respect from the public, as well as government. India's well managed companies are published by 'Business India'. These companies have a brand value and accepted as leaders in the industry.
7. Ethical practices of the firms in the long – run bring enormous dividends, goodwill and appreciation of the public.

## **1.7 Nature of Business Ethics**

### **Code of conduct**

Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.

### **Based on moral and social values**

Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.

**Gives protection to social groups**

Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.

**Provides basic framework**

Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.

**Voluntary**

Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

**Requires education and guidance**

Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.

**Relative Term**

Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

**New concept**

Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

**1.8 ROLE OF ETHICS**

We have studied, Ethics is the study of morality. It examines the moral standards of a society, group, profession or religious, whether these standards are reasonable or not, not, i.e., whether they are supported by good reasons. It is the process of examining the moral standards of a person to determine whether these standards are reasonable or unreasonable to hold, in order to apply them in practical situations and issues. The aim of ethics is to develop a body of moral standards that we feel are reasonable to hold.

We should not come to the conclusion that ethics is only way of studying morality. There are several social sciences like Anthropology, Sociology, Psychology also study about morality.

Ethics is a normative study of morality, while other sciences make only a positive or descriptive study of morality. We know that normative study inculcates norms in the study. It tells what is good and what is bad. In other words, normative studies ultimately tell what are good and what are not good; what are right and what are wrong. It is a study of what should be.

On the other hand, positive or descriptive study tells what it is. This does not reach any conclusion about good or bad. Instead, it simply describes what they are. Anthropologists or Sociologists may describe the character and culture of a particular society or a group of aboriginal tribes. In this context, they may also study about moral standards involved in the culture of the people. These social scientist would try to investigate the genesis of that type of culture.

Finally, we have to differentiate between the terms Moral, Immoral and Unmoral. Morality or moral is an expression connected with ethics which declares as good and right. On the other hand, 'immoral' is a term which is considered as 'inconsistent with what is right'. It is definitely wicked or licentious.

The term 'unmoral' does not connote immorality. Unmoral is an expression which denotes 'having no moral attached'. The moral is not given to making moral reflections. This expression is also called amoral i.e., it is neither moral or immoral; without moral sense or principles attached.

Thus, Ethics is a study of moral standards whose standards whose explicit purpose is to determine, as far as possible whether a given moral standard ( or moral judgment based on that standard) is more or less correct.

### **1.9 Purpose of Business Ethics**

The Oxford English Dictionary defines ethics as the moral principles that govern a person's behaviour, and as the branch of knowledge that deals with moral principles. Both are open to interpretation, and neither provides a practical application for business.

Business ethics is not black or white. Decisions can be extremely complex and difficult to implement. Life is filled with grey and companies are not equipped to ethically deal with grey. The trap in associating ethics with scandals like Enron or BernieMadoff, is that it can normalize lesser breaches. Just because a company does not act like an Enron doesn't make it ethical.

It's time to create a fresh, new, practical usage of business ethics that companies, boards, leaders and employees can rely on. When we choose the behaviour that for own long-term benefit, ethics are the moral principles that govern that behaviour. Therefore, ethical behaviour is the long-term benefit, which makes a sense in the long run.

Ethics therefore, is what makes sense in the long run. In the same way business ethics is what makes sense for organizations in the long run for their customers, their employees, their investors and their wider stakeholders based on the best possible rational decisions in their interests. There is a wealth of evidence and research supporting this. Therefore, many businesses operate on the false premise that business ethics may not be useful, will face failure in the long run.

Very few people critically evaluate what the purpose of ethics really is; very often don't take time to reflect on what we really want. Individuals have absolute power to choose their own moral principles, and to decide how to behave. They are responsible for what they choose to do. This does not justify actions on a whim in search of short term gains in the name of ethics. Something that may appear beneficial right now often destroys value in the long run. Our busy lives force us to focus on the short term, often at the expense of the long term. But, ethical decision making allows to balance these conflicting choices. It requires self-awareness, a commitment to values, and critical thinking to ascertain what really is in the sustainable interest.

## **1.10 ELEMENTS OF BUSINESS ETHICS**

Throughout the business world, no trait is more important and influential to the success of a company than practicing respectable business ethics from the inside out. A solid ethics foundation has four key elements.

### **(i) A Strong Code of Ethics:**

The Sarbanes-Oxley Act of 2002 made it important for businesses to have an ethics code, something in writing about what one ought to do, and what to strive for. This also serves to inform employees of the vision that the company's executives have for the company's image and goals. This helps new employees learn important aspects of how to carry out their actions at work, and provides veteran employees with something to fall back on; both as a reminder and as something to cite if they are being pressed to do something that they believe to be wrong.

**(ii) Ethics Training:**

Any ethics code, no matter how well written, that is not understood or followed is only on the paper or disk space it is stored on. Some companies have an in-house training department that can provide the requisite training. A trainer needs to have sufficient experience and training in the field of ethics to be most effective.

**(iii) Ethics Coach:**

Either in-house or out-sourced expert, who will be available as a friendly and confidential resource for employees facing complicated ethical dilemmas should be arranged in every company. This person needs to have sufficient expertise in employing ethical concepts, analytical skills and decision-making tools to facilitate an ethical resolution to the problem. Also essential in an ethics coach is the assurance of confidentiality and also a friendly and upstanding coach who protects confidentiality, and speaks with everyone in the office at various times, not just when there is a difficulty.

**Systems for Confidential Reporting:**

This serves to provide employees with a means for reporting observed misconduct or violations without fear of reprisal. This serves to further discourage ethical violations, while getting everyone involved. It also provides the all important “do something about it” option. Additionally, early detection and resolution of ethical problems may save the company huge amounts of money in cases such as theft or other misconduct.

**1.11 ADVANTAGES OF BUSINESS ETHICS**

More and more companies recognize the link between business ethics and financial performance. Companies displaying a “clear commitment to ethical conduct” consistently outperform companies that do not display ethical conduct.

**(i) Attracting and Retaining Talent**

People aspire to join organisations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to taking care of its employees will be rewarded with employees being equally dedicated in taking care of the organisation. The ethical climate is a matter of concern to the employees. Ethical organizations create an environment that is trustworthy, making employees willing to rely, take decisions and act on

the decisions and actions of the co-employees. In such a work environment, employees can expect to be treated with respect and consideration for their colleagues and superiors. It cultivates strong teamwork and productivity and support employee growth.

Retaining talented people is as big a challenge as getting them in the first place. Work is a means to an end for them, not an end in itself. The relationship they have with their employer must be a mutual, a one which is win- win and in which their loyalty should not be taken for granted. Talented people will invest their energy and talent only in organisations with values and beliefs that match their own. In order to achieve this match, managers need to build cultures, compensation and benefits packages, and career paths that reflect and foster certain shared values and beliefs.

#### (ii) Investor Loyalty

Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits. Relationship with any stakeholder, including investors, based on dependability, trust and commitment results in sustained loyalty.

#### (iii) Customer Satisfaction

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases/orders and enduring relationship of mutual respect is essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices. When a company because of its belief in high ethics is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration. Such companies are also guided by their ethics to survive a critical situation. Preferred values are identified ensuring that organizational behaviors are aligned with those values. An organisation with a strong ethical environment places its customers' interests as foremost. Ethical conduct towards customers builds a strong competitive position. It promotes a strong public image.

To summarise, companies that are responsive to employees' needs have lower turnover in staff: Shareholders invest their money into a company and expect a certain level of return from that money in the form of dividends and/or capital growth. Customers pay for goods, give their loyalty and enhance a company's reputation in return for goods or services that meet their needs. Employees provide their time, skills and energy in return for salary, bonus, career progression, learning, etc.

### **1.12 How can Organisation Interest Build the Moral Culture**

For an organization to build a moral culture, it must exhibit trust and have the benefit of all involved - both inside and outside the organization - in mind. The formula for doing so is fairly straightforward. First and foremost, there must be leadership with the highest moral values. Second, there must be an environment in which employees have a sense of belonging to and interest in an organisation. A Moral Leadership Code Moral leadership is the starting point for any business that expects to develop a moral culture. It's the leadership that establishes the organization's values and sets the pace for its members. Individuals should take on responsibility in a manner that helps develop not only their own moral well-being, but encourages concern for the development of others. Leaders should understand the nature of the organisation's workforce and display empathy for others. Leaders should be open and transparent in the decision making process, They should work in an atmosphere of warmth and respect for employees, Employee Moral Character Development If the leadership of an organisation promotes a moral culture and follows its own practices, its employees will act accordingly. In taking on responsibility, employees will do so in a moral way, and cause others to develop similarly. If employees appreciate that the leadership has empathy, they will act likewise. Employees will emulate leaders' follow through on promises, exhibit fair treatment and remain effective communicators. Small Businesses versus Large Institutions With small business, the moral culture is a reflection of owners or founders directly. If leaders model the moral consciousness required, this sets the example for employees and volunteers. A sense of respect and belonging develops, It is the close relationships of leaders with employees that allow moral culture to become secure. cpcu news· October/November 2010 Anthony W. Bucci Jr., CPCU, AIS, is president of Bucci Insurance Group and a member of the Society's Ethics Committee. Michael B. Weinberg, CPCU, J.D., is a partner with LeClairRyan and chair of the Society's Ethics Committee .

Corporations with thousands of workers may have a greater challenge because of the numbers of those at management and employee levels. Still, moral culture always starts at the top. When the leaders of the organisation remain open, earn trust and communicate well, the workforce will appreciate and embrace the moral message. The workers will feel part of the organisation. Because of the size of the entity, additional steps involving third-party support may be needed to reinforce the importance of moral culture. CPCU Society Ethics Support Those insurance organizations that promote a moral culture will find similarly suited individuals in the cpeu Society. The Society's Ethics Committee develops programs, materials and articles to encourage leaders to develop a moral culture. Members have a sense of belonging, whether it's with a chapter in their state or while engaged in Society service. Itis funher reinforces what large institutions seek to achieve. Smaller organisations, too, benefit from such encouragement

Bazerman's first book for a general audience on how to foster ethical behavior, *Blind Spots*, explained why people behave unethically without intending to. His new book, *The Power of Noticing*, underlines why leaders need to be more aware of ethical challenges and other "organisational threats"—and explains how they can recognize and address such challenges. He hopes to foster organisational cultures where, by design, members keep abreast of critical information and pay attention to what they learn, thereby avoiding lapses in judgment, and becoming generally more vigilant.

Whistle-blowing runs counter to rational self-interest, he explains, so a badly run organisation can be particularly susceptible to what social scientists call "motivated blindness." Psychological barriers inhibit individuals' abilities to perceive something amiss—whether it's inconvenient data or evidence of wrongdoing—and then act. Even substantiated suspicion can be short-circuited by doubt: when people smell smoke, they can be reluctant to go looking for fire. Bazerman describes the mindset: "Life is busy, I don't know who to report this information to, I'm not positive that something's wrong—I just feel that something's wrong."

Bazerman can recall this emotional state vividly because he has experienced it himself. In 2005, the U.S. Department of Justice asked him to be a witness for the prosecution of the tobacco industry. Days before he was to testify, a government lawyer asked him to water down his recommendations. Bazerman refused, but let the matter drop; he was tired and overwhelmed, he writes, mistrusting his perception that the request was corrupt. Weeks later, news reports that the prosecution had cut the fine it sought from \$130 billion to \$10 billion were followed by a New



York Times story alleging that another expert witness had been urged to alter his testimony—the result of political pressure applied to prosecutors to water down the charges and thus reduce the financial penalty. This news of witness-tampering spurred Bazerman to go public with his own story, but his initial passivity haunts him: why didn't he say anything?

Partly it is because people tend to consign front-page scandals to “a special category of viscerally appalling crimes,” he writes. Such outrages appear to be outliers. It's easy to think of motivated blindness and institutional inertia as something that happens only to others. People don't realize that “human failure to act is remarkably common”—and that, in the moment, the signs of wrongdoing can be mundane and easy to miss.

In his book, Bazerman highlights promising directions in behavioral decision research that have the potential to promote more effective and more ethical noticing. One involves “choice architecture,” a term coined by Richard H. Thaler and Walmsley University Professor Cass R. Sunstein in their 2008 book *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Choice architecture taps knowledge of psychology to identify better ways to present options—and Bazerman asserts that organizations can use it to create systems that increase the likelihood of their staff noticing key data. In a study he conducted with Kennedy School colleagues Alexandra van Geen and professor of public policy Iris Bohnet, supervisors were asked to assess a pool of job candidates. When judging applicants one at a time, they tended to favor men on quantitative tasks and women on verbal tasks. But when judging male and female candidates side-by-side, they relied on performance-related data; gender biases no longer factored into the decision. Changing the structure of the hiring process encouraged people to pay attention to the important information.

Though examples of glaring failures to notice may appear to outnumber models for good behavior, Bazerman offers a mildly hopeful observation: success in noticing—and acting accordingly—often goes unnoticed itself. He illustrates with an example beyond the realm of ethics. In 2012, state and local government officials on the East Coast who'd studied previous severe storms observed that hundreds of drivers had been trapped on roadways in dangerous conditions. That prompted them, in advance of Hurricane Sandy, to limit highway use to emergency personnel. This minimized casualties and allowed them to direct their resources more efficiently. In Bazerman's view, those civil servants “create[d] a non-story, and avoid[ed] a bad story.” There is, he says, “a power to be extraordinarily effective by seeing things in advance.”

### **1.13 INDIAN ETHOS IN ETHICS, MORALITY AND CULTURE**

Indian ethico – moral rules and conduct of life go back to several millennia, when the Vedas prescribed the ground rules of human existence and living. Apart from what has been stated above, the unique feature of Hindu religion and Indian ethos is its universality, which cannot be had in any other religion and culture.

This is the universal prayer of Vedas, transcending the frontiers, nations, religious and also people. This is very in several respects exhibiting ‘Universal Love’ of humankind. Hence, this is singularly different from other religions of the world. It is only through Vedas and Upanishads, Hindu religion has been elevated as the spiritual religion of the world.

The ethical discussions and teachings in India continued all through Indian history, though was ruled by different emperors and foreign rulers. The Upanishads, Puranas and Smritis continued the tradition. The values enshrined in these divine dicta were put forward for popular use in great epics of Mahabharata and Ramayana. This is the only literature in the world which has been devoted exclusively to spiritual quest. The two epics of India gave human dilemmas in every walk of life and attach importance to values in dealing all such cases.

### **1.14 INDIAN AND GLOBAL PERSPECTIVE**

The following list of principles incorporates the characteristics and values that most people associate with ethical behaviour. Ethical decision making systematically considers these principles:

(i) Honesty:

Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.

(ii) Integrity:

Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honorable and upright; they will fight for their beliefs. They will not sacrifice principle for expediency, be hypocritical, or unscrupulous.

(iii) Promise-Keeping & Trustworthiness:

Ethical executives are worthy of trust. They are candid and forth coming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalise non-compliance or create justifications for escaping their commitments.

(iv) Loyalty:

Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institution charging of interest at any rate is by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.

(v) Fairness:

Ethical executives are fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching or indecent means to gain or maintain any advantage or take undue advantage of other's mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, are open-minded; willing to admit they are wrong and, where appropriate, change their positions and beliefs.

(vi) Concern for Others:

Ethical executives are caring, compassionate, benevolent and kind; they like the Golden Rule, help those in needs, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

(vii) Respect for Others:

Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.

(viii) Law Abiding:

Ethical executives abide by laws, rules and regulations relating to their business activities.

(ix) Commitment to Excellence:

Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavour to increase their proficiency in all areas of responsibility.

(x) Leadership:

Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.

(xi) Reputation and Morale:

Ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent in appropriate conduct of others.

(xii) Accountability:

Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

### **Summary**

Ethics is a set of principles or standards of human conduct that govern the behavior of individuals or organizations. The business ethics can be referred to as "code of conduct". It is a set of principles and expectations that are considered binding on any person who is member of a particular group. Business must balance their desire to maximize profits against the needs of the stakeholders. Ethics is a study of morality. In simple terms, business ethics fundamentally denotes the organisation's codes of corporate governance. The importance of the business ethics are to treat the customer with respect, as though he is better than you and always tell the customer truth. And also ethics to take courage and hard work. They lead to good business sense. A company with a code of business ethics is more likely to build a good reputation, which is more likely to bring financial rewards over a period. Business ethics are those virtues that business values and standards as established. Most business people do not take a keen interest in implementing business ethics. Most of them think that making profit is the most important thing but as they realize later, no matter how hard they try, they do not achieve their objectives. Business ethics is what makes sense for organizations in the long run for their customers, their

customers, their employees, their investors and their wider stakeholders based on the best possible rational decisions in their interests. Ethical organizations create an environment that is trust worthy, making employees willing to rely, take decisions and act on the decisions and actions of the co-employees. A moral leadership code moral leadership is the starting point for any business that expects to develop a moral culture. Ethical executives are caring, compassionate, benevolent and kind. They like the golden rule, help those in need, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

### **KEY TERMS**

1. **ETHICS** - It refers necessarily to the rational and responsible person who finds himself obliged and constrained to act by virtue of the position or the office he occupies and the function he is called upon to discharge.
2. **BUSINESS ETHICS** - Business ethics means both as written and unwritten codes of moral standards that are critical to the current activities and future aspirations of a business organisation.

### **Self Assessment Questions**

1. What is Business Ethics?
2. Define Business Ethics
3. Explain the importance of business ethics
4. Explain the nature of business ethics.
5. What are the purposes of business ethics?
6. Explain the role of ethics.
7. Explain the elements of business ethics
8. What are the advantages of business ethics?
9. Explain the Indian and global perspective

## **UNIT – II**

### **THEORIES**

#### **Learning Objectives**

After studying this unit you will understand

- ❖ Consequential theories and non – consequential theories.
- ❖ Ethical dilemma
- ❖ Ethical decision making

#### **CONTENTS**

2.1	Introduction of Consequential Theories
2.2	Meaning of Consequential Theories
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#### **2.1 Introduction of Consequential Theories**

A consequential theory judges the rightness or wrongness of an action based on the consequences that action has. The most familiar example would be utilitarianism--"that action is best that produces the greatest good for the greatest number" (Jeremy Bentham).

Consequential is the class of normative ethical theories holding that the consequences of one's conduct are the ultimate basis for any judgment about the rightness or wrongness of that conduct can reflect. Thus, from a consequential point of view a morally right act (or omission from acting) is one that will produce a good outcome, or consequence. In an extreme form, the idea of consequential is commonly encapsulated in the English saying, "the ends justify the means" meaning that if a goal is morally important enough, any method of achieving it is acceptable.

Consequential is usually contrasted with deontological ethics (or *deontology*), in that deontology derives the rightness or wrongness of one's conduct from the character of the behaviour itself rather than the outcomes of the conduct. It is also contrasted with virtue ethics, which focuses on the character of the agent rather than on the nature or consequences of the act (or omission) itself, and pragmatic ethics which treats morality like science: advancing socially over the course of many lifetimes, such that any moral criterion is subject to revision. Consequential theories differ in how they define moral goals.

Some people argue that consequential and deontological theories are not necessarily mutually exclusive. For example, T.M. Scanlon advances the idea that human rights, which are commonly considered a "deontological" concept, can only be justified with reference to the consequences of having those rights. Similarly, Robert Nozick argues for a theory that is mostly consequential, but incorporates inviolable "side-constraints" which restrict the sort of actions agents are permitted to do.

## **2.2 Meaning of Consequential Theories**

This array of alternatives raises the question of which moral theories count as consequential (as opposed to deontological), and why. In practical usage, the term 'consequential' seems to be used as a family resemblance term to refer to any descendant of classic utilitarianism that remains close enough to its ancestor in the important respects. Of course, different philosophers see different respects as the important ones. Hence, there is no agreement on which theories count as consequential under this definition.

To resolve this vagueness, it is important to determine which of the various claims of classic utilitarianism are essential to consequential. One claim seems clearly necessary. Any

consequential theory must accept the claim that is labeled ‘consequential’, namely, that certain normative properties depend only on consequences. If that claim is dropped, the theory ceases to be consequential.

Therefore, it is less clear whether that claim by itself is sufficient to make a theory consequential. Several philosophers assert that a moral theory should not be classified as consequential unless it is agent-neutral (McNaughton and Rawling 1991, Howard-Snyder 1994, Pettit 1997). This narrower definition is motivated by the fact that many self-styled critics of consequential argue against agent-neutrality.

Other philosophers prefer a broader definition that does not require a moral theory to be agent-neutral in order to be consequential (Bennett 1989; Broome 1991, 5–6; and Skorupski 1995). Criticisms of agent-neutrality can therefore be understood as directed against one part of classic utilitarianism that need not be adopted by every moral theory that is consequential. Moreover, they argue, the narrower definition conflates independent claims and obscures a crucial commonality between agent-neutral consequential and other moral theories that focus exclusively on consequences, such as moral egoism and recent self-styled consequential who allow agent-relativity into their theories of value (Sen 1982, Broome 1991, Portmore 2001, 2003).

A definition solely in terms of consequences might seem too broad, because it includes absurd theories such as the theory that an act is morally right if it increases the number of goats in Texas. Of course, such theories are implausible. Still, it is not implausible to call them consequential, since those theories look only at consequences. The implausibility of one version of consequential does not make consequential implausible in general, since other versions of consequential still might be plausible.

Besides, anyone who wants to pick out a smaller set of moral theories that excludes this absurd theory may talk about evaluative consequential, which is the claim that moral rightness depends only on the value of the consequences. Then those who want to talk about the even smaller group of moral theories that accepts both evaluative consequential and agent-neutrality may describe them as agent-neutral evaluative consequential. If anybody still insists on calling these smaller groups of theories by the simple name, ‘consequential’, this narrower usage will not affect any substantive issue.



So, what matters is only that we get clear about exactly which claims are at stake when someone supports or criticizes what they call “consequential”. Then we can ask whether each objection really refutes that particular claim.

### **2.3 Definition of Consequential Theories**

Consequential is a normative ethical theory, which means, it is a theory about ethical action and a proposed method for deciding how one should choose the right ethical act. (Feiser) Consequential says that the consequences of an action are all that matter when taking an ethical decision to act. There is important reason for the root word. The word consequence is selected carefully and it is possible to make a distinction between the word itself and synonyms such as, results or outcomes. (Haynes) The word result or outcome is more commonly understood to mean the product of an action directly and inevitably follows from that action. Consequences have the possibility of being probable, or hypothetical. Alternative moral theories to consequential are: deontology, which proposes that ethical decisions should be made by following rules or fulfilling duties; and virtue ethics, which proposes that the ethical action to be taken is the one that would be taken by a virtuous person.

Consequential theories have been around for a long time. But the term “consequential” was coined by Elizabeth Anscombe in her essay “Modern Moral Philosophy” in 1958. (Frost) Utilitarianism is by far the most widely known form of consequential, and there often is confusion when distinguishing the two. Teleology is the classical term for ethical theories that focus on outcomes, or ends, to determine correct ethical action. (Ferrell) Teleology comes from the Greek words “telos” meaning, “end” and “logos” meaning, science. Before Anscombe, utilitarianism was the more general term for ethical theories associated with teleology, focusing on the overall good created as the desired outcome. Today, consequential is the most widely accepted umbrella term, containing distinguishable sub-categories with a broadening of desired outcomes. To summarize concisely, consequential evaluates actions based solely on weighing the consequences of the action against a desired outcome.

### **2.4 Principles of Consequential Theories**

- Whether an act is right or wrong depends only on the results of that act
- The more good consequences an act produces, the better or more right of that act

gives guidance when faced with a moral dilemma:

- A person should choose the action that maximizes good consequences

which gives the general guidance on how to live:

- People should live so as to maximize good consequences

Different forms of consequential differ over what the good thing is that should be maximized.

- Utilitarianism states that people should maximize human welfare or well-being (which they used to call 'utility' - hence the name).
- Hedonism states that people should maximize human pleasure.
- Other forms of consequential take a more subtle approach; for example stating that people should maximize the satisfaction of their fully informed and rational preferences.

In practice many people don't assess the ethical consequences of every single act (that's called 'act consequential') since they don't have the time.

Instead people use ethical rules that are derived from considering the general consequences of particular types of acts. That is called 'rule consequential'.

- For example, according to rule consequential people consider lying to be wrong because they know that in general lying produces bad consequences.

Results-based ethics produces this important conclusion for ethical thinking:

- No type of act is inherently wrong - not even murder - it depends on the result of the act

This far-fetched example may make things clearer:

- Suppose that by killing X, an entirely innocent person, we can save the lives of 10 other innocent people
- A consequential would say that killing X is justified because it would result in only 1 person dying, rather than 10 people dying
- A non-consequential would say *it* is inherently wrong to murder people and refuse to kill X, even though not killing X leads to the death of 9 more people than killing X

## **Utilitarianism**

Evaluating each decision would take too long.

The classic form of results-based ethics is called utilitarianism.

This says that the ethically right choice in a given situation is the one that produces the most happiness and the least unhappiness for the largest number of people.

## The appeal of results-based ethics

Results-based ethics plays a very large part in everyday life because it is simple and appeals to common sense:

- It seems sensible to base ethics on producing happiness and reducing unhappiness
- It seems sensible to base ethics on the consequences of what we do, since we usually take decisions about what to do by considering what results will be produced
- It seems easy to understand and to be based on common sense

## Act of Consequential Theories

Act consequential looks at every single moral choice anew. It teaches:

- A particular action is morally good only if it produces more overall good than any alternative action.

Good points of act consequential

A flexible system

- Act consequential is flexible and can take account of any set of circumstances, however exceptional.

Bad points of act consequential

Impractical for real life use

- while it sounds attractive in theory, it's a very difficult system to apply to real life moral decisions . Because-
- every moral decision is a completely separate case that must be fully evaluated
- individuals must research the consequences of their acts before they can make an ethically sound choice
- making such research is often impracticable, and too costly
- the time taken by such research leads to slow decision-making which may itself have bad consequences and therefore bad consequences of delay may outweigh the good consequences of making a perfect decision
- but where a very serious moral choice has to be made, or in unusual circumstances, individuals may well think hard about the consequences of particular moral choices in this way.

Bad for society

- some people argue that if everyone adopt an act of consequential that may lead to bad consequences for society in general. This is because it would be difficult to predict the moral decisions that other people may make, that may lead to great uncertainty about how they would behave
- some philosophers also think that it would lead to a collapse of mutual trust in society, as many would fear that prejudice or bias towards family or other groups would more strongly influence moral decisions than if people used general moral rules based on consequential
- fortunately the impracticality of act consequential as a general moral process means we don't have to worry much about this
- Rule of Consequential Theories

Rule consequential bases *moral rules* on their consequences. This removes many of the problems of act consequential

Rule consequential teaches:

- Whether acts are good or bad depends on moral rules
- Moral rules are chosen solely on the basis of their consequences

So, when an individual has a moral choice to make he can ask himself weather there is an appropriate rule to apply and then apply it.

The rules that should be adopted are the rules that would produce the best results if they were adopted by most people.

Philosophers express this with greater precision:

- an act is right if and only if it results from the internalization of a set of rules that would maximize good if the overwhelming majority of agents internalized this set of rules

Good points of rule consequential

Practical and efficient

- Rule consequential gets round the practical problems of act consequential because the hard work has been done in deriving the rules. Individuals don't generally have to carry out difficult research before they can take action because individuals can shortcut their moral decision-making since they are much more likely to make decisions in a quick and timely manner

### Bad points of rule consequential

- Less flexible because Rule consequential uses general rules it doesn't always produce the best result in individual cases however, those in favor of it argue that it produces more good results considered over a long period than act consequential
- One way of dealing with this problem - and one that people use all the time in everyday life - is to apply basic rules, together with a set of variations that cover a wide range of situations. These variations are themselves derived in the same way as the general rules

### Other forms of Consequential

#### Negative Consequential

Negative consequential is the inverse of ordinary consequential. Good actions are the ones that produce the least harm.

- A person should choose the act that does the least amount of harm to the greatest number of people.

## 2.5 Objectives of Consequential Theories

### Justification and deliberation

A normative theory such as consequential aims to answer the question: "What makes actions right or wrong?" A related aim of normative theory is to provide principles of right action that may be employed as a moral guide to human beings in their lives. But this aim of normative theory which formulates principles of conduct that can guide people in their actual conduct generates a problem for consequential. The objection was first stated by Mill's in his seminal work, Utilitarianism, and it is this: "There is not enough time, previous to action, for calculating and weighing any line of conduct on the general happiness." Therefore, consequential, which says that the rightness of an action depends on the consequences is practically useless.

To see the problem, consider that the Principle of Utility is a fundamental moral principle according to which right actions are those that maximize happiness. This is an account of which actions are right and which are wrong in terms of a basic moral principle. But, when moral theories are meant to provide guidance for human conduct on the basis of particular rules, then the Principle of Utility does not seem to be very well suited to this. It would seem to be self defeating to use the Principle of Utility as a decision procedure. By using it one would probably

be prevented from actually doing about the best action. Consider an example when someone has to act quickly in order to save another person from drowning. If he or she had to use the Principle of Utility to calculate whether (for example) jumping into the ocean was indeed the right thing, the opportunity of saving the life would be lost, and he or she would end up not having done the right thing. So, the objection says that Utilitarianism fails as a moral theory because it does not provide a rule which can actually be used by people to guide their own conduct. Note that this objection is directed to the consequential (a theory of right action) in Classical Utilitarianism

Mill's reply to this objection says that the "... there is ample time [for calculation], namely, the whole past duration of the human species." Mill's response is to say that ordinary morality should be used as rules of thumb, guidelines that will help one in navigating through his daily life, and that one should not (always) rely on the Principle of Utility as a decision procedure. This is important because it opens up a gap between how one ought to think in contexts of moral deliberation, and those properties of individual acts, which confer rightness or wrongness on the action. If the principle of Utility is a criterion of rightness, and not a decision procedure, then Utilitarianism does not entail that one ought (always) to try to calculate the greatest utility of one's action. It will often be better to act in accordance with common sense moral rules rather than trying to calculate the expected outcome of one's action.

This move may easily be transferred into the more general Consequential theories. If consequential is meant to be only a theory of justification (of what makes actions right), rather than an account of deliberation, then it is quite coherent for a consequentialist to maintain that the best way of doing the right thing is not to calculate consequences but follow other policies and rules of thumb.

### **Conflicts with Ordinary Morality**

Other problems for consequentialism arise from the fact that consequentialism is in conflict with ordinary moral thinking in a number of ways.

### ***Justice***

Firstly, consequentialism seems unable to accommodate justice and rights. J.J.C. Smart's (1978) formulates the problem for consequentialism with respect to justice as follows: "The most poignant sort of case, of course, is that of the punishment of an innocent man. Suppose that in order to prevent a riot in which thousands would certainly be killed a sheriff were to frame and execute

an innocent man. On utilitarian principles would not the sacrifice of one life in order to save thousands be justified?" (Smart's discussion is with particular reference to Utilitarianism, but, again, Utilitarianism is a form of consequential.) The point of the example is that if the sheriff frames the stranger he will bring about more good consequences than bad consequences. One may simply stipulate that this is so. According to consequential, it is the right action to perform. However, an innocent man does not deserve to be punished. So, it seems, consequential does not accommodate justice.

### ***Rights***

A structurally very similar problem arises with respect to consequential and rights. The concept of a "right" has to do with protecting a person's important interests. Rights place limits on how an individual may be treated; they are basic constraints which set limits on what may be done to persons. Once again the problem here is that a utilitarian moral theory is apparently committed to the claim that nothing that is ultimately prohibited, so long as the good consequences of this action outweigh the bad. Rape, torture, and all manner of violent acts may in principle be required whenever the overall consequences are good enough. These clashes with the idea that persons have rights which limit what may be done to them, even in the pursuit of good consequences.

### ***Special obligations***

Another problem for consequential is accounting for the existence of special ties of obligation. Special obligations include those acquired by entering into contracts, obligations acquired in virtue of occupying a certain occupational role, and family ties.

For example, a teacher is obligated to certain sorts of actions related in satisfying occupational duties. These actions are required of him or her only because of the special duties incumbent on a teacher. Similarly, a mother or father is usually thought to be obligated to her or his children in a way he or she is not obligated to other people's children. These are sometime called agent-relative duties. Consequential, however, is usually understood to be an agent neutral moral theory. Therefore, one is obligated to bring about good for those who would benefit from it most, irrespective of their relationship to oneself. This consequence is at odds with ordinary thinking in that it seems that a person reasonably displays concern for his or her family that he or she does not display for others.

But consequential requires one to promote the good in general, and therefore does not accommodate the common sense intuition that special obligations generate special duties, and that (for example) a father is required to do things for his own family that he is not required to do for people in general.

On a closely related point, W.D. Ross has argued that if breaking a promise brings about slightly more happiness, then the Classical Utilitarian must prescribe that the promise is to be broken. Imagine that one made a promise to give a friend a ride to the airport. However, at the last moment, someone asks the first person to come away for the weekend, making it impossible to give provide the ride for the second person. Imagine that there would be a slightly greater balance of gain overall if the promise were broken. Ross's point is that consequential says one should break the promise even if the overall gain is only slightly greater. But this seems to imply that consequential cannot accommodate the point that one is obligated by the promise, and a slight gain in overall pleasure does not seem to trump this obligation.

### ***Consequential is too demanding***

Another important objection to consequential is that it is too demanding as a moral theory. To understand this objection, it is necessary to spend a moment considering some key features of common moral beliefs. In ordinary morality, there is a distinction between what people are morally required to do (or not do) and what is good or morally significant to do, but what is not strictly required.

For example, "Thou shall not murder" entails that people are required to refrain from intentionally killing innocent people. In contrast, acts of charity are morally praiseworthy, but people are not, it is usually thought, strictly required to be charitable. Rather, charity is something that goes beyond the bounds of duty. One would not normally be blamed for failing to give to charity, although one would be morally praised for acts of charity. Actions that are morally admirable to do but not strictly required are called supererogatory actions.

The problem for consequential is that it eliminates the distinction between actions that are morally required and morally supererogatory actions. The consequential criterion (in its barest formulation) for right action is maximization of a specified value: One is doing the right thing only for maximizing the good. However, people often take themselves to be acting in a way that is morally permissible even when it clearly is not one which brings about the most good. For example, spending money on a holiday, seems to be morally permissible action although there



are other courses of action that would serve a much greater good overall. For instance, giving the money to an agency like the United Nations Children's Fund (UNICEF) may help to save lives, a much greater good than a few days spent lazing about on a beach. Only when people are doing the right things, they are able to maximise the good. It seems that almost all of human actions are wrong. Critics contend that consequential is too demanding as a moral theory. It does not seem right to say that one is doing wrong by going out for dinner on Friday night or sitting around chatting with friends.

