Business Ethics and Environment
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<td>Earnings per Share</td>
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Chapter I
Ethics - An Introduction

Aim
The aim of this chapter is to:

- define ethics
- explain the objectives of ethics
- explicate ethics and morality

Objectives
The objectives of this chapter are to:

- explain business ethics
- elucidate the significance of business ethics
- explicate 3 C’s of business ethics

Learning outcome
At the end of this chapter, you will be able to:

- define business ethics
- understand the need of business ethics
- identify the objectives of business ethics
1.1 An Introduction to Ethics

Ethics is not a recent discovery. Over the centuries many philosophers in their struggle with human behaviour have developed various approaches to ethics, each leading to different conclusion. The word “Ethics” which is coined from the Latin word ‘Ethics’ and Greek word ‘Ethikos’ pertains to character. Ethics is thus said to be the science of conduct. As a matter of fact it deals with certain standard of human conduct and morals. The field of ethics involves systematising, defending and recommending concepts of right and wrong behaviour. Ethics is a mass of moral principles or set of values about what is right or wrong, true or false, fair or unfair, proper or improper, what is right is ethical and what is wrong is unethical.

1.2 Meaning and Definition of Ethics

Peter F. Drucker writes, “There is only one ethics, one set of rules of morality, one code that of individual behaviour in which the same rules apply to everyone alike.” Philip Wheel Wright says, “Ethics is the branch of philosophy which is the systematic study of selective choice, of the standards of right and wrong and by which it may ultimately be directed. Swami Vivekananda has set the tone for ethics. He says “Supreme oneness is the rationale of all ethics and morality. Ethics cannot be derived from the mere sanction to any personage. Some eternal principle of truth has the sanction of ethics. Where is the eternal sanction to be found except in the only infinite reality that exists in you and us and in all, in the self, in the soul?” Discussion on ethics cannot be completed without Swami’s views on ethics. He suggested ethics as the degree of faith in oneself. Ethics comes from the attainment of freedom, renunciation, which comes only when the individual attain a superior strength.

According to Swamiji, “The difference between weakness and strength is of a heaven degree; the difference between virtue and vice is that of a degree; the difference between and hell is that of a degree, all differences in this world are of degrees and not a kind of characteristics.” “An individual is an infinite circle whose centre is everywhere and circumference nowhere ethics disappears in the situations where people recon to the thinking.” I am pure, others are impure. So in short, we can say that ethics goes beyond the immediate facts that pertain to a moral question—what the situation is, it addresses the question of what ought to be? The inner content of individual, the character of individual can lead ethical individuality to ethical collectively. The ethical, the right thing to do, is action that best serves the ideas of honesty, integrity, morality and good management practices.

1.3 Nature and Objectives of Ethics

The liberalisation and globalisation being sweep changes in the concept of doing business, but the major by-product like corruption, favouritism and nepotism, deterioration of human values, series of scam in business, govt. policies and society are also produced in the 21st century. There is a loss of faith in instruments of society. Business houses are becoming big with control of large resources, human, financial and technical but their surviving purposes to society are always having the doubtful values. Day by day innocent Indians are losing their faith in laws, courts and govt. At one side business enterprise are coping up with intense emerged competition and on the other side they are violating the principles of proper public conduct. In the wake of mounting scandals corporations, all around the world are adopting ethical conduct, code of ethics. They are excellent organisations, which have shown a spurt of activity towards evaluation of goals, concepts, values management and conduct.

Ethical issues are more critical today than they have ever been. Similarly the increased interest with ethics in India is also related to many issues as nexus between business, crime, politics, a series of scams , sordid events of the past few years in the public affairs of the country which have led many in the country to believe that the country is approaching destruction unless it reforms ethics. In terms of practically applied the terms ethics and values became an important concern in the U.S. in the eighties. But fortunately the application of ethics in theory and practice in new millennium is gaining momentum rapidly. As the all India council for technical education which regulates the management education in India has in December 1995, recommended the inclusion of business ethics as a course in management studies curriculum.
1.3.1 Objectives of Ethics
The objectives of ethics are as below:

- The very basic objective is to define the goodness of man and establish a standard for the same.
- Set/Establish moral standards/norms of behaviour.
- An overall study of human behaviour: what is moral or immoral should be assessed.
- Apply judgement upon human behaviour based on these standard and norms.
- Suggest moral behaviour, prescribes recommendations about do’s and don’ts.
- One’s opinion or attitude about human conduct is expressed in general.

1.3.2 Nature of Ethics
The nature of ethics can be explained by these points:

- The concept of ethics is applied to human beings only as they have freedom of choice and means of free will. They can only decide the degree of ends they wish to pursue and the means to achieve the ends.
- The study of ethics is nothing but a field of social science in which a set of systematic knowledge about moral behaviour and human conduct is learned.
- Ethics deals with human conduct which is voluntary not forced by circumstances or humans. So we can say that at the ground level ethics deals with moral judgement regarding set directed human conduct.
- The science of ethics is a normative science. It is a search for an ideal litmus test of proper behaviour. Normative science involves arriving at moral standards that regulate right and wrong conduct.

1.4 Ethics and Related Terms
To understand ethics thoroughly, we need to see its relevance with some quite similar terms:

**Ethics and morality**: A morality is a set of rules to guide the actions of an individual human-being. Rand says about it—“a code of value to guide man’s choice and actions.” So, ethics and morality would seem to be synonymous but exactly it is not so.

As morality refers to the rules and guidelines which an individual or a group has about what is right/wrong, good or evil same as ethical principles also give an idea about right or wrong, true or false. Really speaking, to differentiate between ethics and morality is a difficult task as human behaviour is influenced by emotions and sentiments. As many big organisations and big businessmen have no predetermined ethics but they may evaluate the good conduct of business on the basis of customs, expectations of society, and some beliefs. But in way ethics is not merely the code of conduct based on customs, conventions and the accepted courtesies of a society but it is the code of conduct developed by proper testing to guide the human behaviour. In short, Ethics and morality, for all purpose may be assumed to mean the same.

**Ethics and religion**: Though ethics is not synonymous to religion morality is a primary force in shaping our ethics. Thomas M. Garrett writes, “The religion derive their moral percept not only from human experience but from divine revelation. It must rely on the unaided human reason.” Ethics gets idea from religion and thorough experiments it approves them as “code of conduct.” The development of ethics is dependent on the religious morality.

The great historian Arnold J. Toynbee writes, “No society could succeed without any religious aim. Mere desire for prosperity cannot motivate a person for building up an enduring dynamic and progressive nation.” Needless to say, about the vital role of ethics in our economic life which could be activated on the basis of religious principle?

**Ethics and law**: Hosmer (1995) says – Respect for law as an ethical value– What is law? Law is a code of conduct which the authority in power prescribes for society. It is concerned with the minimum regulation necessary for public order which is enacted by govt. So government gives shape to only those minimum social obligations, customs or traditions which are essential to be complied with by the people. It basically differs from ethics in its option to use force when necessary and in fact it is backed by power.
The most important divergence between ethics and law is that ethics concentrate on the do’s and laws on the don’ts. Ethics is a much wider term than law. The required ethical behaviour may not be covered by the law at all. ‘look after the aged’, ‘be considerate to your workers’, ‘Teach well to your students’, ‘Do not tell a lie’, ‘Obey your elders’,— will fall within the circle of ethics but not within the law.

**Ethics and values:** Moral values are deep-seated ideas and feelings that manifest themselves as behaviour or conduct. These values are not so easy to measure or express in words. There is very thin line which distinguishes between ethics and values both drive what is right and what is wrong in human conduct and what ‘ought to be’. But then also a relationship can be derived between value and ethics like this

\[
\text{Law + Knowledge} = \text{Ethics}
\]

So as, we know the consequences of our actions, we can convert values into rules of behaviour that can be derived as ethics.

### 1.5 Business Ethics

In any organisation from top executive to bottom line employees, ethics is considered as everybody business. It is not just only achieving high level of economic performance but also to conduct one of business’s most important social challenges, ethically at the same time. Here what we get a combination of two familiar words—‘Ethics and Business’ in ‘Business Ethics’. Different meaning is given to business as follows:

- Business ethics are the application of general ethical rules to business behaviour.
- Business ethics are rules of business by which propriety of business activity may be judged.

By Cater Menamara— “Business ethics is generally coming to know what is right or wrong in the workplace and doing what is right— this is in regard to effects of products/services and in relationship with stake holders”. “Attention to ethics in workplace sensitizes managers and staff to know they should act so that they retain a strong moral compass. Consequently, business ethics can be strong preventive medicine.”

According to John Donalds on Business ethics in short can be desired as the systematic study of ethical matters pertaining to business industry or related activities, institutions and beliefs. Business ethics is the systematic handling of values in business and industry.

- Business ethics concentrate on moral standard as they apply to business policies, institutions and behaviour. It is a specialised study of moral right or wrong. It is a form of applied ethics.
- Business ethics are nothing but the application of ethics in business. It proves that business can be and have been ethical and still make profits. Today more and more interest is being given to the application of ethical practices in business dealings and the ethical implications of business.

### 1.6 The 3 C’s of Business Ethics

Following are the 3 C’s of business ethics:

**Compliance:** (The need for compliance of rules including):

- Laws
- principles of morality
- policy of the company

**The Contribution (Business can make to the society):**

- The core values
- Quality of products/services
- Employment
- Usefulness of activities to surrounding activities
- QWL
The consequences of business activity:
• Toward environment inside and outside the organisation
• Social responsibility toward shareholders, bankers, customers and employees of organisation.
• Good public image, sound activity good image

1.7 Need and Objectives of Business Ethics
Following are the needs and objectives of business ethics:

Need of business ethics
• Business operates within the society
• Every business irrespective of size exists more on ethical means or in total regards to all its social concern to survive long.
• Business needs to function as responsible corporate citizen in the country.

Objectives of business ethics
According to Peter Pratley– Business ethics has twofold objectives–‘it evaluates human practices by calling upon moral standards, also it may give prescription advice on how to act morally in a specific kind of situation’.

• Analysis and evaluation: Ethical analysis and ethical diagnosis of past events, happenings, clarifying the standards, uncover the moral values, habits of thought. How to evaluate the situation? Ethics provides rational methods for answering the present situation and related future issues. Well equipped information is a must to achieve this second objective, a careful assessment of relevant information will lead to balanced judgments.

• Approaches to resolve ethical dilemmas: It provides therapeutic advice when facing the present dilemmas and future dangers. Only the condition which requires a true identification of relevant stakeholder and a clear-cut understanding of crucial issues at stake.

1.8 Importance of Business Ethics
“Good business ethics promotes good business”, this statement is supported by the research findings of some well known authorities– Raymond Baumhart, Brener and Molander, and Strom and Ruch. It was clear from their findings that only those businesses can develop on a long term bases which conducts activities on ethical grounds. Once ‘Robert Day’ has said that good ethics not only promotes professionalism in management but it purifies the inner mind of every business man. Another writer Thomas Donaldson (Ethics in business a new look) has observed that– “there are some key reasons why business ethics is vital and why ethics plays a key role in business.” Following are the reasons:

• Positive consequences: Business depends on the approval of the society, acceptance of rules, mutual trusts and confidence. Prof. Robert Day writes—“when ethical conduct is displayed, it puts some kind of trust and confidence in relationship.” So business with ethics always leads to positive consequences.

• Goodwill of the business and businessman: Good ethical behaviour will increase the goodwill of both business as well as the businessman. Strong public image is a symptom of success in the long run. On the other hand, once an organisation’s image is tarnished it would have direct consequences on sales, profits, morale or day-to-day running of the business.

• Protection— Both Sides: If ethical implications are there in organisation; businessmen act more sincerely and the level of commitment would be higher. Ethics protects people in dealing with each other. Prof. Robert Day writes “Good ethics is sound business insurance.”

• Self-satisfaction: In the dynamic world, businessmen are seeking self satisfaction, mental relief, free from anxiety, release tension. To attain the inner satisfaction certain people consider only good ethics can promote good business. As, a businessman is first a member of the society than a businessman, so some do not implement a decision which stands on unethical ground because it wouldn’t provide the satisfaction to their sub-conscious mind.

• Encourage others: When a few people start following ethics side by side to profit making, they encourage, motivate others and set examples for them. As Prof. Learned and Associates writes— “Businessman who follows the ethical principles in the conduct of business, motivates others also, to follow the same principles”.

• Success and development: Ethical conduct of business leads to development and series of success. Learned writes—‘A sincere person who does hard work becomes ethical and always succeed in his efforts but an unethical person cannot’.

• New management: In the era of global economy, new principles are required in new management. Prof. ‘Day’ writes that management cannot become a profession so far as it does not follow good ethics. An important feature of a profession is that it has a laid down code of conduct which remains on all the principles of“service to humanity. So to run the good business in modern scenario you have to develop and follow ethics.
Summary

- The word “Ethics” which is coined from the Latin word ‘Ethics’ and Greek word ‘Ethikos’ pertains to character.
- The field of ethics involves systematising, defending and recommending concepts of right and wrong behaviour.
- Ethics is a mass of moral principles or set of values about what is right or wrong, true or false, fair or unfair, proper or improper, what is right is ethical and what is wrong is unethical.
- Business ethics are the application of general ethical rules to business behaviour.
- Business ethics are rules of business by which propriety of business activity may be judged.
- Good ethical behaviour will increase the goodwill of both business as well as the businessman.
- If ethical implications are there in organisation; businessmen act more sincerely and the level of commitment would be higher.

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Recommended Reading

Self Assessment

1. The field of ___________ involves systematising, defending and recommending concepts of right and wrong behaviour.
   a. ethics
   b. normative science
   c. business
   d. management

2. The study of ethics is nothing but a field of social science in which a set of systematic knowledge about moral behaviour and ____________ is learned.
   a. human behaviour
   b. code of conduct
   c. moral values
   d. human conduct

3. Which of the following statements is true?
   a. The science of ethics is a formative science.
   b. The science of ethics is a normative science.
   c. The science of ethics is a social science.
   d. The science of ethics is an ethical science.