## **2.6 Introduction of non – Consequential Theories**

Kant's moral theory is perhaps the most influential of all non consequential approaches. In his view, right actions have moral value only if they are done with a good will for duty's sake alone. The purpose of Kant's theory is the categorical imperative, a principle that he formulates in three versions. The first version says that an action is right if you can will that the maxim of an action become a moral law applying to all persons. An action is permissible if (1) its maxim can be universalized (if everyone can consistently act on it) and (2) you would be willing to have that happen. The second version of the categorical imperative says that we must always treat people as ends in themselves and never merely as a means to an end.

Kant's theory seems to conflict with our commonsense moral judgments (Criterion 1) and has flaws that limit its usefulness in moral problem solving (Criterion 3). The theory falters on Criterion 1 mainly because some duties generated by the categorical imperative are absolute. Absolute duties can conflict, and Kant provides no way to resolve the inconsistencies, a failure of Criterion 3. Furthermore, it seems to have no genuine absolute duties.

Natural law theory is based on the notion that right actions are those that accord with natural law the moral principles embedded in nature itself. How nature reveals how it should be. The inclinations of human nature reveal the values that humans should live by.

Aquinas, who gave us the most influential form of natural law theory, says that humans naturally incline toward preservation of human life, procreation, the search for truth, community, and benign and reasonable behavior.

Like Kant's theory, traditional natural law theory is absolutist, maintaining that some actions are always wrong. These immoral actions include directly killing the innocent, interfering with procreation, and lying. The theory's absolutist rules do occasionally conflict, and the

proposed remedy for any such inconsistencies is the doctrine of double effect. The principle applies to situations in which an action produces both good and bad effects. It says that performing a good action may be permissible even if it has bad effects. But performing a bad action for the purpose of achieving good effects is never permissible. Despite the double-effect doctrine, the theory's biggest weakness is still its absolutism, which seems to mandate actions that conflict with our considered moral judgments. For example, in some cases the theory might require someone to allow hundreds of innocent people to die just to avoid the direct killing of a single person.

## **2.7 Meaning of non – Consequential Theories**

Non-Consequential Theories always reach decisions or evaluations on the basis of something other than, or in addition to, the sum total or net aggregate of the consequences of choices.

Non-Consequential Theories do not always ignore consequences. For example, some of Ross's *prima facie* duties (non-injury and beneficence, for instance) are directly related in promoting good consequences or minimizing bad ones, where others (fidelity, gratitude, justice) are not.

Virtue Ethics is included under Non-Consequential simply because the focus of virtue ethics is on the creation or expression of character traits and not on production of the greatest net aggregate of consequences.

The other types of Non-Consequential theories share the feature of being clearly rule oriented. Duties can obviously be stated in terms of rules. Rights can be stated in terms of duties, which can in turn be stated in terms of rules. Theories of justice endorse principles of justice, which logically imply duties or rights that can be stated in terms of rules.

Non consequential theories claim that right action is not solely a matter of producing good consequences. They claim that it is important how one treats people in the course of bringing about good consequences. This class will consider what the non consequential perspective implies for harming and benefiting people. Possible topics include: whether we

should distinguish morally between harming people as a result of producing a good consequence and harming them in the course of producing such a consequence; whether it is permissible to redirect threats from a larger number of people to a smaller number of people. Whether it is ever permissible to torture people or make agreements to harm them as a means to helping others; in what ways we should benefit people when we cannot benefit everyone.

## **2.8 Introduction of Ethical Dilemma**

There are three conditions that must be present for a situation to be considered an ethical dilemma. The first condition occurs in situations when an individual, called the “agent,” must make a decision about which course of action is best. Situations that are uncomfortable but that don’t require a choice, are not ethical dilemmas.

For example, students in their internships are required to be under the supervision of an appropriately credentialed social work field instructor. Therefore, because there is no choice in the matter, there is no ethical violation or breach of confidentiality when a student discusses a case with the supervisor. The second condition for ethical dilemma is that there must be different courses of action to choose from. Third, in an ethical dilemma, no matter what course of action is taken, some ethical principle is compromised. In other words, there is no perfect solution.

In determining what constitutes an ethical dilemma, it is necessary to make a distinction between ethics, values, morals, laws and policies. Ethics are propositional statements (standards) that are used by members of a profession or group to determine what the right course of action in a situation is. Ethics rely on logical and rational criteria to reach a decision, an essentially cognitive process. Values, on the other hand, describe ideas that we value or prize. To value something means that we hold it dear and feel it has worth to us. As such, there is often a feeling or affective component associated with values (Allen & Friedman, 2010). Often, values are ideas that we aspire to achieve, like equality and social justice. Morals describe a behavioral code of conduct to which an individual ascribes. They are used to negotiate, support, and strengthen our relationships with others.

Finally, laws and agency policies are often involved in complex cases, and social workers are often legally obligated to take a particular course of action. Standard 1.07j of the Code of Ethics (NASW, 1996) recognizes that legal obligations may require social workers to share confidential information (such as in cases of reporting child abuse) but requires that we protect

confidentiality to the “extent permitted by law.” Although our profession ultimately recognizes the rule of law, we are also obligated to work to change unfair and discriminatory laws. There is considerably less recognition of the supremacy of agency policy in the Code, and Ethical Standard 3.09d states that we must not allow agency policies to interfere with our ethical practice of social work.

It is also essential that the distinction be made between personal and professional ethics and values. Conflicts between personal and professional values should not be considered ethical dilemmas for a number of reasons. Because values involve feelings and are personal, the rational process used for resolving ethical dilemmas cannot be applied to values conflicts. Further, when an individual elects to become a member of a profession, he or she is agreeing to comply with the standards of the profession, including its Code of Ethics and values. Recent court cases have supported a profession’s right to expect its members to adhere to professional values and ethics. The Council on Social Work Education states that students should “recognize and manage personal values in a way that allows professional values to guide practice” (EPAS 1.1). Therefore, although they can be difficult and uncomfortable, conflicts involving personal values should not be considered ethical dilemmas.



## **2.9 Meaning of Ethical Dilemma**

An ethical dilemma is a complex situation that often involves an apparent mental conflict between moral imperatives, in which to obey one would result in transgressing another.

An ethical dilemma is one in which a person has to choose between two options, both of which are morally correct but in conflict. Ethics and morals are inseparable. They both deal with questions of right and wrong. What constitutes ethical behavior is determined by societal or cultural norms. What constitutes moral behavior is up to the individual to decide based on his or her own sense of right and wrong.



#### Examples of Ethical Dilemma

Ethical dilemma, also known as a moral dilemmas, are situations in which there is a choice to be made between two options, neither of which resolves the situation in an ethically acceptable fashion. In such situations, societal and personal ethical guidelines can provide no satisfactory outcome for the chooser.

Ethical dilemmas assume that the chooser will abide by societal norms, such as codes of law or religious teachings in order to make the choice ethically impossible.

Ethical dilemmas may arise for patients, family members, medical staff members and physicians alike.

Some of the issues surrounding problems for which ethics consultation may be requested include:

- Advance directives
- Surrogate decision making
- Refusal of treatment
- Conflicts with caregivers
- Foregoing life-sustaining treatment
- Do Not Attempt Resuscitation (DNAR) orders
- Other issues perceived as ethical problems

Examples of ethical dilemmas may include the following:

- Your critically ill family member is in the hospital and the doctors and nurses are turning to you to make medical decisions on the patient's behalf. You don't know how to decide what to do and could use some guidance.
- You are a patient and are too sick to speak for yourself. You are concerned about who will make medical decisions on your behalf, and whether your wishes will be followed. You wonder, "What if they disagree about what I would want, or what would be best for me?"
- You are part of the healthcare team and your patient comes from a culture in which it is considered wrong to tell patients that they are dying. You're unclear how to respond to a family's request to conceal the truth from a dying patient.
- You are a physician and some may think it is time to withdraw life support and let nature take its course, yet the dying patient's family insists that you "do everything possible" to keep the patient alive. You are unclear how to solve this problem and worry that "doing everything" might cause the patient pain and discomfort without offering any benefit.

### **2.1.0 Types of Ethical Dilemma**

An "absolute" or "pure" ethical dilemma only occurs when two (or more) ethical standards apply to a situation but are in conflict with each other. For example, a social worker in

a rural community with limited mental health care services is consulted on a client with agoraphobia, an anxiety disorder involving a fear of open and public spaces. Although this problem is outside of the clinician's general competence, the limited options for treatment, coupled with the client's discomfort in being too far from home. It would likely mean the client might not receive any services if the clinician declined on the basis of a lack of competence. Denying to see the patient then would be potentially in conflict with our commitment to promote the well-being of clients. This is a pure ethical dilemma because two ethical standards conflict. It can be resolved by looking at Ethical Standard which states that social workers should only accept employment (or in this case, a client) on the basis of existing competence or with "the intention to acquire the necessary competence." The social worker can accept the case, discussing the present limits of her expertise with the client and following through on her obligation to seek training or supervision in this area.

However, there are some complicated situations that require a decision but may also involve conflicts between values, laws, and policies. Although these are not absolute ethical dilemmas, we can think of them as "approximate" dilemmas. For example, an approximate dilemma occurs when a social worker is legally obligated to make a report of child or domestic abuse and has concerns about the releasing of information. The social worker may experience tension between the legal requirement to report and the desire to respect confidentiality. However, because the NASW Code of Ethics acknowledges our obligation to follow legal requirements and to intervene to protect the vulnerable, technically, there is no absolute ethical dilemma present. However, the social worker experiences this as a dilemma of some kind and needs to reach some kind of resolution. Breaking the situation down and identifying the ethics, morals, values, legal issues, and policies involved as well as distinguishing between personal and professional dimensions can help with the decision-making process in approximate dilemmas.

### **2.1.1 Meaning of Ethical Decision Making**

In determining right versus wrong, it has to be remembered that those terms are subjective. That's where understanding the definition of ethics, and relying on a corporate code of ethics, can be very helpful. The code is the baseline by which a person, group, or organization can measure the facts of a case (including whether a determination can be made impartially). It is

also important to develop an organization's value statement to reflect your ethical values as well. This in turn will help the employees to understand your commitment and direction.

When analysis and evaluation begins, the rights of the individual and group, the equality of treatment, and the steps taken to remedy the issue or situation in a way that best serves the organization's vision or identity must all come into play. By examining each of these elements, a decision that's cohesive, consistent and appropriate will begin to form. Finally, that decision must be implemented (otherwise you're spinning your wheels).

### **2.1.2 Definition of Ethical Decision Making**

Ethical decision making helps the people to make difficult choices when faced with an ethical dilemma, a situation in which there is no clear right or wrong answer.

### **2.1.3 Process of Ethical Decision Making**

1. Gather the facts
2. Define the ethical issues
3. Identify the affected parties (stakeholders)
4. Identify the consequences
5. Identify the obligations (principles, rights, justice)
6. Consider your character and integrity
7. Think creatively about potential actions
8. Check your gut
9. Decide on the proper ethical action and
10. Be prepared to deal with opposing arguments.

#### **1 - GATHER THE FACTS**

- ◆ Don't jump to conclusions without the facts
- ◆ Questions to ask: Who, what, where, when, how, and why-
  - Finding the facts-however, facts may be difficult to find because of the
- ◆ Uncertainty often found around ethical issues Some facts are not available
- ◆ Assemble as many facts as possible before proceeding
- ◆ Clarify what assumptions you are making!



## 2 – DEFINE THE ETHICAL ISSUE(S)

- ◆ Don't jump to solutions without first identifying the ethical issue(s) in the situation.

Define the ethical basis for the issue you want to focus on-

- ◆ There may be multiple ethical issues – focus on one major one at a time.

## 3 – IDENTIFY THE AFFECTED PARTIES

- ◆ Identify all of the stakeholders
- ◆ Who are the primary or direct stakeholders?
- ♣ Who are the secondary or indirect stakeholders?
- ♣ Why are they stakeholders for the issue?
- ◆ Perspective-taking -- Try to see things through the eyes of those individuals affected

## 4 – IDENTIFY THE CONSEQUENCES

Think about potential positive and negative consequences for affected

- ◆ Parties by the decision (Focus on primary stakeholders to simplify analysis until you become comfortable with the process).

What are the magnitude of the consequences and the probability that

- ◆ The consequences will happen.

Short term vs. Long term consequences – will decision be valid over time

Broader systemic consequences – tied to symbolic and secrecy

- ◆ Symbolic consequences – Each decision sends a message
- ♣ Secrecy consequences – What are the consequences if the decision or action becomes public? Did you consider relevant cognitive barriers/biases?
- ◆ Consider what your decision would be based only on consequences –
- ◆ Move on and see if it is similar given other considerations.

## 5 – IDENTIFY THE RELEVANT PRINCIPLES, RIGHTS, AND JUSTICE ISSUES

Obligations should be thought of in terms of principles and rights involved

- ◆ A) What obligations are created because of particular ethical principles you might use in the situation?

Examples: Do no harm; Do unto others as you would have them do unto you; Do what you would have anyone in your shoes do in the given context.

- B) What obligations are created because of the specific rights of the stakeholders?

What rights are more basic vs. secondary in nature?

Which help protect an individual's basic autonomy? What types of rights are involved – negative or positive?

♣ C) What concepts of justice (fairness) are relevant – distributive or procedural justice?

Did you consider any relevant cognitive barriers/biases?

♦ Formulate the appropriate decision or action based solely on the above analysis of these obligations.

## 6 – CONSIDER YOUR CHARACTER & INTEGRITY

Consider what your relevant community members would

♦ Consider to be the kind of decision that an individual of integrity would make in this situation.

What specific virtues are relevant in the situation?

♦ Disclosure rule – what would you do if the New York Times

Reported your action and everyone was to read it.

Think about how your decision will be remembered when you are gone.

Did you consider any relevant cognitive biases/barriers?

♦ What decision would you come to based solely on character considerations?

## 7 – THINK CREATIVELY ABOUT POTENTIAL ACTIONS

Be sure you have not been unnecessarily forced into a

♦ Corner you may have some choices or alternatives that have not been considered

If you have come up with solutions “a” and “b,” try to

♦ brainstorm and come up with a “c” solution that might satisfy the interests of the primary parties involved in the situation.

## 8 – CHECK YOUR GUT

Even though the prior steps have argued for a highly rational process, it is always good to “check your gut.”

Intuition is gaining credibility as a source for good decision making – knowing something is not “right.”

• Particularly relevant if you have a lot of experience in the area – expert decision-making.

## 9 – DECIDE ON YOUR COURSE OF ACTION AND PREPARE RESPONSES TO THOSE WHO MAY OPPOSE YOUR POSITION

Consider potential actions based on the consequences,

◆ Obligations, and character approaches.

Do you come up with similar answers from the different perspectives?

Do the obligation and character help you “check” the consequential preferred action?

How can you protect the rights of those involved (or your own character) while still maximizing the overall good for all of the stakeholders?

What arguments are most compelling to you to justify the action ethically?

How will you respond to those with opposing viewpoints?

## Summary

Consequential is the class of normative ethics theories holding that the consequences of one's conduct are the ultimate basis for any judgment about the rightness or wrongness of that conduct can reflect. The term 'Consequential' seems to be used as a family resemblance term to refer to any descendant of classic utilitarianism that remains close enough to its ancestor in the important respects. If that claim is dropped, the theory ceases to be consequential. Besides anyone who wants to pick out moral theories this absurd theory may talk about evaluative consequential, which is the claim that more rightness depends only on the value of the consequences. It has an act is to right or wrong depends only on the results of that act. The forms of consequential take a more subtle approach. The consequential criterion for right action is maximization of a specified value. The non- consequential theories always reach decisions or evaluations on the basis of something other than, or in addition to the sum total or net aggregate of the consequences of choices. The theories of justice endorse principles of justice, which logically imply duties or rights that can be stated in terms of rules. An ethical dilemma, it is necessary to make a distinction between ethics, values, morals laws and policies. It assume tht the chooser will abide by societal norms such as codes of law or religious teachings in order to make the choice ethically impossible. The ethical decision making helps the people to make difficult choices when an ethical dilemma, a situation in which or wrong answer.

## **KEY TERMS**

**1. CONSEQUENTIAL THEORY** - The term 'consequential' seems to be used as a family resemblance term to refer to any descendant of classic utilitarianism that remains close enough to its ancestor in the important respects.

**2. NON CONSEQUENTIAL THEORY** - Non-Consequential Theories always reach decisions or evaluations on the basis of something other than, or in addition to, the sum total or net aggregate of the consequences of choices.

**3.ETHICAL DILEMMA** - An ethical dilemma is one in which a person has to choose between two options, both of which are morally correct but in conflict. Ethics and morals are inseparable. They both deal with questions of right and wrong.

**4. ETHICAL DECISION MAKING** - In determining right versus wrong, it has to be remembered that those terms are subjective. That's where understanding the definition of ethics, and relying on a corporate code of ethics, can be very helpful.

## **Self Assessment Questions**

1. What is meant by consequential theories?
2. Define consequential theories
3. Explain the principles of consequential theories.
4. What are the objectives of consequential theories?
5. What is meant by non – consequential theories?
6. What is Ethical dilemma?
7. Explain the types of ethical dilemma.
8. What is meant by Ethical decision making?
9. Define Ethical decision making
10. Explain the process of ethical decision making.

**UNIT – III**  
**ENVIRONMENT ISSUES**

**Learning Objectives**

After studying this unit you will be able to understand-

- ❖ Environment issues
- ❖ Protecting the Natural Environment
- ❖ Prevention of pollution and Depletion of Natural Resources
- ❖ Conservation of Natural Resources

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### **3.1 Introduction of Environment Issues**

Environmental issues gained increasing prominence in the latter half of the 20th century. Global population growth has led to increasing pressure on worldwide natural resources including air and water, arable land, and raw materials. Modern societies have generated an increasing demand for the use of industrial chemicals. The use of these chemicals results in great benefits in raising the standard of living, prolonging human life and improving the environment. But as new chemicals are introduced into the marketplace and existing chemicals continue to be used, the environmental and human health impacts of these chemicals have become a concern. Today, there is a much better understanding of the mechanisms that determine how chemicals are transported and transformed in the environment and what their environmental and human health impacts are, and therefore now it is possible to incorporate environmental objectives into the design of chemical processes and products. The challenge for future generations of chemical engineers is to develop and master the technical tools and approaches that will integrate environmental objectives into design decisions. Major environmental problems are caused by the production and use of chemicals in modern industrial societies. With each environmental problem introduced, the chemicals or classes of chemicals implicated in that problem are identified. Whenever possible, the chemical reactions or other mechanisms responsible for the chemical's impact are explained. Trends in the production, use, or release of those chemicals are shown. Finally, a brief summary of adverse health effects is presented. This chapter's intent is to present the broad range of environmental issues which may be encountered by chemical reactions regarding the design, production, and use of chemicals.

Environmental issues have gained increasing prominence in the latter half of the 20th century and the beginning of the 21<sup>st</sup> century. Growth in population and affluence around the globe, put an increasing pressure on natural resources, including air and water, arable land, and raw materials. Concern over the ability of natural resources and environmental systems to support the needs and wants of global populations, now and in the future, is part of an emerging awareness of the concept of sustainability. Sustainability is a powerful, yet abstract, concept. The most commonly employed definition of sustainability is that of the Brundtland Commission report - meeting the needs of the present generation without compromising the

ability of future generations to meet their needs (World Commission on Environment and Development, 1987). However, an internet search on the definition of sustainability will return millions of variations on this basic concept. In engineering, incorporating sustainability into products, processes, technology systems, and services generally means integrating environmental, economic, and social factors in the evaluation of designs. Even though this may seem simple in the abstract, but converting this concept to the types of quantitative design tools and performance metrics that can be applied in engineering design is a challenge. Quantitative tools available to engineers seeking to design for sustainability are continually evolving, but currently focus on natural resource conservation and emission reduction. While describing those tools, it will be useful to first review some of the details of the natural resource and environmental challenges.

### **3.2 Meaning of Environment Issues**

Environmental issues are harmful effects of human activity on the biophysical environment. Environmentalism, a social and environmental movement, addresses environmental issues through advocacy, education and activism.

Environmental issues are defined as problems with the planet's systems (air, water, soil, etc.) that have developed as a result of human interference or mistreatment of the planet.



### **3.3 Importance of Environmental Issues**

While this guide to important environmental issues is not comprehensive, if you're new to green or simply want a refresher overview, this list neatly summarizes some of our most pressing environmental concerns ... some of which cannot be solved simply via creative upcycling or small - living.

#### **1. Climate Change**

Global warming has been concerning scientists for decades, but Al Gore legitimized the crisis with his controversial film *An Inconvenient Truth*. From the melting polar ice caps to catastrophic weather and threatened ecosystems, has resulted in real climate change. Scientists agree that humans are influencing climate change with our production of greenhouse gases (mainly stemming from carbon dioxide and methane). What can you do? How bad is it? Why do so many people still think climate change - isn't real? Is it real? These are just some of the issues worth exploring. The good news is that despite the urgency of the crisis, there are exciting technological developments as well as meaningful lifestyle changes that can help the people to live with comfort.

#### **2. Energy**

Clean energy vs. dirty energy. Renewable energy. Energy independence. Petroleum. Biofuels. Coal. ANWR and offshore drilling. Even Pairs Hilton has something to say about energy. Energy is ranking in second to climate change. But the picture is not as clear as one might think. China is heavily criticized, but did you know the state of California is worse? Look for plenty of myth-busting and interesting news to come, as well as practical tips to reduce your own energy dependence. Though no single energy source is going to be the solution, positive developments toward a cleaner future are happening every single day.

#### **3. Waste**

With the immediate looming problems of climate change and energy, focus has shifted away from landfill waste. But this is a serious problem. The world has largely accustomed to a throwaway lifestyle. But that is neither healthy nor sustainable. Waterways are choked with trash and modernized nations ship their undesirable leftovers to the developing world. Fashion, fast food, packaging and cheap electronics are just some of the problems. The amount of waste the industrialized world generates is shocking. Water bottles are the defining symbol of this critical



issue. Fortunately, people are becoming aware of the consequences of "fast consumption" and there are many simple changes that we can make in our own life to help significantly reduce landfill waste.

#### **4. Water**

Short supply of pure water has become global issue. Our global reserves of drinkable water are a fraction of 1% and 1 in 5 humans does not have access to potable (safe) water. Many people do not realize that strife has already broken out in some stressed regions. There are many potential solutions, some promising, others challenging. Desalinization is an energy-inefficient, expensive option. But there are many things we can do.

#### **5. Food**

*Biofuels have turned into a global controversy – the idea that people may causing the starvation of millions in order to fuel their SUVs is sickening. And yet that's not the whole picture. For example, eating hamburgers has as much or more impact on the global food picture as the use of biofuels. There is also the whole issue of "food miles" – at first, local seemed logical, but the situation is more complex than that. It's all about resources and efficiency. There are big questions: can we support the world without turning to vegetarianism? We know that the planet can't afford the Western way of eating. It would take 5 earths to support that lifestyle! What about hunting – is that good for the environment? Look for more articles soon exploring the complicated world of food. Fortunately, there are a multitude of tasty diets that incorporate greener values. So, it is not necessary to adhere to vegetarianism.*

#### **6. Consumption**

This is directly tied to waste. It is well-known that the industrialized world simply consumes in a way that is not sustainable. But, the developing world is rapidly imitating the model. Sustainability in the most compelling sense is about long-term solvency. The way we live now is borrowing against the future. Reducing consumption, and smart consumption, are both necessary. There are many ways to go about doing this. Some methods are pure geek, some are high tech, and some are just common sense. Once we start exploring, we will be able to feel that it's actually fun.

## **7. Land Management**

From desertification to polar ice melting to erosion and deforestation, existing land management choices are not serving the planet or its inhabitants very well. The 1990s saw some headway with forest management but the Bush administration's various initiatives (most notoriously, "Healthy Forests") have set back progress by decades. There is very little land left that is undeveloped, either with structures or roads. In fact, there is virtually no land left that is not subject to light or noise pollution. The modern green movement believes that in order to create a sustainable future, people will need to return to the conservation spirit that Americans were once famous for. That's a value system that includes meaning, adventure, and self-sufficiency – no wonder so many people are getting inspired.

## **8. Ecosystems and Endangered Species**

The good news is that some species have made a comeback. The bad news is that many more species are now under threat, including indicator species and evolutionarily unique species. (When an indicator species becomes threatened, endangered, or worse, extinct, this means an entire ecosystem faces collapse.) The consequences can have global impact. From the most unusual endangered animals to a complete list of indicator species for key ecosystems and how we can help.

### **3.4 Meaning of Protecting the Natural Environment**

Environmental protection is a practice of protecting the natural environment on individual, organizational or governmental levels, for the benefit of both the natural environment and human beings. Due to the pressures of population and technology, the biophysical environment is being degraded, sometimes permanently. This has been recognized, and governments have begun placing restraints on activities that cause environmental degradation. Right from 1960s, activities of environmental movement created awareness of the various environmental issues. There is no agreement on the extent of the environmental impact of human activity, and protection measures are very rarely criticized.

Academic institutions now offer courses, such as environmental studies environmental management, and environmental engineering, that teach the history and methods of environment protection. Protection of the environment is needed due to various human

activities. Waste production, air pollution, and loss of biodiversity (resulting from the introduction of invasive species and species extinction) are some of the issues related to environmental protection. Environmental protection is influenced by three interlinked factors: environmental legislation, ethics and education. Each of these factors plays its part in influencing national-level environmental decisions and personal-level environmental values and behaviors. To bring reality in environmental protection it is important for societies to develop each of those areas. Togetherness will inform and drive environmental decisions.

Our natural environment is a priceless part of our heritage. Plants and soils help to purify water, forests act as natural carbon sinks, and all animals have a role to play in the food-chain. A healthy natural environment is vitally important for all eco-systems and it is our responsibility to protect it.

### **3.5 Meaning of Prevention of Pollution**

Pollution prevention occurs when raw materials, water, energy and other resources are utilized more efficiently, when less harmful substances are substituted for hazardous ones, and when toxic substances are eliminated from the production process.



Pollution prevention reduces the amount of pollution generated by a process, whether it is consumer consumption, driving, or industrial protection. In contrast to most pollution control strategies, which seek to manage a pollutant after it is formed and reduce its impact upon the environment, the pollution prevention approach seeks to increase the efficiency of a process, thereby reducing the amount of pollution generated at its source. Eventhough, there is wide agreement that source reduction is the preferred strategy, some professionals also use the term pollution prevention to include pollution reduction.

With increasing human population, pollution has become a great concern. Pollution from human activities is a problem that which is not inevitable. With a comprehensive pollution prevention program, most pollution can be reduced, reused, or prevented. The US Environmental Protection Agency works to introduce pollution prevention programs to reduce and manage waste.

Pollution is the contamination of air, soil, or water by the discharge of harmful substances. Pollution prevention is the reduction or elimination of pollution at the source (source reduction) instead of at the end-of-the-pipe or stack. Pollution prevention happens when raw materials, water, energy and other resources are utilized more efficiently, when less harmful substances are substituted for hazardous ones, and when toxic substances are eliminated from the production process. By reducing the use and production of hazardous substances, and by operating more efficiently we can protect human health, strengthen our economic well-being, and preserve the environment.

Source reduction allows for the greatest and quickest improvements in environmental protection by avoiding the generation of waste and harmful emissions. Source reduction makes the regulatory system more efficient by reducing the need for end-of-pipe environmental control by government.

NPPR supports multi-media P2 approaches which work to solve environmental problems holistically and do not only focus on pollution in a single medium (air, land, or water). Well planned rules, regulations and solutions that are not multi-media sometimes exacerbate existing conditions by creating larger problems to other media that are not accounted for by a single media-specific solution. Many times this can result in the transfer of pollution from one medium to another. For example, in some cases, by requiring hazardous air emission controls for

industrial facilities, other problems might result, such as pollutants being transferred to underground drinking water through the residual sludge.

### **3.6 Definition of Prevention of Pollution**

Pollution prevention (P2) is the reduction or elimination of wastes and pollutants at their sources. For all the pollution that is avoided in the first place, there is that much less pollution to manage, treat, dispose of, or clean up. P2 can encompass activities such as:

- redesigning products to cause less waste or pollution during manufacture, use, or disposal
- altering production processes to minimize the use of toxic chemicals
- implementing better housekeeping practices to minimize leaks and fugitive releases from manufacturing processes
- taking steps to reduce energy consumption.

Pollution prevention within industry generally receives the most attention. However, P2 efforts in other sectors are equally important.

For example, planting pestresistant crops can reduce or eliminate the need for chemical pesticides and there by reducing the water, air, and soil pollution that results from the manufacture and use of agricultural chemicals. In office settings, simple steps such as making double-sided copies and printing drafts on the back sides of discarded paper can substantially reduce the consumption and disposal of paper products. At home, minimizing the use of toxic household chemicals such as drain cleaners and herbicides will reduce the amount of hazardous chemicals that eventually end up into the environment. The range of P2 opportunities is constrained only by the limits to our relationship with the environment.

### **3.7 Economic Incentives for Pollution Prevention**

Adopting pollution prevention practices and techniques often benefits industry by lowering a company's operational and environmental compliance costs. By preventing the generation of waste, P2 can also reduce or eliminate long-term liabilities and clean-up costs. In addition, disposal costs are reduced when the volume of waste is decreased. This can also lead to a reduction in workplace exposures to hazardous materials which can affect workers' health and hence, their productivity. If less waste is produced, there will also be a diminished need for on-site storage space. Furthermore, by preventing pollution there will be a greater likelihood that

a company will be in compliance with local, state, and national compliance statutes. Finally, as community pillars, businesses shoulder an important responsibility for protecting the environment and natural resources for their own good as well as that of the society.

### **3.8 Types of Pollution Prevention**

When we cause pollution it will be our responsibility to incur the cost of the cleaning up. This can be expensive particularly if groundwater has become contaminated. There may be additional costs associated with our incident response and/or fines through the criminal courts or civil claims. Following these good practice guidelines will surely help to reduce the likelihood of an incident. A rapid response to incidents will help to minimize the environmental impact and could reduce the overall costs.

Silt pollution is a major cause of environmental incidents. It can damage and kill aquatic life by smothering and suffocating and can cause flooding by blocking culverts and channels activities that can cause silt pollution.

Silt and contained water can be caused by -

Disturbance of river bed or bank

De watering and pumping of excavations

Run off from exposed ground

Plant washing roads and river crossings

When we are able to prevent water becoming contaminated in the first place, then it reduces the risk of pollution and the overall cost of control measures. To avoid silt pollution, whenever possible use methods of work that reduce or eliminate working in the channel and that do not contaminate surface water disturbance of the river bed / working in the river channel .

The risk of silt pollution causing an incident will depend on many factors including: -

- likelihood of silt being disturbed
- what the river bed is made of, e.g. silt or gravel
- the conditions in which the work is carried out, e.g. hot weather and low flows

Silt pollution caused by working in surface waters can be minimized or prevented by keeping water out of the works area using appropriate isolation techniques, such as coffer dams and by-pass channels.

Disposal of water from excavations, dewatering and pumping

Problems with disposal of water from the above activities may be minimized avoided by:

- preventing water from entering excavations, by using cut off ditches
- considering the impact on groundwater by using well point dewatering or cut off walls
- using pump sumps in excavations
- supporting inlet hoses above the bed
- discharging on to hard surfaces (concrete slabs/gravel) in to surface waters
- use of appropriate pump rates – to avoid disturbance of bed or bank, the maximum rate should be set after consideration of the flow of the river, the location of the discharge and the risk of erosion
- protection of the pump inlet to avoid drawing in aquatic life and other debris
- minimized disturbance of standing water

Exposed ground and stockpiles

Soil stripping and vegetation removal at the start of a project can increase the volume of contaminated surface water run-off. It can also reduce the area of vegetated land available for disposal of silty water. To avoid this-

- minimize the amount of exposed ground and soil stockpiles from which the water drains and the period of time such water drains.
- remove vegetation from the area that needs to be exposed in the near future
- seed or cover stockpiles
- use silt fences at the toe of the slope, made from geo textiles, to reduce silt transport
- collect run-off in lagoons and allow suspended solids to settle before disposal

On-site working

The movement and maintenance of plant on site can generate silt and oil contaminated water. Sources of silt such as plant and wheel washing and site roads and river crossings carry a high risk of causing pollution. To reduce the pollution risk make sure that-

- plant and wheel washing is carried out in a designated area of hard standing at least 10 metres from any watercourse or surface.

- Water drain run-off can be collected in a sump - recycle and reuse water where possible
- settled solids can be removed regularly
- discharge of contaminated water goes to foul sewer (if possible) with prior permission from the local sewerage provider or tanker off site for authorized disposal .

#### Site roads and river crossings

Run off from site roads and river crossings can contain high levels of silt. This the pollution risk can be reduced by:

- brushing or scraping roads to reduce dust and mud deposits
- putting small dams in artificial roadside ditches to retain silt
- using existing permanent bridges or pipe crossings for river crossing
- if necessary building temporary bridges - but not fording rivers
- working from the bank where possible – not in the river

#### Disposal of contaminated water - treatment and disposal methods

Where runoff water is contaminated with silt or other pollutants such as oil this water must not be pumped or allowed to flow directly or indirectly in to surface waters or groundwater without treatment.

If a discharge to surface waters, groundwater, soak ways or surface water sewers is necessary.

The choice of method for the treatment and disposal of contaminated water will depend on:

- the volume of water
- the area of land available for storage, treatment or discharge
- the amount and type of silt
- the presence of other substances in the water
- the conditions of any consent or authorization

Treatment and disposal methods include:

Contained water treatment and disposal

Sustainable Drainage Systems (SUDS)

Settlement Lagoons

Filtration

Pump to grass land

Discharge to sewer

Tanker off site



## Sustainable Drainage Systems (SUDS)

Sustainable drainage is the practice of controlling surface water runoff as close to its origin as possible by slowing flows, allowing adequate settlement and biological action to take place before water is discharged to a watercourse or to ground. It uses softer engineering solutions to imitate natural drainage rather than traditional piped drainage solutions. Sustainable drainage methods used both in the construction phase and in the design of the project will:

- reduce flood risk from development within a river catchment
- minimize diffuse pollution arising from surface water runoff
- minimize the risk of pollution to groundwater
- minimize environmental damage, such as bank erosion and damage to habitats
- maintain or restore the natural flow regime of the receiving watercourse
- maintain recharge to groundwater
- achieve environmental enhancements, improvement to wildlife habitats, amenity and landscape quality

### Examples of source control sustainable drainage systems

Porous surface pavements – water permeates through in to the soil or sub-surface reservoir which can then be allowed to discharge slowly rather than directly running off. This will minimize the volume of water that you might need to treat and can also recharge groundwater. Porous pavements need to be protected during installation from blocking by excessive silt contaminated water.

Infiltration trenches – a shallow excavated trench backfilled with stone to make an underground reservoir. Runoff is diverted in to the trench and then filters in to the subsoil. The closer to the source the more effective this method will be infiltration basins – a shallow surface impoundment where water is stored until it gradually infiltrates in to the soil of the basin floor. The performance of the basin depends largely on the permeability of the soil and the depth of the water table

Filter drains or French drains - these are similar to infiltration trenches but also allow movement of run off slowly towards a watercourse allowing time for filtration, storage and some loss of water due to evaporation / infiltration.

Swales – grassed wide shallow depressions which lead water overland from a drained surface in to storage or discharge system. They provide temporary storage for run off reducing high flows.

Solids are retained and oily residues and organic matter broken down in the top layer of the soil and vegetation.

Filter strips – vegetated sections of land designed to accept run off as an overland sheet flow. To be effective they should be 5 – 15 metres wide and are best employed on the upstream end of a drainage system. They are most effective at removing excess solids and pollutants before discharging to downstream system.

Other SUDS can be considered including ponds, detention basins (dry ponds) and wetlands. At the planning stage consider how drainage can be managed by using SUDS. Pollution removal by these methods is achieved by sedimentation, adsorption, absorption, filtration and microbial action. In Scotland, discharges of water run-off from construction sites are required to be treated by either a Sustainable Urban Drainage System (SUDS) or an equivalent equipped to avoid pollution. However, the final SUD System cannot be an equivalent and must be a recognized SUD System

#### Settlement lagoons or tanks

To be effective a settlement lagoon or tank should retain contaminated water long enough for silt to settle out. The length of time will depend on the type of silt, with finer clay solids taking longer to settle . Flocculants can themselves be polluting and/or toxic and need careful use and monitoring to be effective. The checklist below gives guidance on lagoon/tank operation.

#### Filtration

When there is no space for lagoons and the water is contaminated with course silt tanks filled with filter material may be used. Single sized aggregates 5–10 mm, geotextiles or straw bales can be used as a filter. It must be monitored carefully the inlet pump rate and discharge quality Pump to grassland may be used with the permission of the landowners' before planning to use this method of disposal. The discharge rate must match the rate of infiltration in to the soil which will vary with the type soil, amount of vegetation cover and the gradient.

Discharge to sewer if discharge to a foul sewer is possible it will require the permission of the local sewerage provider. They may issue a consent/authorization limiting the volume and content of the discharge.

#### Tanker off site

If no other disposal routes are available then contaminated water can be collected and disposed off site by tanker. This may be a costly option.

## Concrete and cement

Fresh concrete and cement are very alkaline and corrosive and can cause serious pollution. Concrete and cement mixing and washing areas should be sited 10 metres from any watercourse or surface water drain to minimize the risk of run off entering a watercourse

- Have settlement and re-circulation systems for water reuse, to minimize the risk of pollution and reduce water usage
- Have a separate area for washing out and cleaning of concrete batching plant or ready mix lorries;
- collect wash waters and, where necessary, discharge to the foul sewer (you must have permission from the local sewerage undertaker for this), or contain wash water for authorized disposal off site Wash waters from concrete and cement discharged to the water environment.

## Oil and chemicals

In England, oil storage containers (e.g. tanks, IBCs, drums and mobile bowsers) greater than 200 litres must comply with the Control of Pollution (Oil Storage) (England) Regulations 2001 - reference 11. Similar legislation is expected in Northern Ireland.

In Scotland, storage must be compliant with the Water Environment (Oil Storage) (Scotland) Regulations 2006 - reference 12 -; these regulations apply to the storage of any volume of any kind of oil, with more prescriptive requirements applying to industrial, commercial and institutional sites storing over 200 litres of oil.

## Storage - general

Make sure fuel, oil and chemical storage on site is secure. Site the storage on an impervious base within a secondary containment system such as a bund. The base and bund walls should be impermeable to the material stored and able to contain at least 110% of the volume stored. Site the storage area above any flood water level and where possible away from high-risk locations (such as within 10 metres of a watercourse or 50 metres of a well, borehole or spring), to minimise the risk of a spill entering the water environment. Keep a spill kit with sand, earth or commercial products that are approved for stored materials, close to storage area. Train staff on how to use these correctly.

Remove damaged leaking or empty drums from site immediately and dispose any drums via a registered waste disposal contractor

### Security

Secure site against theft and vandalism. Statistics show that damage from vandalism is a common cause of pollution.

Therefore take action to secure site by

- fitting lockable valves and trigger guns on pipework from storage containers
- installing anti siphon valves in pipework between containers and pumps
- installing armoured hoses
- storing tanks drums and mobile bowers in a locked container or compound when not in use
- considering lighting, alarm or CCTV systems for your site or compound
- installing lockable fencing around the site or employing security staff

### Re-fuelling

The risk of spilling fuel is at its greatest during refuelling of plant. To minimise this risk:-

- refuel mobile plant in a designated area, on an impermeable base away from drains or watercourses
- use a bunded bowser
- supervise all refuelling and bulk deliveries
- check the available capacity in the tank before refuelling
- don't jam open a delivery valve
- check hoses and valves regularly for signs of wear
- turn off valves after refuelling and lock them when not in use
- position drip trays under pumps to catch minor spills
- keep a spill kit with sand, earth or commercial products for containment of spillages
- provide incident response training to your staff and contractors

### Biodegradable oils

If possible use biodegradable chainsaw chain bar lubricant and biodegradable hydraulic oil in plant when working in or near watercourses. The Environment Agency and its contractors use

biodegradable oils for their own operations. Biodegradable oils are less toxic than most of the synthetic oil but should still be stored and used to the same standards as other oils

#### Trade materials

Sealant, coatings, adhesives and glazings can be toxic to plants and animals if released in to the environment. Select, store and use these materials carefully to save resources and protect the environment. Sealant and glazing compounds containing asbestos should not be used. Instead -

- use water based or low solvent products
- avoid products containing lead as a drying agent and those containing hazardous solvents (toluene or chlorinated hydrocarbons )
- provide safe and secure storage

#### Bridge maintenance and structures over water

Work to maintain bridges or other structures over or next to watercourses has a high risk of causing pollution. The maintenance work itself may require authorization. Most appropriate method can be worked out which agrees with an environmental management plan.

#### Pollutant containment

Dust, debris and wastewater are the most common pollutants produced by structure maintenance. Choose a containment system designed to reduce the risk of pollution from work. The system should take account of the sensitivity of the environment. The type of containment will depend on the sensitivity of the site.

Methods of containment include:

- air or water impenetrable walls
- rigid or flexible framing lined as necessary
- fully sealed joints
- airlocks or resealable entryways
- negative air pressure (achieved by forced or natural air flow) and
- exhaust air filtration

In sealed containment areas filtered ventilation must be provided to prevent the build-up of dust and minimize the possibility of air escaping through breaches of the containment

. Use physical cleaning instead of liquid chemicals such as caustic and acid solutions. Contain wastewaters from surface washings and agree the disposal method with us as part of the environmental management plan before you start work. In some circumstances, a barge with a wastewater containment facility may be used for working over water, or dispose to foul sewer with prior permission of the local sewerage undertaker.

The containment facility must be designed so that the structure does not obstruct the river flow beneath it to such an extent that it increases the risk of flooding to an unreasonable level.

#### Paint removal

Paint removal methods include:-

- abrasive blast cleaning
- blasting in a closed circuit
- preparation by various types of wet abrasive blasting or water jetting
- chemical stripping and
- hand or power tool cleaning.

Abrasive blasting produces the greatest level of dust and debris. The use of vacuum attachments on power tools can reduce dust generation. Water cleaning methods produce less debris, but generate run-off, which needs to be contained and treated.

Sample existing coatings for hazardous materials (e.g. lead) can be removed. This will help to determine the level of containment which is required. The level of containment needed depends on:

- The amount of paint to be removed
- The type and concentration of the hazardous materials
- the sensitivity of the surrounding environment

#### Surface cleaning

While using high-pressure water or steam cleaners avoid using grit blasting with slag-derived grit as they can contain significant levels of heavy metals such as copper. These can be toxic if they get in to the water environment. Reduce the potential for contamination by using garnet, low silica abrasive or recycled glass media with vacuum attachments.

## Painting

We advice for painting is much the same as for paint removal although the volume of waste and size of operations will be less. Remove dust and debris by sweeping or vacuum cleaning before painting. Paints can be applied onsite using brush, conventional spray or airless spray. Consider using electrostatic spray units to reduce the loss of product by over-spraying.

Carefully consider the type of paint for use. Although water based solvent free paints have lower environmental impact they may require more frequent application. Solvent-based paints could have a higher environmental impact but will last longer and require less maintenance. The decision to use water or solvent-based paints should be based on the environmental sensitivity of the area/surrounding environment and ease of access to the structure.

## Herbicide use

In England, Northern Ireland and Wales written approval is necessary to use herbicides in or near waters. Therefore, only approved herbicides may be used for ensuring that the interests of other river users.

## Waste management

Legal waste storage and disposal are essential for effective pollution prevention.

Waste must be transferred to an authorized registered or exempt waste carrier or waste manager. It must be accompanied by a full description of the waste and a waste transfer note and be disposed off lawfully.

## Incident response

It is necessary to produce an Incident Response Plan as part of the environmental impact management of the work which may include the following: -

- list of key external and internal contacts
- reporting procedures
- site plan including drainage and location of storage/refuelling areas
- list of stored materials
- details of local environmental sensitivities, e.g. abstractors, high amenity areas and fish farms
- location of spill equipment
- procedures for spill containment and remediation.

Training must be given to staff and contractors in the use of spill equipment and how to manage and dispose of waste materials legally. While using oil and chemicals in close proximity to a

watercourse, store a suitable spill kit or absorbent materials nearby. Provide appropriate temporary storage for any oils and chemicals.

### **3.9 Meaning of Depletion Natural Resources**

Resource depletion is the consumption of a resource faster than it can be replenished. Natural resources are commonly divided between renewable resources and non-renewable resources.

Resource depletion occurs when the raw materials available in a given geographic region are used up. Any resource of which there is a limited supply or that regenerates its supply over time at a limited rate can become depleted. Deforestation, mining, and oil consumption all consume resources that are commonly used in manufacturing and for other industrial concerns. Other activities, such as overfishing and over-farming, can also lead to the depletion of available resources. In some cases, resource depletion is not intentional and contributes nothing to any industrial or commercial concern. In fact it is caused by unintentional contamination of a resource, such as through pollution.

There are many different underlying human causes of resource depletion. Most of them linked to excessive consumption of commercial products and food in many parts of the world. Fossil fuels, for instance, are burned to produce energy for a vast number of different personal, commercial, and industrial concerns and are, accordingly, being rapidly depleted. The production of farmland also consumes many resources. Most farmland exists to support the meat industry, particularly in the United States. Space for farmland is often produced by clear cutting forests, which are important natural resources.

Natural resources are grouped into two primary categories: renewable resources and nonrenewable resources.

Renewable resources are those that, over time, are naturally regenerated, such as animals used for food, forests, wind energy, and solar energy. Despite the fact that these are renewable, special care must still be taken to avoid depleting resources. If overfishing significantly reduces a fish population, for instance, it may not be able to reproduce sufficiently to repopulate and may, therefore, become extinct.

Nonrenewable resources, on the other hand, are those which simply cannot be regenerated — metal ores, for instance, once taken from the Earth, they cannot regenerate.



Resource depletion is commonly studied in the field of economics because the availability of raw materials can have a significant impact on the global economy. The production of many different commonly-used items, particularly some electronics that depend on relatively rare materials, depends on a constant supply of materials that exist only in limited quantities. Resource depletion can have dire implications on the price and availability of such products.

Environmentalists are also very concerned with resource depletion generally for different reasons. Resource depletion can severely damage ecosystems, the environment, the atmosphere, and many other important aspects of the Earth. Individuals with environmental concerns, should be generally more concerned with maintaining the overall health of the environment than with finding new sources of resources.



### **3.10 Definition of Depletion of Natural Resources**

Natural resource depletion is the sum of net forest depletion, energy depletion, and mineral depletion. Net forest depletion is unit resource rents times the excess of round wood harvest over natural growth. Energy depletion is the ratio of the value of the stock of energy resources to the remaining reserve lifetime (capped at 25 years). It covers coal, crude oil, and natural gas. Mineral depletion is the ratio of the value of the stock of mineral resources to the remaining reserve lifetime (capped at 25 years). It covers tin, gold, lead, zinc, iron, copper, nickel, silver, bauxite, and phosphate.

### **3.11 Effects of Depletion of Natural Resources**

Natural resources include water, fuel, soil, land and air. The effects of natural resource depletion vary depending on the type of resource.

Reduced water quality affects humans and animals by reducing the amount of healthy and safe drinking water.

The rapid use of fossil fuels introduces foreign and harmful toxins into waterways, the ground and the atmosphere, and affects human populations by increasing the cost of transportation.

Depletion of natural resources produces competition among living organisms for the remaining portions, and thereby diminishes the quality of available resources.

Of the life-sustaining natural resources for humans, plants and animals, water ranks high on the list of the most basic and important elements. Certain human-caused activities reduce the quality of safe and accessible drinking water. A reduced water quality presents problems surrounding health and welfare, especially in combination with too much or too little water. Impaired water quality makes drinking water more expensive for people and less readily available. Through storm water runoff, industrial waste emissions and fertilizers, contaminated water enters streams and rivers which ultimately jeopardizing the health and vitality of marine ecosystems.

Overuse of fossil fuels reduces their availability and also introduces harmful toxins into waterways and the atmosphere. Deforestation and agricultural activities exacerbate erosion and

cause soil contamination, which impairs the survival capacity of plants, and makes surrounding areas prone to flooding and environmental disasters.

### **3.12 Basic Reasons for the Depletion of Natural Resources:**

1. Rapid population increase,
2. Pollution,
3. High consumption of resources, and
4. Deterioration of land.

#### **1. Rapid population increase:**

There has been a tremendous increase in India's population and it has now crossed 103 crores (1.03 billion). An increase in population will decrease all types of natural resources and result in environmental pollution. Ultimately, there will be short supply, as well as deterioration in quality of natural resources. This is because increase in population will increase the demand of natural resources and environment.

At present, the world population is increasing by two per cent every year. The industrialized countries have annual growth rate of 0.5 to 1 per cent. On the other hand the developing countries have the growth rate of 2 to 3 per cent. The per capita use of energy and mineral resources shows a difference between the developing and developed countries of the world. The developed countries consume less but their resources are enough. The population and per capita consumption have a considerable impact on the environment. The world unable to meet the continuously increasing demand for natural resources.

#### **2. Pollution:**

The environment is deteriorating due to increasing population and industrial revolution. The atmosphere, lakes, streams, rivers are polluted by sewage, industrial wastes, heat, radioactive materials, detergents, fertilizers and pesticides. Besides these, a number of toxic materials are released into our surroundings. The uncontrolled and indiscriminate use of pesticides has disturbed the entire food chains by which animals including man are affected.

It has been estimated that average individual has about 7 parts per million (ppm) DDT in his body which affects in long-term. Recent researches have revealed that this proportion of DDT in our body has harmful effects on heart and liver and higher concentration may cause several other diseases including cancer. Many gases, e.g., carbon monoxide, sulphur dioxide, carbon dioxide

and nitrous oxide are known to cause respiratory troubles. The unplanned and uncontrolled industrial growth may adversely affect or destroy the health of the society.

### 3. Consumption of materials:

Due to tremendous increase of population, most of the natural resources are being rapidly consumed. This high rate of consumption has disturbed our ecosystems. But, on the other hand, many of the natural resources are essential for basic human needs. Many industries require raw materials which are essential for the advancement of the country. However, their rapid consumption will affect adversely the quality of the environment either by unwise use of natural resources or by increasing pollution.

### 4. Deterioration of land:

Due to excessive consumption of minerals of the soil by cropping or soil erosion or other natural events, fertility of soil is lost and the land deteriorates gradually. Sometimes drought also results in deterioration of land and many nutrients of the top soil are destroyed and soil fertility is lost. As a result of cropping, the cycling of soil mineral nutrients is greatly reduced.

Erosion has also depleted soil fertility since most of the minerals remain in the upper part of the soil and they are easily removed by wind or washed away by water. Sometimes water erosion takes its toll of fertile soils.

Man has also deteriorated agricultural land and ultimately caused the loss of national economy. It is commonly seen that man cannot degrade one part of his environment without simultaneously affecting other parts. For proper economic development lands for cropping, forest, recreation, transportation and wildlife are needed but their availability is reducing day by day. Therefore, it is necessary to practice integrated policy of resource management. If not unexpected future shortage might upset the national economy.

## **3.13 Meaning of Conservation of Natural Resources**

The term conservation came into use in the late 19th century. It refers to the management, mainly for economic reasons, of such valuable natural resources as timber, fish, game, topsoil, pastureland, and minerals, and also to the preservation of forests, wildlife, parkland.

Conservation of natural resources is now usually embraced in the broader conception of conserving the earth itself by protecting its capacity for self

renewal. Particularly complex are the problems of nonrenewable resources such as oil and coal and other minerals in great demand.

Current thinking also favours the protection of entire ecological regions by the creation of "biosphere reserves." Examples of such conservation areas include the Great Barrier Reef off Australia and Adirondack State Park in the United States. The importance of reconciling human use and conservation beyond the boundaries of parks has become another important issue.

### **3.14 Definition for Conservation of Natural Resources**

The Protection, Preservation, restoration, and rational use of all resources in the total environment.

### **3.15 Need for the Conservation of Natural Resources**

1. It aims at sustainable benefit to the present generation.
2. It maintains a potential to meet the needs and aspirations of future generations.
3. Proper, judicious and planned use of natural resources may sustain the environment.
4. Proper exploitation and conservation of renewable resources create fewer problems.
5. Over-exploitation causes damage of the existing environment.

### **Summary**

There is a much better understanding of the mechanisms that determine how chemicals are transported and transformed in the environment and what their environmental and human health impacts are, and therefore now it is possible to incorporate environmental objectives into the design of chemical process and products. Environmental issues are harmful effects of human activity on the biophysical environment. Scientists agree that humans are influencing climate change with our production of greenhouse gases. Some methods are pure geek, some are high tech, and some are just common sense. Environmental protection is a practice of protecting the natural environment on individual, organizational or governmental levels, for the profit of both the natural environment and human beings. Protection of the environment is needed due to various human activities. To bring reality in environmental protection it is important for societies to develop each of those areas. Pollution prevention reduces the amount of pollution generated

by a process, whether it is consumer consumption, driving or industrial protection. If less waste is produced, there will also be a diminished need for on productivity. A rapid response to incidents will help to minimize the environmental impact and could reduce the overall costs. Any resource of which there is a limited supply of that regenerates its supply overtime at a limited rate can become depleted. It can have dire implications on the price and availability of such products. Natural resources include water, fuel, soil, land and air. Depletion of these resources produces competition among living organisms for the remaining portions, and there by diminishes the quality of available resources. The conservation of natural resources is now usually embraced in the broader conception of conserving the earth itself by capacity for self renewal.

## **KEY WORDS**

**1.ENVIRONMENTAL ISSUES** - Environmental issues are harmful effects of human activity on the biophysical environment. Environmentalism, a social and environmental movement, addresses environmental issues through advocacy, education and activism.

**2. PROTECTING THE NATURAL ENVIRNOMENT** - Environmental protection is a practice of protecting the natural environment on individual, organizational or governmental levels, for the benefit of both the natural environment and human beings.

**3. PREVENTION OF POLLUTION** - Pollution prevention occurs when raw materials, water, energy and other resources are utilized more efficiently, when less harmful substances are substituted for hazardous ones, and when toxic substances are eliminated from the production process.

**4. DEPLETION OF NATURAL RESOURCES** - Resource depletion is the consumption of a resource faster than it can be replenished. Natural resources are commonly divided between renewable resources and non-renewable resources.

**5.CONSERVATION OF NATURAL RESOURCES** - It refers to the management, mainly for economic reasons, of such valuable natural resources as timber, fish, game, topsoil, pastureland, and minerals, and also to the preservation of forests, wildlife, parkland.

### **Self Assessment Questions**

1. What is meant by Environment Issues?
2. Explain the importance of environment issues.
3. What is meant by protecting the natural environment?
4. What is meant by prevention of pollution?
5. Define prevention of pollution
6. What are the Economic Incentives for Pollution Prevention?
7. Explain the types of prevention of pollution.
8. What is meant by depletion of natural resources?
9. Define depletion of natural resources
10. What are the effects of depletion of natural resources?
11. Explain the basic reasons for depletion of natural resources
12. What is meant by Conservation of natural resources?
13. Define conservation of natural resources
14. Explain the needs of the conservation of natural resources.
15. Explain the importance of conservation of natural resources.

## UNIT – IV

### WORKPLACE ETHICS

#### Learning Objectives

After studying this unit you will be able to understand-

- ❖ Workplace Ethics
- ❖ Personal and professional ethics in the organisation
- ❖ Discrimination of ethics in the organisation
- ❖ Harassment of ethics in the organisation
- ❖ Gender equality of ethics in the organisation

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## **4.1 Introduction of Workplace Ethics**

The management of ethics in the workplace holds tremendous benefits for everyone, benefits both moral -- and even practical. This is particularly true today when it is critical to understand and manage highly diverse values in the workplace. When at a time too many people still feel that business ethics is a topic for philosophy or is about shaming and blaming people. This unit aims to make the topic of business ethics very understandable and accessible.

The field of business ethics has traditionally been the domain of philosophers, academics and social critics. Consequently, much of today's literature about business ethics is not geared toward the practical needs of leaders and managers -- the people primarily responsible for managing ethics in the workplace. The most frequent forms of business ethics literature today typically include-

- a) philosophical, which requires extensive orientation and analysis;
- b) anthologies, which require much time, review and integration;
- c) case studies, which require numerous cases, and much time and analyses to synthesize; and
- d) extended stories about businesses "gone bad".

This lack of practical information is not the fault of philosophers, academics or social critics. The problem is the outcome of insufficient involvement of leaders and managers in discussions and literature about business ethics. More leaders and managers should become more involved.

## **4.2 Meaning of Workplace Ethics**

Workplace ethics are codes of conduct that influence the development of an ethical culture within the workplace. Going beyond what is considered legal in the area where the business operates, they inspire communication between employees, allow for respect to be extended to each person within the organization, and promote customer relationships that are based on honesty and integrity. While there are core elements that tend to define a work-

based code of ethics, the specific expressions of these central values vary from one corporate setting to the next.

It is important to remember that workplace ethics are shaped by the following factor. Work place policy must be in harmony with all laws and regulations that are currently in force in the jurisdiction where the business operates. This helps to ensure that basic ethics preclude any pressure or coercion to engage in actions that are considered to be illegal, promote discrimination in the workplace, support unfair hiring and firing practices, or allow wages to be set that are below the minimum legal standards for the area.



Along with being shaped by laws and regulations, workplace ethics are also influenced by business ethics. Forexample, ethical business practices would include actions such as not using marketing materials or campaigns that mislead consumers. Workplace ethics would also involve establishing and operating support networks such as employees wellbeing programmes which in turn help the employees to be healthy and happy. Ethics of this type would also involve

the conscious effort to cultivate a working environment where people want to come to work and be productive because of pride in what they do for a living.

While businesses tend to comply with laws and regulations not every company looks the need to develop workplace ethics that affirm the worth of employees and motivate them to be productive on their job. When a company chooses to do no more than what is required by local law, the chances of heavy employee turnover are much higher. In addition, it is easier for cliques to develop among certain groups of employees, a state that can often undermine productivity and cost the company a great deal in terms of time and revenue generation.

One of the tasks many business consultants face is helping clients assess the status of workplace ethics in their offices and manufacturing facilities, and then find ways to expand and enhance those ethics at all levels of the operation. Often, consultants can spot problems that are not immediately noticeable to managers and business owners, simply because the problems developed incrementally over an extended period of time. However, once the issues are identified and resolved, it will strengthen the company and the employees will be significantly happier.

#### **4.3 Definition of Workplace Ethics**

Companies use workplace ethics to govern employee behavior, regulate management's moral decisions and keep companies out of legal trouble. Some businesses clarify ethics in an official company code of ethics. Employees of companies with no official code can rely on personal ethics derived from universal codes. Workplace ethics is not meant only for corrupt employees, but workplace ethics guide all businesspeople who search for moral and professional direction.

According to Kirk O. Hanson, a renowned ethics expert who also doubles as the Executive Director of the Markkula Center for Applied Ethics, "business ethics is the study of the standards of business behaviour which promote human welfare and the good."

Business ethics manifests both as written and unwritten codes of moral standards that are critical to the current activities and future aspirations of a business organisation. They can differ from one company to another because of differences in cultural perspectives, operational structures and strategic orientations. The guiding framework of business ethics exists at all levels

of the organisation. It is about having the wisdom to determine the difference between right actions and wrong decisions.

In simpler terms, business ethics fundamentally epitomises the organisation's codes of corporate governance. It stipulates the morality standards and behavioral patterns expected of individuals and the business as a whole. These moral benchmarks can be perceived in terms of the microenvironment and macro environment of the business.

#### **4.4 Importance of Workplace Ethics**

Our actions affect not only ourselves, but also those around us. Many of the professional decisions involve ethics. When we tell a lie, we can lose someone's trust and undermine our own integrity. If we use shoddy materials or workmanship on the job, we can jeopardize the safety of others.

Questions of morality and ethics can be found at all levels of society. Ethical behavior is equally important in the workplace as it is in our personal lives. Ethics is of great concern wherever business is conducted.

A successful business depends on the trust of various parties—employees, managers, executives, customers, suppliers, and even competitors. Six ethical terms form the foundation of trust upon which ethical business practice is built:

- Ethics
- Values
- Morals
- Integrity
- Character
- Laws

#### **Ethics**

Ethics refers to a set of rules that describes acceptable conduct in society. Ethics serve as a guide to moral daily living and helps us to judge that how our behavior can be justified.

Ethics refers to society's sense of the right way of living our daily lives. It does this by establishing rules, principles, and values on which we can base our conduct. The important concepts that directly associated with ethics are truth, honesty, fairness, and equity.

While ethics is a societal concern, it is of critical importance to the professions that serve society. Because professionals such as physicians, attorneys, engineers, and property and facility managers provide services that affect our welfare. They develop professional codes of ethics that establish professional standards for behavior.

Examples of the types of standards found in professional codes of ethics include:

- An Lawyer or Doctor maintaining client-patient confidentiality
- An Accountant who do not use client information for personal gain

### **Values**

Values are defined as the acts, customsthat institutions and group of people regard in a favorable manner. Statements of value typically contain words of approval, disapproval, and obligation. Some of these words might be good, bad, should, and should not. However, value judgments may not contain specific value words. "That is a lie" does not contain a particular word of disapproval, but the implication that a lie is wrong is understood.

Values are what really matter to us most—what we care about. For instance, family devotion, respect for the environment, and working hard for a day's pay are three values that can evoke a response in many people.

### **Morals**

Morals are a set of rules or code of conduct on which society is based. Certain moral elements are universal, such as the laws forbidding homicide and the basic duties of doing good and furthering the well-being of others. With morals serving as the underpinning of society, there are four points that should be remembered, says philosopher Robert C. Solomon.

- Moral rules are important: In general, moral rules are rules that help society function in a civilised way.
- Morality consists of universal rules: They apply to everyone, everywhere, and are recognized by everyone as being necessary.

- Morals are objective: They will never consider personal preferences. For example, Right is right and wrong is wrong.
- Morality affects other people: Morality involves considering the well-being of others as reflected by the Golden Rule: Do unto others as you would have them do unto you.

## Integrity

To have integrity is to be honest and sincere. Integrity is defined as adhering to a moral code in daily decision making. When people and businesses possess integrity, it means they can be trusted. On the other hand, companies that lack this quality and mislead customers with inferior products or false advertising will suffer the consequences later on.

## Character

Ethics is not just how we think and act. It is also about character. Character drives what we do when no one is looking. Each person has the ability to build, change, or even destroy his or her own character. Our character can be built through the way we live—by thinking good thoughts and performing good acts. Similarly, bad thoughts and behavior can destroy our character.

A person with good character has high morals and will act morally in all situations by choice and not by force. A person with character will honour his or her commitments. Character pertains to organizations, as well. A company with high character is worthy of trust and respect, acts honestly, and stands by its promises.

## Laws

The law is a series of rules and regulations designed to express the needs of the people. Laws protect people from the most blatant and despicable affront to morality, such as murder, rape, and theft.

Laws frequently provide us with a sense of right and wrong and guide our behaviour, but not always. While murder is against the law, the law does not always stop someone from killing another out of hatred, anger, or in defense of a personal philosophy.

Laws are instituted as notions of justice and tend to be specific and therefore different from society to society. Laws always have a strong connection to morality, ethics, and values. But, not all laws are ethical.

Laws have legalised slavery, segregation, sexism, and apartheid. Although these laws might have reflected society's values at the time they were enacted, they will never justify immoral behavior. Likewise in business, it is not unlawful to lie to a coworker or on a job application, but both are ethically wrong.

These six concepts—ethics, values, morals, integrity, character, and laws—form the foundation of trust upon which ethical business practice is built.

#### **4.5 Professional Codes of Ethics**

Many professions and corporations have developed codes of ethics to address their unique business situations. In fact, 90 percent of Fortune 500 companies and nearly half of all corporations have codes of ethics that can be applied to all employees. By developing a code of ethics, an organisation makes it clear that employees and members cannot claim ignorance as a defense for unethical conduct.

##### **Benefits of a Corporate Code of Ethics**

Codes of ethics help employees strike a balance between the ends and the means used to obtain them. This balance may be one of the most challenging aspects of being an ethical organization.

The Federal Sentencing Guidelines for Organizations provide an additional incentive for having corporate codes of ethics and ethics training. Companies that are taking real steps to prevent unethical and illegal behavior are likely to receive less severe punishment than an employee

found to be guilty of breaking the law. The unethical conduct of just a few employees can affect an entire organisation.

### Benefits of a Professional Code of Ethics

A professional code of ethics sets a standard for which each member of the profession can be expected to meet. It is a promise to act in a manner that protects the people's well-being. A professional code of ethics informs the public regarding expectation from a personality namely a doctor, lawyer, accountant, or an engineer. As long as professionals adhere to these standards, the public is willing to have their professional associations create and enforce their ethical codes.

In cases where these codes are repeatedly and totally violated, the public is likely response is to demand protective legislation. Most professionals would prefer to police themselves, rather than have an externally imposed set of regulations. That is a major reason why they create codes of ethics in the first place.

### Successful Implementation of a Code of Ethics

Within an organisation, top-down support is critical. When top management does not act ethically and support others who do, an organisation's ethical code will have little meaning. It is critical for managers and executives to:

- act consistently with the company's ethical standards
- apply those standards in dealing with employees

Acknowledging and rewarding those, whose behaviour is consistent with the company's code of ethics declare to all that ethical behaviour is truly valued. On the other hand, promoting and providing bonus to employees whose success is due to the part of unethical behaviour sends an unwanted message.

Remaining ethical is not a static issue. It requires review and evaluation. Companies need to periodically review their priorities and make necessary adjustments. Otherwise, their standards and training become outdated.



## 4.6 Ethical Challenges in the Workplace

We may think that once a person gets a job, he will do everything in the best interests of the company. But workplace ethics involve a tension between what people feel is right for them versus what's right for the workplace. We may know something about this conflict of interest, especially when the employer does not have a written policy about some of the more widespread infractions. When businesses do focus more on the importance of ethics, such as during an economic challenge when the competition for work is higher, there is a drop in misconduct and a rise in reporting misbehavior, according to a survey by the Ethics Resource Center. Businesses can use current ethical dilemmas to create

### *Fair Treatment*

In a perfect world, everyone wants to be treated fairly. In fact, there are fewer ethical violations when people see integrity in the leadership, according to Walker Information Inc. When it feels like managers are best buddies with everyone but you, though, you'll start second-guessing performance reviews, discipline, compensation and what a win looks like. It doesn't help when people muddy the waters by dating co-workers or hiring family members, for seniority seems to become less about tenure and more about favoritism.

### *Trust*

When you are sick of feeling like you don't know whom to trust, then become trustworthy and lead by example. Start by developing a reputation for meeting deadlines and not misusing the time you are paid for. Next, sort out the tension between personal morality and workplace loyalty. When your boss asks you to lie to cover for him, you'll ultimately choose between holding to the truth versus keeping the appearance of being a "team player." Even when you're trying to seal the deal with a tough client, don't tell "white lies" to sway their decisions.

### *Using Resources*

Don't feel like you're paid what you're worth? Join the club, and don't expect to feel good about it. If your pay doesn't match your sense of entitlement, you'll be tempted to conduct personal business during working hours of the company to justify it. Tying up company phone lines, Internet, printer, copy machine and more for non-work purposes may feel legitimate at first

–For example, taking a ream of paper home to print off a presentation; however, if you don't use it all, you will be tempted to justify keeping it since you used your own printer's ink on the report. A good rule of thumb is to keep work resources at work and avoid doing personal tasks or favours with them.

### *Harassment*

Whether you are full time or part time employee, it's your right to feel safe all the time. Harassment at work, including bullying, peer pressure and sexual advances that make you feel uncomfortable, is a solvable problem if you're willing to hold your company accountable for it. Talk with your boss or HR department about official and anonymous channels for employees to report incidents. More than one in five employees who reported misconduct say that they experienced some form of retaliation, according to 2011 survey by the Ethics Resource Center. If you fear losing your job by reporting something committed against you or another person, the behaviour will likely continue, then that will make you to remain ethically torn.

### *Expenses*

There's a good chance that you know when you're fudging an expense report. Even when your company clarifies which expenses are reimbursable and how they're tracked, you and your co-workers may look for the loophole to claim the doughnuts you bought when you gassed up the company car. Until the IRS audits your company, the short-term loss is typically felt in terms of profit. Develop standards that are above reproach by capping what you claim to only what you spent money on. If there ever is a profit, such as leftovers from a catered lunch, send the food home with someone else versus enjoying it yourself and potentially over-ordering again next time.

## **4.7 Ethical Principles in the Workplace**

When employees have no ethical principles to follow in the workplace they make decisions based on their own values. However, varying values can create discord on the workplace. Therefore, management needs ethical principles to set standards for employees. Regardless of individual values, ethical principles in the workplace set common workplace values. This kind of mutual understanding helps to create greater efficiency and productivity.