4. __________ is a set of rules to guide the actions of an individual human-being.
   a. Morality
   b. ethical behaviour
   c. Ethics
   d. Values

5. __________ are the application of general ethical rules to business behaviour.
   a. Industry ethics
   b. Organisational ethics
   c. Business ethics
   d. Human ethics

6. Business ethics are rules of ____________ by which propriety of business activity may be judged.
   a. business
   b. market
   c. industry
   d. organisation

7. Good __________ will increase the goodwill of both business as well as the businessman.
   a. moral values
   b. ethical behaviour
   c. code of conduct
   d. interrelationship
8. Ethics deals with ________ which is voluntary not forced by circumstances or humans.
   a. human conduct  
   b. code of conduct  
   c. ethical conduct  
   d. ethical behaviour

9. Which of the following is one of the 3C’s of Business ethics?
   a. Compliance  
   b. Consistency  
   c. Concentration  
   d. Conformity

10. Approaches to resolve ________ provide therapeutic advice when facing the present dilemmas and future dangers.
    a. ethical dilemma  
    b. ethical behaviour  
    c. ethical conduct  
    d. ethical situation
Chapter II

Ethics in Organisation

Aim
The aim of this chapter is to:

- explain the factors of building an ethical infrastructure in the organisation
- explicate ethics and values
- elucidate types of values

Objectives
The objectives of this chapter are to:

- enlist factors causing unethical behaviour
- elucidate ethics and trust
- explain ethical value system

Learning outcome
At the end of this chapter, you will be able to:

- understand ethics and value maximisation
- identify the characteristics of values
- understand code of ethics
2.1 Introduction

The new economy has brought greater transparency and greater flexibility but also greater complexity and therefore new and greater risks. It has become very crucial to look at how the new economy had brought greater complexity to the business environment changing the ethical dimension and raising new ethical issues. It goes on to outline the varied dimension of the new economy like—Globalisation, technology, assets, framework, recruiting and retaining the talent. These factors have brought so many changes and challenges to the company policies in regards to their management practices, relationships in different domestic, international, multinational and global contents. So, to establish an ethical infrastructure and integrate ethics in organisation working we need to study the ethics in new economy keeping the consideration of those mentioned dimensions.

2.2 Ethical Dimensions

Following are the concepts considered in ethical dimensions.

2.2.1 Globalisation

The growing integration of economies and societies around the world has been one of the most hotly debated topics in international economies over the past few years. Many forces are driving globalisation—communication, improved infrastructure, technology, regulation, free trade and free movement of people. Rapid growth and poverty reduction in India, China and other countries that were poor 20 years ago, has been positive aspect of globalisation. On the other hand, globalisation has also generated significant international opposition over concerns that it has increased inequality and environmental degradation. Ethics, morality and globalisation are connected with each other the ethical dimension of globalisation is beginning to be debated world widely.

At a business level, we talk of globalisation when companies decide to take part in the emerging global economy and establish themselves in foreign markets. To meet the objectives first they adapt their products and services to the final user’s linguistic and cultural requirement, which is not all an easy task manager have to manage the workforce in different languages, different cultures, and different tax procedures. The basic need in the globalisation era is to control the ethical conflicts to its minimum level though it’s not so easy to achieve. Though some ways can be suggested like:

- Sensitive and sympathetic attitudes towards local customs
- Awareness about world pressure group
- Know and comply with local laws related to tax, employment and finance
- Manage diversity within and across the national boundaries

2.2.2 Technology

Technology is a driving force helping business organisation to face the challenges of today’s competitive business environment. It is revolutionising the nature and speed of communication within and between companies. All the functional areas of organisation—Marketing, finance, HR, production, etc., are being facilitated by it.

The global development of companies is very much affected by technology. Technology has been catalyst for this development. Though there are some social and ethical issues related to technology, they are as follows:

- Complexity and integrity
- Software piracy
- Monitoring
- Harassment
- Employment
- Privacy
- Accessibility
Business Ethics and Environment

- These are some yardsticks, following which the managers can tackle some ethical risks attached to technology:
  - Take care of the flow of information about data in and out of the organisation
  - The monitoring of the use of e-mail and uses of internet in an effective way
  - Participative management development as to discuss the practicalities and get the feedback

2.2.3 Intangible Assets
The most valuable assets as far as an organisation is concerned in the new economy are called as intangible assets. Intangible assets are non-scarce; these increase in values when used as they are not subject to diminishing returns as the tangible assets, but have increasing returns. As all intangibles (customer, employee, leadership, culture, strategy, brand, innovation, knowledge, intellectual property rights) are future oriented so they create future value. The ethical points of discussions related to intangible assets are a lot like:
  - Intangibles are difficult to manage and exclusively control
  - Intangibles investments are typically more risky
  - Intangibles cannot be directly measured and their value

2.3 Factors Causing Unethical Behaviour
Following are the factors causing unethical behaviour:
  - Competition—‘Litemer and Molander’ have found in their studies in 1974 that the important cause of decreasing use of ethical conduct in business is the increasing nature of competition. When managers try to meet goals and have to cut corners at that moment this acute competition at national as well as international level becomes an unavoidable reason for unethical conduct.
  - There is an increasing pressure to earn more profit and to cope with the enlarged requirements and expectations of all like shareholders, customers, employees or all the categories of its stakeholders. So this becomes an important factor of unethical conduct of business.
  - Ambiguous situations create the ethical dilemma to the manager and selection of an alternative which gives them higher return at the cost of losing integrity they don’t think.
  - Political corruption has also become a big issue nowadays; As business cannot be aloof from politics and most of the political parties demand gifts, donations and bribes from the business men for their political gain.
  - Social values and customs are not followed by new generation.
  - Now-a-days people want to become rich in a short while even by doing unethical acts. Money and success becomes the important motivator behind any activity.
  - People neglect the social responsibility, lack of integrity and discipline in the social values

Many of the business activities which involve unethical activities are objectionable, exploitative and create big problems to innocent people. A sample of these unethical conducts is shown below:
  - Encourage practices of corruption
  - False representation of returns and income statements
  - Ignore the social interest
  - Creation of acute competition
  - Political donations
  - Exploit the consumer
  - Illegal trade with enemy countries
  - Exploit scare natural resources.

The points mentioned above are some real practical situations which are embedded in business organisation and are sometimes unavoidable and therefore corporate commitment to ethics is vital, it is a most valuable asset a firm can possess, which pays in long run. Following are few of the practical examples of the corporate world, where the commitment level of ethics is very high.
• Johnson and Johnson—an ethical commitment to health and safety of consumers is deep-rooted in J & J. Many persons died after consuming Tylenol capsules contaminated with poison. As it deals with sensitive area and protection to public is a must so the managers took over all capsules from all the places world-wide. This crisis incident worked as a catalyst that boosted J & J’s image in eye of customer world-wide.
• JBM provides ethical treatment of employees so they get the loyalty from employees, thefts, cheating and frauds are nowhere seen over there.

2.4 Important Factors of Building an Ethical Infrastructure

Some important factors of building an ethical infrastructure in the organisation are as follows.

2.4.1 Commitment from Top Management

As the top executives are the leaders, so if an ethical initiation is taken by them, it would be easy to spread it downside. Ethical behaviour should be fully supported by the top management. They must set some examples in front of the employees from their own level if commitment to ethics.

Some boards have established a separate ethics committee which oversees development and operation of ethics program. Some companies do have full time ethics officer, like USAA, a diversified financial service company. The chief executive officer, Robert T. Herres, is the chief ethics officer and he appoints an ethics coordinator to oversee the program. This committee may consist of internal and external directors. According to Koontz and Weihrich, this committee will perform the following functions:
• Holding regular meetings to discuss ethical issues
• Dealing with grey areas
• Communicating the codes to all members of the organisation
• Checking of the possible violations of the code
• Enforcing the codes
• Rewarding compliance and punishing violation
• Reporting activities of the committee to the board of directors.

2.4.2 Code of Ethics

To establish and to encourage ethical conduct, formal codes of ethics for organisation members must be framed. These corporate codes of ethics vary in quality and substance. Some of these consist of a set of specific rules, a list of do’s and don’ts. A code of ethics states an organisation’s basic and primary values and the ethical rules, so the rules of conduct are like a general value statement which lacks a framework of meaning and purpose.

Code of conduct are not merely rules and regulations, their scope is somewhat different! A code cannot list and mandate every form of ethical and unethical conduct. A good corporate code of values and conduct should include certain managerial and employee guidelines for making ethical decisions. ‘Frank Doly’ of Northrop Grumman has suggested—“Codes of conduct should be policies that are easy to read, who don’t like to read can’t read, easily understood by people or respond much better to visual information.” Take creative license in the presentation. Some organisation have reduced voluminous codes of conduct to just a few core values, for Example, Texan Instruments a global semiconductor company, ended up their codes of conduct with just 3 words— Integrity, Innovation and Commitment. A list of code of ethics is given below:
• Do not use abusive language
• Manage personal finance well
• Demonstrate courtesy, respect, honesty, fairness
• Exhibit good attendance
• Conduct business in compliance with law
• Follow all accounting rules and control
• True claims in product advertisements
2.4.3 Communicating Ethics
The best ethics program in the world is the one which is communicated well. The communication should be in various forms and frequently occur. Communicating of all code of ethics, core values can be done by an easy way—written form supplemented with some questions in the form of feedback. The supervisors can hold meeting with employees to discuss ethical concerns. A proper well designed communication network is needed to institutionalising ethics. Therefore, Purcell and James Weber suggest that this can be accomplished in three ways:

- By establishing appropriate company policy and ethical rules
- By using a formally appointed ethics committee
- By teaching ethics in management development program

2.4.4 Ethics Training
There is a great need for ethics training because only communicating well is not sufficient to convert values into practice, sometimes employee may think that they know each and every aspect about ethics, ethical decision making but they might be unaware of the ideas of the actual evaluation process, implementation and consequences of the decision making. Therefore ethical training program are very crucial. Effective ethics training should have the following:

- Employee participation to exchange views with each other open discussion of realistic ethical issues
- Clarify the ethical values and enhance the ethical awareness of employees
- Define criteria for ethical decision making within the organisation
- Being detailed, extensive to accomplish anything significant
- A clear intense focus on ethical issue of the organisation
- Investigate ethical environment, analysis the activities, strategies, resources, policies and goals and after examining go on enriching them

2.4.5 Ethics Officer
An ethics specialist is a full-fledged member of the board of director. He has a “kitchen cabinet” to serve as a sounding board and to drive ownership of the program throughout all areas of business. He acts as a guide for ethical conduct and ethical decision making. The ethics officer provides some resources for assistance to the employees of the organisation, so that if they find any wrong doings while working, they can report directly to him. For e.g., at USAA, the ethics coordinator is part of the CEO’s office and works closely with the company’s ethical council, a group of senior executive who review issues of major significance and take appropriate actions.

2.4.6 Response and Enforcement
Implementing an ethical program consistently is one of the biggest challenges for organisations. A consistent response to ethical issues involves so many criteria like—Reward system (for them who have shown ethical character), built in incentives, this can be further supported by checklist method. According to Bennett, employee can be taught to apply the following checklist when confronted with an ethical dilemma:

- Identifying the dilemma
- Collect the facts
- Make a list of your options
- Test each options
- Make your decision

2.4.7 Audits, Revisions and Refinements
Audits should be established to reveal whether communication about ethical codes of conduct works well or not? What are the results of training program? Is there detailed investigation about potential violations of law or regulation? The experts in audit committee would be executives of the organisation or can be hired from outside consultants. Many companies are finding effective ways to judge about the effectiveness of their program like surveys, focus
groups and detailed exit interviews often conducted by outside consultants for unbiased feedback. A review for value program must be allowed. In this dynamic world, every month, every year circumstances change which demand managers to re-evaluate the goals and content of their program, sometimes after the evaluation, managers find to begin with a fresh look as well as a courageous hand to stop the continuation of an idea whose time has passed.

2.5 Values and Ethics

Is capital punishment right or wrong? How about the racial quotas in hiring are they just or unjust? The answers to these questions are value laden. For example, some might indulge in the argument that capital punishment is right because it is an appropriate retribution for crimes such as murder. However, on the other hand, others might argue, that no govt. has the right to take anyone’s life.

Value : What we choose as worthwhile or believe to have merit, in a general or broad sense. Issues of right or wrong are related to one’s ‘values’, values are our standard of right and wrong. Whether something is right or wrong is not a matter of fact. It is a matter of opinion. An action may be upheld by someone as very right while others might have contrary view. So values represent a specific mode of conduct or end state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence

‘Edward Spranger’ defines the values—“as the constellation of likes, dislikes, viewpoints, inner inclinations, rational and irrational judgments, prejudices, and association pattern that determine a person’s view of the world.” Values are the deep seated ideas and feelings that manifest themselves as behaviour or conduct these values. The true reflection of one’s values is his/her action.

2.6 Characteristics of Values

Following are the characteristics of values:

- Values tend to be relatively stable and enduring. A significant portion of the values, we hold is established in our early years from parents, teachers and others. So these values are originally learned.
- Values constitute the foundations of one’s character. They are at the core of personality and a powerful force affecting behaviour.
- Values are abstract representation of what people believe to be right, proper and worthwhile to pursue.
- Some values are not fixed, but they change our time and situation.
- Values have intensity and content attributes in which the content attribute says that a mode of conduct or end-state of existence is important and the intensity attribute explains how important it is.
- The values which are internalised by an individual, becomes a part of his personality, then they go beyond the zone of choice for the person concerned. His action based on these values then become spontaneous and continuous, automotive and instinctive.