### *Importance*

Employers provide ethical principles for the workplace so that all employees follow the same standards, regardless of personal values and different cultural backgrounds. The principles allow them to voice their opinions freely and without fear, creating a sense of belonging for each employee in the workplace. To implement effective ethical principles in the workplace, employers must set out the objectives of the company orally and in writing.

### *Guidelines*

Ethical principles in the workplace can come into question when an employee needs to make a decision. A decision may involve fairness, truth or values in the workplace. It may concern a legal matter, professional or personal conflict. Even if an employee believes that he can get away with a decision and "no one will know," the decision can involve ethical principles. Employees confused about ethical principles in the workplace should be able to approach their supervisors for guidance.

### *Consequences*

An employee sees another employee stealing from the stock room and decides not to report it. A supervisor suspects that financial statements have changed after a new employee started and doesn't address it. Both are likely violations of the company's ethical principles. So it is the management responsibility to act based on ethical principles, if not the workplace can suffer consequences. When a manager chooses to ignore the matter, he indirectly tells employees that they don't have to take workplace ethical principles seriously. Some employers will fire an employee for unethical behaviour to set standards for ethical principles in the workplace.

### *Evaluation*

Managers can meet with employees individually and grade them on their ethical behaviour as a method of assessing how the workplace responds to the company's ethical principles. Even the management can ask employees to complete ethical checklists each month to gauge how they are performing when it comes to ethical principles. At the same time, this level of focus shows employees that the company is committed to ethical principles in the workplace.

## 4.8 Advantages and Disadvantages of Workplace Ethics

American history abounds with examples of discrimination against minorities and women, ranging from voting laws to admissions and hiring policies. To help rectify the historical inequalities suffered by women and minorities, President John F. Kennedy and President Lyndon B. Johnson issued Executive Order 10925 and Executive Order 11246, which effectively mandate non-discriminatory policies in regards to race, religion, gender and country of origin. Many companies now employ affirmative action policies as part of their business models, but the practice remains controversial, as it creates advantages and disadvantages

### *Diversity*

Affirmative action policies help to create a more diverse work environment. Diversity, in turn, provides business with two key advantages: First, they provide more adaptability in terms of problem solving by offering a wider array of possible solutions; and companies that embrace a multi-cultural employee roster are better positioned to serve multi-cultural communities, by overcoming language and cultural barriers.

### *Increased Opportunities*

By maintaining affirmative action hiring policies, a business can expand its opportunities to include government contracts. The Executive Order put into place by President Lyndon B. Johnson specifies that businesses receiving government contracts must establish and maintain affirmative action policies. The availability of government contracts vary from administration to administration and federal budget to federal budget, but such contracts can prove a lucrative windfall for the businesses that win them.

### *Moral Commitment*

Embracing affirmative action can provide businesses with a means of making a moral commitment to the ideal of justice or equal treatment for all. The advantage of such a moral stand within the workplace remains indirect. It can help to draw employees who share a belief in the principle of justice, which helps to foster a more tolerant work environment. It can also reassure employees who come from historically underrepresented groups that they will be able to get full consideration for any available promotions.

### *Reverse Discrimination*

One major disadvantage of affirmative action in the workplace is the reality or perception of reverse discrimination. In essence, those opposed to affirmative action programs claim that the programs penalise those from the historically dominant group even when they possess the appropriate qualifications for a given job. While reverse discrimination remains exceedingly rare in practice, the accusation of reverse discrimination can generate a negative social backlash for a company, which may undermine its financial future. This kind of accusation can also potentially undercut the confidence of minority and women employees concerning their skill level.

### *Stigmatisation*

Affirmative action policies can potentially create a stigma that minorities and women obtain positions in a company based on gender, race or ethnicity, rather than through achievement and qualifications. In the workplace, this stigma can translate into questioning the competence of minority and women employees to do their jobs. The stigmatisation may also lead minority and women employees to question why an employer chose to hire them.

## **4.9 Introduction of Personal Ethics**

Unlike professional ethics, personal ethics has received limited attention in the literature. To measure personal ethics, beginning with the definition provided by Forsyth worthwhile. Forsyth's definition has been extended to include two dimensions of relativism and idealism as well as taxonomy of four approaches situationalsubjectivism, absolutism and exception. In addition, Forsyth developed an instrument that aids in classifying individuals into the four taxonomy categories.

Forsyth and colleagues studied the influence of personal ethics on business decisions in organizations. Forsyth's approach asserts that personal ethics comprise of ethical beliefs, attitudes and moral ideologies. In addition, Forsyth defined personal ethics based on two dimensions: relativism and idealism. He noted that "individual variations in approaches to moral [ethical] judgment may be described most parsimoniously by taking into account two basic factors...relativism... and idealism...".

Relativism refers to “the extent to which the individual rejects universal moral [ethical] rules”. In addition, he suggested that relativism refers to the “nature of the situation [where] circumstances weigh more than the ethical principle”. Idealism refers to the extent that “some individuals idealistically assume that desirable consequences can, with the ‘right’ action, always be obtained.

#### **4.10 Meaning of Personal Ethics in the Organisation**

Personal ethics is defined as any ethical system or doctrine that has been chosen as a moral guide in the particular life of an agent.

#### **4.11 Definition of Personal Ethics in the Organisation**

Personal ethics is the process of learning what is right and wrong, then doing what is right.

#### **4.12 Difference between Personal and Professional Ethics**

Personal ethics refers to the ethics that a person identifies with in respect to people and situations that they deal with in everyday life.

Professional ethics refers to the ethics that a person must adhere to in respect of their interactions and business dealings in their professional life.

In some situations, personal and professional ethics may clash and cause a moral conflict. For example:

- A police officer may personally believe that a law that he is required to enforce is wrong. However, he is required to obey all lawful and reasonable instructions to enforce that law unless there is good and sufficient cause to do otherwise.
- A doctor may not personally believe that the course of medical treatment chosen by a patient is the right one. However, she must respect the rights, autonomy and freedom of choice of the patient.

#### **4.13 Need of Personal Ethics in the Organisation**

To maintain that personal ethics comprising of morals, principles, and values, it requires constant repetition that is taught and not magically acquired. It is the parents responsibility to

teach the importance of honesty, accountability, responsibility, and integrity. So, lessons that are taught by parents are so vital to personal ethics and good behavior. Therefore we cannot place our own interests and value them ahead of our faith, family, friends, and others.

There is no place for arrogance and greed in our personal lives or in the business world. Grace and humility are required in all of our lives. The best place we can point fingers is at our own tummies and not blame others. So let us strive to teach, enrich, and develop others about personal ethics and remember the lessons of our mentors.

#### **4.14 Introduction to Professional Ethics in the Organisation**

Business or professional ethics are standards or codes of conduct set by people in a specific profession. A code of ethics is a part of the expectations of those involved in many different types of professions. People in a profession don't want to object bad, dishonest or irresponsible behaviour if it does occur by someone in their field. By setting out expected behaviour in the form of professional ethics, professionals work together and try to uphold a good reputation. Professional ethics are commonly known as ethical business practices..

Respect and honesty are the two main components of professional ethics. All employees are expected to represent a business ethically as they are a part of it. This is why business people traditionally speak of "we" or "us" rather than the more personal "I" for the most part. For instance, if an employee must mention company policy to a customer, he or she may say "I'm sorry, but this is our company policy in these situations." Policies are another type of preferred standards in how business is done, and everyone in a company is expected to represent them.

It should be noted that people within each profession are expected to be respectful and honest in their personal dealings as well. For instance, it would be unethical for law enforcement professionals also being criminals in their time off the job. Professionals are also expected to uphold ethics by not getting involved in any type of *conflict of interest*. A conflict of interest situation may occur when an individual tries to accomplish personal goals as a result of being in a certain profession. For example, a politician who uses government resources to get work done at his home could be seen as being involved in a conflict of interest.

Professional ethics training is often included in career education programs. For example, Doctors are trained on the many ethical issues regarding patient confidentiality. It is

both unethical and unlawful to discuss a patient's health records with others who are not involved in the medical care of the individual.

Engineering, journalism, religious organizations and many other professions have professional ethics. These ethical codes or rules must never go against laws, but rather often coordinate with them as in the case of medical record confidentiality. In general, these ethics always include upholding honesty and respect in the profession over personal needs, conflicts or biases. A bias is a personal belief such as prejudice toward a certain group of people.

#### **4.1.5 Meaning of Professional Ethics in the Organisation**

Professional ethics is defined as the personal and corporate rules that govern behaviour within the context of a particular profession. An example of professional ethics is the American Bar Association's set of ethical rules that govern an attorney's moral obligations.

Professional ethics encompass the personal, organisational and corporate standards of behaviour expected of Professionals. Professionals and those working in acknowledged professions, exercise specialist knowledge and skill. How the use of this knowledge should be governed when providing a service to the public can be considered a moral issue and is termed professional ethics.

Professionals are capable of making judgements, applying their skills and reaching informed decisions in situations that the general public cannot, because they have not received the relevant training. One of the earliest examples of professional ethics is the Hippocratic oath to which medical doctors still adhere to this day.

Many professions that are trusted by the public to apply expert knowledge (doctors, engineers, lawyers, chartered accountants and the like) have a Code of Ethics which sets out their expectations of a member's behaviour and the boundaries within which members have to operate. A Code of Ethics helps to clarify the profession's values provides a reference point for decision making and can be used as a framework for discipline. Most Codes of Ethics are principles based, providing guidance as to the principles on which professional judgement and decisions should be based, rather than a rigid system of rules.

There tend to be some common themes, so for example AAT's Code of Ethics, like that of other professional accountants, sets out 5 fundamental principles which members must apply:



integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Professional Ethics is partly comprised of what a professional should or should not do in the work -place. It also encompasses a much greater part of the professional's life. If a professional is to have ethics then that person needs to adopt that conduct in all of his dealings. Another aspect of this is the enhancement of the profession and the industry within which the professional works.

#### **4.16 Future of Professional Ethics in the Organisation**

Computer Societies around the world such as the IEEE and national bodies in Australia, Singapore, the UK and other countries have on their websites professional codes of ethics to consider and adopt in the way professionals conduct themselves in and out of the work place. Personal ethics, morality, and integrity will strongly influence a person's professional ethical conduct. Integrity means wholeness or completeness which needs continuity of life in all its actions. We must not delude ourselves or the people we lead by thinking that we can practice conduct.

##### **Code of Professional Ethics in the Organisation**

A Code is a statement of policies, principles or rules that guide behaviour. Certainly, codes of ethics do not apply only to business enterprises, but they should guide the behaviour of people in all organisations and in all walks of life. So it is named as "Professional Ethics". In the present time, every profession has its own codes, to be practised by their professionals.

##### **Ethics in Different Professions**

All persons, whether they are in business, government, educational institutes, or any other professions are concerned with ethics. Encyclopedia of Social Sciences defines ethics as "the organization or criticism of conduct in terms of notions like, good, right or welfare... Ethics is the secular and critical manner of taking account of the rationalising process in human conduct. Its temper is non-mystical, and its orientation is social rather than theological."

#### **4.17 Meaning of Discrimination**

Discrimination is treatment or consideration of, or making a distinction in favour of or against, a person or thing based on the group, class, or category to which that person or thing belongs rather than on individual merit. This includes treatment of an individual or group based on their actual or perceived membership in a certain group or social category, "in a way that is worse than the way people are usually treated". It involves the group's initial reaction or interaction going on to influence the individual's actual behaviour towards the group leader or the group, restricting members of one group from opportunities or privileges that are available to another group, which leads to the exclusion of the individual or entities based on logical or irrational decision making.

Not all discrimination is based on prejudice. However, some religious duties, for example, need to be performed exclusively by a person professing the religion that commands those duties. Also, in the U.S., government policy known as affirmative action was instituted to encourage employers and universities to seek out and accept groups such as African-Americans and women, who have been subject to the opposite kind of discrimination for a long time. Discriminatory traditions, policies, ideas, practices, and laws exist in many countries and institutions in every part of the world, even in ones where discrimination is generally looked down upon. In some places, controversial attempts such as quotas have been used to benefit those believed to be current or past victims of discrimination—but have sometimes been called reserve discrimination.

Discrimination is the act of treating someone unfavourably or favourably because of some characteristic such as race, age, culture, gender, religion, and so on. Any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation is unlawful.

#### **4.18 Importance of Discrimination**

Failure to treat people fairly or equitably may be classed as discrimination. Anti-discrimination is about ensuring that everyone gets a fair go in life. The Anti-Discrimination Act 1991 (Qld) promotes fair treatment and equality by making unfair discrimination unlawful. It also places responsibilities on everyone to ensure that unlawful discrimination and certain 'objectionable conduct' is minimised or prevented.

#### **4.19 Meaning of Harassment**

Harassment is a form of employment discrimination that violates Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, (ADEA), and the Americans with Disabilities Act of 1990, (ADA).

Harassment is unwelcome conduct that is based on race, color, religion, sex (including pregnancy), national origin, age (40 or older), disability or genetic information. Harassment becomes unlawful where -

- 1) enduring the offensive conduct becomes a condition of continued employment, or
- 2) the conduct is severe or pervasive enough to create a work environment that a reasonable person would consider intimidating, hostile, or abusive.

Anti-discrimination laws also prohibit harassment against individuals in retaliation for filing a discrimination charge, testifying, or participating in any way in an investigation, proceeding, or lawsuit under these laws; or opposing employment practices that they reasonably believe discriminate against individuals, in violation of these laws.

Petty slights, annoyances, and isolated incidents (unless extremely serious) will not rise to the level of illegality. To be unlawful, the conduct must create a work environment that would be intimidating, hostile, or offensive to reasonable people.

Offensive conduct may also include, offensive jokes, slurs, epithets or name calling, physical assaults or threats, intimidation, ridicule or mockery, insults or put-downs, offensive objects or pictures, and interference with work performance. Harassment can occur in a variety of circumstances, including, but not limited to, the following:

- The harasser can be the victim's supervisor, a supervisor in another area, an agent of the employer, a co-worker, or a non-employee.
- The victim does not have to be the person harassed, but can be anyone affected by the offensive conduct.

- Unlawful harassment may occur without economic injury to, or discharge of, the victim.

Prevention is the best tool to eliminate harassment in the workplace. Employers are encouraged to take appropriate steps to prevent and correct unlawful harassment. They should clearly inform the employees that unwelcome harassing conduct will not be tolerated. They can do this by establishing an effective complaint or grievance process, providing anti-harassment training to their managers and employees, and taking immediate and appropriate action when an employee complains. Employers should strive to create an environment in which employees feel free to raise concerns and are confident that those concerns will be addressed.

Employees are encouraged to inform the harasser directly that the conduct is unwelcome and must stop. Employees should also report harassment to the management as early as possible to prevent its escalation.

#### **4.20 Employer Liability for Harassment**

The employer is automatically liable for harassment by a supervisor that results in a negative employment action such as termination, failure to promote or hire, and loss of wages. If the supervisor's harassment results in a hostile work environment, the employer can avoid liability only if it can prove that:

- 1) He reasonably tried to prevent and promptly correct the harassing behavior; and
- 2) The employee unreasonably failed to take advantage of any preventive or corrective opportunities provided by the employer.

The employer will be liable for harassment by non-supervisory employees or non-employees over whom it has control (e.g., independent contractors or customers on the premises), if it knew, or should have known about the harassment and failed to take prompt and appropriate corrective action.

While investigating allegations of harassment, the entire record including the nature of the conduct, and the context in which the alleged incidents occurred must be examined. A

determination of whether harassment is severe or pervasive enough to be illegal is made on a case-by-case basis.



## Workplace Harassment Definition

- Workplace harassment is where a person is subjected to annoying behavior when working.
- It is an offensive, intimidating, humiliating or threatening behavior.



#### 4.21 Benefits of Workplace Harassment Training

The training community has heard the maxim “the most successful organizations know the value of employee training”. So, what are the benefits of workplace harassment training for employees? A short list of training benefits are-

- Fewer errors
- Lower turnover rates
- Sends the message that employees are valued

Can harassment prevention training create substantial positive outcomes such as those listed above? Or, is workplace harassment training a “check-the-box” item that simply results in fewer harassment claims and functions as an insurance policy – a reasonable step taken to mitigate liabilities?

Error Reduction

Data from the Sexual Experiences Questionnaire (SEQ, Form W) indicated the extent to which human resource professionals received unwanted sexual behavior over a 5 year period. It is surprising since HR personnel being harassed seems a bit like a school-aged child bullying the parent rather than their classmate. One of the stats from the report showed that “89 percent of human resource professionals self-reported to have received gender harassment.” Does this indicate lack of awareness skills on what is appropriate and what is not? Can the prohibited behaviours be viewed as errors? Many employees act without knowledge and their intent is not to offend. For example, hugging is a controversial topic. Can you think of a situation where hugging a colleague is OK and another scenario when it would be considered aggressive? Probably. How to appropriately act in today's complex workplaces requires training, just like customer service skills or effective delegation training.

## Turnover

Creating and maintaining a respectful workplace helps reduce turnover. Experiences of harassment led to increased turnover based on a study conducted by the military with over 11,000 servicewoman serving as the data pool. The cost of turnover is well documented. Turnover varies depending on the industry and job status but for a hourly line employee, the cost of replacing, training etc. starts at a couple of thousand dollars.\_

## Motivation

Feeling appreciated lately? If not, how much more motivated would you feel (and act) if you knew you were valued? On the other hand, take a walk on the dark side and imagine how your self-worth would suffer if you were the target of harassing behaviors – be it sexual, bullying, retaliation, etc.



We all need to feel safe and protected in order to be productive workers. Harassed employees seek relief – using sick leave, for example, more frequently than the average employee.

#### Start with the End

Maximising the benefits of workplace harassment training starts with the end goal. Most employers want their employees to be knowledgeable and aware so that they can know definitive guidelines that are clearly spelled out in their policies against harassment. That's a good goal. How to avoid prohibited behaviour is a skill that is best learned by regular reinforcement. Training that is “one and done” is not goal oriented except to perhaps minimise the cost associated with the training initiative. Workplace harassment training that is given to managers and not individual contributors leaves out the positive changes that can happen when everybody is on the same work. Continuous learning deployed regularly makes a statement – we, your employer, do not tolerate prohibited behavior in the workplace and expect our employees to treat each other with respect.

#### Continuing

Consider sending emails to all employees at least once per quarter with a short message that respectful behaviour is essential. Assign them an online mini-course (about 5 minutes in length) with a thought provoking scenario that keeps them actively thinking about doing the right thing. Ask employees what they think about getting consistent messaging that expresses the organisation's values about respect in the workplace. People get excited about this stuff. Check out Menlo Innovations joyful culture. Richard Sheridan is CEO and wrote the book Joy, Inc. As stated on their website – “people want to see it. Up close and personal, they come from around the world to visit. Some stay for hours, others for days. They walk through, they ask questions,

they take pictures, they listen to the stories and take away inspiration.” That’s life, in this case ... work life to the max!

#### **4.22 Meaning of Gender Equality**

Gender equality, also known as sex equality, gender egalitarianism, sexual equality or equality of the genders, is the view that men and women should receive equal treatment, importance and should not be discriminated based on gender. This is the objective of the United Nations Universal Declaration of Human Rights, which seeks to create equality in law and in social situations, such as in democratic activities and securing equal pay for equal work.

#### **4.23 Definition of Gender Equality**

For an expression that is much talked about, you rarely come across a clear definition of what gender equality actually means. I’m pretty sure different people mean very different things when talking about gender equality, and many people probably aren’t even aware of exactly what they mean.

Not defining words properly is a sure recipe for discussions and debates that lead nowhere, and heated arguments that are as passionate as they are meaningless.

I believe that by defining what we mean by gender equality, we can avoid intellectual sloppiness, and clarify our own beliefs in this area. Furthermore, you cannot hit a target unless you know what the target is, and for most people gender equality is a desired outcome.

#### **4.24 Importance of Gender Equality**

An article on June 19 in The Jakarta Post noted that women’s groups had opposed moves from the government to release a bill aimed at guaranteeing equal rights between both genders. Their opposition was partly due to complaints that the bill would allow same-sex marriage, marriage between adults and minors, and other issues, due to a lack of details on how to specifically empower women and achieve gender equality.

As with any issue, a new regulation enacted by the government aimed at tackling this issue must be specific in its design. This ensures that the regulation is only concerned with the



particular issue at hand, eliminating any source of confusion or loopholes for other issues. Therefore, the government must carefully reexamine any bill which is aimed at creating a more gender-equal society.

But why is gender equality an issue in the first place? What exactly does it mean to have gender equality? For many Indonesians, men and women alike, notions of gender equality are against the traditional division of labour whereby husbands are the breadwinners and wives take care of things at home. Indeed, this is the principle charge laid out against the gender equality bill. This division of labour has become inbuilt as a result of cultural and religious beliefs and is visibly practiced in the rest of Asia.

This division, however, reduces the propensity for women to be exposed to the same opportunities as men. With a future of domestic work already laid out, it discourages and may even form a direct barrier for women in pursuing skills necessary for any employment outside the home. Economic dependency is thus formed between the man and the woman, leaving the woman in a highly precarious situation should relations with the man be anything less than amicable or if an unfortunate tragedy occurs.

One can observe the resulting economic disparity as a result of this division of labor in Indonesia. Data from the 2011 Global Gender Gap Report indicated that only 53 percent of women were participating in the labor force compared to 87 percent of men. In addition, the estimated average earned income for men was US\$5,915 but only \$2,487 for women. To put this into perspective, Indonesia's annual gross domestic product (GDP) per capita (an estimate of the average income per person) is \$4,003, showing that women earn far less than the national average.

Inequality also exists in wages for similar jobs. The report gave a number of 0.67 to highlight the gap in male and female wages (a number of 1 indicates perfect equality).

Furthermore, just 22 percent of legislators, senior officials, and managers are women, while only 18 percent of the seats in the House of Representatives are held by women. Finally, 95 percent of Indonesian men are literate compared with 89 percent of women.

Economic and social inequality thus exists between men and women; inequality entrenched through the traditional division of labour. While this article is not alleging that all women would want to pursue paths other than domestic work should the division be eliminated,

it may indeed be the case that some women would be interested in pursuing other career or non-career opportunities.

This is the definition of gender equality: Equal exposure to the same opportunities between men and women. Looked at in this way, gender equality does not suppose that managerial posts in the office will be split evenly between men and women. Rather, both males and females, throughout their life journeys, are given equal exposure to the same opportunities.

Equal exposure is, of course, an arbitrary judgment and how one quantifies equal exposure merits a whole book in itself. For the purposes of this article, equal exposure can be defined in three ways.

First, both men and women are taught the same curriculum at school. To Indonesia's credit, a near perfect equality in school enrollment between girls and boys exist. In order to make gender equality more effective, however, subjects traditionally only taught to females, such as sewing or home economics, should not be mandatory but should be made available as electives for both genders.

The curriculum should not mold students along specific paths but rather expose them to a myriad of different opportunities.

Second, equal pay for similar or same work must be rigorously enforced by the state through regulatory bodies. Any disparity in wages due to gender is unfair and suggests that a woman is unable to do the same work as effectively as a man. Hence, equal pay would promote greater respect among coworkers of both genders. It would also encourage greater female participation in the workplace as they would now receive the same benefits as men. This also broadens the pool of future stars, as the female factory worker today may become the plant manager of tomorrow. One can observe the tremendous macroeconomic gains to be made from gender equality.

Third, affirmative action policies in favor of women should be slowly reduced as the first two factors above become increasingly common. As women are given more equal exposure to the same opportunities, the state should eliminate any affirmative action policy since they are no longer necessary. This would eliminate any backlash from groups who claim that the rise of women in the labor force is due to mitigating circumstances.

It would also validate the credibility of women and show that the traditional division of labor should not be ingrained and that rather, women should be given the same opportunities as men to pursue their own futures.

The above points are not an argument against the traditional division of labor. On the contrary, the aim of this article is to show that the traditional division of labor has the effect of disadvantaging women as measured through economics. It should be the aim of the state to provide equal exposure to the same opportunities for all and, hence, rules and regulations should be in favor of creating a more gender-equal society.

## **Summary**

The field of business ethics has traditionally been the domain of philosophers, academics and social critics. It includes the case studies, which require numerous cases, and much time and analyses to synthesize. Workplace ethics are codes of conduct that influence the development of an ethical culture within the workplace. It would also involve establishing and operating support networks such as employees well being programmes which in turn help the employees to be healthy and happy. When a company chooses to do no more than what is required by local law, the chances of healthy employee turnover are much higher. Many of the professional decisions involve ethics. By developing a code of ethics, an organization makes it clear that employees and members cannot claim ignorance as a defence for unethical conduct. The code of ethics help employees strike a balance between the ends and the means used to obtain them. Most professionals would prefer to police themselves, rather than have an externally imposed set of regulations. The workplace ethics involve a tension between what people feel is right for them versus what's right for the workplace. Gender equality is also known as sex equality, gender equalitarianism, sexual equality or equality of the gender, is the view that men and women should receive equal treatment.

## **KEY TERMS**

**1.WORK PLACE ETHICS** - Workplace ethics are codes of conduct that influence the development of an ethical culture within the workplace.

**2.PERSONAL ETHICS IN THE ORGANISATION** - Personal ethics is defined as any ethical system or doctrine that has been chosen as a moral guide in the particular life of an agent.

**3. PROFESSIONAL ETHICS IN THE ORGANISATION** - Professional ethics is defined as the personal and corporate rules that govern behaviour within the context of a particular profession.

**4. DISCRIMINATION** - Discrimination is treatment or consideration of, or making a distinction in favour of or against, a person or thing based on the group, class, or category to which that person or thing belongs rather than on individual merit.

**5.GENDER EQUALITY** - Gender equality, also known as sex equality, gender egalitarianism, sexual equality or equality of the genders, is the view that men and women should receive equal treatment, importance and should not be discriminated based on gender.

## **Self Assessment Questions**

1. What is meant by workplace ethics?
2. Define workplace ethics
3. Explain the importance of workplace ethics?
4. Explain the professional codes of ethics.
5. Explain the ethical challenges in the workplace.
6. What are the principles of ethics in the workplace?
7. What are the advantages and disadvantages of ethics in the workplace?
8. What is meant by personal ethics in the organization?

9. Define personal ethics in the organization
10. Differences between the Personal and Professional ethics in the organisation.
11. What are the needs of the personal ethics in the organization?
12. What is meant by professional ethics?
13. What are the futures of professional ethics in the organization?
14. What is meant by Discrimination?
15. Explain the importance of Discrimination
16. What is meant by harassment?
17. Explain the employer liability in the harassment?
18. What are the benefits of workplace training in harassment?
19. What is meant by gender equality?
20. Define gender equality
21. Explain the importance of gender equality

## UNIT – V

### ORGANIZATION ETHICS DEVELOPMENT SYSTEM

#### Learning Objectives

After studying this unit you understand –

- ❖ Organization Ethics Development
- ❖ Organizational Culture and values
- ❖ Code of ethics
- ❖ Value based Leadership and its effectiveness

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5.1	Meaning of Organisation Ethics Development System
5.2	Importance of Organisation Development System
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5.6	Characteristics of Organisational Culture
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5.14	Importance of Value Based Leadership
5.15	Benefits of Value Based Leadership
5.16	Effectiveness of Value Based Leadership

## **5.1 Meaning of Organisation Ethics Development System**

An organisation is formed when individuals from different backgrounds and varied interests come together on a common platform and work towards predefined goals and objectives.

Employees are the assets of an organisation and it is essential for them to maintain the decorum and ambience of the workplace.

The way an organisation should respond to external environment refers to organization ethics. Organisation ethics comprises of various guidelines and principles which decide the way individuals should behave at the workplace.

It also refers to the code of conduct of the individuals working in a particular organisation.

Every organisation runs to earn profits but how it makes money is more important. No organisation should never depend on unfair means to earn money. One must understand that money is not the only important thing; pride and honour are more important. An individual's first priority can be to make money but he should not stoop too low just to be able to do that.

Organisational ethics are the principals and standards by which businesses operate. They are best demonstrated through acts of fairness, compassion, integrity, honour and responsibility.

## **5.2 Importance of Organisation Development System**

Ethics are the principles and values an individual uses to govern his activities and decisions. In an organisation, a code of ethics is a set of principles that guide the organization in its programs, policies and decisions for the business. The ethical philosophy that an organisation uses to conduct business can affect the reputation, productivity and bottom line of the business.

### **Leadership Ethics**

The ethics that leaders in an organisation use to manage employees may have an effect on the morale and loyalty of workers. The code of ethics leaders use determines discipline procedures and the acceptable behavior for all workers in an organisation. When leaders have high ethical standards, it will encourage workers in the organisation to meet that same level.

Ethical leadership also enhances the company's reputation in the financial market and community. A solid reputation for ethics and integrity in the community may improve the company's business.

### *Employee Ethics*

Ethical behaviour among workers in an organisation ensures that employees complete work with honesty and integrity. Employees who use ethics to guide their behaviour will surely follow to employee policies and rules while striving to meet the goals of the organisation. Employees who follow ethics also meet standards for quality in their work, which can enhance the company's reputation for quality products and services.

### *Ethical Organisational Culture*

Leaders and employees following to a code of ethics create an ethical organisational culture. The leaders of a business may create an ethical culture by exhibiting the type of behaviour they would like to see in employees. The organisation can reinforce ethical behaviour by rewarding employees who exhibit the values and integrity that coincides with the company code of ethics and in turn disciplining those who make the wrong choices.

### *Benefits to the Organisation*

A positive and healthy corporate culture improves the morale among workers in the organisation, which may increase productivity and employee retention; this, in turn, has financial benefits for the organisation. Higher levels of productivity improve the efficiency in the company, while increasing employee retention reduces the cost of replacing employees.





### 5.3 Elements of Organisational Ethics Development System

Organisational ethics are the principals and standards by which businesses operate, according to Reference for Business. They are best demonstrated through acts of fairness, compassion, integrity, honour and responsibility. The key for business owners and executives is ensuring that all employees understand these ethics. One of the best ways to communicate organisational ethics is by training employees on company standards.

#### *Uniform Treatment*

One example of organisational ethics is the uniform treatment of all employees. Small business owners should treat all employees with the same respect, regardless of their race, religion, cultures or lifestyles. Everyone should also have equal chances for promotions. One way to promote uniform treatment in organisations is through sensitivity training. Some companies hold one-day seminars on various discrimination issues. They also invite outside experts in to discuss these topics. Similarly, small company managers should avoid favouring one employee over others. This practice may also lead to lawsuits from disgruntled employees. It is also counterproductive.

#### *Social Responsibility*

Small companies also have an obligation to protect the community. For example, the owner of a small chemical company needs to communicate certain dangers to the community when explosions or other disasters occur. It is a necessity on the owner to maintain certain safety standards for protecting nearby residents from leaks that affect the water or air quality. There are state and central laws that protect people from unethical environmental practices. Business owners who violate these laws may face stiff penalties. They may also be shut down.

#### *Financial Ethics*

Business owners must run clean operations with respect to finances, investing and expanding their companies. For example, organisations should not give bribe to state legislators for tax credits or special privileges. Insider trading is also prohibited. Insider trading means that managers or executives illegally apprise investors or outside parties of privileged information affecting publicly traded stocks, according to the Securities and Exchange Commission. The

information helps some investors to achieve greater returns on their investments at the expense of others. Executives in small companies must strive to help all shareholders to earn better returns on their money. They must also avoid collusive arrangements with other companies to deliberately harm other competitors.

### *Considerations*

A small company's organisational ethics can also include taking care of employees with mental illnesses or substance abuse problems, such as drug and alcohol dependency. Ethical business owners help their employees to overcome these types of problems when possible. They often put them through employee advisor programmes, which involves getting them the treatment they need. Employees may have issues that lead to these types of problems. Therefore, they deserve a chance to explain their situations and get the help they need.

## **5.4 Meaning of Organisational Culture**

Organisational culture is one of the major issues in academic research and education, in organisation theory as well as in management practice. There are good reasons for the culture dimension to be the centre in all aspects of organisational life.

## **5.5 Definition of Organisational Culture**

**Organisational culture** is a system of shared assumptions, values, and beliefs, which governs how people behave in organisations. These shared values have a strong influence on the people in the organisation and dictate how they dress, act, and perform their jobs. Every organisation develops and maintains a unique culture, which provides guidelines and boundaries for the behaviour of the members of the organisation. Let's explore what elements make up an organisation's culture.

Organisational culture is composed of seven characteristics that range in priority from high to low. Every organisation has a distinct value for each of these characteristics, which, when combined, defines the organisation's unique culture. Members of organisations make judgments on the value their organisation places on these characteristics, and then adjust their behaviour to match these perceived set of values.

There are many different definitions of organisational culture, although almost all of the most widely accepted ones are similar and cover many of the same aspects.

Organisational culture refers to the general culture within a company or organisation, and is often also referred to as corporate culture, though that isn't the best description since a large non-profit organisation or charity could also have its own organizational culture even though they are definitely not corporations. Here are some of the many definitions of organisational culture that can be found.

Gareth Morgan has described organisational culture as: "The set of beliefs, values, and norms, together with symbols like dramatised events and personalities that represents the unique character of an organisation, and provides the context for action in it and by it." Beliefs and values are words that will pop up frequently in other definitions, as well. Norms might be described as traditions, structure of authority, or routines.

Edgar Schein, one of the most famous and most respected theorists dealing with organisational culture says that the definition of organisational culture has to be general, or else you start to eliminate factors that actually are part of corporate culture.

Schein's definition of organisational culture is: "A pattern of shared basic assumptions that the group learned as it solved its problems that has worked well enough to be considered valid and is passed on to new members as the correct way to perceive, think, and feel in relation to those problems." Although the words are different, the two definitions are nearly the same in terms of content.

Another more simple way of looking at organisational culture is to view it as a group's general reaction to stimulus. An organisational culture is a group of people who have been trained, or who simply have learned by those around them, how to act in any given situation. In this way, corporate culture functions just as any social learning does.

The other aspect of organisational culture that is often true is that it becomes very deeply rooted. It is the identity of a company, and because of that, in some ways it becomes an identity of those who work there, as well. This is always important to remember, as culture becomes like

a circular argument. The people end up affecting the culture as much as the culture is affecting them.

Because culture is so deeply rooted in an organizations history of success or failure, and because of its collective experience, any organisation that needs to work to change it will be facing an uphill battle and a huge investment in time, resources, and work. In these situations, it is often best to find some professional outsiders to at least help out, people who haven't been exposed and sucked into the bad habits of a dysfunctional organisational culture.

So while there are many definitions of organisational culture, all of them focus on the same points: collective experience, routine, beliefs, values, goals, and system. These are learned, re-learned, and passed on to new employees, and continues on as part of a company's core identity.



# Organizational Culture

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## 5.6 Characteristics of Organisational Culture

The seven characteristics of organisational culture are:

### 1. **Innovation** (Risk Orientation)

Companies with cultures that place a high value on innovation encourage their employees to take risks and innovate in the performance of their jobs. Companies with cultures that place a low value on innovation expect their employees to do their jobs in the same way that they have been trained to do them, without looking for ways to improve their performance.

### 2. **Attention to Detail** (Precision Orientation)

This characteristic of organisational culture dictates the degree to which employees are expected to be accurate in their work. A culture that places a high value on attention to detail, expects their employees to perform their work with precision. A culture that places a low value on this characteristic does not do so.

### 3. **Emphasis on Outcome** (Achievement Orientation)

Companies that focus on results, but not on how the results are achieved, place a high emphasis on this value of organisational culture. A company that instructs its sales force to do whatever it takes to get sales orders has a culture that places a high value on the emphasis on outcome characteristic.

### 4. **Emphasis on People** (Fairness Orientation)

Companies that place a high value on this characteristic of organisational culture place a great deal of importance on how their decisions will affect the people in their organisations. For these companies, it is important to treat their employees with respect and dignity.

### 5. **Teamwork** (Collaboration Orientation)

Companies that organise work activities around teams instead of individuals place a high value on this characteristic of organisational culture. People who work for these types of companies tend to have a positive relationship with their coworkers and managers.

## **6. Aggressiveness (Competitive Orientation)**

This characteristic of organisational culture dictates whether group members are expected to be assertive or easygoing when dealing with companies they compete with in the marketplace. Companies with an aggressive culture place a high value on competitiveness and outperforming the competition at all costs.

## **7. Stability (Rule Orientation)**

A company whose culture places a high value on stability are rule-oriented, predictable, and bureaucratic in nature. These types of companies typically provide consistent and predictable levels of output and operate best in non-changing market conditions.

### **5.7 Organisational Values**

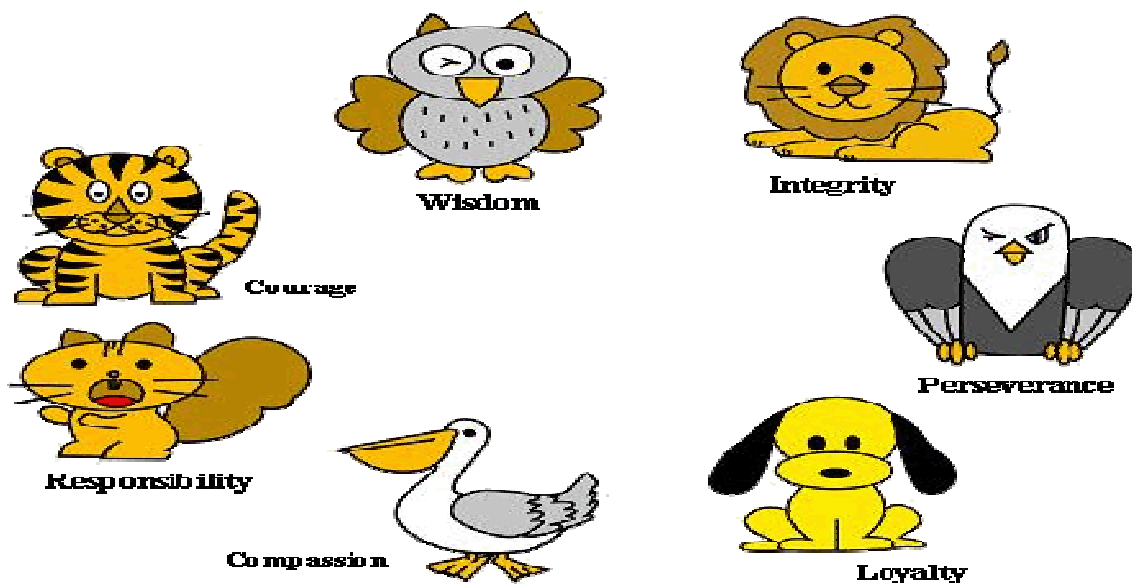
Although organizational values seem too many people somewhat of a “soft” concept within the field of human resources management, MusekLešnik says that it is much more tangible concept than it seems. Kenny proposed that just like every human community has its own value system, every organisation has its own value system. In this context Mesner Andolšek has established a relationship between individuals’ values and organizational values, where she said that values of organisation have grown from values of individuals that have shaped the organisational culture, and since organisational values are one of the fundamentals of organisational culture. This makes organisational values grow from individual values. Somewhat similar is also the view of Pfeiffer and others where they see the creation of organisational values as a process of following the philosophy of the company that is embedded in organisational culture. Simmerly also agrees that organisational values evolve from organizational culture, in his view organisational values evolve from modes of conduct, communication styles and decision making styles within organisation. Svetlik says that organisational values are values that are being pushed forward by the management and have proven itself as a good foundation for development of organisation. Same author also says that organisational values are intended to inspire employees with creative energy that will push organisation forward towards desired goals. Cingula has also discussed organisational values, he sees organisational values as: “what people within organisation think is good for organisation, what needs to happen within

organization and what might be needed within organization in the future”. Same author also says that due to mentioned above organisational values reflect the mission and strategic goals of the organisation.

## **5.8 Importance of Organisational Values**

The importance of organisational values for organisations is shown even strongly now in the time of economic uncertainty then even before. Organisations use organisational values to inspire their employees as well as their customers. Organisational values are often discussed to be a powerful marketing tool, since clear organizational values are positively noted and they encourage potential buyers to buy or use company’s product. It has been established by several authors that organizational values influence organizational structure, organizational culture, organizational identity, organizational strategy thus shaping organizational goals and means to achieve those goals. The importance of organizational values is even more stressed by MusekLešnik when he says that organization is just like a human; it makes decisions, does what it thinks its right, has legal limitations on what it can do, has moral limitations, creates and implements its own rules and beliefs, it advances on the basis of its decisions, creates myths, legends and habits and so on. We can say that organizational values are integrated into personality of a company thus playing a similar role as values do in lives of individuals; directing behavioral patterns, influencing relationships within the organization and influencing how company perceives its customers, suppliers and competition. When discussing the importance of organizational values for organization it is also important to present how these organizational values influence employee performance. Several authors have discussed this phenomenon; Berkhout and Rowlands have made a research on personal and organizational values among employees of organizations that specialize in alternative energy sources (solar electricity, wind electricity, smaller hydro-electrical plants, etc.), they have determined, that those organizations that focus their selection procedure on matching personal values with organizational values tend to be significantly more successful in their work because of the fact that employees have a higher level of job satisfaction. Some later studies in the similar conducted by Kaye and Jordan-Evans have even determined that some individuals even perceive the importance of a good match between organizational and personal values to be more important than the income they get. This

clearly shows that people have started to value more how they feel in the organization than how much they get paid for the work they do.



## 5.9 Meaning of Code of Ethics

A code of ethics issued by a business is a particular kind of policy statement. A properly framed code is, in effect, a form of legislation within the company binding on its employees, with specific sanctions for violation of the code.

### ***5.10 Definition of 'Code of Ethics'***

A guide of principles designed to help professionals conduct business honestly and with integrity. A code of ethics document may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organization's core values and the standards to which the professional will be held.

## 5.11 Components of Code of Ethics

As infamous cases such as Enron and Goldman Sachs show, code of ethics violations go far beyond the company walls. The code of ethics is the set of behavioral rules employees should follow to ensure the company's values are reflected in all business dealings. Regardless of the



size of the business, clearly defined codes and closely monitored transactions should keep your company from violating laws and make it a place where employees feel comfortable doing the right thing.

### *Values*

Business values typically are expressed in terms of how the company performs its day-to-day interactions with suppliers, employees and customers. A primary objective of the code of ethics is to define what the company is about and make it clear that the company is based on honesty and fairness. Another commonly defined value is respect in all interactions, regardless of the circumstances.

### *Principles*

Principles are used to further support the business values by including operational credos employees should follow. Customer satisfaction, business profitability and continuous improvement are key factors in documenting business principles. Corporate responsibility to the environmentally friendly use of natural resources is another business principle that often is found in code of ethics.



### *Management Support*

Manager support of the values and principles may be documented in the code of ethics. Open door policies for reporting ethics violations can be included in the code, along with a process to anonymously report any code of ethics issues. To reflect how seriously management considers

the code, some businesses display the code of ethics with management signatures in prominent areas, such as the break room, where employees will see it on a daily basis.

### *Personal Responsibility*

Another component is a statement regarding each employee's personal responsibility to uphold the code of ethics. This may contain information regarding both the legal and moral consequences if an employee violates the code. The requirement to report any violators is normally a component of the ethics code's personal responsibility. This is meant to show that it is not sufficient to merely adhere to the values and principles but to help ensure every employee supports the code of ethics by reporting violators.

### *Compliance*

Any laws or regulations may be referenced as rules to adhere to as part of daily business interactions. The Sarbanes-Oxley Act--which was enacted as a direct result of the Enron case, in which executives falsified financial records to overstate the company's worth--details what financial reporting a company must do. Compliance to all financial reporting and any licensing requirements such as ISO 9000 by the International Organization for Standardization can be documented, along with the expectation that all licenses will be maintained and legal regulations met.

## **5.12 Meaning of Value Based Leadership**

In a world in which ruthless exploitation and competition, self serving behaviours and instability seem to be the norms, value based leadership holds a number of extraordinary promises that any sensible leader would dream of: self managing employees; lesser need for supervision and control; greater respect between people; increased enthusiasm and dedication to the task; service oriented mentalities; more genuine corporate culture; socially responsible and environmentally friendly work practices; reputation of reliability, fairness and honesty; team bonding; more humaneness in relationship; trust and loyalty; enhanced integrity and accountability; enhanced decision making which contributes to the vision whilst building on trust; greater commitment of team members, customers and shareholders; increased flexibility and 'intelligence'; enhanced performance; better integration work / personal life; clarity of

purpose, mission and vision; increased job and personal satisfaction through a deeper sense of meaning; increased self esteem; role modeling in society; potential legacy; etc. The list could be longer.

The essential characteristic of values based leadership is the belief that the welfare of people is the end of leadership and not that people are the means to the leader's goals.

In concrete terms, value based leadership is the intention given to and the attention paid to aligning a community or an organization's values, mission and vision with its strategy, performance management, rewards, processes and systems. It is essentially about cultivating a purposeful consistency in your organization, allowing a culture of genuine sincerity, trust and collaboration to flourish and endeavoring to do what you say at all times. Value based leadership is a system; it takes into consideration the whole organization that it organizes around well defined core values.

Core values are the "sacred" fundamental convictions that employees have about how they want – and therefore must – behave in the context of the organization's mission.



### 5.13 Definition of Value Based Leadership

In the leadership literature stream, VBL theories have received increased attention, in the past decade, as many charismatic and seemingly transformational leaders had emerged that lacked a moral, authentic and ethical dimension. VBL, like many evolving theories can have

multiple definitions. Bass & Avolio, Bass & Steidlmeier, Brown & Treviño, Gardner & Avolio, define values based leaders as those with an underlying moral, ethical foundation. VBL describes behaviors that are rooted in ethical and moral foundations. Examples of prominent VBL styles in the leadership research include spiritual, servant, authentic, ethical and transformational leadership. Management literature has also addressed the need for morality and ethics in corporate leaders, with some researchers expanding the discussion of VBL to include a leadership style where there is a congruence of a leader's values with an organization's values or with the needs and values of all corporate stakeholders. Leadership and management theorists concur regarding the importance of the development and assessments of ethics and values in 21st century leaders. This study examines the prevailing literature and research on the various constructs rooted in VBL. It identifies three constructs: (a) authentic, (b) ethical and transformational leadership that are considered the most emphasized behaviors in the VBL literature and examines the literature streams and progression of research for each of these VBL theories that have transformed the way the world looks at leadership. The research outlines that VBL is essential for leaders to be truly successful and effective. The analysis concludes by outlining literature gaps and providing recommendations for future study of VBL.

#### **5.14 Importance of Value Based Leadership**

In a competitive business environment, effective **leadership** is an essential requirement in order to achieve organisational goals. To do this, leaders must be able to provide inspiration, motivation and clear direction to their team.

We have all heard the adage, leaders are born; not made. It is believed some are born while others are taught. Leadership, a critical management skill, is the ability to motivate a group of people toward a common goal. How you motivate others to get to that goal is influenced by the values you bring to the position. Your values reflect a collection of experiences over your lifetime beginning with your childhood.



## Morality

Whatever you do in life, you must be able to live with yourself. My moral compass was established growing up on the farm. At that time, I did not appreciate the values my parents tried to instill in me. We did not have much in the way of material things but we had things that money could not buy, such as love, support and a faith in God. That training coupled with strong families who supported each other helped me develop a moral system that would direct my life.

Knowing yourself is crucial as you are faced with ethical choices; as you communicate with others who have different ideas or even as you make day-to-day decisions. How will you know what to do? If you have clearly defined your values and made a commitment to live by them your decision will be easy. If you are clear about your own values, priorities and preferences and not let society or someone else define them for you, you can better articulate what you stand for and can make better choices. Never compromise yourself or your values but maintain the highest standards of excellence and integrity. We all face temptations but it is how you deal with those temptations that define you as a person. I recall the time when I was running my business and had the opportunity to secure a large contract I desperately wanted. I

discovered, however, that in order to get the contract I had to give the contracting officer a kickback. I turned down the opportunity and felt good about my decision. So cultivate a moral compass that protects not only your reputation, but most importantly protects your soul.

### Honesty and Integrity

In today's environment, these two characteristics are in the forefront on both the political and corporate scene. With all of the indiscretions among our leaders of today, everyone is hungry for leaders who are honest and have immeasurable integrity. People want their leaders to be someone they can trust and they want to be able to depend on what the leaders say. In other words, watch the person's actions as opposed to the words. Leaders should "walk the walk." Their own behaviors should set examples for others. Among their followers, there should be no question about the values of the leader.

### Inspiration

A good leader encourages others to take action, sharing with them the vision that gives them the desire to follow. An inspirational leader remains positive even in the face of insurmountable circumstances and continues to motivate the team. This type leader involves the team in changes and provides the support needed for them to carry out their responsibility. With this quality a leader is more interested in results than process, allowing members the flexibility to plan and implement their strategy. In my own business, I encouraged managers to be creative with ideas and be willing to suggest new ways of doing things. I maintained my role as leader by not abdicating my responsibility. One example was a specially designed training program that required not only an investment from the company but required employees to invest some of their free time to prepare for advancement. This program made it possible to increase the number of internal promotions. I am sure this program was better received since it originated among employees.

### Gratitude

Everyone wants to feel appreciated. Great leaders use gratitude to motivate their team and to create a positive workplace. Learn to complement even the smallest thing. If employees can

experience small successes, it can lead to even greater successes. "Thank you" is a powerful word. Say thank you often and with sincerity even when employees have done no more than expected. Also be specific about why you are thankful. If the employee's action has contributed to some success for the team or your customers, let the employee know it.

### **5.15 Benefits of Value Based Leadership**

A number of clients continue to make a commitment to implement Values Based Leadership (or VBL) in their organizations. To help others learn from their experiences, I would like to share some ways of using VBL and some of the benefits of doing so.

VBL is a model of leadership designed to help anyone in an organisation become a more effective leader - that is, a leader who contributes to the fulfillment of important values . . . values like trust and respect, dignity and cooperation, caring and service.

Based on my observations and experiences with many different kinds of organizations, there are a number of key ways of using VBL and clear benefits of doing so. (If you are not familiar with the processes in the VBL model, take a look at the VBL skills menu.)

#### **Using VBL**

As people get training in VBL, they begin to apply the inner and outer processes in day-to-day situations. Here are some of the ways people use these skills:

- When there is something preventing you from doing your job with the quality you would like, you can request help, get heard, and give others a chance to give you the support you need.
- If you are hesitant to bring up an unresolved issue with your boss, you can overcome your hesitancy with the courage that comes from activating your integrity and self-respect and by assuming that the other person will respect you enough to listen to your request.
- When you feel unappreciated and that your work seems unimportant and unrecognized, you can request a discussion and then ask about the benefits of your contributions, or those of your group.

- If you are a boss, you can proactively inquire about the status of relationship issues and values within your group, listen with empathy to what people say and respond when you can help.
- When you get complaints or negativity coming your way, you can accept that the underlying reason for this is that the person's reasonable, healthy values are in some way being violated.
- When someone does a good job, you can express your appreciation to them, whether they are a peer, a subordinate, someone in another group, or your boss. Tell them what you noticed about what they did and how you benefit from it.
- If you do something that violates the values of someone else, you can apologise to that person by recognising the pain you caused, saying you are sorry, promising to do your best not to repeat what you did and ask for forgiveness. Then keep your promise.
- If you are stressed, angry or upset about something, you can pause, do some healing, and expand thinking, before talking with the person who can help to solve the problem. That will help you to behave professionally while still being completely honest.
- If members of your group fail to deal with important issues and people are gossiping about it, you can engage in a group conversation to clear the air, voice each person's concerns and seek solutions to the problems.
- When you have a problem you can ask your boss for a VBL session. If you don't get that issue resolved with your boss, you both can seek help from your boss's boss or from the organization's VBL facilitators (if you have them). The organisation may be able to help you and your boss resolve that conflict to create a triple-win for you, your boss and the whole organisation.

These are just a sampling of the many kinds of situations where you can demonstrate leadership to fulfill values.

## Benefits of VBL

There are quite a few immediate benefits of using VBL which help make this kind of leadership rewarding to you:



- By expanding your thinking, VBL can help you to increase your leadership intelligence while you challenge your old ways of approaching situations.
- By enhancing your communicating, VBL can help you improve your relationships while you solve day-to-day problems.
- By fulfilling personal and organizational values, VBL can help you to feel better on the job, as well to enable you help others feel more fulfilled and less stressed too.
- By resolving problems where important values are violated, VBL can help you prevent an organizational "infection" where painful feelings fester and victim cycles expand. In this kind of situation, VBL works like the immune system of the organization—it becomes a set of processes to identify and heal threats to the health of the whole. That enables the organisation, by opening feedback loops, to practice its values and to create and maintain a more healthy, more productive culture.

While VBL provides these kinds of immediate benefits, the growth of greater savvy and expertise in these leadership skills makes them even more easy and fun to use. VBL skill development is much like skill development in a sport like golf, or the skill development of learning to play a musical instrument - advanced skills come from the patient discipline of preparing, practising, and rehearsing. And using these skills gets easier and more fun, as you get better at them.

I hope you will take advantage of the benefits of VBL for developing leadership skills. In doing so, you help your organization become an even better place to work, AND you make YOUR work life more fulfilling and less stressful.

#### **5.1.6 Effectiveness of Value Based Leadership**

VBL has benefits beyond providing better organizational outcomes when moral and ethical principles are adhered to. Research has also demonstrated that transformational, authentic and ethical leadership traits result in leaders that are more effective. George summarizes what happens when VBL are at the helm. George argued that leaders were needed that “lead with purpose, values and integrity; leaders who build enduring organizations, motivate their employees to provide superior customer service, and create long term value for shareholders” (p. 9) and that this would ultimately result in more effective leaders and organizations.

## **Summary**

Employees are the assets of an organization and it is essential for them to maintain the decorum and ambience of the workplace. Organisation ethics are the principals and standards by which businesses operate. They are best demonstrated through acts of fairness, compassion, integrity, honour and responsibility. In an organization a code of ethics is a set of principles that guide the organization in its programs, policies and decisions for the business. One of the best ways to communicate organizational ethics is by training employees on company standards. Organisational culture is one of the major issues in academic research and education, in organization theory as well as in management practice. A culture that places a high value on attention to detail, expects their employees to perform their work with precision. A company whose culture places a high value on stability are rule oriented, predictable and bureaucratic in nature. Organisational values are often discussed to be a powerful marketing tool, since clear organizational values are positively noted and they encourage potential buyers to buy or use company's product. The code of ethics is the set of behavioral rules employees should follow to ensure the company's values are reflected in all business dealings. The essential characteristic of values based leadership is the belief that the welfare of people is the end of leadership and not that people are the means to the leader's goals. It is an essential requirement in order to achieve organizational goals.

## **KEY TERMS**

**1. ORGANISATION ETHICS DEVELOPMENT SYSTEM** - An organisation is formed when individuals from different backgrounds and varied interests come together on a common platform and work towards predefined goals and objectives.

**2.ORGANISATIONAL CULTURAL** - Organisational culture is one of the major issues in academic research and education, in organisation theory as well as in management practice. There are good reasons for the culture dimension to be the centre in all aspects of organisational life.

**3. CODE OF ETHICS** - A code of ethics issued by a business is a particular kind of policy statement. A properly framed code is, in effect, a form of legislation within the company binding on its employees, with specific sanctions for violation of the code.

**4. VALUE BASED LEADERSHIP** - In concrete terms, value based leadership is the intention given to and the attention paid to aligning a community or an organization's values, mission and vision with its strategy, performance management, rewards, processes and systems

### **Self Assessment Questions**

1. What is meant by organisation ethics development system?
2. Explain the importance of organisation ethics development system
3. What are the elements of organisational development system?
4. What is meant by organisational cultural?
5. Define organisational cultural
6. What are the characteristics of organisational cultural?
7. Explain the organisational values in the business ethics
8. Explain the importance of organisational cultural
9. What is meant by code of ethics?
10. Define code of ethics
11. What are the components of code of ethics?
12. What is meant by value based leadership?
13. Define value based leadership
14. Explain the importance of value based leadership
15. What are the benefits of value based leadership?
16. Explain the effectiveness of value based leadership

## UNIT – VI

### MARKETING ETHICS AND CONSUMER PROTECTION

#### Learning Objectives

After studying this study you will be able to understand –

- ❖ Marketing Ethics and Consumer protection
- ❖ Healthy competition and protecting consumer's interest
- ❖ Advertising ethics
- ❖ Ethics in Accounting and Finance
- ❖ Importance, Issues and common problems

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## **6.1 Introduction of Marketing Ethics**

Marketing ethics is viewed as important because of marketing's interface with many diverse stakeholders. Marketing is a key functional area in the business organisation that provides a visible interface with not only customers, but other stakeholders such as the media, investors, regulatory agencies, channel members, trade associations, as well as others. It is important when addressing marketing ethics to recognise that it should be examined from an individual, organisational, and societal perspective. Examining marketing ethics from a narrow issue perspective does not provide foundational background that provides a complete understanding of the domain of marketing ethics. The purpose of this chapter is to define, examine the nature and scope, identify issues, provide a decision-making framework, and trace the historical development of marketing ethics from a practice and academic perspective.

## **6.2 Meaning of Marketing Ethics**

Marketing ethics is an area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. Some areas of marketing ethics (ethics of advertising and promotion) overlap with media ethics.

Ethics in marketing appears, at first, to be an extraordinarily complex topic. What practices are ethical, what practices are unethical, what's appropriate and what's not, etc. – all are important points of discussion, but are not actually that complex as long as a clear understanding of ethics.

## **6.3 Definition of Marketing Ethics**

Ferrell in 2005 has defined marketing ethics as the study and philosophy of human conduct, with an emphasis on the determination of right and wrong. For marketers, ethics in the workplace refers to rules (standards, principles) governing the conduct of organisational members and the consequences of marketing decisions.

Therefore, ethical marketing from a normative perspective approach is defined by Murphy, Laczniak, Bowie and Klein in 2005 as “practices that emphasise transparent,

trustworthy, and responsible personal and organisational marketing policies and actions that exhibit integrity as well as fairness to consumers and other stakeholders.

Marketing ethics focuses on principles and standards that define acceptable marketing conduct, as determined by various stakeholders and the organisation responsible for marketing activities. While many of the basic principles have been codified as laws and regulations to require marketers to conform to society's expectations of conduct, marketing ethics goes beyond legal and regulatory issues. Ethical marketing practices and principles are core building blocks in establishing trust, which help build long-term marketing relationships. In addition, the boundary-spanning nature of marketing (i.e. sales, advertising, and distribution) presents many of the ethical issues faced in business today.

Both marketing practitioners and marketing professors approach ethics from different perspectives. For example, one perspective is that ethics is about being a moral individual and that personal values and moral philosophies are the key to ethical decisions in marketing. Virtues such as honesty, fairness, responsibility, and citizenship are assumed to be values that can guide complex marketing decisions in the context of an organisation. On the other hand, approaching ethics from an organisational perspective assumes that establishing organisational values, codes, and training is necessary to provide consistent and shared approaches to making ethical decisions said by Ferrell and Ferrell in 2005.

#### **6.4 Need of Business Ethics in Marketing:**

Business ethics are special type of regulatory guidelines. They are vital for making business operations more authentic. Today's marketing practices are full of deceptive packing, ambiguous offers, exaggerated advertising, and aggressive selling. Some marketers practice several unfair practices to attract customers in pursuit of sales volumes and profits. Business ethics restrict all these things. Their presence and compulsion to follow them make a lot of difference in marketing activities. Business ethics are necessary for marketer as well as consumers. They have many direct or indirect purposes.

#### **6.5 Objectives of marketing ethics**

1. To prevent malpractices in business. Ethics make business activities more authentic.

2. To ensure uniformity in marketing practices among various business enterprises throughout the country.
3. To make marketers more aware, sensible, and liable to customers and society as a whole.
4. To ensure confirmation of marketing practices with the contemporary legal framework.
5. To enforce government, voluntary social organisations, and others to be alert regarding long-term interest and welfare of society.
6. To assist government to formulate necessary legal provisions and enforce the marketers to obey them.
7. To distinguish ideal firms from exploiting firms. They facilitate in taking needed actions against those firms indulging in malpractices.
8. To decide on rewards, awards, certificates, prizes, and other encouragements for deserving business firms.

## **6.6 Importance of Marketing Ethics**

Generally, ethics refer to the way in which people relate in a moral manner toward others in all of their various interactions. Marketing Ethics refer specifically to the application of this basic morality in the conduct of business with their consumers and other related parties. Such practices must necessarily include a conscious attempt by the businesses under consideration to apply moral principles when they are dealing with clients or other customers, especially when it comes to the production, pricing and promotion of their goods or services. Some ethical issues are universal, while some are derived from the culture and beliefs of various people. As such, various companies must necessarily incorporate this consideration in their marketing ethics.

An example of how Marketing Ethics can be derived from the cultural or societal values of the particular group of people in the environment is that the business operating can be explained by using the example of the practice of animal testing. Some cultures are more

offended by the issue of animal testing than others due to the type of values in place in those societies. A cosmetics company in a less-developed country where poverty is still prevalent might not have the luxury of seeking alternative forms of testing for their products. In this case, the subject of the practice of animal testing might not be a big issue, and even the customers might not be too concerned about any such practice since they might not have too many alternatives. In contrast, a company in a developed country might face boycotting from consumers if they engage in the practice simply because their culture is one of affluence and they have a lot of alternatives to the product produced by this manufacturer.

Marketing ethics may also be referred the manner in which a business presents its products to consumers, such as engaging in double speak or deliberately misrepresenting information or facts in order to generate more sales and make more profit. For example, a company could deliberately package its product to look like that of another popular product even though it knows that its own version is substandard. This company might rely on the fact that not a lot of people will look too closely to tell the difference between the two products. Not only would such a misapplication of marketing ethics be morally reprehensible, it would also be basis for a lawsuit if the other company can prove that it is capitalizing on its product identity to generate sales. As such, the issue of the application of marketing ethics is one that helps to ensure that consumers and clients do not get a raw deal from manufacturers.

## **6.7 Meaning of Consumer Protection**

Consumer protection is a group of laws for organisations designed to ensure the rights of consumers as well as fair trade, competition and accurate information in the marketplace. The laws are designed to prevent businesses that engage in fraud or specified unfair practices from gaining an advantage over competitors.

They may also provide additional protection for those most vulnerable in society. Consumer protection laws are a form of government regulation, which aim to protect the rights of consumers.

For example, a government may require businesses to disclose detailed information about products, particularly in areas where safety or public health is an issue, such as food. Consumer



protection is linked to the idea of consumer rights, and to the formation of consumer organisation, which help the consumers to make better choices in the marketplace and get help with consumer complaints.

## **6.8 Importance of Consumer Protection**

Consumer protection is very wide. It includes rights, responsibilities and various remedies available to consumers. It is not only beneficial for consumer but it is equally important for businessmen also.

### **1. Consumer Ignorance:**

Consumer protection provides information to the ignorant customers with regard to their rights and remedies available to them. It spreads awareness so that consumer can know about the various redressal agencies where they can approach to protect their interests.

### **2. Unorganized Consumers:**

In developing countries like India, consumers are not organised. There are very few consumer organisations which are working to protect the interests of consumers. Consumer's protection encourages establishment of more consumer organisations. Consumer protection provides power and rights to these organisations as these organizations can file case behalf of customers.

### **3. Widespread Exploitation of Consumers:**

Nowadays, even though consumer is the king pin of market even then there is lot of exploitation of consumers as businessmen use various unfair trade practices to cheat and exploit consumers. Consumer protection provides safeguard to consumers from such exploitation.

### **Importance of Consumer Protection from Businessmen's point of View**

Businessmen cannot survive for a long time by ignoring the interests of consumers. They have to give due importance to consumers if they want to prosper in competitive market. Consumers protection provides following benefits to businessmen:

### 1. Long Term Interest of Business:

After the liberalisation and globalisation the level of competition has increased so much that business has to face not only internal but also international competition. In the race of competition the businessmen can win and capture a big share in the market only when they are able to satisfy its customers by designing the products keeping in mind the requirements of the customers.

The businessmen who ignore the interest and satisfaction of customers will lose their goodwill and clients. So it is in interest of the business itself to keep its customers satisfied.

### 2. Businessman responsible for Society's Resources:2

Businessmen use the resources of society. They earn profit by supplying goods and services to the members of society. So it must do something for society. Businessmen are merely trustee of resources, they must use these resources for the benefits of consumers.

### 3. Social Responsibilities:

A businessman has social obligations towards various groups and customer is one of the important groups. It is the responsibility of businessmen to provide quality goods at reasonable price. Consumer protection guides businessmen to provide social responsibilities.

### 4. Moral/Ethical Justification:

Traditionally ethics was part of profession only, but today ethics is playing very important role in business also. The ethics or a moral value practiced by the businessmen adds glory to businessmen. In today's environment business without ethical value is not more than a criminal activity and no civil society can tolerate and allow the existence of unethical business.

### 5. Government Intervention:

If businessmen want to avoid intervention of government then they should not involve in unfair trade practices. Government intervention may spoil the image of business. Businessmen should voluntarily involve in the activities which protect the interest of the consumer.

## 6. Consumer is the Purpose of Business:

The basic purpose of business is to create more and more customers and retain them. The businessmen can create more customers only by satisfying the customers and protecting the interest of consumers. The customer is the foundation of business.

### 6.9 Need of Consumer Protection

Under the modern philosophy of marketing, consumer is supposed to be the king and business is expected to be provided the maximum possible satisfaction. But in reality, consumers are often exploited. In a country like India there is shortage of many products. A few firms enjoy monopoly powers in the market place. A large majority of consumers are ignorant and illiterate and do not know their rights. They are poor and there is lack of unity among them. Due to all these reasons, consumers are often deprived of their rights. They are often exploited through misleading advertisements, poor quality goods, fractional weights and measures, overcharging, etc. Therefore, it is the need of the hour that countries like India should have strong Consumer Protection Act to protect the consumers.

### 6.10 Objectives of Consumer Protection

Taking into account the interests and needs of consumers in all countries, particularly those in developing countries; recognising that consumers often face imbalances in economic terms, educational levels, and bargaining power. Bearing in mind that consumers should have the right of access to non-hazardous products, as well as the importance of promoting just, equitable and sustainable economic and social development, these guidelines for consumer protection have the following objectives:

- a. To assist countries in achieving or maintaining adequate protection for their population as consumers;
- b. To facilitate production and distribution patterns responsive to the needs and desires of consumers;
- c. To encourage high levels of ethical conduct for those engaged in the production and distribution of goods and services to consumers;

- d. To assist countries in curbing abusive business practices by all enterprises at the national and international levels which adversely affect consumers;
- e. To facilitate the developing of independent consumer groups;
- f. To further international co-operation in the field of consumer protection;
- g. To encourage the development of market conditions which provide consumers with greater choice at lower prices.

### **6.11 Meaning of Healthy Competition**

Healthy competition is where all competitors have fun even if they don't finish first and those that win are good sports about it.

### **6.12 Definition of Healthy Competition**

Competition is defined as the activity or condition of striving to gain or win something by defeating or establishing superiority over others. Competition exists when there is a scarcity of a desired outcome. Individuals and/or groups are then in a position that they must vie for the attainment of that outcome.

### **6.13 Protection Consumer Interest**

Consumers have been recognised as an important component of the economy, and protecting them from exploitation and ensuring their rights has become a vital feature of government legislations and policies. Apart from the legislation enacted for consumer protection, a number of other laws provide for the protection of consumer interests.

### **6.14 Concept of Consumer Interest**

An effective framework from which is to analyze consumer protection issues depends upon both a clearly articulated understanding of what constitutes the consumer interest and the availability of rigorous CIR-related scholarship. This Primer provides definitions for six overarching concepts that shape any discussion of consumer interest-related research. Although stand-alone concepts; they are richly interconnected. The intent is to provide common understandings about what constitutes the consumer interest in exchanges among policy makers

and between policy makers and CIR-related researchers. The work of the Canadian consumer policy community will be informed and enriched through these exchanges. As well, this will assist researchers in identifying aspects of their work as CIR scholarship.

## Advertising Ethics

Advertising is the commercial promotion of goods and services done in order to increase the sales. There are number of means of advertising which includes television, newspapers, wall paintings, billboards, magazines, Internet, by the word-of-mouth and in many other ways. Advertising informs the buyers about the availability of a certain product or service in the market and encourages them to buy it.

## Important of Advertising Ethics

Number of advertising agencies is more across the country. As the population is more there is B-Line of many international companies trying to put their hand in Indian Market. These advertising agencies are exploiting these Indian manufacturers in putting their market through advertising suitable to Indian conditions. The severe competition for the same product and services bring in fierce advertisement from agencies counteracting on each other's specifications. The recent advertisement between Times of India and The Hindu competing on each other is an example. The design patents have become legal in India only in recent times. Until now advertisements also boost the sales of duplicate and mal-nutrition products.