2.7 Types of Values

According to M. Rokeach, there are two types of values:

- Instrument values: The values which concern the way we approach the end states. These relate to means for achieving desired result. Some are like:
  - Hard work and achievement
  - Education and intellectual pursuits
  - Self sufficiency; independence
  - Truthfulness; honesty
  - Assertiveness; Standing up for yourself
  - Being well mannered and courteous towards others
  - Open-mindedness receptivity to new ideas.
  - Caring towards others.
Terminal values: They are those end state goals that we praise such as:

- Comfortable life
- A sense of accomplishment,
- Equality among all people:
- Happiness; satisfaction in life
- Peace and harmony in the world
- Knowledge and wisdom
- Pride in accomplishment
- Security; freedom from threat.

2.8 Ethical Value System

Everything that we see, here, say, imagine or do can be divided into two main categories:

- The way situations are
- The way situations ought to be

How situations ought to be is what gives rise to ‘values’. These values are not so easy to measure or express in words. If we know the consequences of our action, we can convert values into rules of behaviour that can be described as:

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Ethics value + Knowledge = Ethics
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Any initiation of an action begins with an inventory of values. These get converted to intentions for action, which then get articulated as actual behaviour. All these behavioural results affect oneself as well as to others. They either damage or enhance the values of the affected person.

Value leads to– Intention leads to– Behaviour leads to– Consequences

One of the important lessons to learn in ethics is to see life as it is, without our perceptions and attitudes distorting it to fit in with what we want to see it. All of us react, not to reality itself, but to our own interpretation of reality. Our behaviour is affected not by particular situation but how we see and what we see in that situation. When we describe the world around us or people in it, we in effect describe ourselves, our perception, attitudes, our morality and our ethical value system.

2.9 Ethics and Value Maximisation

When ethics and values are taken together, we should do the analysis of ethics in relation to value maximisation to find out the value of ethics for people working in any organisation. First, of all we’ll find how ethical behaviour and value maximisation are related with each other. As we know there are no universal standards as to what constitutes ethical behaviour, which means that a broad array of value maximising corporate policies might violate individual notion of ethical behaviour. Does value maximisation in an organisation simply mean as short cut profit maximisation? No! A very deep understanding of ethical standards are required for value maximisation, a typical economic discussion of short run profit maximisation is not at all sufficient.

2.9.1 Ethics and Trust

Trust is one of the most important ethical complements; they are compatible with each other as ethical behaviour leads to trust. If we start from a very basic transaction between individuals, any transaction involves a promise to deliver a particular good/service, in so and so condition in exchange for a promised payment by the other party. So if any kind of mistrust or corruption takes place in any of the transaction and justice of the economic system will be harshly impaired. And the impact of corruption will be negative to efficiency. So we find that trust and trust worthiness are very essential to economic efficiency, without it, it is not possible to support long term debt or the instruments that accompany it. So, we find that ethical behaviour is highly responsible for building trust among people.
Ethical values involve the behavioural norms and rules that are operant within an enterprise taking the form of an ethical code, covering areas such as conflict of interests, general violating business laws. The attainment of reputation in an organisation is based on the ethical behaviour and actions of its individuals. A company’s reputation for ethical behaviour, its perceived integrity in dealing with customers, suppliers and other stakeholders and other parties is a part of company’s brand name capital.

2.9.2 Delegation of Decision Rights

Management has to decide properly how to assign decision rights among employee of the company. As decentralisation forced companies to leave space for decisions to lower level employees with the multiple benefits of more effective use of local knowledge, saving time of senior management, motivation for lower level management. Now the question is whether the decision maker has both appropriate information to make good decision and incentives to use information efficiently, or not? As the employees, who are not the owners, being granted the authority over the use of company’s resources and take decisions are less worried about the proper use of company resources than owners.

Though, managers develop some control system to handle incentive problem, performance evaluation system which help to align the interest of the decision makers with these of the owners. But then also, the managers and employees cannot be mechanically expected to know the suitable decision that promotes the interest of the company. So there is a need harmonisation of values leading to ethical behaviour which means more trust, more productivity, success and reputation.
Summary

- Many of the business activities which involve unethical activities are objectionable, exploitative and create big problems to innocent people.
- To establish and to encourage ethical conduct formal codes of ethics for organisation members must be framed.
- A code of ethics states an organisation’s basic and primary values and the ethical rules, so the rules of conduct are like a general value statement which lacks a framework of meaning and purpose.
- Values constitute the foundations of one’s character. They are at the core of personality and a powerful force affecting behaviour.
- Values have intensity and content attributes in which the content attribute says that a mode of conduct or end-state of existence is important and the intensity attribute explains how important it is.
- Trust is one of the most important ethical complements; they are compatible with each other as ethical behaviour leads to trust.
- Ethical values involve the behavioural norms and rules that are operant within an enterprise taking the form of an ethical code, covering areas such as conflict of interests, general violating business laws.

References

- Values and Business Ethics [Video online] Available at: <http://www.youtube.com/watch?v=gkcgTgCvaIo> [Accessed 2 April 2013].

Recommended Reading

Self Assessment

1. To establish an ethical infrastructure and integrate ethics in organisation working we need to study the ________ in new economy.
   a. ethics
   b. values
   c. code of conduct
   d. assets

2. The most valuable assets as far as an organisation is concerned in the new economy are called as in __________ assets.
   a. intangible
   b. tangible
   c. ethical
   d. unethical

3. Which of the following statements is true?
   a. Ethical behaviour should not be fully supported by the Government.
   b. Ethical behaviour should be fully supported by the employees.
   c. Ethical behaviour should be fully supported by the top management.
   d. Ethical behaviour should be fully supported by the workers.

4. Implementing an ______________ program consistently is one of the biggest challenges for organisations.
   a. unethical
   b. valuable
   c. abstract
   d. ethical

5. Which of the following is abstract representation of what people believe to be right, proper and worthwhile to pursue?
   a. Values
   b. Trust
   c. Ethics
   d. Moral

6. ____________ should be established to reveal whether communication about ethical codes of conduct works well or not.
   a. Audits
   b. Management reviews
   c. Conferences
   d. Reports

7. The new economy has brought greater transparency and greater flexibility but also greater complexity and therefore new and greater ______.
   a. risks
   b. opportunities
   c. responsibilities
   d. threats
8. Ethical values involve the behavioural norms and rules that are operant within an enterprise taking the form of an___________.
   a. ethical behaviour
   b. ethical norms
   c. morality
   d. ethical code

9. To establish and to encourage______________, formal codes of ethics for organisation members must be framed.
   a. ethical behaviour
   b. ethical norms
   c. ethical conduct
   d. code of conduct

10. Which of the following statements is false?
    a. A code of ethics states an organisation’s basic and primary values and the ethical rules.
    b. Terminal values are the values which concern the way we approach the end states.
    c. Values tend to be relatively stable and enduring.
    d. Implementing an ethical program consistently is one of the biggest challenges for organisations.
Chapter III
Ethical Choices in Business

Aim
The aim of this chapter is to:

- explain factors affecting managerial work life
- explicate elements developing ethical corporate behaviour in the organisation
- elucidate whistle blowing

Objectives
The objectives of this chapter are to:

- explain reward punishment system
- elucidate organisational ethics development system
- explain the concept of ethics training

Learning outcome
At the end of this chapter, you will be able to:

- understand the significance of ethical leadership
- identify checklist methods
- understand code of ethics
3.1 Introduction

By the discussion made in the previous chapters, it is clear that ethics in business are very significant. But now the big question is how to integrate ethics into organisation climate. As we know that ethics in management is the discipline which works with what is good or bad and with moral duty and obligation. According to Clarence Walton—“Managerial ethics is concerned with truth and justice and has a variety of aspects such as expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy and corporate behaviour”.

To develop an ethical infrastructure in the organisation so many efforts are required. It is not only that top executives are saying, talking advising to follow ethics, so it would be followed. There are some techniques, procedures and steps by which a company can develop ethical corporate behaviour. But before that we have to understand how employees affect the organisations and how organisation affects employees.

3.2 Factors Affecting Managerial Work Life

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Fig. 3.1 Factors affecting managerial work life
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“Griffin” explained some specific areas which affect managerial work life

- **Organisation towards employees**: It covers the areas of wages and working conditions, hiring and firing and employee privacy.

- **Employee towards organisation**: How employee treat the organisation. So many ethical issues are involved, whether any decision which is being made in the favour of the employee and against the company. Whether employees maintain the honesty and secrecy level or just sell it for their greed.

- **Organisation towards other economic institutions**: How far organisation is fair with its treatment towards other economic agents like stakeholders, suppliers, customers, competition and dealers. The behaviour and treatment of all executives towards all stakeholders are dictated by ethical standards.

3.3 Elements for Developing Ethical Corporate Behaviour in the Organisation

Following are the elements developing ethical corporate behaviour in the organisation.

3.3.1 Ethics Training

To achieve corporate excellence in all the areas and disciplines like sales and marketing financial transaction, international transactions, technical systems, purchasing procedures, is the pressing need of this hour. But providing ethics training to employees is a quite new concept. Though, some people are under the impression that training in ethics is not possible but we just deny it; as many companies have started their training programmes in ethics in US companies; like General Dynamics, McDonnell Douglas.
Everywhere around the world there is a great need for ethics training; properly and carefully designed ethics training programme can make a positive contribution. Though you can’t compare ethics training results with other training like technical one in which just after the training you would find the results in the obvious learned knowledge of the trainee, the same will not happen in ethics training but the effects of it would be long lasting.

The basic objectives of ethics training programme are:

- To make employees aware of company policy on ethical issues.
- To train them how to apply and where to apply ethical principles on the job problems every day.
- From top to bottom in the organisation whosoever faces an ethical question at work is provided with training with the help of simulated case-studies based on actual events in the company.

“Robert Kreither”—has provided key features of effective ethics training programme, they are as follows:

- Top management support.
- Open discussion in resolving of realistic cases.
- An organisation climate that rewards ethical conduct.
- Inclusion of ethical themes on all training
- A mechanism for anonymously reporting ethical violations
- Circulate a copy of code of ethics among all the staff with the explanation about the working procedure and their involvement in it.

3.3.2 Codes of Ethics

A code of ethics basically reflects an organisation’s primary values, norms beliefs and ethical rules of operations. Codes of ethics must be framed to encourage ethical behaviour in any organisation and must be supported by top management. The general practice which is prevalent in the organisation is the codes of ethics are planned, proposed, discussed and defined by top executives in the firm and then published and distributed to the staff. But sometimes the staff members show their reactions to these codes of ethics with doubt, suspicion and believe these norms and beliefs developed in the organisation just show the false picture.

“Cater McNamara” put forth, “when managing a complex issue, especially in a crisis, having code is critical, continued dialogue and reflection around ethical values produces ethical sensitivity and consensus”. The very essential thing is the codes of ethics must be effective. ‘Kaptein and Klamer’ (1991) had listed some conditions for effective codes of ethics:

- The introduction must be supported by the important benefits for adopting and complying with the code.
- General and broad acceptance of code of ethics must be there.
- The process of proper discussion, checking and if needed redefining must be done before the final lay down of codes of ethics.
- If we want the implementation and follow up of codes of ethics should become successful event, continuous feedback is necessary.
- Review, modify, update and if any inconsistency exist between norms, values and practice, it should be disclosed. Further any needed modification and updation should be done.
- Mechanism for control: For effective enforcement of codes of ethics some system of sanctions must exist.

Some examples of corporate codes of ethics are given below:

- Codes of ethics for marketing managers: Following are the codes of ethics for marketing managers
  - Deal with complete honesty and fairness
  - In every stage of product development all the standards should be maintained
  - Follow all the principles of rights and duties in the process of exchange
  - Fair pricing strategy
False, misleading and manipulative promotional tactics must be avoided.
Market research must be purposeful and conducted in the manner so that it achieves the objectives.

The engineer’s codes: Some engineer’s codes of ethics have been developed by the National Society of Professional Engineers which insist professionals to:

- Avoid engineering unsafe ventures
- Don’t leak the confidential information
- Advise the consequences, if technical suggestion is overruled by a non-technical person.

3.3.3 Organisational Ethics Development System (OEDS)

Some important constituents are as follows:

- Development of ethics policy handwork and manual for self governance and integrity.
- Top management commitment which is very important to corporate ethics should be properly communicated.
- To enjoy the fruits of direct ongoing improvement regular assessment must be conducted of ethics.
- Sound ethics reporting and conflict resolution process for wrong doers.
- By Bench Marking to assess individual as well as organisation integrity system.

3.3.4 Ethics Committee

Formation of ethics committee is also new concept. In some corporation a standing committee is formed to implement ethical concept into practice, these committees are headed, directed by Board of directors (Internal as well as external):

The salient features and functions of this committee are:

- Periodical assessment
- Frequent meetings about ethical issues
- Proper communication about the codes of ethics from top to bottom level
- Establish reward and punishment system
- Enforcing the codes
- Timely reporting to BOD’s.

3.3.5 Ethics Advocate

An ethics specialist or officer is a member of board of directors who plays a key role to guide for ethical conduct, a good and wide contribution in board’s decision making. He shows a correct path to board members as well as other decision makers in the light of ethics.

3.3.6 Integrate Ethical Concepts

The senior level executives have responsibility to apply and integrate ethical concept in day to day actions. They have to build a kind of structure that supports ethical behaviour like proper information to new employees about ethics standards, annual performance appraisal, ethical guidelines and very important system of internal whistle blowing which makes higher management aware of violation in time.