## Advertising and the Ethical Aspects

Ethics means a set of moral principles which govern a person's behaviour or how the activity is conducted. Advertising means a mode of communication between a seller and a buyer. Thus ethics in advertising means a set of well defined principles which govern the ways of communication taking place between the seller and the buyer. Ethics is the most important feature of the advertising industry. Even though there are many benefits of advertising, there are some points which donot match the ethical norms of advertising

. • An ethical advertisement is the one which doesnot lie, doesnot make fake or false claims and is in the limit of decency. Nowadays, advertisements are more exaggerated and a lot of puffing is used. It seems like the advertisers lack knowledge of ethical norms and principles. They just don't understand and are unable to decide what is correct and what is wrong.

• The main area of interest for advertisers is to increase their sales, gain more and more customers, and increase the demand for the product by presenting a well decorated, puffed and colorful advertisement. They claim that their product is the best, having unique qualities than the competitors, more cost effective, and more beneficial. But most of these advertisement are found to be false, misleading customers and unethical .The best example of these types of advertisements is the one which shows evening snacks for the kids, they use coloring and gluing to make the product look glossy and attractive to the consumers who are watching the advertisements on television and convince them to buy the product without giving a second thought.

. • Ethics in Advertising is directly related to the purpose of advertising and the nature of advertising. Sometimes the manufactures need to prove the benefit of the product through the advertisement which may not be in an ethical mode. But they should give the attention towards the advertisements which is not exaggerated.

### Ethics in Advertisement

• Ethics also depends on what we believe. If the advertisers make the advertisements on the belief that the customers will understand, persuade them to think, and then act on their advertisements, then this will lead to positive results and the advertisement may not be called unethical .

But at the same time, if advertisers believe that they can fool their customers by showing any impractical things like just clicking fingers will make your home or office fully furnished or just buying a lottery ticket will make you a millionaire, then this is not going to work out for them and will be called as unethical.

- The advertisements should follow three moral principles i.e. Truthfulness, Social Responsibility and Upholding Human Dignity. Generally, big companies never lie as they have to prove their points to various ad regulating bodies. Truth is always said but not completely. Sometimes it is better not to reveal the whole truth in the advertisements but at times truth has to be shown for betterment.

### **6.15 Introduction of Ethics in Accounting**

Accounting ethics is primarily a field of applied ethics, the study of moral values and judgments as they apply to accountancy. It is an example of professional ethics. Accounting ethics were first introduced by Luca Pacioli, and later expanded by government groups, professional organizations and independent companies. Ethics are taught in accounting courses at higher education institutions as well as by companies training accountants and auditors.

Accounting is a business field in which accuracy and interpretation are both very important. Small discrepancies can displace huge sums of money, especially in bigger companies. These discrepancies can be either introduced on purpose, or included by accident. Ethics is the practice of behaviour that does not allow for intentionally inaccurate or false accounting practices. This pertains not only to following the law, but also to interpreting financial data as clearly and honestly as possible in all situations.

### **6.16 Meaning of Ethics in Accounting**

Accounting ethics is a field of professional ethics which pertains specifically to accounting. Whether accountants work in public or private practice, they are expected to adhere to ethical standards which are designed to ensure that accountants behave in a way which is ethical and consistent. In some regions, in order to be certified as an accountant, one must indicate agreement to comply with an ethical code, and people can be stripped of their certification if they fail to abide by ethical codes. For most professional organisations of accountants, in order to be members, people must agree to and uphold ethical standards, and they will be removed from the organisation if they fail to do so.

In business, people use the information collected by accountants to make very important decisions, including decisions on how to structure the organization's profit system and whether

to invest in a particular business or not. The government also uses information provided by accountants to make decisions concerning laws and taxes. Because of so much dependency on the results given by accountants, ethical concerns are more prominent in the field of accounting than other industries.

The earliest documented discussions of accounting ethics appear to date to the 1400s, and many of the ethical issues which pertain to accounting continue to be the same, even if the financial world of today would be unimaginable to a 15th century accountant. One of the key issues with accounting ethics is that poor ethical behaviour on the part of an accountant does not just potentially hurt a client, it can also hurt society. For example, when an accountant colludes in falsifying financial statements which in turn hurts investors in a company, taxpayers who may be caught up in government bailouts or regulatory efforts pertaining to the company, and the workers at the company.

### **6.17 Definition of Ethics in Accounting**

The American Institute of Certified Public Accountants (AICPA) maintains the AICPA Code of Professional Conduct. The code is available at the organisation's website; this version of the code covers the AICPA standards for professional conduct as of October 2013.

The International Ethics Standards Board for Accountants (IESBA) develops and maintains the Handbook of the Code of Ethics for Professional Accountants. The IESBA is an independent standard-setting body. The International Federation of Accountants (IFAC) has the handbook available in PDF format for download from the IFAC website; the handbook covers the IFAC standards as of March 2013.

It is important for accountants to follow ethical guidelines and conduct their duties with impartiality. Failure to do so could lead to both ethical and criminal violations. However, pressure from management, ignorance of ethics requirements, an unwillingness to report accounting violations, a tendency to minimise the ethical significance of omitting certain financial records to skew results and just plain greed are all common reasons why accountants may violate accounting ethics. Accountants who violate ethics are subject to lose their license or job, among other punishments.



## **6.18 Importance of Ethics in Accounting**

Proper ethics and ethical behaviour are extremely important in accounting for a variety of reasons. To begin with, accountants are often privy to sensitive information regarding their clients, such as Social Security or bank account numbers. This gives accountants a good deal of power in regard to their clients and it is important that the trust between an accountant and their clients not be abused. In the same way it is important that the industry itself does not become stigmatised as an unethical one, something that could potentially harm business for all accounting firms.

Ethics are important throughout the business world, but they are especially important for accounts and all accountancy and all accounting practices. In general, this is because accounting deals more with facts, figures and hard data than any other business area. This means that there is less room for perspective, and the results of unethical behaviour are much more widespread. Maintaining ethical standards are necessary in every business entity that intends to survive successfully in the market and improve total organisational competencies and efficiencies.

Developing total efficiencies of the employees is essential for leading a business entity in the direction of success continuously. This necessitates training and guiding the employees in such a way so as to build their efficiencies in all the aspects of business while stressing on maintaining ethical standards effectively at all times. Understanding and upholding business ethics is essential for overall business activities. Therefore, it goes with the accounting profession as well.

Ethics is synonymous with morality, honesty and integrity. Ethics means the basic concepts and fundamental principles of right human conduct. It also involves differentiating between good and bad, right and wrong, so that an accounting professional follows what is principally right for him to do.

Since the accounting profession involves various functions of accounting, such as, recording of all business events that are of financial character, classifying and summarising them and present them in the form of profit and loss statement, balance sheet and cash flow statement, the way these activities are performed is very important and it has a lot to do with maintaining accounting ethics of accountants.



One of the most important thing that shows ethical behaviour of an accountant is that he needs to remain impartial and loyal to the business organisation while performing the related activities sincerely and with honesty. Since the accounting information drawn from the financial statements is of great value and significance to be relied upon and upon which the success or failure of a business immensely depends, an accountant should not manipulate the accounting figures in order to hide any information. In terms of balance sheets, the information concerning, cash, receivables, inventory, prepaid expense, long term receivables etc must be presented accurately.

Similarly, the activities pertinent to the components of income statements, such as, revenue and expense are to be carried out efficiently. An accountant should not change the accounting figures to make profits look better in the income statement. In this way, accounting professionals are supposed to provide the accurate information to the top management without changing the figures showing less expenses or greater revenues.

Therefore, the accounting ethics should be applied to each and every activity of the process of accounting, so that the complete, accurate and reliable information can be presented to the desired users of financial statements in a business organisation.

## **6.19 Ethical Issues in Accounting and Financing**

An accountant working in the public or private sector must remain impartial and loyal to ethical guidelines when reviewing a company's or individual's financial records for reporting purposes. An accountant frequently encounters ethical issues regardless of the industry and must remain continually vigilant to reduce the chances of outside forces manipulating financial records, which could lead to both ethical and criminal violations.

### *Pressure from Management*

The burden for public companies to succeed at high levels may place undue stress and pressure on accountants creating balance sheets and financial statements. The ethical issue for these accountants becomes maintaining true reporting of company assets, liabilities and profits without giving up the pressure placed on them by management or corporate officers. Unethical accountants could easily alter company financial records and maneuver numbers to place false pictures of company successes. This may lead to short-term prosperity, but altered financial records will ultimately spell the downfall of companies when the Securities and Exchange Commission discovers the fraud.

### *Accountant as Whistleblower*

An accountant may face the ethical dilemma of reporting discovered accounting violations to the Financial Accounting Standards Board. While it is an ethical accountant's duty to report such violations, the dilemma arises in the ramifications of the reporting. Government review of company's financial records and the bad press caused by an accounting scandal could cause the company's rapid decline and may lead to the layoff of thousands of employees. Executives and other corporate officers can also face criminal prosecution, leading to heavy fines including imprisonment.

### *The Effects of Greed*

Greed in the business and finance world leads to shaving ethical boundaries and stepping around safeguards in the name of making more money. An accountant can never let the desire to earn a better living and acquire more possessions get in the way of ensuring that she follows ethical guidelines for financial reporting. An accountant who keeps eyes on own bank account

more than on company's balance sheet becomes a liability to the company and may cause real accounting violations.

### *Omission of Financial Records*

A corporate officer or other executive may ask an accountant to omit or leave out certain financial figures from a balance sheet that may place the business in a bad light to the public and investors. Omission may not seem like a significant breach of accounting ethics to an accountant because it does not involve direct manipulation of numbers or records. This is precisely why an accountant must remain ethically vigilant to avoid falling into such a trap.

## **6.20 Common Problems of ethics in Accounting**

Ethics in accounting are concerned with how to make good and moral choices in regard to the preparation, presentation and disclosure of financial information. During the 1990s and 2000s, a series of financial reporting scandals brought this issue into the forefront. Knowing some of the issues presented in accounting ethics can help to ensure that we are considering some of the implications for the actions that we take with our own business.

### *Fraudulent Financial Reporting*

Most accounting scandals over the last two decades have centered on fraudulent financial reporting. Fraudulent financial reporting is the misstatement of the financial statements by company management. Usually, this is carried out with the intent of misleading investors and maintaining the company's share price. While the effects of misleading financial reporting may boost the company's stock price in the short-term, there are almost always adverse effects in the long run. This short-term focus on company's finance is sometimes known as "myopic management."

### *Misappropriation of Assets*

From an individual employee point of view the most common ethical issue in accounting is the misappropriation of assets. Misappropriation of assets is the use of company assets for any other purpose than company interests. Otherwise known as stealing or embezzlement, misappropriation of assets can occur at nearly any level of the company and to nearly any

degree. For example, a senior level executive may charge a family dinner to the company as a business expense. At the same time, a line-level production employee may take home office supplies for personal use. In both cases, misappropriation of assets has occurred.

### *Disclosure*

As a subtopic of fraudulent financial reporting, disclosure violations are errors of ethical omission. When intentionally recording transactions in a manner that is not in accordance with generally accepted accounting principles it is considered fraudulent financial reporting. Also, the failure to disclose information to investors that could change their decisions about investing in the company could be considered fraudulent financial reporting. Company executives must walk a fine line which is important for management to protect the company's proprietary information. However, if this information relates to a significant event, it may not be ethical to keep this information from the investors.

### *Penalties*

Penalties for violations of accounting ethics laws have increased greatly since the passage of the Sarbanes-Oxley Act of 2002. This legislation allows for harsh penalties for manipulating financial records, destroying information, interfering with an investigation and provides legal protection for whistle-blowers. In addition, chief executives can be held criminally liable for the misreporting of their company. If accounting ethics was not an important consideration before, the higher stakes provided by the Sarbanes-Oxley Act have definitely upped the ante.

## **6.21 Introduction of Ethics in Finance**

For many, the expression “ethical finance” is an oxymoron. The media have had a great deal to say about corporate misconduct (Enron, Tyco, World Com, Ahold, ABB, Parmalat); about recent financial scandals: ponzi schemes (Bernard Madoff is serving a 150 year jail sentence for the largest investor fraud ever committed); about weak corporate governance; and about exorbitant bonuses paid to executives and traders in financial institutions. One might ask, “Are there really any ethics in finance?” In part the answer lies hidden in the complexity of the world of finance – a vast subject made even more complex by such forces as globalization, consolidation, deregulation, disintermediation<sup>1</sup> and diversification.

Historians may well determine that the turning point from traditional banking to disintermediation and innovative finance may have occurred in 1971 with the end of the dollar's convertibility into gold. In the following years corporations expanded their businesses internationally and looked for new ways of funding, including the issuance of bonds sold on the capital markets to individuals and institutional investors. With disintermediation banks have transferred some of their traditional risks such as credit and market risks to other economic agents and have engaged in a fierce competition for the development of innovative products that generate new sources of non-interest income to offset the declining intermediation margin from traditional lending activities.

Ordinary investors can very well feel lost in the labyrinth of financial institutions namely commercial banks, investment banks, asset management firms, hedge funds, mutual funds, savings banks, insurance companies. Other elements of complexity exist in the customers (private, corporate, public entities) in the markets (money, stock exchange, commodity, debt, derivative, foreign exchange), in the instruments (equity, bonds, derivatives), as well as in the services rendered (insurance, underwriting, leasing). These and other ways to segment financial markets illustrate the complexity of the arcane world of finance. According to the McKinsey Global Institute 3rd Annual Report, the world's financial assets were about \$140 trillion at the end of 2005 and this was then expected to exceed \$228 trillion by 2010.

## **6.22 Definition of Ethics in Finance**

Ethical finance is a difficult term to define. A very restrictive way to describe it would be as an “umbrella concept” for a philosophy of investing based on a combination of financial, social, environmental and sustainability criteria.

Euroif defines this philosophy with the term of Sustainable and Responsible Investment (SRI): “This is a concept that continues to evolve. Nevertheless, the constant within this area is that sustainable and responsible investors are concerned with long-term investment; and environmental, social and governance (ESG) issues are important criteria to determining long-term investment performance.”

## **6.23 Importance of Ethics in Finance**

Out of this labyrinth have emerged two very different trends among financial institutions. One is the search for ever-increasing size, diversification, and especially profitability – characterised by an increasing focus on immediate or short term profits, egregious levels of executive compensation, blind acceptance of higher risks, and a parallel erosion in trust and confidence in the institutions, in the products and services, and in the individuals involved.

The other trend, and an encouraging one, shows that finance is on its way to re-discover its instrumental function in support of the economy with an increasing consideration of environmental, social and governance issues in investment decisions and services being offered. These values-based decision criteria, services and institutions are the subject of this knowledge center.

For the past twenty years, the European Baha'i Business Forum (EBBF) has been offering publications and conferences on the very values that are essential to building confidence and trust in the firms and financial systems. Among these core values of EBBF which are very relevant to finance are ethical business practices, corporate responsibility, sustainability, values based leadership, gender balance, and consultative decision-making. In addition to these values, several EBBF publications address the fundamental question, "What is the purpose of the enterprise?" A new "work ethic" based on a spirit of service to humanity, is essential. To quote from one of these EBBF publications,

"The ideology of purpose that will dominate the future is one that finds acceptance and participation by society at large, unleashes human potential, draws individuals and organisations towards ethical behaviour, and makes it possible for every human being to make a difference. Only the purpose of 'serving the real needs of humanity' is likely to meet these requirements." (Purpose beyond Profit, by Marjo Lips-Wiersma, EBBF, 2008, p.26)

## **6.24 Ethics of common Problems in Finance**

The financial crisis of 2008-2009 has seen a pervasive collapse of trust. Banks no longer trust other lenders. Investors no longer trust banks. Lenders no longer trust borrowers. At the

same time a large number of what may be termed “ethical finance” initiatives have grown. It is this field of activity which is addressed in this knowledge center.

In all my financial interactions – be it planning for clients, training, teaching or writing, people have come to me with some problem which they think is unique. In all the financial problems, I am able to find a pattern. Believe it or not, people more often than not choose the problem by their behavior. It is easy for me to find a pattern and say, “Well you chose your problem, did you not?”

The financial problems may be caused by some or allof the following financial behaviour:

No proper planning

The single biggest problem for most people is that they just do not plan their finances. Even if they are not happy about the results of what they have done so far, they do not change the way things are done.

Overspending

Many people with not very high incomes have very high ambitions. Most of this problem is because the salesmen in most shops do not tell you the price of a product, they only tell you the EMI — so anything from a plasma TV to a luxury home on the outskirts of the city are made to look cheap! After all at Rs 2,899 a month does a plasma TV not look cheap?

Not talking finance at home

Children are kept away from the finance topics at the dining table. Finance is perhaps the second most important topic at home. So many children grow up without knowing how much of sacrifice their parents have gone through to educate them.

Parents spending on education and marriage

There are too many kids who come to believe that they need to worry about savings, investment and life insurance only at the age of 32 plus. This means the father, father-in-law or a



bank loan has funded their education and marriage. Kids should take on financial responsibility at a much younger age than what is happening currently.

#### Marriage between financially incompatible people

Most marriages conducted under stress are actually under financial stress. Either the husband or the wife is from a rich background and the other partner cannot understand or cope up with the spending pattern. It is necessary to match people financially before marriage.

#### Delaying saving for retirement

“I am only 27 years old why should I think of retirement” seems to be a very valid refrain for many 32 year olds! Every year that delayed in investing, the greater the amount that you will have to save later in your life. Till the age of 32 it might be feasible for you to catch up, but after some time the amount that you need to save for retirement just flies away.

#### Very little life insurance

With all the risks of life styles, travel, etc. illness and premature death are common. We all have classmates who had heart attack at the age of 32 but still pretend that we do not need life insurance or medical insurance.

#### Not prepared for medical emergencies

Normally big emergencies, financially speaking are medical emergencies. Being unprepared for them by not having an emergency fund is quite common.

#### Lack of asset allocation

Risk is not a new concept. However, it is a difficult concept to understand. At 3k index people were afraid of the market. Now everybody and even the aunt want to be in the equity market. There are enough advisors who keep saying, “Equity returns are superior to debt returns.” This is true with a rider in the long run. So there could be a much larger allocation to equity at higher prices to make for the time missed out earlier?

## Falling prey to financial pitches

The quality of pitches has improved. Aggressive young ones are recruited by brokerage houses, banks, mutual funds, life insurance companies, etc. and they are selling mutual funds, life insurance, portfolio management schemes, structured products, etc.

## Buying financial products from 'obligated persons'

This is perhaps one of the worst things that could be done in financial life. A friend, relative, neighbour, colleague who has been doing something else suddenly becomes a financial guru because they have become an agent. There you are saddled with a dud product for life.

## Financial illiteracy

Most people do not wish to know or learn about financial products. They simply ask, "Where do I have to sign". Because of this buying a mutual fund is easier than buying life insurance.

## Ignoring small numbers for too long

What difference will it make if I save Rs 1,000 a month? Well over a long period it could make you a millionaire! So start early and invest wisely. It will make you rich. That is the power of compounding.

## Urgent vs important:

Most expenses, which look urgent, are perhaps not so important. For example, a shirt or shoe at a sale – the luxury item which was being offered at 30 per cent discount. These small leakages are all reducing the amount of money that we will have for the bigger things like education or retirement.

## Summary

Employees are the assets of an organization and it is essential for them to maintain the decorum and ambience of the workplace. Organisation ethics are the principals and standards

by which businesses operate. They are best demonstrated through acts of fairness, compassion, integrity, honour and responsibility. In an organization a code of ethics is a set of principles that guide the organization in its programs, policies and decisions for the business. One of the best ways to communicate organizational ethics is by training employees on company standards. Organisational culture is one of the major issues in academic research and education, in organization theory as well as in management practice. A culture that places a high value on attention to detail, expects their employees to perform their work with precision. A company whose culture places a high value on stability are rule oriented, predictable and bureaucratic in nature. Organisational values are often discussed to be a powerful marketing tool, since clear organizational values are positively noted and they encourage potential buyers to buy or use company's product. The code of ethics is the set of behavioral rules employees should follow to ensure the company's values are reflected in all business dealings. The essential characteristic of values based leadership is the belief that the welfare of people is the end of leadership and not that people are the means to the leader's goals. It is an essential requirement in order to achieve organizational goals.

## **KEY TERMS**

**1. Marketing Ethics** - Marketing ethics is an area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. Some areas of marketing ethics (ethics of advertising and promotion) overlap with media ethics.

**2. Consumer Protection** - Consumer protection is a group of laws for organisations designed to ensure the rights of consumers as well as fair trade, competition and accurate information in the marketplace.

**3. Healthy Competition** - Healthy competition is where all competitors have fun even if they don't finish first and those that win are good sports about it.

**4. Protection Consumer Interest** - Consumers have been recognised as an important component of the economy, and protecting them from exploitation and ensuring their rights has become a vital feature of government legislations and policies.

**5.Ethics in Accounting** - Accounting ethics is a field of professional ethics which pertains specifically to accounting. Whether accountants work in public or private practice, they are expected to adhere to ethical standards which are designed to ensure that accountants behave in a way which is ethical and consistent.

**6.Ethics in Finance** - Ethical finance is a difficult term to define. A very restrictive way to describe it would be as an “umbrella concept” for a philosophy of investing based on a combination of financial, social, environmental and sustainability criteria.

### **Self Assessment Questions**

- What is meant by marketing ethics?
- Define marketing ethics
- Explain the needs of marketing ethics
- What are the objectives of marketing ethics?
- Explain the importance of marketing ethics
- What is meant by consumer protection?
- Explain the importance of consumer protection
- What are the needs of consumer protection?
- Explain the objectives of consumer protection
- What is meant by healthy competition?
- Define the healthy competition
- Explain the protection consumer interest
- Explain the concept of consumer interest
- What is meant by accounting ethics?
- Define accounting ethics
- Explain the importance of accounting ethics
- What are the common problems in accounting?
- Explain the ethical issues in accounting and financing
- What is meant by financing?
- Explain the importance of financing
- What are the common problems in financing?

**UNIT – VII**  
**CORPORATE SOCIAL RESPONSIBILITY**

**Learning Objectives**

After studying this unit you will understand –

- ❖ Corporate social responsibility
- ❖ Strategic components
- ❖ Different approaches to CSR
- ❖ Globalization
- ❖ Sustainability
- ❖ CSR standards
- ❖ Best practices

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## **7.1 Introduction of Corporate Social Responsibility**

Corporate Social Responsibility, or CSR, is something that was started by fashionable 'ethical' businesses. Realising that promoting a responsible way of doing business actually improved the bottom line soon received wider interest, and now demonstrating responsibility has become expected when bidding for major contracts.



The concept of Corporate Social Responsibility can be explained in a simple way that doing the right thing. Corporate Social Responsibility, or CSR for short, is about how the organisation's existence affects stakeholders beyond the own insular interests, recognising the impact of operations on the community at large.

Adopting CSR considers how we can use this impact in a positive way, leading to sustainable growth and financial gains. Over the years, CSR has become more and more popular. Back in 2007 more than 80% of the FTSE 100 index reported on Corporate Social Responsibility within their Annual Report.

## **7.2 Meaning of Corporate Social Responsibility**

CSR aims to ensure that companies conduct their business in a way that is ethical. This means taking account of their social, economic and environmental impact, and consideration of human rights.

It can involve a range of activities such as:

- Working in partnership with local communities
- Socially Responsible Investment (SRI)
- Developing relationships with employees and customers

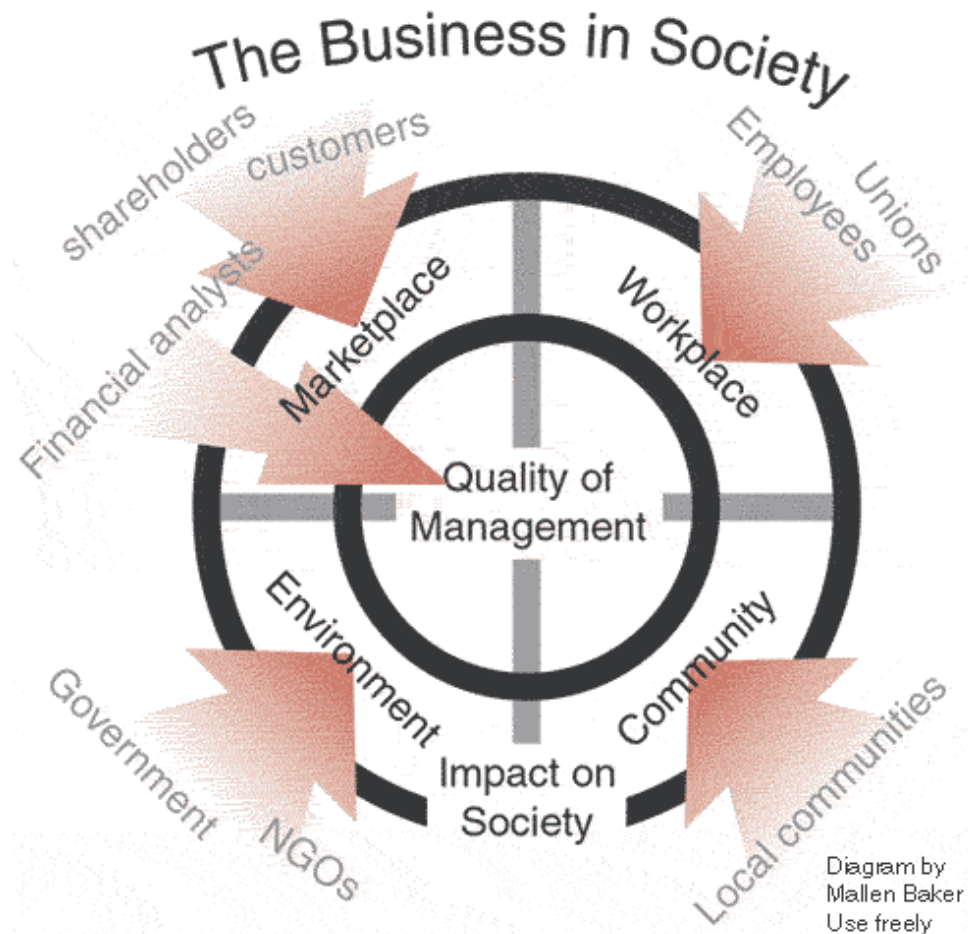
- Environmental protection and sustainability

Some businesses have as their main purpose the fulfillment of social or environmental goals, as opposed to a business that tries to achieve its financial goals while minimising any negative impact on society or the environment. These businesses are called Social Enterprises.

Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

Different organisations have framed different definitions - although there is considerable common ground between them. In simple terms it could be defined that CSR is about how companies manage the business processes to produce an overall positive impact on society.

Take the following illustration:



Companies need to answer about two aspects of their operations.

1. The quality of their management - both in terms of people and processes (the inner circle).
2. The nature and quantity of their impact on society in various areas.

Outside stakeholders are taking an increasing interest in the activity of the company. Most look to the outer circle regarding what the company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or in how it treats and develops its workforce. Out of the various stakeholders, it is financial analysts who are predominantly focused as well as past financial performance on quality of management as an indicator of likely future performance.

### **7.3 Definition of Corporate Social Responsibility**

The World Business Council for Sustainable Development in its publication *Making Good Business Sense* by Lord Holme and Richard Watts, used the following definition.

“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”

The same report gave some evidence of the different perceptions of what this should mean from a number of different societies across the world. Definitions as different as CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government from Ghana, through to CSR is about business giving back to society from the Phillipines.

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving.

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. This model is more sustainable because:



1. Social responsibility becomes an integral part of the wealth creation process, when managed properly will enhance the competitiveness of business and maximise the value of wealth creation to society.
2. When times get hard, there is the incentive to practice CSR more and better as a philanthropic exercise which is peripheral to the main business, which will always be the first thing to go when push comes to shove.

Since any process is based on the collective activities of communities of human beings (as companies are) there is no 'one size fits all'. In different countries, there will be different priorities, and values that will shape how business act. And even the observations above are changing over a time. The US has growing numbers of people looking towards core business issues.

Corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. The term generally applies to company efforts that go beyond what may be required by regulators or environmental protection groups.

Corporate social responsibility may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.

Corporate Social Responsibility (CSR) is defined as the voluntary activities undertaken by a company to operate in an economic, social and environmentally sustainable manner.

The Government of Canada understands that responsible corporate behaviour by Canadian companies operating internationally not only enhances their chances for business success but can also contribute to broad-based economic benefits for the countries in which they are active and for Canada. Investing and operating responsibly also plays an important role in promoting Canadian values internationally and contributes to the sustainable development of communities. The Government of Canada is therefore committed to promoting responsible business practices; and expects and encourages Canadian companies working internationally to respect all applicable laws and international standards, to operate transparently and in consultation with host governments and local communities, and to conduct their activities in a socially and environmentally responsible manner.

#### 7.4 Need and Importance of Corporate Social Responsibility

- Solving social problems: Resource given by the organisations to solve the social problem. For example is the protest against aerosol sprays.
- Organisation should be, For example, give due consideration and job satisfaction, make very reasonable effort to give security of employment, and provide employment opportunities for minority groups.



- Improves public image of the firm
  - Social initiatives taken by organisations tend to promote goodwill, public favour, corporate trust, profit. For example, Cigarettes.
  - Improving stock price
- For example: giving recognition to the needs of developing countries; limiting the extent of political involvement or campaigning; donations to; or sponsorship of; the arts, educational research institutions, sporting organisations or charities.

- Serving best interest of Business to promote and improve the communities
- Assist Government to solve social, economical and political problems of the country.
- Protection to Consumer Movement - protects consumers against business mal practices like adulteration, black marketing, unfair pricing, shortage in weight, measures, etc.
- Relationship with Trade Union-paves good relationship between management and labour.
- Insists upon need for Social Audit.
- Assists in framing and maintaining policies to Attract and retain staff
- Helps Customers to be attracted to socially responsible companies
- Corporate social Responsibility helps to create, attract and retain investors
- Corporate Social Responsibility helps to reduce the business costs.
- To share the negative consequences as on result of industrialisation.
- Helps to get talented personalities.
- Plays a major role in Transfer of Technology (TOT).
- CSR is for human right corporate sustainability for corporate sustainability goals.
- Creates an interdependency between a corporation and community.
- A CSR program can be seen as an aid to alleviate poverty.

## **7.5 Benefits of Corporate Social Responsibility**

By publicising corporate social responsibility (CSR) activities, it ensures that customers, suppliers and the local community can know what the company is doing. CSR lends itself to good news stories. Publicity like this can be a key part of using CSR to win contracts. People want to buy from businesses they respect. CSR can be particularly effective for targeting ethical companies, the public sector and non - profit organisations.

At the same time, CSR should be seen as part of a continuing process of building long-term value. Everything done under CSR will help improve the reputation and encourage customers and other stakeholders to stay involved with the company. A business that buys recycled paper but exploits its customers and ignores the community will miss.



CSR gives due consideration working towards a management standard which in turn helps to publicise the ethical, environmental or social responsibility. For example, many businesses have already achieved the environmental management standard ISO 14001. A new voluntary standard is being introduced later in 2010 to help businesses manage their corporate social responsibility.

Effective CSR helps to continue and differentiate a business from other businesses. Even with dozens of competitors, a real commitment to CSR stands out. As an example, John Lewis department stores are well known as a business owned by its employees. Its commitment to CSR feeds through into customer service, sales and profits.

CSR can also guide in rendering products and services that reflect the values and customs to the stakeholders of the business. Over time, it can all add up to a powerful brand and a winning business.

## **7.6 Meaning of Strategy**

In business, it has been said that business strategy is all about competitive advantage. The sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way. In some ways, these definitions are all different. Highlighting these differences leads you to believe that-

- Strategy or strategic thinking is just too hard to pin down
- to live with a certain degree of ambiguity.

- will help you to hope that when you say you want to do something “strategic,” that everyone will sort of know what you mean. This, in turn, makes the role of strategic intelligence even fuzzier. Strategic intelligence is intelligence that supports either the formulation or execution of a strategy. That doesn’t help much, though, if the word strategy is still up in the air.

## **7.7 Definition of Strategy**

For this reason, it is vital to develop a uniform definition of strategy and strategic. Such a definition should work not only for armies and football teams but also for companies or governments, private firms or multinational corporations. This new definition of strategic cannot be developed in a vacuum, however. A genuinely new definition should build on and extract from the common theme. For the competitive intelligence specialist it should increase understanding of the client’s needs. We believe that such a theme exists and that the concept of resources at risk links all definitions of strategy and strategic together. All decisions involve risk and strategic decisions involve lots of risk but, more importantly, lots of risk to lots of available resources. Strategic decisions, then, are decisions where the resources at risk from the decision-maker’s perspective are large relative to the decision-maker’s total resources. For example, suppose a person owns a dry cleaning store. This person is considering opening another dry cleaning store on the other side of town. Such a decision is clearly a strategic one for the owner. The owner will have to gamble a substantial amount of his current and future resources on the prospect of a successful outcome to this decision. If he decides to take the risk and it flops, he could lose his original shop, and therefore, his livelihood. A decision to proceed will inevitably tie up large chunks of capital and time – all scarce resources. This is not the case for another person who owns a chain of 1000 dry cleaning stores.

## **7.8 Strategic Components Process**

### **1. Environmental Scanning**

. Environmental scanning refers to a process of collecting, scrutinising and providing information for strategic purposes. It helps to analyse the internal and external factors influencing an organisation. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

## 2. Strategy Formulation

Strategy formulation is the process of deciding best course of action for accomplishing organisational objectives and hence helps in achieving organisational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

## 3. Strategy Implementation

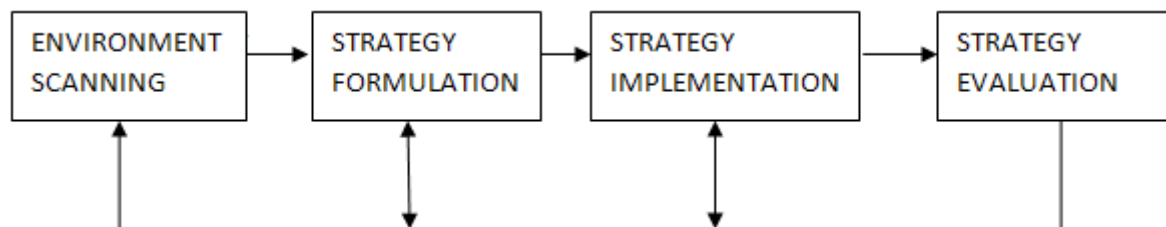
Strategy implementation implies making the strategy work as intended or putting the organisation's chosen strategy into action. Strategy implementation includes designing the organisation's structure, distributing resources, developing decision making process, and managing human resources.