3.3.7 Checklist Method

It has become a new attraction in ethics seminar and workshop. “Gellerman” explains that using checklist method, employees can avoid the situation when people do behave unethically. What is to be done when confronted with ethical dilemma for that “Bennett” had given some tips:

- Understand and define the dilemma.
- Collect the factual information.
- List out the alternatives.
- Check and test on your standards each alternative
- Make your decision
3.3.8 Reward Punishment System

As we know motivation is having a great impact on employee’s behaviour so the best way to get people on ethical path is establishment of reward system. So when ever people behaviour is an unethical manner, they do it for some hidden reward so the organisation must develop a kind of system in which whosoever shows ethical behaviour must be rewarded and whosoever shows unethical behaviour must be punished visibly. So for the future conduct people will take lesson and try to act in ethical manners.

3.3.9 Whistle Blowing

Whistle blowing is when an employee tells an employer, who is breaking the law. It was first used for government employees who made complaints to public about corruption and later it was used in private sectors in similar situations. In true sense in whistle blowing, the employee must tell of the illegal act to someone outside the company. It must be a government or law enforcement agency. Employees who blow the whistle on their employers are protected by laws. Whistle blowing takes place within an organisation and it can be done only day a member/ex-member of an organisation. Whistle blowing can be of two types:

- **Internal**
  - Report the wrong doing to higher authorities in the same organisation

- **External**
  - Report the wrong doing of individuals in the organisation to external to external bodies (govt. or private), media, newspaper or public interest groups.

![Fig. 3.2 Types of whistle blowing](Source: Paliwal, M., 2006. *Business Ethics*. New Age International)

As far as internal whistle blowing is concerned, it is more or less a kind of complaints and sometimes the employee is not protected by the whistle blower laws. However, the employee may be protected under other laws for exit is unfair and illegal to fire someone for complaining of sexual harassment or discrimination. If we talk about external whistle blowing not all whistle blowing is equally adversarial to the affected organisation, even though it is at least an embarrassment for an organisation to be exposed as one that cannot correct its own problems.

There are many regulatory agencies such as OSHO (The Occupational Safety and Health Organisation) that exist to perform oversight and to which whistle blowers can go anonymously. But we can see that going to these agencies is usually less adversarial than going to the media. If the employee has reported the allegedly illegal activity to a government or law enforcement agency, he or she is protected. The employer cannot retaliate against the employee. The employer cannot mistreat the employee for whistle blowing. In fact it is not necessary that the employer actually broke the law. The employee could be whistle blowing or something that isn’t illegal in the first place. The employee is still protected from retaliation or termination but the most important thing in whistle blowing that the employee’s belief about violation of law about which he/she is going to blow the whistle must be reasonable.

So, in short, we can say to develop ethical infrastructure in organisation, companies must develop some policies regarding whistle blowing like:

- A clearly defined procedure for reporting
- A guarantee against retaliation
- An effective communication statement of responsibility for the employees
- Well trained HR professionals to receive and investigate reports
- A clear defined procedure for reporting
- A commitment from higher authority to take appropriate actions
3.4 Leadership- Ethics and Values

Leadership is “the ability to influence a group towards the achievements of goals.” Leadership plays a central part towards goal attainment. It is different from management. Good management brings about order and consistency by drawing up formal plans, designing and monitoring results against plans. But leadership is the most important aspect of human behaviour. It is about coping with change. They develop a vision of the future, align people by communicating this vision and motivate, inspiring them to overcome hurdles.

Leaders, in 21st century find themselves in a situation where on the one side the pressure is to show excellent results by exploiting opportunities taking into account new technology, globalisation, new economy, and on the another side pressure is to discharge social responsibilities, respond to growing expectation and demands among customers. To operate the business, companies have social approval and an implicit license received by a number of stakeholders. This social approval demands from leaders and their companies to do the processes which are consistent with ethical and moral values. As the company gets the permission to operate, so in return it requires satisfying a host of different requirements and expectations.

3.5 Significance of Ethical Leadership

Effective leadership is about laying the foundations for the efficient and the ethical conduct of business. It is the most powerful and important aspect of human behaviour at organisations. If we go through the list of development programmes in corporate world, it ranks at the top. Companies are investing tremendous amount on training for effective leadership because of following reasons:

- Long term survival as well as growth starts from ethical leadership, without true and ethical leadership all organisations would be in serious troubles.
- Integrating ethics into organisation needs true leaders. Organisation’s mission, objectives and goals can be reflected by their vision. They assess the follower’s needs and expectations, motivate them, direct them, realise vision. They are the key to communicate organisation’s values, beliefs.
- To take organisations on excellence path, a blend of strategy and culture is required which can be achieved by effective leadership. Strategic thinking and cultural building can be built up by leader’s moral principles and integrity.
- Leadership makes real difference between success and failure, whether in a war, a business, games, family or society.
Managerial ethics is concerned with truth and justice and has a variety of aspects such as expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy and corporate behaviour.

There are some techniques, procedures and steps by which a company can develop ethical corporate behaviour.

Codes of ethics must be framed to encourage ethical behaviour in any organisation and must be supported by top management.

Leadership is “the ability to influence a group towards the achievements of goals”.

Effective leadership is about laying the foundations for the efficient and the ethical conduct of business.

An ethics specialist or officer is a member of board of directors who plays a key role to guide for ethical conduct, a good and wide contribution in board’s decision making.

References


Recommended Reading

Self Assessment

1. ______________ is concerned with truth and justice and has a variety of aspects such as expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy and corporate behaviour.
   a. Managerial ethics
   b. Managerial economics
   c. Managerial values
   d. Managerial laws

2. To develop an _____________ in the organisation so many efforts are required.
   a. reward system
   b. ethical infrastructure
   c. ethical management
   d. effective leadership

3. Which of the following statements is true?
   a. Management makes real difference between success and failure, whether in a war, a business, games, family or society
   b. Leaders who are able to keep a balance between entrepreneurial skills and corporate citizenship are the ineffectual leaders of the new economy
   c. A managerial laws basically reflects an organisation’s primary values, norms beliefs and ethical rules of operations
   d. There are some techniques, procedures and steps by which a company can develop ethical corporate behaviour.

4. Which of the following reflects an organisation’s primary values, norms beliefs and ethical rules of operation?
   a. Values
   b. Code of ethics
   c. Ethical rules
   d. Leadership

5. ______________ must be framed to encourage ethical behaviour in any organisation and must be supported by top management.
   a. Values
   b. Ethical rules
   c. Codes of ethics
   d. Effective leadership

6. ______________ is “the ability to influence a group towards the achievements of goals.”
   a. Leadership
   b. Ethical behaviour
   c. Management
   d. Corporate behaviour
7. Which of the following statements is false?
   a. Effective leadership brings about order and consistency by drawing up formal plans, designing and monitoring results against plans.
   b. Leadership makes real difference between success and failure, whether in a war, a business, games, family or society.
   c. Leaders who are able to keep a balance between entrepreneurial skills and corporate citizenship are the effective leaders of the new economy.
   d. A code of ethics basically reflects an organisation’s primary values, norms beliefs and ethical rules of operations.

8. ___________ is about laying the foundations for the efficient and the ethical conduct of business.
   a. Ethical behaviour
   b. Effective leadership
   c. Ethical values
   d. Corporate behaviour

9. As we know motivation is having a great impact on employee’s behaviour so the best way to get people on ethical path is establishment of___________.
   a. reward system
   b. incentive system
   c. compensation
   d. salary system

10. Which of the following covers the areas of wages and working conditions, hiring and firing and employee privacy?
    a. Economic institutions towards employees
    b. Organisation towards employees
    c. Employee towards organisation
    d. Organisation towards other economic institutions
Chapter IV
Ethical Decision Making and Ethical Dilemmas

Aim
The aim of this chapter is to:

- explain the structure of ethical decision making
- explicate utilitarian criterias
- elucidate problems in ethical decision making

Objectives
The objectives of this chapter are to:

- enlist the guidelines for manager for ethical decision making
- enlist the salient features of ethical dilemma
- explain the concept of ethical dilemma

Learning outcome
At the end of this chapter, you will be able to:

- understand approaches to resolving ethical dilemma
- describe distributive justice criteria
- understand the methods of ethical reasoning
4.1 Introduction
As we all know that the real identity of a manager is to make decisions regularly and correctly. As Alvin Toffler says—“The very speed of change introduces a new element into management, forcing managers to make more and more decisions at a faster and faster pace. Now a days management simply has become the process of decision making. All the parts of management pass through decision making toward goal achievement like.

Management
- Planning
- Organising
- Leading
- Controlling

Decision Making

Goal Achievement

Whatever decision of any kind has been taken by any manager has some ethical implications.

4.2 Ethical Decisions (Individual/Community) in Organisation
Most people believe that when they work in group/community, it matters about who are ethical / unethical. They find that if they are ethical by themselves, they might be considered as ethical, or ethically poor or unethical by others. “Reinhold Niebuhr” (1932), a famous American Theologist, felt that ethical standard fails when individual work together in a group because their egoistic impulse gets compounded. There can be complex psychological reasons for varying levels of ethicality of groups”.

A typical characteristic of the functioning of a group or organisation is that each member has different role to perform. As they perform different functions with different responsibilities so they cannot be evaluated on same yard sticks. In short, we understand that ethical decision making is a very complex and difficult task. There cannot be a single standard or process which can be followed by each and every one at different stages in an organisation. As organisations are not simply mass of people working together but they are an ever present feature of human culture in which persons interact for objectives. The people who work in the organisations are the moral agents, they make collective decisions and act on them, they follow certain rules explicit / implicit, codes of conduct, regulations and their actions based on the followed behaviour can be subjected to ethical appraisal.
4.3 Structure of Ethical Decision Making

Following figure shows the structure of ethical decision making:

![Diagram of ethical decision making process]

4.4 Using Ethical Reasoning

An individual can use the following methods of ethical reasoning.

4.4.1 Utilitarian Criteria

This ethical concept was developed by England’s “Jermy Bentham” and ‘John Stuart Mill’. The goal of utilitarian is to provide greatest good for greatest number which is guided by the value, “Utility”. Decisions are purely made on the basis of their outcomes or consequences. “It attempted to make ethical evaluation precise by aggregating the happiness of everyone affected and deducting their unhappiness”. This is the guiding principle of modern decision making. To be on safer side decision makers choose utilitarian criteria which helps them to go for some important decisions like termination, closing down plants, laying off large number of employees, raising prices in the best interest of the organisation. Many people have contradictory view and they argue that perspective needs to change. Therefore further some more criteria have been developed to guide the decision makers to develop ethical standards based on non-utilitarian criteria.

4.4.2 Rights Criteria

The focal point of decision making process should be that Right Decisions should be consistent with fundamental rights and liberties as laid in the constitution like-right to speech, right to due process. For example, as whistle blowing is the latest phenomenon occurring in the modern corporate world of 21st century. So if decision makers use rights criteria, a good protection can be given to whistle blowers, when they blow the whistle against some wrong doers.
4.4.3 Distributive Justice Criteria
This ethical reasoning has been given by John Rawls (1971). It sees ‘justice’ value as a most likely outcome of an ethical process of decision making. The essential feature of this concept is transparency and full participation of those affected in the decision process. This requires individuals to impose and enforce rules fairly and impartially, so there is equitable distribution of benefits and costs.

4.4.4 Social Contract Criteria
It suggests that empirical and normative or what is and what ought to be must be combined. It integrates two contracts.
• General social contract among economic participants that defines the ground rules for doing business.
• A more specific contract among specific members of a community that covers acceptable ways of behaving, so when the managers have to determine what is right wrong they need to look at the existing ethical norms.

Studies have shown that utilitarian is consistent with objectives and goals like efficiency, productivity and high profits. But because of changing world of management, this opinion, perspective should also be changed. Now society demands to follow non-utilitarian criteria, managers must fix some ethical standards ‘Joseph Massie’ says that, “number of generally accepted virtues, such as happiness, lawfulness, consistency, integrity and loyalty, may be in specific situation conflict with one another”.

Thus managers typically face moral dilemmas in their decisions and actions. He has given two approaches to moral question:
• Natural law: This approach considers that certain ultimate values are matters of natural law. Under this view; certain actions are always wrong because they break some basic intuitive law.
• Situational law: To determine whether an action is right or wrong, it totally depends upon the situation in which the action occurs. This view holds that an action under one set of circumstances and in one environment would be right, whereas the same action under another set of circumstances and in another environment would be wrong. So far we have learned about ethical reasoning; again we come to the structure of decision making. As in general the most important factors which make the structure of decision making are :

![Fig. 4.2 Factors in decision making structure](image-url)

Ethical and unethical actions are largely a function of both the individual’s characteristics and the environment in which he works. The following model explains the ethical/unethical decision making behaviour:
Stage 1: Moral Development
The general belief is that a person’s values are formed during his childhood and do not change subsequently. The ability to deal with moral issues develops as they move through their lives. The process of examining one’s moral standards and of applying them to concrete situations includes two parts:

- A person’s ability to use and vertically evaluate his/her moral standards, which develops in the course of person’s life.
- Reasoning processes through which these moral standards are employed and evaluated. The highest one’s moral development is the less dependent he is on outside influence.

For example, managers with higher stage of moral development place increased values on the rights of others and regardless of majority’s opinion; they are likely to challenge organisation practices which they believe are personally wrong.

Stage 2: Organisation Environment
Whether the work ethics/organisation ethics align with personal ethics? Does the organisation encourage and support ethical behaviour by rewarding it or discourage unethical behaviour by punishing it? If an individual shows highly ethical behaviour at his end and if he finds blanks from organisation side, and no valuation of his ethicality, then gradually he will be demotivated towards following ethics. The other side of the coin is a new comer in an ethical organisation, though personally not so ethical, slowly moulds in the morally strong environment. Some examples of these kinds are — high moral behaviour by senior management, written codes of ethics, ethics training, performance appraisal, that evaluates every aspects, visible rewards and promotions to whom showing high moral and ethical behaviour, simultaneously visible punishment for those who act unethically. All these factors really foster high ethical decision making.

Stage 3: Locus of Control
Locus of control is a particular personality trait which measures the extent to which people believe they are self-responsible for the happenings and events in their lives.

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning— believes what happens to them in life is fully because of their own actions</td>
<td>Meaning— believes what happens to them is because of luck or chance</td>
</tr>
<tr>
<td>Consequences— believe in themselves; follow their own internal standards of right / wrong to guide the behaviour</td>
<td>Consequences— rely influence, less responsibilities.</td>
</tr>
</tbody>
</table>

Table 4.1 Locus of control
In short we say that people with strong moral sense, having internal locus of control, are more likely to make ethical decisions.

### 4.5 Problems in Ethical Decision Making

If we say or assure that unethical behaviour in organisation is just because of some wrong doers or some greedy people, some bad individuals who are always behind money, then some where we would be wrong. Now-a-days, people who look decent, who seem to be ethical, do involve in unethical practices, though they don’t think of doing anything illegal or immoral but they get backed into doing something unethical by systems and practices of their own firms. The sources of ethical problems are various and varied:

- Due to globalisation, as companies deal with other countries where cross cultural diversity issues arise. Managers working in MNC’S find it very difficult to standardise ethical standards as they do change as society change.
- Sometimes the decision makers do not follow what they must follow as they have conflict in individual values v/s organisational goals.
- Individual moral standards affect whole organisation decisions if they are morally strong, ethical decisions would be the outcomes.
- If the decision makers/managers/policy makers who are greedy, look for short cut routes to earn in earliest possible time, they have an upper hand on the moral values, therefore ethically the decision process would be corrupt.
- Competitive pressure is also the main cause which forces decision makers to choose such path where they have to kill their morals, values and move on unethical path just to cope up with the competition.
- Poor decisions without deep thinking of implications.
- Ambiguous situations create problem which put the manager in dilemma as to which decision they should make and follow.
- Pressures of budget systems

### 4.6 Guidelines for Manager for Ethical Decision Making

Following are the guidelines for manager:

**Individual codes of conduct**
Here we mean by a man’s personal code of ethics what one finds moral, right and ethical. He/she will choose that option.

**Industry ethical codes**
The ethical climate in the industry provides inspirational guidelines and a list of don’ts like

- Non deceptive ads
- Fair dealing with customers
- Safety measures
- Quality products

**Corporate code of ethics**
Companies own rules, values and beliefs guide managers to follow ethics path in decision making. If the decision makers understand the following process they would definitely follow ethics

Larger the organisation → Higher the ethical conduct → Result in great public image → Long term survival goodwill and high profits
4.7 Ethical Dilemma

When we talk of the problems arising in ethical decision making as discussed in last chapter, we refer to ethical dilemmas, situations in which business men face lots of choices and no clear cut right answer. Businessmen, decision makers do find dilemmas arising out of the eternal conflict between ends and the means. There are easy answers to ethical dilemmas. Some situations like whether to lie or not, stealing, cheating are easy to be answered but some situations in the practical field when there are so many choices, which seem equally arguable but represent a fake picture of neither clarity nor simplicity. Now let’s make this form clear that what ethical dilemmas actually are?

An ethical dilemma is hard to identify as it is very specific in nature and many situational factors are embedded in it. Ethical dilemma occurs in the type of situations when one has to choose between right v/s right sorts. Some great men have defined ethical dilemma as:

According to ‘Doug Wallace’— an ethical dilemma exists when one is faced with having to make a choice among following alternatives:

- Significant value conflict among differing interests
- Real alternatives those are equally justifiable
- Significant consequences on stakeholders in the situations.

According to ‘ Rushworth Kidder’—“In ethical dilemma the toughest choices are right versus right.” ‘P. Kidder’ says—“They are genuine dilemmas precisely because each side is firmly rooted in one of our basic, core values and such dilemmas are so common to our experience that they stand as models, patterns or paradigms,” they are:

- Truth versus loyalty
- Individual versus community
- Short term versus long term
- Justice versus mercy

In general’ we say ethical dilemmas are complex judgments on the balance between the economic performance and the social performance of an organisation.

4.8 Salient Features of Ethical Dilemma

An ethical dilemma is very specific in nature and having some special and salient features as follows:

- Outcome is uncertain: One can’t be sure about the consequences resulting from most ethical choices.
- Multiple choices and alternatives: Like ethical issues in which these are simply two choices ‘yes’ or ‘not’ here in ethical dilemma, situations are different decision makers find more than two alternatives which have to be considered.
- Mixed consequences: Ethical dilemmas and problems in management when solved the outcomes oppose to each other. One decision but considered as favourable by one party and unfavourable by another party, for example, a decision of termination of 10% workforce and increment in the salaries of remaining 90% workforce.
- Direct/indirect involvement: What will happen to particular situation in which people face ethical dilemma, one side one person is directly involved and on the other side another is just reviewing from distance and not directly involved, obviously ethical decision are more difficult to make when person, personally involved in it. For example, what would you do when your immediate boss wants from you to make false TA/DA bills and transfer the benefits to him? So would you follow him or blow the whistle against him? In both the cases you will be in problem.
- It is a general belief that ethical decisions reduce economic profits of the company but they don’t directly impact on manager’s salary or their other prospectus. So executives sometimes choose the path where profit margin might reduce, keeping themselves on safer sides. Thus to conclude we say that ethical dilemmas are very complex in nature. Selection of any one choice among several is quite difficult as well as risky.
4.9 Approaches and Methods of Resolving Ethical Dilemmas

In fact there are no easy ways, approaches, methods which help practically to resolve ethical dilemma. As the degree of complexity increase, the risk to choose and apply the approaches and methods will become more. There are some classical approaches and traditional methods developed in resolving ethical dilemmas explained as follows:

Fig. 4.4 Approaches to resolving ethical dilemma

**Utilitarian (end-based approach)**
The utilitarianism system was originated by the British thinker Jeremy Bentham (1748–1832). It aims at creating the greatest degree of benefits for the largest number of people. According to this system, a human conduct is considered as good if it results in benefits for society and bad if it generates harm to the society. In fact Utilitarianism is a special version of “Teleology”. Teleology emphasise mainly upon the outcomes of an individual’s action and not on the intent of the individual. That’s why it is called as “Consequentialism” or end based ethics.

**Universalism (rule based)**
The approach of universalism is based on the duties and obligations of an individual (Deontology). The moral worth on individual action should be judged by the intention of the person, not by the outcome of the action. It assumes that good intentions always result in good outcomes, ultimately if not immediately. ‘Immanuel Kant’ (1724–1804) proposed the “Categorical Imperative” — One should act only in ways that one would wish all others to act faced with the same set of circumstances, and also to treat others with dignity and respect. Everyone’s value is equal.

**Care-based approach**
You have to reserve the dilemma keeping in mind that you have an obligation to care for those with whom you have close relationship or who cares for you. You must care for them just to maintain a strong bond in the relationship but some great-men put some argument against it that it would create favouritism while working with those you have valuable relationship as well as it can degenerate into unjust favouritism and sacrifice of own needs to care for children, parents, spouse and friends with whom you have close relationships.

**Virtue Ethics**
‘Peter Partley’ says — “Virtue ethics can be represented as a mental construction with prudence. More exactly this metal construction has two ceilings – one is crowned by private prudence and the other by public prudence. The image describes how we can distinguish two sphere of excellence, public and private well being one should make every effort to gain a wider understanding of corporate private and social well being.” Or In general we say that when a person follows virtue ethics that means while performing any action he/ she should develop a morally virtuous character. Methods of resolving ethical dilemmas occur in organisation in different forms, framework and structure so single unique and standard method cannot be applied to resolve them. Each and every organisation has its own strategies, planned procedure for dealing with ethical dilemma. Generally a committee of top level managers is being setup to select suitable approach and method to solve ethical dilemma.
Summary

• A typical characteristic of the functioning of a group or organisation is that each member has different role to perform.
• Decisions are purely made on the basis of their outcomes or consequences.
• Ethical and unethical actions are largely a function of both the individual’s characteristics and the environment in which he works.
• An ethical dilemma is hard to identify as it is very specific in nature and many situational factors are embedded in it.
• There are no easy ways, approaches, methods which help practically to resolve ethical dilemma.
• Methods of resolving ethical dilemmas occur in organisation in different forms, framework and structure so single unique and standard method cannot be applied to resolve them.
• Each and every organisation has its own strategies, planned procedure for dealing with ethical dilemma.

Reference


Recommended Reading

• Machan, T. R. & Chesher, J. E., A Primer on Business Ethics.
Self Assessment

1. Which of the following ethical concept was developed by England’s “Jeremy Bentham” and ‘John Stuart Mill’?
   a. Utilitarian Criteria
   b. Distributive Justice Criteria
   c. Rights Criteria
   d. Social Contract Criteria

2. Which of the following Criteria suggests that empirical and normative or what is and what ought to be must be combined?
   a. Utilitarian Criteria
   b. Distributive Justice Criteria
   c. Rights Criteria
   d. Social Contract Criteria

3. Studies have shown that _____________ is consistent with objectives and goals like efficiency, productivity and high profits.
   a. utilitarian
   b. universalism
   c. teleology
   d. deontology

4. Under which of the following view; certain actions are always wrong because they break some basic intuitive law?
   a. Natural law
   b. Situational law
   c. Ethical law
   d. Utilitarian law

5. Which of the following statements is true?
   a. To determine whether an action is right or wrong, it totally depends upon the situation in which the action occurs.
   b. Decisions are purely made on the basis of the situations.
   c. There are many easy ways, approaches, methods which help practically to resolve ethical dilemma.
   d. Distributive justice criteria suggests that empirical and normative or what is and what ought to be must be combined.

6. _____________ actions are largely a function of both the individual’s characteristics and the environment in which manager works.
   a. Legal and illegal
   b. Ethical and unethical
   c. Normative and formative
   d. Authorised and unauthorised
7. An __________ is hard to identify as it is very specific in nature and many situational factors are embedded in it.
   a. ethical dilemma
   b. ethical decision
   c. ethical issue
   d. unethical dilemma

8. __________ occurs in the type of situations when one has to choose between right v/s right sorts.
   a. Ethical decision
   b. Ethical issue
   c. Unethical dilemma
   d. Ethical dilemma

9. Which of the following is not a feature of ethical dilemma?
   a. Outcome is uncertain
   b. Direct/indirect involvement
   c. Mixed consequences
   d. No choices and alternatives

10. Managers working in MNC’S find it very difficult to standardise __________ as they do change as society change.
    a. ethical standards
    b. ethical values
    c. ethical morals
    d. ethical principles
Chapter V
Corporate Social Responsibility

Aim
The aim of this chapter is to:

• define social responsibility
• explain social responsibility models
• elucidate developing stages of a firm

Objectives
The objectives of this chapter are to:

• enlist main social responsibilities of business organisation
• elucidate Carroll’s model of social responsibility
• explain Ackerman’s model of social responsibility

Learning outcome
At the end of this chapter, you will be able to:

• understand social responsibility models
• identify main social responsibilities of business organisation
• understand different models of social responsibility
5.1 Introduction
It can be said with confidence that business isn’t what it used to be. It is changing drastically as a result of major societal forces such as technological advances, globalisation, etc. Business depends upon society for the inputs like manpower, resources, money, etc. The very existence, survival and growth of any firm depend upon its acceptance by society and its environment. Business organisations have to earn social sanctions without which they will collapse and die out simultaneously as they exercise a remarkable influence on our socioeconomic life style, they must understand their responsiveness towards society. In this modern era, society is expecting much more from business than in the past.

Business firms are now no longer considered as economic institutions, they are now socio – economic institution where basic reason to exist is not merely earning profit. Though, profit making is the basic objective of any business and without it, it wouldn’t survive, but the concept of profitability has been changed. Now profit in terms of goodwill creditability and trust of society is more valuable than profit in terms of money or return on investments. The image of a company depends upon service and satisfaction of the people. The long term survival of a company is possible when a company does what is favourable to the society and in the interest of the customers, it serves.

5.2 Meaning and Definition of Social Responsibility
Corporate social responsibility is not a new buzzword. An organisation influence over employees, customers, partners, shareholders, the community and the environment cannot be overstated. CSR activities and programs are now quite an integral part of organisational objectives. ‘Keith Devis’ defined social responsibility as, “Social responsibilities refer to business man’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest”. Social responsibility is thus an obligation of decision makers to take actions which protects and improve the welfare of society as a whole along with their own interest. CSR is one of the prime focus areas of an organisation.

The benefits from all such efforts and endeavours the company shows in the development of society should trickle down to as many people as possible long back in 1963. Management guru Peter F. Drucker stated the relationship between organisation and society in his book ‘practice of management’ “is like the relationship between a ship and the sea which Ingrid’s it and carries, which threatens it with storms and ship wreck which has to be crossed but which is yet alien and distant, the environment rather than the home of the ship. But society is not just the environment of the enterprise.

Even the most private of private enterprises is an organ of society and serves a social function. “The responsibility of management in our society is not only for the enterprise itself, but for management’s public standing, its success and status, for the very future of our economy and social system and the survival of the enterprise as autonomous institutions. The public responsibilities of business must therefore underline all its behaviour. Basically it furnishes ethics of management. ‘L.N. Prasad in Principal and practices of management gave an operational definition of social responsibility “Social responsibility contends that management is responsible to the organisation to the organisation itself and to all the interest groups with which it interacts. Other interest groups such as workers, customers, creditors, suppliers, govt. And society in general are placed essentially equal with shareholders”.