## 4. Strategy Evaluation

Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are

- appraising internal and external factors that are the root of present strategies,
- measuring performance, and
- taking remedial / corrective actions.

This evaluation makes sure that the organisational strategy as well as its implementation meets the organisational objectives. These components are steps to be carried in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.



### Components of Strategic Management Process

Strategic Management is an ongoing process. Therefore, it must be realised that each component interacts with the other components and that this interaction often happens in chorus.

## 7.9 Different approaches to CSR

Generally, the spectrum of approaches to corporate social responsibility (CSR) includes four separate stances.

- ❖ On the lower end, obstructionist and defensive stances relate to approaches that require little or no corporate action.
- ❖ Accommodative and proactive stances are on the higher end of the spectrum and involve a greater acceptance of being social responsible as a corporate citizen.
- ❖ The obstructionist stance to corporate social responsibility involves minimum effort to improve the social and environmental impact of the company within a community. For example, the corporation that takes an obstructionist stance may cross an ethical or legal line, such as dumping hazardous material in a local landfill. Its response is to do nothing to correct its actions and may deny wrongdoing when confronted. As the spotlight on local, regional, and global business practices increases, few corporations may actually follow the obstructionist approach. Typically, there is an expectation of responsible corporate citizenry to the community and environment that supports the organisation's success. Some may demonstrate self-correction and avoid doing something that negatively impacts the organisation's image.
- ❖ The next approach on the lower end of the corporate social responsibility spectrum is the defensive stance. Typically, a company that follows this model complies with the minimum legal requirements to stay in business. Efforts to exceed minimum standards are often nonexistent unless regulations require a change in business practices. This approach may also become necessary based on a country's legal requirements. For example, U.S. tobacco manufacturers must include a warning label on cigarette packaging about the hazards of smoking. In countries where warning labels are not required, the same manufacturer may not include the labels on cigarette packaging.
- ❖ Part of the higher end of the corporate social responsibility spectrum is the accommodative stance. With this approach, corporations go beyond their ethical and legal obligations to support sustainable practices. This usually occurs when the corporation is approached by an outside organisation often charitable and asked to sponsor an event within the community. The proactive approach is the highest degree of CSR. Usually, firms that

believe in social responsibility beyond ethical, legal, and profitable motives will take proactive steps to support efforts that strengthen the community. Rather than waiting for a request as happens with the accommodative stance these companies generally seek opportunities to support charitable organisations and various causes.

Not all companies consistently follow one corporate social responsibility approach. A company may take a proactive stance on one issue and a defensive stance on another. This decision is often made because one cause positively boosts the company's image, while the other may damage its reputation.

### **7.10 Meaning of Globalisation**

Globalisation is the process of international integration arising from the interchange of world views, products, ideas and other aspects of culture. Advances in transportation and telecommunications infrastructure, including the rise of the telegraph and its development the Internet, are major factors in globalisation, generating further interdependence of economic and cultural activities.

Though scholars place the origins of globalisation in modern times, others trace its history long before the European Age of Discovery and voyages to the New World. Some even trace the origins to the third millennium BCE. Large-scale globalisation began in the 19th century. In the late 19th century and early 20th century, the connectedness of the world economies and cultures grew very quickly.

The concept of globalisation emerged from the intersection of four interrelated sets of "communities of practice": academics, journalists, publishers/editors, and librarians.

In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalization. They are-

- a. Trade and transactions,
- b. Capital and investment movements,
- c. Migration and movement of people and
- d. The dissemination of knowledge.

Further, environmental challenges such as global warming, cross-boundary water and air pollution and over-fishing of the ocean are linked with globalisation.



### 7.11 Definition of Globalisation

Human societies across the globe have established progressively closer contacts over many centuries, but recently the pace has dramatically increased. Jet airplanes, cheap telephone service, email, computers, huge oceangoing vessels, instant capital flows, all these have made the world more interdependent than ever. Multinational corporations manufacture products in many countries and sell to consumers around the world. Money, technology and raw materials move ever more swiftly across national borders. Along with products and finances, ideas and cultures circulate more freely.

As a result, laws, economies, and social movements are forming at the international level, many politicians, academics, and journalists treat these trends as both inevitable and (on the whole) welcome it. But for billions of the world's people, business-driven globalisation means uprooting old ways of life and threatening livelihoods and cultures. The global social justice movement, itself a product of globalization which proposes an alternative path that is more responsive to public needs. Intense political disputes will continue over globalisation's meaning and its future direction.

**Globalisation** is the system of interaction among the countries of the world in order to develop the global economy. Globalisation refers to the integration of economics and societies all over the world. Globalisation involves technological, economic, political, and cultural exchanges made possible largely by advances in communication, transportation, and infrastructure.

Robertson had contributed an article, 'Mapping the Global Condition: Globalization as the Central Concept'. It is here that Robertson for the first time explained the concept of globalization. He says in his introduction: "My primary aim in this discussion is with the analytical and empirical aspects of globalisation."

In other words, globalisation is a comprehensive process, which includes both modernization and post-modernisation. It would be wrong to say that the origin of globalisation is from intra-societal relations. Nor is the origin from inter-state relations. Its making, according to Robertson, has been much more complex and culturally richer than that. It is inclusive of both modernity and post-modern.

## 7.12 Effects of Globalisation

According to economists, there are a lot of global events connected with globalisation and integration. It is easy to identify the changes brought by globalisation. The impact and effects felt by globalization can be summarised as follows-

### 1. **Improvement of International Trade.**

Because of globalisation, the selling and purchasing of products and services among the countries has increased dramatically.

### 2. **Technological Progress.**

The need to compete and be competitive globally, governments have upgraded their level of technology.

### 3. **Increase in influence of Multinational Companies.**

A company that has subsidiaries in various countries is called a multinational. Often, the head office is found in the country where the company was established.

An example is a car company whose head office is based in Japan. This company has branches in different countries. While the head office controls the subsidiaries, the subsidiaries decide on production. The subsidiaries are tasked to increase the production and profits. They are able to do it because they have already penetrated into the local markets.

This rise of multinational corporations began after World War II. Large companies refer to the countries where their subsidiaries reside as host countries. So, globalisation helps to do a lot with the rise of multinational corporations.

### 4. **Strengthening the power of WTO, IMF, and WB.**

According to experts, another effect of globalisation is strengthening the power and influence of international institutions such as the World Trade Organisation (WTO), International Monetary Fund (IMF), and World Bank (WB).

### 5. **Greater mobility of human resources across countries.**

Globalisation allows countries to source their manpower in countries with cheap labour. For instance, the manpower shortages in Taiwan, South Korea, and Malaysia provide opportunities for labour exporting countries such as the Philippines, India to bring their human resources to those countries for employment.

#### **6. Greater outsourcing of business processes to other countries.**

China, India, and the Philippines are tremendously benefiting from this trend of global business outsourcing. Global companies in the US and Europe take advantage of the cheaper labour and highly-skilled workers that countries like India and the Philippines can offer

#### **7. Global civil society.**

An important trend in globalisation is the increasing influence and broadening scope of the global civil society.

Civil society often refers to NGOs (nongovernment organisations). There are institutions in a country that are established and run by citizens. The family, being an institution, is part of the society. In globalisation, global civil society refers to organisations that advocate certain issue or cause.

There are NGOs that support women's rights and there are those that promote environment preservation. These organisations don't work to counter government policies, but rather to establish policies that are beneficial to all. Both the government and NGOs have the same goal of serving the people.

The spread of globalisation led to greater influence of NGOs especially in areas of great concern like human rights, the environment, children, and workers. The growing influence of NGOs is the increasing power of multinational corporations. If this trend continues, globalisation will pave the way for the realisation of the full potential of these two important global actors.

#### **7.13 Importance of Globalisation**

The importance of globalisation in business is extremely undeniable due to its innovative and progress that helps business to stand firmly despite of the gradual financial crisis.

Globalisation is one of the most disputed issues facing by businessmen nowadays. This is actually the process in which the economy is rapidly transforming as a single interdependent industry system. This is also a trend which has gained force throughout the entire world. Loaded by various advances different aspects such as business, transportation technology, and communications, globalisation provides a fast melding of industry culture throughout the world as well as the development of innovative marketplaces to operate trade between physically distant people. As part of the development of industry, it is necessary to be aware about the

importance of globalisation in order to take advantage of its benefits. The importance or benefits of globalisation are-

❖ Globalisation helps in Development of Trade Opportunities

Developing different business establishments is one of the most important factors of globalisation. Through this, it gives new opportunities for exporting and importing goods and services. Communication is one of the most major powerful drivers of globalisation.

For instance, the international business language is the English. Using this language, businessmen from US can easily communicate with other businessmen who can also fluently communicate with client in China. The fast melding of industry etiquette aids to operate business communication. Aside from communication opportunities, globalisation also associated with practical opportunities in which people can be given a chance to work based on their intellectual skills.

❖ Globalisation leads to Economic Enhancement

Globalisation offers new chances to undeveloped countries through allowing them to connect with new markets throughout the world.

For example, India and China have ridden the line of globalisation all over the years. Due to this, both countries are able to focus on economic development through improving the power services and actual working services. Globalisation also focused on the inner economic business plan in which every entrepreneur provides different trade opportunities to the people. In addition, the economy and globalisation work together to develop and produce a highly improved nation in terms of business aspects.

❖ Globalisation provides for Outsourcing and Procurement

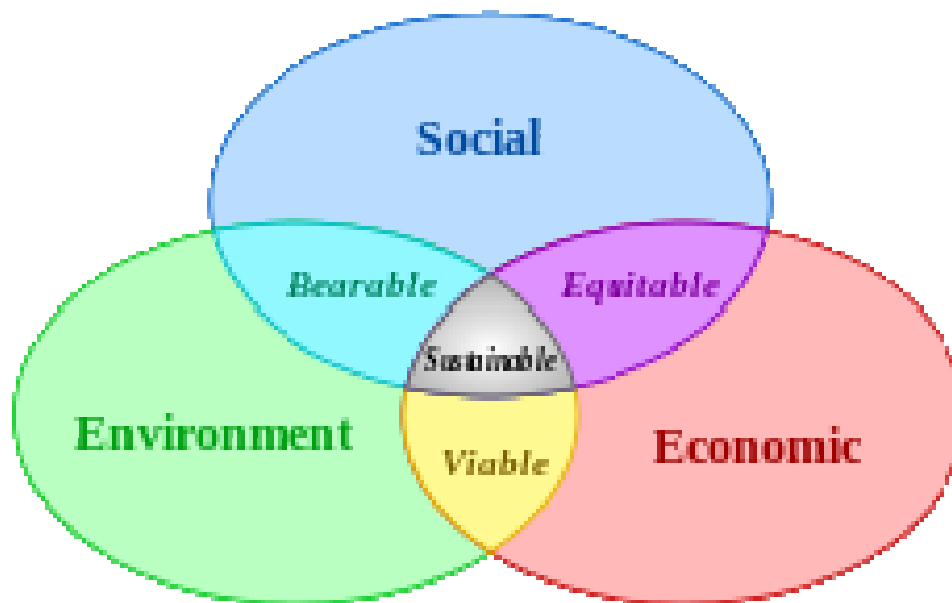
The development of global market and progressions in intercultural communication makes a wealth of business and trade opportunities to source labour and low-cost equipment. The said outsourcing is a process when less economic expensive, the foreign labour is being used for activities conventionally executed at home. In some countries, this process is appeared as

growing unreliable. However, in India and Philippines, outsourcing provides unparalleled economic trade to the people in terms of gaining more jobs in media and communication aspects.

#### 7.14 Meaning of Sustainability

In ecology, sustainability is the ability to be sustained (ongoing) rather than temporary; it is how biological systems remain diverse and productive indefinitely. Long-lived and healthy wetlands and forests are examples of sustainable biological systems.

In more general terms, sustainability is the endurance of systems and processes. The organising principle for sustainability is sustainable development, which includes the four interconnected domains: ecology, economics, politics and culture. Sustainability science is the study of sustainable development and environmental science.



#### 7.15 Definition of Sustainability

Sustainability could be defined as an ability or capacity of something to be maintained or to sustain itself. It's about taking what we need to live now, without jeopardising the potential for people in the future to meet their needs.

Sustainability is the ability to continue a defined behavior indefinitely.

For more practical detail the behavior you wish to continue indefinitely must be defined.

For example:

Environmental sustainability is the ability to maintain rates of renewable resource harvest, pollution creation, and non-renewable resource depletion that can be continued indefinitely.

Economic sustainability is the ability to support a defined level of economic production indefinitely.

Social sustainability is the ability of a social system, such as a country, to function at a defined level of social well being indefinitely.

A more complete definition of sustainability is thus environmental, economic, and social sustainability.

### 7.16 Principles of Sustainability

In order to become more sustainable, it is important to have an agreed set of principles that can be used as a basis for co-ordinated national policies, strategies and action plans.

The UK Government published its 'Five Principles of Sustainable Development' in its Shared Framework for Sustainable Development, released in March 2005.

The principles, which were developed with support from the SDC, have been agreed by the UK Government (inc NI), the Welsh Assembly Government and the Scottish Executive, and are reflected in the UK sustainable development strategy, 'Securing the Future', also released in March 2005.

#### *Securing the Future*



### **7.17 CSR Guidelines standards**

The growing interest in Corporate Social Responsibility (CSR) has been accompanied by the development of several international guidelines and standards. These documents, created by all kinds of organisations, set out to help companies put CSR into practice in a general way, or by placing emphasis on specific CSR aspects, such as human rights, labour rights, health and safety in the workplace, the environment, and corruption. A description of the most important CSR guidelines and standards are-

#### **❖ GeneralThe United Nations Global Compact**

The Global compact is an international initiative put forward by the United Nations. It aims to achieve voluntary commitment to social responsibility from organisations by implementing ten principles based on human, labour and environmental rights, and the fight against corruption.

#### **❖ OECD Guidelines for Multinational Enterprises**

The Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD) are recommendations directed at multinational enterprises with the aim of promoting their responsible behaviour, establishing a favourable climate for international investment and increasing the positive contributions of multinational enterprises in the economic, environmental and social fields.

#### **❖ Global Reporting Initiative (GRI)**

The Global Reporting Initiative, an independent institution in which different stakeholders take part, produces and promotes the “Sustainability Reporting Guidelines”. This is the most internationally recognized standard for Sustainability Reporting and offers principles and indicators so that organisations are able to measure and report their economic, environmental and social behaviour.

#### **❖ AccountAbility 1000 (AA1000)**

The series of AA1000 standards of the British institute AccountAbility advises organisations, so that they can establish systematic responsibility processes that involve parties interested in the generation of strategies, policies and programmes, as well as associated indicators, objectives and communication systems, which effectively guide their decisions, activities and general organizational results.

❖ **The Caux Round Table Principles for Business (CRT)**

The “Caux Round Table”, made up of business leaders from Europe, Japan and the United States, promotes ethical capitalism. The Principles for Business represent a declaration of objectives for ethical and responsible business conduct worldwide, based on shared values. The Principles include the social impact of business operations on the local community, respect for laws and ethics, support for multilateral trade agreements that promote free trade, respect for the environment, the prohibition of illegal business operations and other corrupt practices.

❖ **Performance Standards on Social and Environmental Sustainability of the IFC (World Bank)**

The Performance Standards on Social and Environmental Sustainability created by the International Finance Corporation (IFC) of the World Bank, define the criteria for financing projects in the private sector. The eight Performance Standards establish conditions that the client must comply with while the IFC investment is in force, and they can help enterprises deal with the environmental and social risks and opportunities of their projects.

❖ **Millennium Development Goals**

At the Millennium Summit at United Nations headquarters in 2000, representatives of 189 countries adopted the so-called Millennium Declaration, committing their nations to a new global partnership to reduce extreme poverty and setting out a series of targets, known as the Millennium Development Goals (MDGs) and whose deadline is fixed for 2015.

❖ **Universal Declaration of Human Rights**



The Universal Declaration of Human Rights, adopted by the United Nations General Assembly in 1948, represents a reference document concerning the respect for the fundamental rights and freedom of the people.

❖ Labour Rights

**The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy** The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy of the International Labour Organisation (ILO) is based on international agreements and recommendations, and offers multinational enterprises, governments, employers and workers guidelines concerning employment, training, living and working conditions, and workplace relations.

❖ Social Accountability 8000 (SA8000)

The SA 8000 Standard is an auditable and certifiable standard created by the North American organization, Social Accountability International (SAI). This standard defines the requirements needed to implement a management system for the enhancement of labour conditions in the enterprise based on different ILO agreements and recommendations, the Universal Declaration of Human Rights and the United Nations Convention on the Rights of the Child.

❖ Work Place Health and Safety

The OHSAS 18001 standard establishes the requirements of a management system that enables companies of all kinds and size to prevent and control workplace risks. Based on the original British standard BS8800, it was created by several national organisations for standardisation and certification, and specialised consultancies, as an international standard to certify management systems in workplace health and safety.

❖ Environmental Management Standards

The ISO 14000 standard belongs to the series of ISO 14000 environmental management standards, promoted by the International Organisation for Standardisation (ISO), and can be

certified through certification organisations supervised by authorised national bodies. The ISO 14001 standard is voluntary and lays down the requirements for implementing an environmental management system based on compliance with the laws in force, pollution prevention and continuous improvement.

#### ❖ **The CERES Principles**

The CERES Principles are ten principles of environmental conduct established by the Coalition for Environmentally Responsible Economics (CERES). CERES is a coalition of investors, environmental organisations and public interest groups, with headquarters in the United States, which encourages companies to incorporate commitment to sustainability in their business.

#### ❖ **Corruption**

##### **OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions**

The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of the Organisation for Economic Co-operation and Development (OECD) determines transnational bribery as an offence, and establishes the corresponding sanctions.

##### **Transparency International Business Principles for Countering Bribery**

The Business Principles for Countering Bribery have been created by the independent organisation Transparency International in collaboration with Social Accountability International (SAI) and a multi-stakeholder group representing the private sector, the academic world, trade unions and NGOs. The aim of this document is to provide generic guidelines of good practices to counter bribery, adaptable to different business sizes and contexts.

### **7.18 Meaning of Best Practices**

A best practice is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark. In addition, a "best" practice can evolve to become better as improvements are discovered. Best practice is considered by some as a business buzzword, used to describe the process of developing and following a standard way of doing things that multiple organisations can use.

### 7.19 Definition of Best Practices

Best practice definitions often focus on the ability of a method or process to consistently show superior results. We believe best practice is about using approaches that not only deliver superior results but also consider sustain ongoing development of the approach.



Best practice means finding and using the best ways of working to achieve the business objectives. It involves keeping up to date with the ways that successful businesses operate in the sector and others and measuring the ways of working against those used by the market leaders.

### 7.20 Benefits of Best Practices

Using standards can offer a set of powerful business and marketing tools for organisations of all sizes. These standards can also be used to fine-tune the performance and manage the risks that are faced, while operating in more efficient and sustainable ways. Standards allow to

demonstrate the quality of what we can do to our customers, and they help to see how to embed best practice into the organisation.

### **Summary**

Corporate Social Responsibility aims to ensure that companies conduct their business in a way that is ethical. It can involve a range of activities such as working in partnership with local communities. It also developing relationships with employees and customers. Corporate Social Responsibility is a management concept where by companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. Most look to the outer circle regarding where the company has actually done, or good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities in how it treats and develops its workforce. Protection to consumer movement protects consumers against business mal practices like adulteration, black marketing, unfair pricing, shortage in weight, measures, etc. Everything done under CSR will help improve the reputation and encourage customers and other stakeholders to stay involved with the company. A business that buys recycled paper but exploits its customers and ignores the community will miss. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most effective way. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes. As the spot light on local, regional, and global business practices increases, few corporations may actually follow the obstructionist approach. Globalisation is the process of international integration arising from the interchange of world views, products, ideas and other aspects of culture. And it is easy to identify the changes brought by Globalisation. The organizing principle for sustainability is sustainable development, which includes the four interconnected domains – ecology, economics, politics and culture. A best practice is a method or technique that has consistently shown results superior to those achieved with other means and that is used as a benchmark.

### **KEY WORDS**

**1. Corporate Social Responsibility** - CSR aims to ensure that companies conduct their business in a way that is ethical. This means taking account of their social, economic and environmental impact, and consideration of human rights.

**2.Strategy** - In business, it has been said that business strategy is all about competitive advantage. The sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors.

**3.GLOBALISATION** - The concept of globalisation emerged from the intersection of four interrelated sets of "communities of practice": academics, journalists, publishers/editors, and librarians.

**4.Sustainability** - In ecology, sustainability is the ability to be sustained (ongoing) rather than temporary; it is how biological systems remain diverse and productive indefinitely.

**5.Best Practices** - A best practice is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark.

### **Self Assessment Questions**

1. What is meant by corporate social responsibility?
2. Define corporate social responsibility
3. Explain the needs and importance of corporate social responsibility
4. What are the benefits of corporate social responsibility?
5. What is meant by strategic?
6. Define strategic
7. What are components and process of strategic?
8. Explain the different approaches to CSR
9. What is meant by globalization?
10. Define globalization
11. Explain the effects of globalization
12. Explain the importance of globalization
13. What is meant by sustainability?
14. Define sustainability
15. Explain the principles of sustainability
16. Explain the CSR standards
17. What is meant by best practices?
18. Define best practices
19. Explain the benefits of best practices

## UNIT –VIII

### CORPORATE GOVERNANCE

#### Learning Objectives

After studying this unit you will be able to understand -

- ❖ Corporate Governance
- ❖ Audit committees
- ❖ Role of independent directors
- ❖ Protection of stake holders

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8.2	Meaning of Corporate Governance
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## **8.1 Introduction of Corporate Governance**

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market-oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organisation fully recognises their rights.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

## **8.2 Meaning of 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 in such a way that it fulfills 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 for this purpose will include everyone ranging from the board of directors, management, shareholders, customers, employees and society. The management of the company hence assumes the role of a trustee for all the others.

The system of rules, practices and processes by which a company is directed and controlled, corporate governance essentially involves balancing the interests of the many stakeholders of the company which includes its shareholders, management, customers, suppliers, financiers, government and the community.

Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

## **8.3 Definition of Corporate Governance**

Corporate governance is a field in economics that investigates how to secure efficient management of corporations by the use of incentive mechanisms, such as contracts, organisational designs and legislation. This is often limited to the question of improving financial performance,

“Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.”

“Corporate governance is about promoting corporate fairness, transparency and accountability”.

“Corporate governance - which can be defined narrowly as the relationship of a company to its shareholders or, more broadly, as its relationship to society”



Some commentators take too narrow a view, and say it (corporate governance) is the fancy term for the way in which directors and auditors handle their responsibilities towards shareholders. Others use the expression as if it were synonymous with shareholder democracy. Corporate governance is a topic recently conceived, as yet ill-defined, and consequently blurred at the edges...corporate governance as a subject, as an objective, or as a regime to be followed for the good of shareholders, employees, customers, bankers and indeed for the reputation and standing of our nation and its economy

#### **8.4 Importance of Corporate Governance**

There is some evidence that good corporate governance produces direct economic benefit to the organisation. One study, conducted at Georgia State University and published in December 2004, found that public companies with independent boards of directors have higher returns on equity, higher profit margins, larger dividend yields, and larger stock repurchases.

This study was consistent with another study of 250 companies by the MIT Sloan School of Management which concluded that, on average, businesses with superior information technology (IT) governance practices generate 25 percent greater profits than firms with poor governance, given the same strategic objectives.

Although the Sarbanes-Oxley Act of 2002 applies almost exclusively to publicly held companies, the corporate scandals that gave rise to that legislation have increased pressure on all organisations (including family-owned businesses and nonprofit organisations) to have better corporate governance. Private and non profit organisations may feel pressure from lenders, insurance underwriters, regulators, venture capitalists, vendors, customers, and contributors to be Sarbanes-Oxley compliant. In addition, some courts and state legislatures may by analogy apply the enhanced corporate governance practices developed under Sarbanes-Oxley to private and nonprofit organisations. Finally, a few provisions of Sarbanes-Oxley do affect private and nonprofit organisations, such as the provisions relating to criminal liability for document destruction and for retaliation against whistleblowers.

Nonprofit organisations are not immune from scandal. Even before there was an Enron, there was the scandalous bankruptcy of AHERF (the Allegheny Health, Education and Research

Foundation), a nonprofit organisation. The scandals involving The Nature Conservancy, the United Way of the National Capital Area, and PipeVine, Inc., attest to the need for nonprofit organisations to have at least the perception of good corporate governance. On August 16, 2005, it was reported in *The Wall Street Journal* that Cornell University Medical School agreed to pay \$4.4 million in connection with fraudulent U.S. Government claims that allegedly occurred as a result of Cornell's failure to pay attention to a whistleblower who was a member of the Cornell faculty.

Private companies that intend to seek capital from financial institutions and institutional investors should also be sensitive to their corporate governance image, since this image is an important factor in the ultimate decision to provide capital to the organisation. Family-owned private companies benefit from good corporate governance by avoiding the devastating effects of sibling rivalry and expensive litigation between family members who have different views concerning the business.

Good Corporate Governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. Conversely, weak Corporate Governance leads to waste, mismanagement, and corruption. It is also important to remember that although Corporate Governance has emerged as a way to manage modern joint stock corporations it is equally significant in state-owned enterprises, cooperatives, and family businesses. Regardless of the type of venture, only Good Governance can deliver sustainable long run goodness.

## **8.5 Nature of Corporate Governance**

During the last decade, corporate governance has become a contested and controversial issue. Following the collapse of Enron and other accounting fraud and corporate scandals involving firms such as Parmalat, Barings, Tyco, WorldCom, and SOCGEN and in light of the demise of Arthur Andersen, one of the "Big Five" accounting firms appear to have shaken the confidence of investors. The principal weakness of corporate governance today is the excessive concentration of power in the hands of top management. The phenomenal growth of interest in corporate governance has been accompanied by a growing body of academic research. As the

discipline matures, far greater definition and clarity are being achieved concerning the nature of corporate governance.

Jill and Aris Solomon in 2004 has defined Corporate governance as the system of checks and balances, both internal and external to companies, which ensure that companies discharge their accountability to all companies, stakeholders and act in a socially responsible way in all areas of their business activity.

However, there is no single, accepted definition of corporate governance. There are substantial differences in definitions in various countries.

According to Parkinson (1994), corporate governance is the process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders. The purpose of corporate governance is to safeguard the integrity of the promises made by corporations to investors.

Another way to say this that corporate governance is about reducing deviance by corporations where deviance is defined as any actions by management or directors that are at odds with the legitimate, investment-backed expectations of investors.

Good corporate governance, therefore, is simply about keeping promises and vice versa. Generally, Corporations are almost universally conceived as economic entities that strive to maximize value for shareholders.

According to Chris Thomas (2010), the principal characteristics of effective corporate governance are: transparency (disclosure relevant financial and operational information and internal processes of management oversight and control); protection and enforceability of the right and prerogative of all shareholders; and directors capable of independently approving the corporation's strategy and major business plan and decisions, and of independently hiring management, monitoring management's performance and integrity, and replay management when necessary.

The current corporate governance practice in the U.S. can be described as overly complex given the different sets of laws and regulations addressing corporate governance. Federal, state, and market are the mechanisms was utilised by the U.S corporate governance.

Edwards (2003), explained that the first line of defence with regard to the corporate governance mechanisms in the United States is the basic legal structure comprising state-based corporate law (prior to SOX) and federal securities law. Sufficient corporate disclosure to make the operations of corporations transparent to shareholders in requiring by federal securities law in order to empowers shareholders, which by subjecting it to market inspection and discipline. Besides that, shareholders are also entitled to sue fraudulent managers.

The second level of defence is state law and the certificate of incorporation, which together establish a governance structure for the corporation, assigning rights and duties to shareholders, directors, and managers. Therefore, the legal requirements are different from one state to another. For instance, most of the large public companies in the U.S., irrespective of the location of their operations, are incorporated in Delaware due to its business-friendly corporate legal environment. However, following the various scandals, the SOX statute came into force leading to at least the partial federalization of corporate law.

The third level of governance mechanisms in the U.S. is executive compensation, through which shareholders and their elected directors choose to employ an incentive compensation structure for both managers and directors to better align their interests with those of the shareholders.

For example, Coca-Cola is one which exercises the best corporate governance practices in US. Coca-Cola is largest manufacturer, distributor and marketer of non-alcoholic beverage concentrates and syrups in the World. It is also involved in the manufacture, distribute and market some finished beverages. Coca-Cola being recognised as the World's most valuable brand, it markets four of the world's top five soft drink, brands, including Diet Coke, Fanta and Sprite. It has been 124 years in business and now sold in more than 200 countries (Coca-Cola Annual Report, 2009). The Coca-Cola Company is committed to sound principles of corporate governance. The Board is elected by the shareholders to oversee their interest in the long-term health and the overall success of the business and its financial strength. The Board serves as the ultimate decision making body of the Company, except for those matters reserved to or shared with the shareholders. The Board selects and oversees the members of senior management, who are charged by the Board with conducting the business of the Company (Coca-Cola Annual Report, 2009).

The company is guided by established standards of corporate governance and ethics. The code guides their business conduct, requiring honesty and integrity in all matters. All of the associates and directors are required to read and understand the Code and follow its precepts in the workplace and larger community. The Code is administered by their Ethics and Compliance Committee. This cross-functional senior management team oversees all the ethics and compliance programmes and determines Code violations and discipline. The Ethics & Compliance Office has operational responsibility for education, consultation, monitoring and assessment related to the Code of Business Conduct and compliance issues. Associates worldwide receive a variety of ethics and compliance training courses administered by the Ethics & Compliance Office. They regularly monitor and audit the business to ensure compliance with the Code and the law. They also maintain a consistent set of best-in-class standards around the world that govern how they investigate and handle Code issues. Acting with integrity is about more than Coca-Cola Company's image and reputation, or avoiding legal issues. It's about sustaining a place where all are proud to work. Ultimately, it's about each knowing that they have done the right thing. This means acting honestly and treating each other and the customers, partners, suppliers and consumers fairly, and with dignity. The Code of Business Conduct is the guide to appropriate conduct. Together with other Company guidelines, such as the Workplace Rights Policy, they have set standards to ensure that do the entire right thing. In 2008, the Code was revised to further improve its effectiveness. In order to prevent workplace violence and drug-free workplace, they trained associates on the Code of Business, European Union competition law, Latin American competition law, financial integrity, intellectual property and competitive intelligence. Besides, they are also rolled out an updated global anti-bribery compliance programmes with supporting policies, training and audits. In addition, they expanded their compliance programmes around United States trade sanctions with supporting policies, training and audits.

## **8.6 Benefits of Corporate Governance**

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.

4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organisation.
6. Good corporate governance also minimises wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organisations are managed in a manner that fits the best interests of all.

### **8.7 Meaning of Audit Committees**

An Audit committee is a sub-committee of the Board of Directors that is responsible for the financial reporting and disclosure process.

- Members of audit committee must be independent of management, meaning they do not receive any compensatory fee, other than for service on the audit committee.
- The audit committee is directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by the company.
- The audit committee must pre approve all audit and non audit services provided by its auditor.
- The audit committee must establish procedures for, and design the treatment of, internal complaints received regarding the company (ie. the whistleblower hotline).
- Each audit committee member must have the authority to engage independent counsel or other advisors in order to carry out its duties

### **8.8 Definition of Audit Committees**

An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping the auditors to remain independent of management. Most of the audit committees are made up of three to five or sometimes as many as seven directors who are not a part of company's management

*This standard requires the auditor to communicate with the company's audit committee regarding certain matters related to the conduct of an audit and to obtain certain information from the audit committee relevant to the audit. This standard also*

*requires the auditor to establish an understanding of the terms of the audit engagement with the audit committee and to record that understanding in an engagement letter.*

### **8.9 Objectives of Audit Committees**

The objectives of the auditor are to:

- a. Communicate to the audit committee the responsibilities of the auditor in relation to the audit and establish an understanding of the terms of the audit engagement with the audit committee;
- b. Obtain information from the audit committee relevant to the audit;
- c. Communicate to the audit committee an overview of the overall audit strategy and timing of the audit; and
- d. Provide the audit committee with timely observations arising from the audit that are significant to the financial reporting process.

Note: "Communicate to," as used in this standard, is meant to encourage effective two-way communication between the auditor and the audit committee throughout the audit to assist in understanding matters relevant to the audit.

### **8.10 Scope of Audit Committees**

Once a company has decided to form an audit committee, it must then decide who will reside on it. Ideally, the audit committee should be comprised of independent persons, which typically disallows either directly or indirectly any director, executive officer, partner, member, principal or owner of the company. The board should thus carefully select individuals with a variety of skill sets and backgrounds to serve on the audit committee.

The company's board of directors should also use its discretion to establish the scope of the audit committee, including determining what procedures should be followed, and providing guidance on the committee's functions. The American Institute of Certified Public Accountants has a section on its website entitled the "Audit Committee Effectiveness Center". While geared towards public companies, the Center provides advice relevant to all companies, including detailed explanations, functions and procedures for audit committees that will assist the board in determining the scope of the audit committee.

The audit committee should take minutes at every meeting, which should then be submitted to the board and included in the company's minute book. What follows are suggested items that an audit committee should discuss and review in consultation with an independent auditor and management:

1. Inquiries about the current and/or unresolved issues or problems that have arisen in the financial, compliance, or operational control environment.
2. Recommendation of a firm or individual to be engaged as the company's independent auditor.
3. Review and approve the independent auditor's compensation and the terms of the auditor's engagement.
4. Review the result of each independent audit, the auditor's report, any related management letter and management's response to recommendations made by the independent auditor in connection with the audit.
5. Review the company's financial statements, any report or opinion rendered by the independent auditor in connection with those financial statements, and any dispute between management and the independent auditor that arose in connection with the preparation of the financial statements.
6. Consider the scope and plan of forthcoming external audits.
7. Consider the adequacy of the company's internal accounting controls.
8. Consider the appropriate accounting principles and practices to be used in the preparation of the company's financial statements.
9. Discuss the performance of key financial and operations officers.

### **8.11 Advantages and Disadvantages of audit committees**

The advantages and disadvantages derived from audit committees can be summarised as under

#### **Advantages of Audit Committee**



1. It provides an internal reporting mechanism compared to reporting to the directors who may wish to hide or amend unfavorable internal audit.
2. Shareholder and public confidence in published financial information is enhanced because it has been reviewed by an independent committee.
3. Provides better communication between the directors, the external auditors and the management.