5.3 Why Business should be Socially Responsible?
A common question regarding why business men should be socially responsible! What visible on invisible benefits they will enjoy being socially responsible? What differences they will generate with when who are socially irresponsible? Some genuine reasons are as follows:

5.3.1 Long Term Survival
If an organisation wants to survive in the long run, it has to establish a loyal brand of customers, repeat customers, etc. Suppose if they do harm to the society by their irresponsible conducts, society will not allow them to exit in the future.
5.3.2 Public Expectation
General public requires certain behaviour from organisation apart from quality products, fair prices, good services, etc. While doing the businesses they should not disturb any balance of society like (pollution, crimes, corruption, etc.)

5.3.3 Goodwill
As we know that goodwill cannot be begged or borrowed, it can be earned and it will happen when the organisations will understand and discharge their social responsibilities.

5.3.4 Government Laws and Regulations
Sometimes the government laws and regulations force the business organisation to behave in socially responsible manner to survive in long run.

5.3.5 Better Environment to Operate
If an organisation can improve the quality of life of customers, try to integrate private good and public good, more concentration on solving a particular problem of the society, automatically better it is able to solve its own problem and in better environment it will get to operate.

5.3.6 Keep the Balance (Give and take relationship)
Business organisation exists and operates with in society. As it takes so much from society, so it also owes something to the society. When business men understand the fact that they are social entities, without society’s approval they wouldn’t exist, they accept their responsibilities towards society and attempt to fulfil them.

5.4 Social Responsibilities Models
The interlink age of business and society by system approach is shown in the figure below.

![Social responsibilities models](image)

As from above representation it is clear that business is part of larger social system. Any business takes inputs from society, does its processing and provides the outputs to the same society. So the outputs must be acceptable as well as desirable to the society. So, the mutual understanding and interactions between society and business must be very sound. The contribution which business makes to society and vis-a-vis is very significant. So, if the outputs of the processing are not up to the satisfaction level of society, some preplanning must be done till the desired results
are accomplished. So we say business is not considered economic institution and should be considered as a social institution. To understand social responsibility technically some models have been developed by some great man. Some of which are presented as follows to make us understand each and every aspect of social responsibility.

Ackerman’s Model of Social Responsibility
Ackerman insists and suggest that the basic goal of any corporate entity should be social responsiveness. When firm decides to be socially responsible it has to pass some developing stages like:

![Fig. 5.2 Developing stages of a firm](image)

In the beginning of the process the top managers and decision makers must learn of an existing social problem. The key players generally are MD or CEO of the company. Once identification about the existing situation is over proper and adequate planning should be done for this it requires the firm must hire some specialist or consultant so there would be no loopholes in the planning stage. The most effective stage is to implement all the planning. Implementation should be of such a kind that it would become an integral part of daily operations. A true commitment throughout all the levels of organisations must be obtained.

Carroll’s Model of Social Responsibility
According to Carroll’s, there are four categories of social responsibilities of business:

- Economic responsibilities: The basic and primary responsibility of any business is to be economic. Producing goods and services to satisfy society’s needs and wants and generate profit by selling them.
- Legal responsibilities: Each and every business entity must operate within the law and legal frame work; these are considered as legal responsibilities.
- Ethical responsibilities: As in the earlier chapter the difference between ethics and laws already explained so here being ethical responsible means doing according to the expectations of society might be not codified in a law.
- Discretionary responsibilities: Discretionary responsibilities are steps forward of ethical responsibilities, in which firms go for voluntary actions to serve society. Society will not demand to be discretionary responsive, it is the firm’s willingness to contribute something in the welfareness of society.

Approaches to Social Responsibility
‘Gene Burton and Manab Thakur’ (Management today) have provided some social responsibilities strategies which explained a ladder of degree of social responsibility.
• Social opposition: When businesses opposing the society by feeling or showing no obligations towards it, it is called social opposition. If while doing any unethical act they are being caught, they make themselves safe by denying it or some other practices like bribery.
• Social obligation: The firms in this category believe that as they are operating in society so it is their duty to do business in the legal boundaries.
• Social response: The firms in this degree do little more than social obligations. They realise that merely fulfilling legal requirements are not sufficient right now. So they go beyond, towards ethically conduct of business.
• Social contribution: The firms which contribute themselves to social development fall in this category. It is the top most steps on the ladder of socially responsiveness. They do their business via fully dedication and committed to society.

5.5 Main Social Responsibilities of Business Organisation

Though the list of social responsibilities should be discharged by business organisations is a long one yet some major responsibilities which cover all the basic parts are as follows:

Responsibility to make profit
The basic objective of any business should be to earn profit. As a loss making organisation cannot produce quality products, cannot fulfil its commitments, cannot generate revenue for share holders, etc. So, organisations have a social responsibility to be profitable, and then only it will be able to meet its social obligations and expectation.

Responsibility to generate employment
Every business must provide fair opportunities to all the people. They must create the conditions and situations which help the employees to put forward their best efforts to achieve organisations goals.

Responsibility of optimum utilisation of resources
Each organisation must understand that it has some moral obligations to utilise the scarce national resources of the country in an optimum way, not to waste, damage or mis-utilise of the resources.

Responsibility to provide quality products
Providing quality products at fair prices is one of the important social responsibilities. If the service given by the product meets with the customer expectations and also they find products are available at fair prices, they will feel satisfied.

Responsibility to protect the environment
Protection of the environment is equally important as other responsibilities. Business organisations are the responsible corporate citizens so they must take serious and responsible steps to protect the environment and keep it in a healthy condition.
Responsibility to provide quality of life
Quality of life is one’s internal growth, growth of character, mind and soul and enriched life. So business firms should provide opportunities to its employees as well as to society to enrich their lives and better quality of life.

Responsibility to safeguard the health
Safeguard the health and physical safety of consumers as well as employees become as vital area to be cared by the organisations. This becomes more serious with drug and cosmetic companies. They must take adequate care to check and safeguard consumer’s health and well being.

Fair trade practices
If business firms are showing socially responsible behaviour they must go for fair trade practices some of which like – not making false advertisements, avoid monopolistic trade practices, not go for artificial scarcity, not bribing public servants, quality products, fair prices, provide timely and accurate information to its stakeholders, etc.

Responsibility to development of nation
If companies are involved in international businesses, they must contribute their effort towards development of their country by earning foreign currency, earning goodwill and reputation in global market, make good relationship among nations, etc.

Responsibility to fulfil all duties and national obligation
As corporate citizen, business firms are required to fulfil certain obligations under various laws and to perform certain duties. They must operate their business within the boundaries of legal framework provided by govt. They must contribute to national prosperity and try to reduce some national problems like corruption, unemployment, etc.

5.6 Corporate Social Responsibility and India
Corporate social responsibility activities and programmes are now quite an integral part of organisational objectives. In the last 14 years since liberalisation Indian companies has come to terms with CSR and its wider implication. Whether we talk about private sector or public sector most of all have accepted social responsibility of business as part and parcel of their economic activities. Some of the PSU (Public Sector Undertakings) have been more active in the field of CSR. OIL (Oil India Ltd.) is one company among them. It is an Indian oil drilling company which is associated with community and society development, by providing low-cost housing, building Schools and Colleges offering monetary help to financially weaker students, etc.

NTPC (National thermal power corporation) is the first PSU in the country to have developed a comprehensive R and R policy, while even the Government of India has been still working on a national policy. It’s also one of the rare Indian organisations to have a clearly articulated corporate social responsibility policy. The main CSR policies of NTPC are:
- To lead the sector in the areas of resettlement and rehabilitation and environment protection including effective ash-utilisation, peripheral development and energy conservation practices.
- To continuously attract and develop competent and committed human resources to match standards.
- 0.5% of its profits are set aside for community development measures under the umbrella of CSR.

To contribute to sustainable power development by discharging CSR, Indian private companies are also showing their brilliant efforts in CSR activities. We start with Tata group of companies whose belief is shaping a society with social purposes, Jamshedji Tata, the founder of Tata group and his sons believed that the real purpose of industry was to go beyond the creation of wealth to the building of a new society through the proper allocation of that wealth. It was from this vision Tata institute of social science was born. JRD Tata conducted his business in a very socially responsible way. He wanted to bring an industrial revolution to an economically back ward India. The very specific goals of JRD Tata at that time were to establish a hydro electric power project at Bombay as a cheap source of energy, the steel industry at Jamshedpur and Indian institute of science at Bangalore to provide technical education.
Summary

- Business firms are now no longer considered as economic institutions, they are now socio-economic institutions where basic reason to exist is not merely earning profit.
- Social responsibilities refer to business man’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest.
- Social responsibility is thus an obligation of decision makers to take actions which protects and improve the welfare of society as a whole along with their own interest.
- Discretionary responsibilities are steps forward of ethical responsibilities, in which firms go for voluntary actions to serve society.
- If business firms are showing socially responsible behaviour they must go for fair trade practices some of which like – not making false advertisements, avoid monopolistic trade practices, not go for artificial scarcity, not bribing public servants, quality products, fair prices, provide timely and accurate information to its stakeholders.
- Corporate social responsibility activities and programmes are now quite an integral part of organisational objectives.
- As corporate citizen, business firms are required to fulfil certain obligations under various laws and to perform certain duties.

References


Recommended Reading

**Self Assessment**

1. Business firms are now no longer considered as ________ institutions, they are now socio-economic institutions where basic reason to exist is not merely earning profit.
   a. economic
   b. social
   c. fiscal
   d. financial

2. Which of the following statements is true?
   a. The image of a company depends upon service and satisfaction of the people.
   b. Providing quality products at fair prices is one of the important personal responsibilities.
   c. Corporate social responsibility activities and programmes are now quite an integral part of departmental objectives.
   d. Discretionary responsibilities are steps forward of unethical responsibilities, in which firms go for voluntary actions to serve society

3. Now profit in terms of goodwill creditability and trust of society is more valuable than profit in terms of money or __________.
   a. return on investments
   b. investment on time
   c. assets
   d. income

4. Which of the following statements is true?
   a. An influence of employees, customers, partners, shareholders, the community and the environment over the organisation can be overstated.
   b. An influence of employees, customers, partners, shareholders, the community and the environment over the organisation cannot be overstated.
   c. An organisation influence over employees, customers, partners, shareholders, the community and the environment can be overstated
   d. An organisation influence over employees, customers, partners, shareholders, the community and the environment cannot be overstated.

5. ____________ refer to business man’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest.
   a. Economic responsibilities
   b. Social responsibilities
   c. Financial responsibilities
   d. Socio-economic responsibilities

6. Sometimes the ____________ laws and regulations force the business organisation to behave in socially responsible manner to survive in long run.
   a. government
   b. state
   c. foreign
   d. international
7. Which of the following statements is false?
   a. Any business takes inputs from industry, does its processing and provides the outputs to the same society.
   b. Any business takes inputs from society, does its processing and provides the outputs to the same society.
   c. Corporate social responsibility activities and programmes are now quite an integral part of organisational objectives.
   d. Social responsibilities refer to business man’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest.

8. ____________ insists and suggest that the basic goal of any corporate entity should be social responsiveness.
   a. Gene Burton
   b. Manab Thakur
   c. Peter F. Drucker
   d. Ackerman

9. ____________ responsibilities are steps forward of ethical responsibilities, in which firms go for voluntary actions to serve society.
   a. Mandatory
   b. Discretionary
   c. Corporate
   d. Social

10. ____________ social responsibility activities and programmes are now quite an integral part of organisational objectives.
    a. Corporate
    b. Commercial
    c. Economical
    d. Cultural
Chapter VI

Corporate Governance

Aim

The aim of this chapter is to:

• define corporate governance
• explain how to achieve good corporate governance
• elucidate professionalisation of corporate governance

Objectives

The objectives of this chapter are to:

• enlist the issues of corporate governance
• explain the factors behind the origin of corporate governance
• explain the ways of reforming corporate governance

Learning outcome

At the end of this chapter, you will be able to:

• understand corporate governance
• identify the ways of reforming corporate governance
• understand how to achieve good corporate governance
6.1 Introduction

Corporate means legally united into a body so as to act as an individual and governance is not but the dissection or control. So, corporate plus governance is equal to corporate governance is nothing but the way by which corporation are controlled and directed. As corporation brings together different groups like employees, suppliers, customers, invertors, government to carry out the business conduct these entire group interact, corporate, contribute with each other. They are vital for the existence, survival and growth of the business. So corporations should be operated for the benefits of all these stakeholders (customers, employees, suppliers, society, govt., investor, etc.) A single business entity and involvement of such multiple groups, it means brilliant governance is required. Here we are not talking about managing or ownership, the need is for governing which is different from merely ownership. The term ‘corporate governance’ refers to the guidelines, procedures, rules for decision making, means of achieving targets on corporate affairs. It also suggests how to monitor the performance.

‘Sir Adrian Cadbury’ has defined corporate governance as– “corporate governance basically has to do with power and accountability; who exercise power, on behalf of whom and how the exercise of power is controlled.” A great man says about it like,– “corporate governance is a conscious, deliberate and sustained efforts on the part of corporate entity to strike a judicious balance between its own interest and the interest of various constituents on the environment in which it is operating”.

6.2 Historical Background

The origin of corporate governance took place in the U.K. in 1990. Some recommendations had been given by a committee headed by Sir, Adrian Cadbury in corporate governance. He had explained the basic and primary factors, drives behind corporate governance in the U.K. like:

- The majority of shares were from Institutions rather than individuals. Institutional investors like pension funds owned big amount of capital which represent the savings and pensions of lakhs of people so if the company is not being managed well the needy people would be in trouble.
- As global operations were speeded up, it came up as a tool to attract foreign investment.
- Because of competitive pressure, the no. Of fraud cases, falsify accounts and unethical practices were increasing.
- It was thought that the companies would undermine the social, ethical and environmental concern in the era of privatisation. If we move in flashback, around 1990s in India a quite similar situations were developing under three major happenings:
  - Liberalisation
  - Privatisation
  - Globalisation

6.3 Factors Behind the Origin of Corporate Governance

In today’s changing face of corporate world, a proper balance between people’s aspiration and business demands could be achieved with the implementation of good corporate governance that give presence to the human element in the organisations, mainly focus on people centered policies. The philosophy of corporate governance aims not only for achieving business goods but also to maintain the sustainability in profit and human values. In the cutthroat competitive world, global firms have to evolve with innovative strategies aimed at staking their claims in the increased pool of profits, bringing values to the contribution of the share holders, suppliers, employees of the firm and customers.

Now a days, so many companies have established elaborate systems, well defined structures, highlighting their practices of corporate governance in annual publishing for these rapid changes and there are some special reasons like:

- In the globalisation era, where expansion, innovation diversification of the business is going on very fast. Foreign investors have become very careful about investing their money. So, to attract foreign investment more and more and to rise capital in International Market, you need a sound practice of corporate governance.
Government of India has also implemented strict rules and laws to be followed, like Kumar Mangalam Birla committee appointed by SEBI, some professional CII Codes, etc.

The number of institutional investors has increased so there is a felt need to safeguard their interest.

The increasing active rate of investigating reporting in business journalism.

Number of International events (like joint ventures, mergers, takeovers) in the wake of globalisation is taking place so it is required that proper corporate governance practices should be followed.

### 6.4 Important Issues of Corporate Governance

The major issues related to corporate governance are:

- Social responsibility
- Multiple, divergent expectations of shareholders
- Only economic obligations or social and environmental obligations are also important for organisations.
- Fair business deals, corruption

### 6.5 Corporate Governance in India

The corporate world in India can be divided into two parts:

- Private sector
- Public sector

So, to understand the corporate governance practices in India we have to learn about the sector’s structure, categories of shareholders, their working patterns, etc.

**Private sector**

In India, for private sectors, the broad categories of shareholders are:

- Promoters
- Financial institutions
- Individual investors

All these three categories are equally important and any private enterprise’s board comprises of three types of directors as follows:

- Promoter director: Called as functional director and belong from promoter group.
- Professional director: A category of directors who are invited by promoter group on the basis of favourable personal equation.
- Institutionally nominated: These positions are fulfilled by senior executives or person of good image and reputation.

For electing the directors, typically in India, we follow majority rule voting system. The role of institutional investors is very limited, they support the promoters. They only make their interference when crisis occurs or they find any malafide behaviour on the part of management. In our country we find there are some private banks like ICICI, UTI or IDBI, which frequently guide advice and sometimes force the companies to undertake restructuring initiatives aimed at protecting the interest of institutional investors. In India, so corporate governance in private sector is characterised as ‘entrenched system’ given the firm hold of the promoters over the companies managed by them.

**Public sector**

The firms, companies where equity shares are owned wholly (51% or more) by government of India (in the name of the president of India) are in the category of public sector or we name them PSU’S (Public sector undertakings) the board of public sector, has been appointed by the controlling administrative ministry for all practical purpose.
Mainly we divide the board in 3 parts.

- **Functional directors**: Functional directors are the full time employees of the PSUS.
- **Govt. Directors**: They are the bureaucrats from different controlling administrative ministry
- **Outside directors**: If we compare the working procedures and styles between private sectors and PSUS, we find public sector is far behind than private sector.

Bureaucratic and political influence is embedded in the roots of management of PSU’S, such that autonomy is often eroded. Delegations of power authority, freedom to take decisions are generally not present in PSU’S environment. Therefore many administrative guidelines, regulations are present in day to day working, that are subject to the CAG audit (controller and auditor general) and also they are accountable to the parliament which leads to an excessive emphasis on observing rules, regulations and guidelines. The most important thing which makes PSU’s weak, less effective is the short tenure of chief executive of public sector undertakings. They generally are appointed for one to five years. So, it is very rare to find a visionary leader, guiding the destiny of a PSU with a long planning horizon. The consequence of such a short tenure with limited freedom is the myopic outlooks of CEO’s. They involve only in fulfilling the short term targets and completing the terms and conditions of memorandum of understanding (MOU). All these lead to low compensation level, poor incentives, soft performance standards and weak accountability.

### 6.6 Professionalisation of Corporate Governance

As the above discussion makes it clear to India that the standards of corporate governance are not up to mark; there is a pressing need for reforms. Some ways of reforming corporate governance in practice that have been developed are as follows.

#### 6.6.1 Distinguish Management from Control

The Cadbury committee report say, “The board should retain full and effective control over the company and monitor the executive management”. It means that there must be a separation between control and management. Eugene Fama and Michel Jensen suggest four distinguished components under management and control. Control Management-

- **Ratification** (Proposals developed in the initiations stage are evaluated, if suitable, and then approved).
- **Monitoring** (Assessment of executive’s performance and implementation of proper reward system).
- **Initiation** (Proposals for resources developed)
- **Implementation** (execution of proposals)

It is advisable that CEO and his team should handle all the functions of management, and the function of control should be under Board of directors. If any firm wants the quality of all four functions mentioned above, then separation is a must, so that the dual responsibility of CEO and chairman would be handled fairly. But if in unavoidable situation to combine the role of chairman and MD/CEO, then the board comprising non executive directors must be very strong.

#### 6.6.2 Active Role of Institutional

Investors in the reforming practices of corporate governance, to strengthen the hands of institutional investors will contribute effectively. As we talk about small investors or individual investors with small stake, they cannot play more active role because of ‘free rider’ problem. But the institutional investors can contribute highly towards improvement in corporate governance, as they have higher stake, ‘Michel Porter’ says– “Seek long term owners and give them a direct voice in governance a smaller number of long term or nearly permanent owners, thus creating a hybrid structure of ‘Privately held’ and publicly traded companies”. In this context it must be realised that financial Institutions must play a more active role than they do. Because of lack of incentives within the FIS, they don’t show their effectiveness, there is a need to first improve their own governance and then turn up in better institutional investors.

#### 6.6.3 Expand the Role of Non-executive Directions

To improve the quality of corporate governance, the role of non-executive directors must be enlarged because non executive directors can provide rich experience and good objectivity in monitoring corporate behaviour. CII (Confederation of Indian Industry) has recommended code of corporate governance which is related with non executive directors like:
Business Ethics and Environment

- Non-executive directors should occupy at least 30% of the board seats.
- There must be a limit to the number of board on which a person can serve, CII has given the number is 10.
- An audit committee, having at least three nonexecutive directors must be set up and given access to all the information.
- The degree of accountability must be higher than at present.
- All the non-executive directors must be compensated well for their time and efforts.

6.6.4 Proper and Timely Information to the Board

It must be ensured that the Board is information-wise well-equipped. The board of directors should get full information about long-term plans, budgets, competitive developments, quarterly results, etc. If the entire information about each and every corporate affair is easily accessible to BOD’s, it would be quite easier for them to exercise the oversight functions.

6.6.5 Size of the Board

There is also kind of confession regarding the size of the board. ‘Lipton and Loesch ‘have done some excellent research work and provided the result with optimum size of the board is 10-12. If board is very long, it would be less effective as the main problem of co-ordination would occur, ordinarily the board should comprise of seven members. More over if we want competent, involved, accountable and well paid directions we have to limit the size of the board.

6.6.6 Improve Accounting and Reporting Practices

Accounting reports are the important means of information for the shareholders, creditors and investors of any company. We see in India, after the involvement of SEBI in corporate governance some improvement in corporate accounting and reporting practices has been seen, but still informed observer believe several reforms, improvement are required like :

- Business line reporting: Business line reporting says that the financiers should get integrated information about the profitability of different diversions of a single company. So it should be provided by the companies in line with the practice in developed capital market.
- Group accounting: The International accounting standards classify investor companies in three categories.
  - Subsidiary companies
  - Jointly controlled companies
  - Associate companies
- Therefore it is required that firms prescribe different accounting reporting treatments for these investments to reflect their financial implications. But in India, at present we have just one accounting standard (AS-13) which classify investment in short term and long term and value them at fair market value. So Now Indian accounting practice should also follow these practices.
- Tax effect accounting: It eliminates the effects of timing differences in tax liability while arriving at reported earnings. As in India we find companies account for taxes as and when they are payable so it is difficult to calculate reported earnings.
- Earnings per share reporting: EPS is a very commonly used term in stock market analysis but in Indian market there are no accounting standards prescribed for compiling EPS, no uniformity in the ways EPS is computed. But as we know that the practical significance of EPS is great, it is essential to formulate sound standards to calculate and report EPS in India.

Apart from the ways of reforming corporate governance there are some other ways like enhance contestability, link managerial compensation to performance, introduce the cumulative voting system also help management and Govt. To professionalise corporate governance practices. We are seeing some development in corporate governance.
6.7 How to Achieve Good Corporate Governance?

In the new millennium, the stake for corporate, wrong-doers has been raised dramatically. Big corporate accounting scandals like Enron, Tyco and world.com have shown the failure of financial accounting system, Corruption and weak corporate governance. Most of the organisations have been found unable to keep pace with the complexity of this modern IT era. The structural factors contributing to this accounting crisis are like lack of financial transparency, fragmented business process, complex accounting practices hold down the visibility of internal and external stakeholders and company’s financial health. As the corporations are realising the role of good corporate governance in the success of their business, they have started taking steps in improving the imbalance.

According to a recent information week survey reflect 70% of the companies are using technology tools to get accuracy in financial and accounting matters. But this much is not enough; they have to build a culture of integrity and responsibility among employees, monitor performance, proper communication. With investors, enforcement of strict code of conduct to control so that the accounting scandals like Enron would not take birth. The recent research findings conducted by Mc-Kinsey assure that all kinds of investors around the globe will pay a premium for share in the companies where standards of corporate governance would be high. In-fact Indian companies also have a golden opportunity to become first movers and market leaders by investing in corporate integrity and regaining the trust of investors. ‘ANAO’ (The Australia’s national audit office) suggests five key operating principles that demonstrate different dimensions of corporate governance which are

Leadership
The basic fundamentals of effective corporate governance are leadership and direction. The CEO, M.D. other executive and non-executive director with good leadership styles, brilliant communication skills provide set of governance principles, balance and check the correct operations which are required by corporate governance.

Management environment
Placing the principles to suggest the working is the basic function of management environment. The main focus is on to establish structures to support the achievements of corporate objectives which include following:

- Sound business planning and setting clear objectives
- Yardsticks for performance measures, evaluating performance appropriate feedback.
- Clear cut division of work and responsibilities.
- Establish an ethical frame work.
- Ensure right decision about the work force (right person for right job)

Risk management
Here risk management is not simply managing the risks which could present hindrance in achieving business objectives, but it includes some other diverse activities such as professional development, review of operating performance, the effective use of IT, adhering to appropriate delegations and disaster recovery plans.

Monitoring
Monitoring the quality of systems, from time to time is necessary to ensure that the systems, plans and procedures are operating effectively. With the help of proper and timely monitoring you can identify best practices, also you can defect the areas where improvement can be made. For this purpose the structure may have audit committees, internal audit units, system Appraisal and control self assessment.

Accountability
How much accountable the working system is can be measured by effective internal and external reporting on conformance and performance against the set objectives. The key document providing the reporting framework is the corporate plan. The system prepares an accountability frame work which holds key accountability in areas like planning, staff management, budget management, reporting and corporate governance.
Summary

- Corporate means legally united into a body so as to act as an individual and governance is not but the dissection or control.
- ‘Sir Adrian Cadbury’ has defined corporate governance as—“corporate governance basically has to do with power and accountability; who exercise power, on behalf of whom and how the exercise of power is controlled.
- The origin of corporate governance took place in the U.K. in 1990.
- To improve the quality of corporate governance, the role of non-executive directors must be enlarged because non executive directors can provide rich experience and good objectivity in monitoring corporate behaviour.
- The board of directors should get full information about long-term plans, budgets, competitive developments, quarterly results, etc.
- Accounting reports are the important means of information for the shareholders, creditors and investors of any company.

Reference


Recommended Reading

1. Which of the following means legally united into a body so as to act as an individual and governance is not but the dissection or control.
   a. Government
   b. Corporate
   c. Union
   d. Board

2. Which of the following is one of the major issues related to corporate governance?
   a. Social responsibility
   b. Incentive system
   c. Globalisation
   d. Privatisation

3. The origin of corporate governance took place in the U.K. in _____.
   a. 1980
   b. 1970
   c. 1990
   d. 1960

4. Which one of the following is not among the International accounting standards classify investor companies?
   a. Subsidiary companies
   b. Jointly controlled companies
   c. Associate companies
   d. Private limited companies

5. Which one of the following eliminates the effects of timing differences in tax liability while arriving at reported earnings?
   a. Revenue effect accounting
   b. Income effect accounting
   c. Tax effect accounting
   d. Cost effect accounting

6. What does EPS stands for?
   a. Earning Per Sector
   b. Earning Per Share
   c. Efficiency Per Sector
   d. Equity Per Sector

7. Which of the following are the important means of information for the shareholders, creditors and investors of any company?
   a. Investment Reports
   b. Annual Earning Reports
   c. Employment Data Reports
   d. Accounting Reports
8. The ___________ should get full information about long-term plans, budgets, competitive developments, quarterly results, etc.
   a. board of directors
   b. shareholders
   c. customers
   d. government

9. According to research done by ‘Lipton and Loesch’ the optimum size of the board is _____.
   a. 8-9
   b. 10-12
   c. 13-15
   d. 7-8

10. ___________ says that the financiers should get integrated information about the profitability of different diversions of a single company.
    a. Tax effect accounting
    b. Business line reporting
    c. Accounting report
    d. Earning report
Chapter VII
Ethics in Different Management Practices

Aim
The aim of this chapter is to:
• explain ethics in marketing
• explain ethics in finance
• elucidate ethics in human resource management

Objectives
The objectives of this chapter are to:
• enlist the factors behind ethical practices
• explain ethics in pricing
• explain ethics in job design

Learning outcome
At the end of this chapter, you will be able to:
• understand ethics in wages and salary administration
• identify ethics in performance evaluation
• understand ethics in training and development
7.1 Ethics in Marketing – An Introduction

Marketing is the task of creating, promoting and delivering goods and services to consumers and businesses. According to American Marketing Association, “Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goods”. Or Marketing is a societal process by which individuals group structure procure that they need or want freely exchanging goods and services value of it. A number of distinct functions comes under it like:

- Product development
- Distribution
- Pricing
- Promotion
- Sales

Now the question arises why should marketers worry about ethics? What role do the moral values play in an economic system? Is it the need of the hour to be ethical while marketing? Is it the competitive pressure/legal laws which force them to consider ethics in marketing or they have realised that in the changing climate of consumerism, they have to adopt ethical view to understand and meet the need of 21st Century customers.