### **Disadvantages of Audit Committees**

1. It enhances the fear that the purpose of audit committee is to catch the management out.
2. It may lead to a problem that the non-executive directors being overburdened with details.
3. It leads to additional cost in terms of time involved.

### **8.12 Role of Audit Committees**

It is evident that it is the basic responsibility of the board of directors to oversee the affairs of the company for the benefit of its shareholders. All the major decisions have to be taken at the board level. To enable the board to discharge its responsibilities, it is usual in a large company to form various committees at the board level to ensure that detailed discussion takes place on issues like

- (a) internal control system, internal audit, financial reporting, accounting policies etc.,
- (b) recruitment and proper remuneration to executives,
- (c) implementation of effective communications programme,
- (d) safety of health and environment and
- (e) business development in compliance with laws and succession of senior management.

So far as the financial reporting is concerned, it is the primary responsibility of the Audit Committee and therefore lot of importance is given to the functions of this committee in the legislation for corporate governance.

Sec. 292A of the Companies Act provides for mandatory appointment of audit committee by the board of directors of a public company having paid up capital of not less than

Rs.5crores. Such a committee should have minimum of three directors. Two-thirds of the total members of this committee should be non-executive directors. The terms and conditions for the audit committee is to be laid down by the board of directors. The annual report of the board has to disclose the composition of the committee. The statutory auditor, internal auditor and director (finance) have to attend and participate at the meetings of the audit committee. The recommendation of the audit committee on any financial matter shall be binding on the board. The chairman of the audit committee has to attend the annual general meeting and provide clarification on accounts and matters relating to audit.

This Section also provides that the audit committee should have discussions with statutory auditors periodically about internal control systems, the scope of audit, including the observations of the auditors and review the half-yearly and annual financial statements before submission to the Board and also ensure compliance of internal control systems. Further, the audit committee has to consider the limited review reports of auditors which should be submitted on quarterly basis. The audit committee has the authority to investigate into any matter in relation to the items specified in Sec. 292A or referred to it by the Board. For this purpose it shall have access to information contained in the records of the company and external professional advice, if necessary.

It may be noted that the scope and functions of the audit committee of a listed company as contained in clause 49 of the listing agreement, are wider as compared to the above requirements of Sec. 292A of the Companies Act. Further, as stated earlier, Naresh Chandra Committee has made some more suggestions to further strengthen the working of the audit committee. Under Clause 49 of the listing agreement, the audit committee is required to discharge the function of oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible. The audit committee has to ensure compliance with accounting standards, interact with internal auditors and statutory auditors, recommend the appointment of internal and statutory auditors and also recommend their remuneration, ensure the adequacy of internal controls and internal audit procedures, review financial statements before they are placed before the Board for its approval, review company's financial and risk management policies and look into the reasons for substantial defaults in the payment to depositors, debenture holders, shareholders, creditors etc.

The audit committee has also to examine the cost audit reports and suggest remedial measures if there are any audit qualifications. This committee has also to ensure compliance with the stock exchange and legal requirements concerning financial statements. It has also to review any related party transactions and ensure that all such transactions follow the arm's length principles.

### **8.13 Functions of Audit Committee**

An audit committee is a committee comprising of non-executive directors which is able to view a company's affairs in a detached and independent way and collaborate effectively between the main board of directors and the external auditors. The functions of audit committee will include -

- Monitoring the integrity of the financial statements.
- Reviewing the company's internal financial controls.
- Monitoring and reviewing the effectiveness of the internal audit functions.
- Making recommendations in relation to the appointment and removal of the external auditors and their remuneration.
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process.
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services.
- Reviewing arrangements for confidential reporting by employees and investigation of possible improprieties.

### **8.14 Independent Directors**

The term 'Independent Director' has not been defined in the Companies Act. However, clause 49 of the listing agreement defines the term to mean a director who, apart from receiving director's remuneration, does not have any other material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries which in the judgement of the board may affect the independence of judgment of the director. It will be seen that this is a very subjective definition and depends upon the judgement of the directors.

Naresh Chandra Committee has suggested a new precise definition according to which an 'Independent Director' is a non-executive director who :

- (i) Apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its senior management or its holding company, its subsidiaries and associated companies;
- (ii) Is not related to promoters or management at the board level, or one level below the board (spouse and dependent parents, children or siblings);
- (iii) Has not been an executive of the company in the last three years;
- (iv) Is not a partner or an executive of the statutory auditors and the internal audit firms that are associated with the company, and has not been a partner or an executive of any such firm for the last three years. This will also apply to legal firm(s) and consulting firm(s) that have a material association with the entity;
- (v) Is not a significant supplier, vendor or customer of the company;
- (vi) Is not a substantial shareholder of the company, *i.e.* owning 2% or more of the block of voting shares
- (vii) Has not been a director, independent or otherwise, of the company for more than three terms of three years each (not exceeding nine years in any case);

à A 'nominee director' will be excluded from the pool of directors in the determination of the number of independent directors. In other words, such a director will not feature either in the numerator or the denominator.

à Moreover, if an executive in, say, company X becomes a non-executive director in another Company Y, while another executive of company Y becomes a non-executive director in Company X, then neither will be treated as an independent director.

à It is recommended that the above criteria be made applicable for all listed companies, as well as large public limited companies.

The Committee has also made some useful suggestions for minimum size of board of directors, procedure for holding board meetings, permission to be granted for holding board meetings through teleconferencing and video-conferencing to ensure participation of all directors and financial and non-financial information to be provided to the directors in the agenda papers. In order to provide incentive to independent directors, the committee has suggested that adequate remuneration should be paid to them. Further, such directors should be exempted from criminal and civil liabilities under various enactments such as Companies Act, Negotiable Instruments Act, Provident Fund Act, ESI Act, Factories Act, Industrial Disputes Act, Electricity Supplies Act etc. In order to ensure that independent directors can discharge their functions properly, the committee has also suggested for organising adequate training courses for them.

In its recommendations relating to role of independent directors, the committee has laid great emphasis on the role of Audit Committee and its independence. It is suggested that the members of the audit committees of listed and other large companies should consist exclusively of independent directors. The functions of the audit committee should be as listed in clause 49 of the listing agreement. It is also suggested that besides disclosing the names of members of audit committee and dates and frequency of meetings, the chairman of the audit committee should annually submit a report whether and to what extent each of the functions listed in the audit committee charter have been discharged during the year. This report should indicate the views of the committee on the adequacy of internal control systems, perceptions of risks and in the event of any audit qualifications, why the audit committee accepted and recommended the financial statements with qualifications. Further, the report should state whether the audit committee met the statutory and internal auditors without the presence of the management and whether such meetings revealed materially significant issues or risks.

### **8.15 Definition of Independent Directors**

“Independent Director means a non – executive director of the company who:

- a) Apart from receiving directors remuneration does not have any material pecuniary relationships or transactions with the company, its promoters, directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director.
- b) Is not related to promoters or persons occupying management positions at the board level or at one level below the board.
- c) Has not been an executive of the company in the immediately preceding three financial years.
- d) Is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:
  - i) The statutory audit firm or the internal audit firm that is associated with the company and
  - ii) The legal firms and consulting firms that have a material association with the company.
- e) Is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director and
- f) Is not a substantial shareholder of the company.
- g) Is not less than 21 years of age(7\*).

“An Independent Director in relation to a company means a director other than a managing director or a whole time director or a nominee director :

- a) Who in the opinion of the Board is a person of integrity and possess relevant expertise and experience.
- b) i) Who is or was not a promoter of the company or its holding, subsidiary or associate company.
- ii) Who is not related to promoters or directors in the company, its holding, subsidiary or associate company.
- c) Who has or had no pecuniary relationship with the company, its holding, subsidiary or associate company or their promoters or directors during the two immediately preceding financial years or during the current financial year.
- d) None of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company or their promoters or directors amounting to two percent or more of its gross turnover or total income or fifty lakhs of

rupees or such higher amounts as may be prescribed whichever is lower, during the two immediately preceding years or during the current financial year.

e) who neither himself nor any of his relatives:

i) Holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding , subsidiary or associate company in any of the three financial years immediately preceding the financial years in which he is proposed to be appointed.

ii) Is or has been an employee or proprietor or a partner in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed of:

a) A firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company.

b) Any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten percent or more of the gross turnover of such firm.

iii) Holds together with his relatives two percent or more of the total voting power of the company.

iv) Is a Chief Executive or Director by whatever name called, of any non-profit organisation that receives twenty five percent or more of its receipts from the company any of its promoters, directors, or its holding, subsidiary or associate company or that holds two percent or more of the total voting power of the company (or)

v) Who possesses such other qualifications as may be prescribed (8\*)”.

“The expression Independent Director refers to a non – executive director of a company who apart from receiving the directors remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, directors, senior management holding company or its subsidiaries and associates, which may impact his/ her independence(9\*).

Independent Director means a person other than the employee of the company or an executive officer of the company or any other individual having a relationship which in the opinion of the issuers board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent.

a) A director who is or at any time during the past three years was employed by the company.

b) A director who accepted or who has a family member who accepted any compensation from

the company in excess of 1,00,000 US Dollars during any period of twelve months within three years preceding the determination of independence, other than the following :

- i) Compensation for board or board committee service.
  - ii) Compensation paid to a family member who is an employee of the company.
  - iii) Benefits under a tax qualified retirement plan or non-discretionary compensation.
- c) A director who is a family member of an individual who is or at any time during the past three years was employed by the company as an executive officer.
- d) A director of the issuer company who is or has a family member who is employed as an executive officer of another entity where at any time during the past three years any of the issuer serve on the compensation committee of such other entity(10\*)”.

### **8.16 Need for Independent Directors**

The need for Independent Directors was felt by the Indian Legislators and the Corporate experts after the Satyam Debacle in the year 2009. Satyam case was perhaps the biggest corporate fraud case where M/S Satyam Computer Services Ltd caused loss to the investors to the tune of Rs. 14162 crores. The company head Ramalinga Raju and members of his family secured illegal gains to the tune of Rs. 2743 crores by various tricks. The fraud was perpetrated by inflating the revenue of the company through false sales invoices and showing corresponding gains by forging the bank statements with the connivance of the Statutory and Internal Auditors.

The annual financial statements of the company with inflated revenue were published for several years and this led to the higher price of the scrip in the market. In the process innocent investors were lured to invest in the company. Attempts were made to conceal the fraud by acquiring the companies of kith and kin. In order to avoid such scams in the future and to protect the interests of the investors, especially the minority share holders the concept of Independent Directors emerged.

The Companies Act, 2013 was enacted with a view to improve the standards of Corporate Governance and ensure transparency to the minority shareholders. The new act contains provisions pertaining to Independent Directors. Section 149(6) of the Act defines Independent Directors. Section 150 deals with the manner of selection of Independent Directors. Section 149



(12) talks about the liability of Independent Directors. Schedule IV of the said Act lays down a code for Independent Directors.

The presence of Independent Directors on the Board of a company would improve corporate governance, particularly for public companies or companies with a significant public interest. Corporate experts felt that independent directors would be able to bring an element of objectivity to the Board process in the general interest of the company and thereby to the benefit of minority interests and small shareholders. Finally it was felt by the corporate experts that the inclusion of independent director often brings a different point of view, a more knowledgeable view, and a more professional view.

### **8.17 Role of Independent Directors**

Independent Directors have a key role in the entire mosaic of corporate governance. It is increasingly being recognized that independent directors occupy a pivotal position with respect to the progress of the company. In fact Independent Directors are considered as both a safeguard and a significant source of competitive advantage.

Neither the Listing Agreement nor the Companies Act 1956 prescribes the scope of duties of Independent Directors versus (vis – a – vis) the executive directors, the promoters, or the shareholders, minority or otherwise. Independent Directors may be viewed as repositories of vigilance intended to ensure that the promoters and executive directors carry on the activities of the company in conformity with the interests of the shareholder as a whole. Alternatively, independent directors could be viewed as strategic advisors to the board, critical to maximising revenue and overall value of the company.

The new act includes a guide to professional conduct for independent directors, which crystallises the role of independent directors by prescribing facilitative roles, including offering independent judgement on issues of strategy, performance and key appointments, and taking an objective view on performance evaluation of the board. Independent directors are additionally required to satisfy themselves on the integrity of financial information to balance the conflicting interests of all stakeholders and in particular to protect the rights of the minority shareholders.

## **8.18 Qualifications and disqualifications of an Independent Director**

**The qualifications and disqualifications of independent director laid down by Companies Act 2013 are-**

### **Qualifications of an Independent Director**

A person in order to be appointed as an Independent Director must possess the following qualifications.

- a) He should not be disqualified to be a director.
- b) He should provide his DIN and a declaration that he is not disqualified to be a director.
- c) He has to give his consent to act as a director which needs to be filed with the Registrar.
- d) The Board has to declare that in their opinion he is eligible for appointment.

### **Disqualifications of an Independent Director**

Clause 49 of the Listing Agreement prescribes a list of disqualifications for an Independent Director. A person is not an independent director if :

- a) He has any material or pecuniary relationship other than directors remuneration including sitting fees and commission which may affect his independence.
- b) He is not an independent director if he is related to the promoters or persons occupying management positions at the board level or at one level below the board.
- c) He is not an independent director if he has been an executive of the company in the immediately preceding three financial years.
- d) He is not an independent director if he is a partner or an executive or was a partner or an executive during the preceding three years with a statutory audit firm or internal audit firm associated with the listed company whether such relationship is material or not.
- e) He is not an Independent Director if he is a partner or an executive of or was a partner or an executive at any time during the past three financial years in any legal or consulting firms that have a material association with the listed company.
- f) He is not an independent director if he holds 2% or more of the voting share capital of the company or voting power of the company as per the list of share holdings or beneficial owners.

### **8.19 Appointment of an Independent Director**

Appointment process of Independent Directors shall be independent of the company management and while selecting independent directors shall ensure that there is appropriate balance of skills, experience and knowledge in the Board so as to enable the Board to discharge its functions and duties effectively.

The appointment of Independent Directors of the company shall be approved at the meeting of the share holders. In the Annual General Meeting (A.G.M) a notice must be served for approving the appointment of independent directors and such notice shall include a statement in the opinion of the Board, that the independent director proposed to be appointed fulfills the conditions specified in the Act.

The appointment of Independent Directors shall be formalised through a letter of appointment and the terms and conditions of appointment of Independent Directors shall be open for inspection at the registered office of the company by any member during normal business hours. Further the terms and conditions of appointment of Independent Directors shall also be posted on the company's website.

### **8.20 Resignation or Removal of an Independent Director**

The resignation or removal of an Independent Director shall be in accordance with Section 168 and 169 of the Act. An Independent Director who resigns or is removed from the Board of the company shall be replaced by a new independent director within a period of not more than 180 days from the date of such resignation or removal as the case may be. Where the company fulfills the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal as the case may be the requirement of replacement by a new independent director shall not apply.

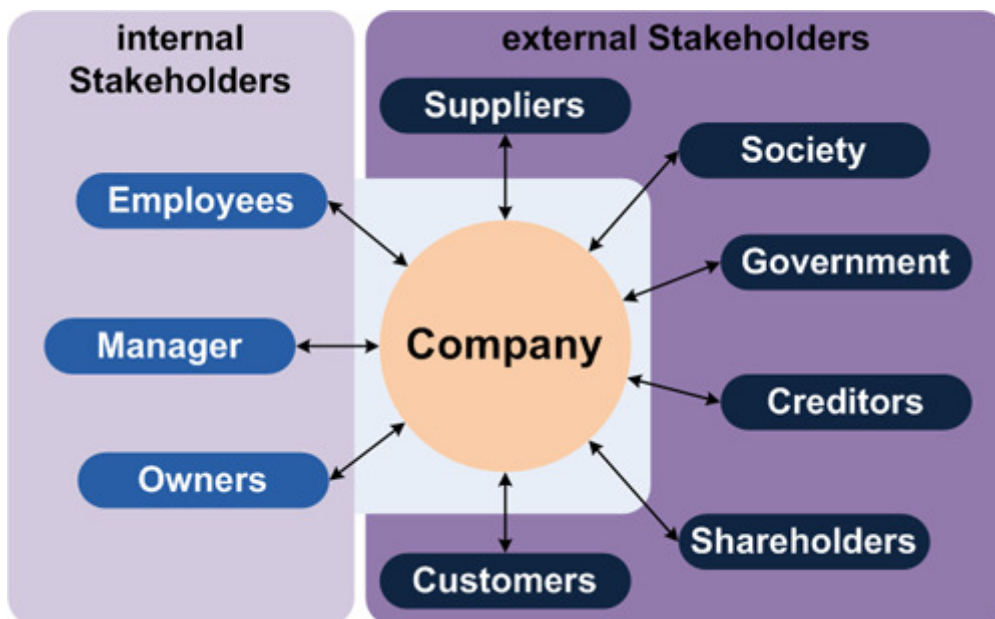
### **8.21 Meaning of Stakeholders**

A stakeholder is any person, organisation, social group, or society at large that has a stake in the business. Thus, stakeholders can be internal or external to the business. A stake is a vital interest in the business or its activities. It can include ownership and property interests, legal interests and obligations, and moral rights. A legal obligation may be the duty to pay wages or to honour

contacts. A moral right may include the right of a consumer not to be intentionally harmed by business activities. Stakeholders can:

- Affect a business
- Be affected by a business
- Be both affected by a business and affect a business

A stakeholder is often contrasted against a shareholder, which has an ownership interest in the business. R. Edward Freeman and his book *Strategic Management: A Stakeholder Approach* (1984) has had a major influence on stakeholder theory.



## Stakeholders

The concept of a stakeholder does have moral and ethical implications for business governance. If a business only has a duty to its shareholders, then the business may have no moral obligations to any other person, organisation or society. On the other hand, if a business has a duty to its stakeholders, then a business must take into account the interests of its stakeholders as well and not focus completely on maximising the interests of its owners.

## Examples

Let's look at some common stakeholders in a typical business. Remember, the key requirement is that a stakeholder is either affected or affects the business. Consequently, the definition of stakeholder is very broad.

### **8.22 Broad Definition of Stakeholders**

Many different groups have an interest or involvement in digital information. Any strategy for digital preservation will naturally have to take into account the various needs and perspectives of these groups. The stakeholders include:

- Authors
- Publishers
- Libraries
- Archive centres
- Distributors
- Networked information service providers
- IT suppliers
- Legal depositories
- Consortia
- Universities
- Research funders

### **8.23 Protection of Stakeholders**

Despite the varying perspectives of the various different theories of the firm, they all have the same opinion on at least one thing: a firm cannot exist without stakeholders said by M Greenwood, 2001 Although shareholders are an extremely vital constituent in effectively running an organisation in their capability as the primary finance providers, there are numerous organisations that exist without them. Examples of such organisations are law firms which are owned by their employees.

The stakeholder approach and even the enlightened shareholder value approach which is currently prevalent in the UK, dictates the significance of other stakeholders such as employees and customers to the company. This section also mentions the circumstances where shareholders were given preference over the other stakeholders by the management. Though shareholders, employees, suppliers and creditors etc. all are stakeholders, they should be treated fairly by the management.

Even though stakeholders form an essential part of a firm, there is a constant debate on whether they need additional protection under UK law. Rather than merely the protection received by means of contracting with the firm. Academic literature has formed various reasons why stakeholders of the firm perhaps require such additional protection. Some of the essential reasons are discussed below.

### **Contractual Protection Does Not Fully Protect Stakeholders**

Residual claimants' argument: The main reason why shareholders have given the power over the operations of a company is because they assert to be the residual claimants over the company's assets as their claims are not absolutely protected via contractual mechanisms. The return on a company's stock is not fixed and if a company makes losses the shareholders do not receive a return on their investment via dividends while the remaining of the stakeholders are covered by their individual contracts. Moreover, in the case of a winding up process of the company, the shareholders are the last to receive their share of the company's assets after all the fixed contractual claims of the company are settled.

However, opinions have emerged that do not acknowledge this view totally. At the same time it is generally agreed that the control of the company should be placed with the residual claimants of its assets, there has been considerable debate on which the actual residual claimants are (Blair, 1995). While shareholders assert that they remain the sole residual claimants of a company's assets, on the other hand employees hold their own point of view. The employees of a firm think that in cases where they acquire firm specific skills, their value in the market is less than their value in the firm. They hold the opinion that they have made specific investments and contributions towards the success of the firm. They believe that they should have a right to be a part in its decision making process as their futures are now emotionally involved with the

performance of the company. Examples of such employee participations are found in Germany where employee representation is done through Supervisory Boards which play an important role in the decision making capacity of the board of directors (Schneider, 1992).

While employees uphold their view as being part of the residual claimants of the firm, certain suppliers argue the same (Williamson, 1991). In many instances, suppliers while contracting with the firm set up services and buy equipment specific to the firm they are supplying to. In doing so, they make a long term commitment with the firm which cannot be covered merely through contract. Therefore, by making such firm specific investments, they as well think to form part of the residual claimant structure of the firm. And they want to have authority over the formation of the firm's strategic policies and objectives.

**High cost of contracting:** The idea of contracting is for the service providers to look for a little, if not whole, protection for the services they provide. While contracting remains a positive mode to look for protection, it on number of times fails to offer full protection to the stakeholder of a company. Firstly, contracting lead to many costs that cannot be borne by all stakeholders. It is hard for the comparatively smaller stakeholders to involve in detailed contracting. As the high costs of preparing an in depth contract cannot be borne by them. Moreover, such stakeholders do not have sufficient bargaining power to put in order such a thorough contract that may possibly limit managerial power. Indulging in detailed contracting would perhaps not even be advisable for stakeholders which do possess this high bargaining power since this will obstruct the management's ability to function effectively.

### **Protection against Dysfunctional Managerial Decisions**

The task of a company's management is to prop up the success of the company by providing it with strategic direction and aiming towards its long term growth and prosperity. In return the company compensates the management through cash salaries, bonuses and stock options. This transaction would make it seem that the management should work for the interest of the company as a separate legal entity.

However, since shareholders are the controllers of the company through their voting rights and in many cases take an active part in determining the earnings of the managers, the management is

susceptible to making dysfunctional decisions that favour of the shareholders while damaging the other stakeholders and the company as a whole (J Day & P Taylor, 1998). Amongst many, these decisions include high dividend payments, claim dilution, asset substitution, and risk shifting. Therefore, in order to secure the interests of other stakeholders in relation with the shareholders there is need for additional protections for all stakeholders.

When a company is in financial agony or is heading towards it, the managers may have a propensity to side with the shareholders by issuing high dividends which will trim down the finances available to the remaining of the stakeholders. This action will not only be to the disadvantage of the stakeholders, but will also adversely affect the company and damage its reputation since it will diminish the likelihood of its revival. However, since the shareholders hold close ties with the management, they receive privileged treatment over all other stakeholders.

Risk shifting is another instance of management siding with the shareholders. When a company is close to insolvency, company law requires the management to shift its focus to owing fiduciary duties to creditors instead of owing these duties to shareholders. In such distressed times, only the shareholders will benefit from further investments even though the risk is borne by the creditors. In such cases, the management might be unduly pressurised by the shareholders into indulging in enormously high risk and high return yielding projects. Since the accomplishment of such projects will make sure that the shareholders will gain along with the creditors. However, shareholders will have nothing to lose if the project is unsuccessful and the actual burden will drop on the creditors as the company is now unable to meet its fixed obligations owed to them.

Customers are also stakeholders to a company and they rely on adequate pricing practices and fair practices by the directors of the company. Since the privatisation of previously government run industries customers are in need of protection (S Ogsen and R Watson 1999) and directors who are inept at their job may hinder customers as well as other stakeholders, such as the government who want fair practices and competently run companies.



## **Monitoring Costs**

Even though the stakeholders of the company are free to contract with the firm and protect their interests, the monitoring costs incurred in ensuring that the contract is not breached are an additional burden on the stakeholders. While a number of stakeholders may be capable of supporting such costs, many will not as they will not acquire the adequate resources to expend on the monitoring purpose.

Moreover, it is also vital to realise that the risk attached to many business functions changes once the stakeholder has contracted with the firm. Due to the incapability of numerous stakeholders to monitor firm's activities, they are not in a situation to find out the change in the riskiness of their investment and consequently are in a much more fragile circumstance than they perceive it to be.

Therefore, the law needs to supply a framework that will necessitate the management to meet up their obligations to these stakeholders and protect their interests in the company.

### **8.24 How are Stakeholders Currently Protected Under UK Law?**

Although there are number of legislations protecting the interests of various stakeholder constituencies like the Employment Act 2002, Environment Act 1995 and various others, the focus of this paper will be on the major reforms brought under the Companies Act 2006, Insolvency Act 1986, and various voluntary codes of compliance introduced during the last two decades beginning from the Cadbury Code in 1992.

#### **Protection for Stakeholders under the Companies Act 2006**

The notion of the stakeholder value approach has been growing for a number of years and, along the way, increasingly raising concerns over the acceptance of the shareholder primacy model. In the Companies' Act 2006, (hereinafter called as Act) the debate of increased stakeholder protection finally made considerable progress through the codification of directors' duties towards protection of the stakeholders of the company. As far as stakeholder protection is concerned, amongst the various provisions of the Act that codifies the duties of directors towards the company, section 172 (Companies Act 2006 Handbook, Twenty first Edition, Butterworths 2007) remains the most significant one.

This section requiring the directors to “Promote the success of the company” is not only a codification of the previous law, but is also the introduction of a new one (Out-Law.com, 2007). For the first time, the duty has been imposed upon the directors of a company to promote the success of the company while giving regard explicitly to the interests of its stakeholders. In the past, the language used in the Act required the director to act “bonafide in the best interest of the company”. In real meaning, this duty is amended in the updated Act of 2006 through the obligation of the directors to act in good faith and to promote the success of the company. However, what has altered is that the Act now not only prescribes the duty owed by the directors of a company, but also the way they are supposed to discharge this duty.

Prior to the Act was passed, there were rising concerns of whether or not setting out a detailed list of stakeholders, before making any decisions the interests of which the directors would have to give regard to, would convince a formal box ticking approach. This could have led to ever-increasing administrative burden for the company which lack in bringing any considerable change in the behaviour of directors. However, these concerns were shrugged away by the government suggesting that the section requires directors to ‘think about’ the interest of stakeholders so that their stake in the company may be protected.

Even though section 172 requires the directors to give regard to the interests of stakeholders, it does not mean that they should compromise the interests of the company in order to protect the interests of any of the stakeholders. All it does is formalise the duty imposed by law on the directors to give due regard to the interests of the specified stakeholders and at the same time making decisions in the best interest of the company which is the essence of the Enlightened shareholder value approach.

Another addition into the law that has come through the incorporation of Section 172 has been that of preparing a Business Review at the end of the financial year. With the exception of companies that are part of the small businesses regime, directors of a company are now by law required to produce a Business Review the purpose of which is to provide information to the members of the company in order to help them assess how the directors have performed their duty under section 172 of the Act.

In the business review the directors are required to reveal a true and fair sight of the company's business along with a description of the principle risks and uncertainties that are facing the company (<http://www.berr.gov.uk/bbf/financial-reporting/business-reporting/page21339.html>). Moreover, the directors are also required to prepare an analysis of the company's performance using financial and other key performance indicators.

The business review for quoted companies carry extra requirements including trends expected to affect the future expansion, information about environmental matters, the company's employees etc. However, revealing this information may be avoided if the directors consider that it will be gravely detrimental to the person contracted with or adversely affect the interest of the general public.

Even though the Business Review may be the move in the right path as far as the stakeholders are concerned, it still does not bring the same level of protection for the stakeholder and disclosure of information concerning the actions of the company that were introduced through the Operating and Financial Review (OFR). However, the OFR was repealed soon after its introduction and hence not incorporated into the Companies Act 2006. Therefore, it remains to be seen whether the Review will be able to follow through with its desired objective of providing additional protection for stakeholders.

The Act also provides the Authority (which currently is the FSA in the UK), the discretion to form Corporate Governance rules as they deem appropriate through Section 1269 of the Companies Act 2006. This section inserts a new section 890 into the FSMA 2000 which gives the Authority a power to make rules implementing or enabling the implementation of or dealing with the matters relating to the community obligations on corporate governance of issuers on a regulated market. This rule making power will allow the authority to create corporate governance rules in order to cover issuers for whom the UK is the home member state and whose securities are traded on a regulated market in the UK. In essence this section provides the Authority the power to determine the relationship between the issuer and its organs with regard to corporate governance issues. Even though this section provides the Authority with a broad discretion on protecting the interests of stakeholders, the elements of the provision seem to be unclear and it is however to be observed if they aid the stakeholders of an issuer which listed on a regulated market in providing useful contribution for the corporate governance issues of a firm.

## **Protection for Stakeholders through the Compliance of the Voluntary Codes**

Starting from the Cadbury Report being published in 1992 till the issuance of the Higgs review in 2003, the corporate governance field in the UK has witnessed the development of number of Codes aimed at making better the governance structure of an organization. These reports have focused on issues such as the role of Non Executive Directors, Audit Committees, Directors' Remuneration Committees, and Internal Controls etc and have been implemented by the majority of large public and private organisations in the UK. Most importantly, the London Stock Exchange has mandated the compliance to the Combined Code on Corporate Governance to be implemented by all its quoted companies.

Even though compliance with these various codes of corporate governance will most likely to improve the performance of the company at large, the codes fail to necessitate the management to explicitly look after the interests of stakeholders. These codes seem to provide special emphasis on the role of shareholders in the governance of organizations in the UK which is a rather obvious portrayal of the strong roots of the shareholder primacy model that are still existent today.

### **8.25 Protection for Creditors and a Stakeholder Constituency**

Amongst the Stakeholder group, the Creditors being one of the most significant stakeholders to whom the special legal attention have been provided not only under the Companies Act, but also through the incorporation of the Insolvency Act 1986.

Though, this rule in practice only provides with a false sense of security to the company's creditors. Firstly, the minimum amount of capital to be raised is independent of the riskiness of the business which is pretty complicated to understand. Secondly, even if the minimum capital has been raised and is not authorised to be returned to the members of the company, it still does not prohibit the legal capital to be lost via trading losses.

One argument that is continuously used to support this law is that the rationale of the minimum share capital is mainly to protect the interests of tort victims who are not able to contract themselves with the company. This argument is a sensible one, but then on the other hand for

private companies the non existence of the minimum share capital rule seems confusing since a private company could have as many tort victims as a public enterprise.

Furthermore, the protection is also extended to the creditor through Section 646 of the Companies Act relating to reduction of capital rules by the court. Since the legal capital of a company is raised to protect the interests of its creditors, this section provides them with the right to object a reduction of that capital and appeal to the court. The court may make an order confirming the reduction of capital on such terms and conditions as it thinks fit. However, this too is a fragile type of protection available for the creditors since the company is usually able to satisfy the courts that the claims of the creditors will be met by the company (Davies, Principles of Modern Company Law, 2003).

Moving away from the protection available to the creditors via the Companies Act 2006, they are also additional security provided by the Insolvency Act 1986. While the company is in a solvent state, the duties owed by the directors are to the shareholders of the company. However, once the company reaches a state where it begins to face difficulty in meeting its debt obligations, the law requires the directors to switch duties and primarily look after the interests of the creditors of the company. It exposes the directors (and shadow directors) of a company to personal liability who, at the point that they realise or ought to have realised that the company had no reasonable prospects of meeting its debt obligations, fail to take all the reasonable steps that they are expected to take in order to protect the interests of the creditors (Davies, Directors Creditor-Regarding Duties in Respect of Trading Decisions Taken in the Vicinity of Insolvency, 2006).

The enforcement of this duty is done by sections 213 and 214 of the Insolvency Act 1986 whereby any directors that indulge in wrongful or fraudulent trading will be held accountable by law. The purpose of these actions is to stop directors from indulging willingly or unwillingly in activities that they are aware will harm interests of the creditors of the company and reduce the value of their investment.

## **Summary**

Corporate Governance is the interaction between various participants in shaping corporation's performance and the way it is proceeding towards. The owners must see that individual actual performance is according to the standard performance. It deals with determining ways to take

effective strategic decisions. Corporate Governance has a broad scope. It includes both social and institutional aspects. It encourages a trust worthy, moral, as well as ethical environment. Stakeholders for this purpose will include everyone ranging from the board of directors, management, shareholders, customers, employees and society. Good corporate governance ensures corporate success and economic growth and it has lowered the capital cost. And it ensures organizations are managed in a manner that fits the best interests of all. The audit committee is directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by the company. The company's board of directors should also use its discretion to establish the scope of the audit committee, including determining what procedures should be followed, and providing guidance on the committee's functions. The result of each independent audit, the auditor's report, any related management letter and management's response to recommendations made by the independent auditor in connection with the audit. It has to make recommendations in relation to the appointment and removal of the external auditors and their remuneration. In order to provide incentive to independent directors, the committee has suggested that adequate remuneration should be paid to them. A legal obligation may be the duty to pay wages or to honour contracts. A moral right may include the right of a consumer not to be intentionally harmed by business activities.

## **KEY TERMS**

**1. Corporate Governance** - Corporate governance refers to the set of systems, principles and processes by which a company is governed.

**2. Audit Committees** - An Audit committee is a sub-committee of the Board of Directors that is responsible for the financial reporting and disclosure process.

**3. Independent Directors** - The term 'Independent Director' has not been defined in the Companies Act. However, clause 49 of the listing agreement defines the term to mean a director who, apart from receiving director's remuneration, does not have any other material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries which in the judgement of the board may affect the independence of judgment of the director.

**4.Stakeholders** - A stakeholder is any person, organisation, social group, or society at large that has a stake in the business. Thus, stakeholders can be internal or external to the business. A stake is a vital interest in the business or its activities.

### **Self Assessment Questions**

1. What is meant by corporate governance?
2. Define corporate governance
3. Explain the importance of corporate governance
4. Explain the nature of corporate governance
5. What are the benefits of corporate governance?
6. What is meant by audit committees?
7. Define audit committees
8. What are the objectives of audit committees?
9. Explain the scope of audit committees
10. What are the advantages and disadvantages of audit committees?
11. Explain the role of audit committees?
12. Explain the functions of audit committees
13. What is meant by independent directors?
14. Define independent directors
15. What are the needs of independent directors?
16. Explain the qualifications and disqualifications of independent directors
17. Explain the manner of appointment of directors
18. Explain the removal of independent directors
19. What is meant by stake holders?
20. Explain the protection of stake holders
21. How the Stakeholders Currently Protected Under UK Law?
22. Explain the Protection for Creditors and a Stakeholder Constituency