Ethics in marketing is not all together a different concept or it is not performing marketing with a different concept/style but simply—“It is the function and process of marketing keeping to the standard norms of it and achieving the ends through a sound means”. As we know that the focal point of ethics is ‘normative’ (‘what ought’ to be) rather than ‘what is’. Though, the ideal situations may vary from group to group and from time to time. Therefore, the marketers who wish to avoid criticism from competitors, customers, Govt., other stake holders must follow some ethics.

7.2 Common Unethical Practices

Let us see these practices under 4P’s of marketing mix

<table>
<thead>
<tr>
<th>Product</th>
<th>Price</th>
<th>Place</th>
<th>Promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Promotion</td>
<td>List price</td>
<td>Channels</td>
<td>Sales</td>
</tr>
<tr>
<td>Features</td>
<td>Discount</td>
<td>Locations</td>
<td>Advertising</td>
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<tr>
<td>Warranty</td>
<td>Credit terms</td>
<td>Inventory</td>
<td>Public relation</td>
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<td>Brand name marketing</td>
<td>Payment-period</td>
<td>Transportation</td>
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<td>Packaging</td>
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<td>Design</td>
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</table>

Table 7.1 Unethical practices and 4P’s of marketing mix

Therefore the common unethical practices are:

- Duplication of original brands
- Inadequacy and insufficiency in warranty offering time and service
- Not producing quality product
- Question mark on products safety
- Unauthorised manufacturing of hazardous products
- Production of non bio-degenerate plastic products which causes environmental pollution
- Discrimination in pricing
- Differentiation in pricing
- Excessive mark up prices
- Misleading and deceptive advertisement
- False promises
- Lower the dignity of women
- No fairness, transparency in relations with suppliers and retailer
- Artificial scarcity

This is an established fact that the right action is the one which produces the good results for the most people in specific situation. This can be a useful guide to develop and form marketing ethics.

### 7.3 Factors behind Ethical Practices

If the marketers want to run their business successfully in the long term, they must behave ethically; there are some crucial and pragmatic reasons which give backing to the application of ethical standards in marketing area like:

- **To collect the power by society:** Society gives the power to marketers, which they earn by their own efforts and influence so they should utilise their power in socially responsible and acceptable manner, otherwise they might lose it.

- **Good will of the organisation:** Now-a-day image, goodwill, reputations is big asset for any organisation. As marketing executives represent whole organisation and on the basis of contacts with them, society builds up the image of such company so they should be highly ethical and carry out the business in a dignified manner.

- **Government regulations:** To avoid more government regulations they should become self regulatory by living up to the ethical mark up.

- **Build up transparency:** As unethical practices like misleading ads, low quality products, misleading package labels, etc. Are spreading rapidly, buyers become more suspicious while buying, therefore the big marketers and business leaders must take them into confidence by keeping high levels of transparency, convince the public that they are aware of their social responsibility and they will fulfil it because without society business cannot survive. As it is absolutely clear from the above discussion that ethical behaviour shown by the marketers is the need of the hour, still unethical practice are seen here and there and again there are some weighted reasons such as:
  - People used to consider ethics and profits to be inconsistent and to some extent contradictory to each other. Though this concept is losing its effectiveness in 21st century scenario but still there is quite often little likelihood of immediate economic return to be more ethical than your competitor. All business men are bound to follow certain laws which we say the smallest part of ethics, now if we decide to be more ethical in the market than others whether we are going to get profit or loss?
  - The existing environment in particular industry firms may sometimes be dominant and influence the executives to behave in that particular prevailing practice.
  - Acute competition: To cope with acute competition in the market and survive, marketers may practice unethical marketing.

### 7.4 Marketing Ethics-Important Issues

Marketing ethics can be best understood in the light of its all marketing mix-product, price, place, promotion and people.

#### 7.4.1 Ethical Product

Product is the first and fore-most important element of marketing mix. A product is anything that can be offered to a market to satisfy need or want. The producers know more about the product than the buyer, so he should be extra careful as not to break the trust of the buyer. Chonko (1995) has given some conditions which should be considered while product development.
Initiation of the idea: Who’s creativity, is involved behind the idea to develop the product?

Planning and screening of product design: Which criteria the firm follows—only profitability and not safety utility or keeping a balance between profitability and safety-welfare? This stage depends upon the status of the in-company investments. The moment when the economics of scale are achieved, the company shows more concern for utility and safety of the product.

Development of the product: If little attention is paid to the way consumers would actually use the products, the marketers must be ready to bear the consequences of failure of the product so the crux of marketing ethics says that extra precautions are required in product development and evaluation.

Marketing strategy: Which kind of marketing strategy should be adopted? How much strong is the product to face the competition? Are extra efforts needed in marketing strategy to compensate some of its weak points? Or do you think you should be honest about its weak points? As the very success of any product depends upon its marketing strategy so it is required to answer all the above questions before adopting any one.

Introducing the product in the market: Should the company go for test marketing? What should be the sample size then? Should the company be transparent about its policies and strategies? Are they aware of the risks?

Decline stage: How the company should react in product decline stage? Should they go for some fair treatment try to overcome with decline stage? Do the companies follow pushing strategy to push the product by devious means, once a letter product is available in the market?

7.4.2 Ethics in Pricing

Price is a critical element of marketing mix which produces revenue. It communicates to the market the company’s intended value positioning of its product or brand. A firm must set a price for the first time when it develops a new product or when it introduces its regular product into new distribution channel. Companies generally do not go for a single price rather a price structure that has some variations according to purchase timing, order levels, geographical demands, and market segment requirements like:

- Price discounts
- Discriminatory pricing
- Geographical pricing

At this stage ethics comes into the picture. Here four major areas are most common in which unethical practices in pricing may occur:

Price discrimination: It occurs when a company sells a product/service at two or more prices that do not reflect proportional differences in costs but it becomes illegal when seller offers different price terms to different people within the same group.

Predatory pricing: Selling below the cost when just having the intention to destroy competition.

Deceptive pricing: Deceive the customers to show them the wrong picture about the prices either by:
- Low price offer
- Inflated price

Price fixation: Prices are fixed at certain levels by firms either by:
- Horizontal price fixing – To fix the prices at artificially high levels.
- Vertical price fixing – Price fixing agreements between manufacturers and retailers or between manufactures and distributions. It says that product will be sold at the manufacturer’s suggested price and will not be discounted by the retailer or wholesaler.

Here the concept of distributive justice given by (John Rawl’s) can be applied as we say if unique universal pricing is established, then it would be against the distributive justice. On the other hand if a favourable price is providing towards the weaker section, though it would be a sort of discrimination but this would provide a desired justice to the weaker segment of society and this would be anywhere consider as ethical.
7.4.3 Ethical Promotion
Promotion plays an important role in marketing of any product/Service. It would come up with perfect outcomes only if the perfect means would have been adopted. Promotional mix consists of sales promotion, advertising, sales force, public relation, direct mail, etc. Promotional claims must be of such type that the reality of the company and its standard must match. Symmetry of information between the buyer and seller is an essential prerequisite for the ethicality of market system. Unethical promotions are those where the company’s offer varies significantly from its claims.

Ethical issues in advertising
Advertising is multi dimensional. It is a form of mass communication, a powerful marketing tool, a component of the economic system, a social institution, an art form, an instrument of business management, a field of employment and a profession or Advertising can be defined as any paid form of non-personal presentation of ideas, goods and services by an identified sponsor. As earlier mentioned, ethics is a choice between right and wrong, good or bad. It is governed by a set of principles of moralities at a given time, at a given place.

Ethics is related to group behaviour in ultimate analysis. Advertising too has ethical values. Advertising communication is a mixed form of arts and facts. In order to be customer oriented an advertisement will have to be truthful and ethical. It should not mislead the consumers. If so happens the credibility is lost. Advertisement’s truth is to be judged and viewed from the consumer’s point of view, not in the narrow legalistic frame work. As we can say that in advertisement filed, it is very difficult to establish a clear line of demarcation between what is true and what is untrue. Advertisement is judged by its impact, by its acceptance, by the consumers, what it promises to provide must be actually there in the performance of products. As advertising is a social process, it must honour time tested norms of social behaviour and should not affront our moral sense.

Advertising play two important functions:
Economic functions: The very basic function of all the advertisements is to promote any product/service by its unique strategies. So the advertisement agencies must accomplish all the ad’s by:
• Communicating to right people
• Communicating right message
• Put across through brilliant and persuasive language
• Not only marketing the products but introducing and spreading corporate ethos and corporate philosophy

Social functions: Advertising must reflect the cultural values of that society as ads have affected not only the core cultural values but successful advertisement are consistent with society cultural values. It can transfer some cultural values of one society to another at a given point of time.

7.4.4 Ethics in Channel
How to place your products and services cannot be overlooked because until and unless the product is well placed, the desired out come not be received. To reach a target market, the marketer used three kinds of marketing channels:

Communication channels: Deliver and receive messages from target buyers and these include newspapers, magazines, radio, T.V., etc.

Distribution channels: These are used to sell or deliver product services to the buyers or users. They include distribution, wholesalers, retailers and agents.

Service channels: These are used to carry out transaction with potential buyers like banks, insurance, transportation companies, etc. Marketers clearly face a design problem in choosing the best mix of communication, distribution and the service channels for their offerings and here the scope of unethical practices may occur. Channel decisions taken by companies are very much influenced by companies’ systematic and unsystematic factors. Once any one supplier, wholesaler start unethical practice, it would substantially reduce competition. Though it is hard to identify the unethical distribution strategies but when unethical means of expansion becomes the rule of the day it evaporates competition.
7.5 Ethics in Finance

Ethics and finance, a very new discovery. If we think deeply, we find that there is a close relationship between ethics and finance. Finance would be impossible without ethics. High finance is the particular area where most of the breakdowns of ethical norms occurred. The basic foundation of business is trust, as we place our money or our assets in the hands of other unknown people to carry out our business sometimes these unknown people come out as untrust-worthy like untrusted agent or attorney. If we talk about finance, it’s a very wide area full of complex activities, but broadly we find:

![Diagram of Finance and its activities]

Fig. 7.1 Finance and its activities

For smooth running of any economy, its financial activities must be ethical. Here we don’t say that high return on investment or high interest rate, etc., is not desirable. Good finance is the life blood of any organisation. As huge amount is involved in financial dealings people invest their money with financial institution, seeping their better life after the retirement, so there must be well developed and organised structure of ethics to ensure personal and organisational welfare.

Some common unethical activities in finance:

Unsuitability: Insurance agents, brokers and other sales-person cheat innocent investors by recommending unsuitable securities and financial products.

Deception: Deception is quite common unethical practice in India by strengthening the returns and minimising the weaknesses and risk factors. Sales persons, agents, advisers deceive the public using the misleading statements like tax free or 0% interest, etc. They make public unable to make rational choices among so many alternatives.

Inappropriate and excessive trading: This situation arises when the broker keeps an intention to generate commission rather than benefits to client in the standing of having control over the client’s account.

Fraud and manipulation in markets: As by law all the participants in the financial markets are same so fairness in our dealings is desired. Here the fairness is not meant by preventing losses rather it contributes to the efficiency. Here fraud means when a company fails to report proper information and manipulation of buying and selling of securities for the purpose of creating misleading impression about price to misguide the investors to buy or sell the securities. The important information lays in the hands of issuing firms so the investors whether buyer/seller are vulnerable to fraud and manipulation. They have to rely on the information available to them which is hard to verify.

Unequal bargaining power: It’s a quite common unfair practice along with unequal information in the financial market. The principle of equal bargaining power says that all the parties have relatively equal bargaining power.

Insider trading: The act of buying or selling a company’s stock on the basis of ‘inside’ information about the company is called as ‘insider trading’. Insider trading is illegal as well as unethical the information which is confidential and not available to the general public outside the company, have a significant impact on the price of the company’s stock. So the person who is practising insider trading in true manner steals this information and enjoys the unfair
advantages over the member of the general public. A lot more unethical practices are prevalent in corporate finance. It is felt by so many ignorant and unaware people that ethical cannot be involved in finance but in reality we say that finance would be impossible without ethics because the very act of placing our assets in the hands of other people requires immense trust.

Ethics in finance is about far more than trust. It is too difficult to define a complete account which is the need for ethics in finance in few words:

- First of all finance is not like medicine, law. Accounting is not a clearly identifiable occupation or profession. It involves highly technical body of knowledge financial experts engage in a much wider range of activities.
- Accounting ethics focuses on the ethical problems of a relatively uniform activity. Accountants do much the same work in every setting and so many accounting practices like public and management accounting, external and internal auditing can be addressed in a uniform code of ethics.
- If we talk about the wide range of activities in finance, we cannot find single code of ethics for each and every activity in finance.
- Ethics in finance is concerned not solely with the ethical problems of individual in a specific occupation but also with problems in financial markets and financial institutions.

**7.6 Ethics in Human Resource Management**

Human resource management is the process of acquiring, training, appraising and compensating employees and attending to their labour relations, health, safety and fairness concern. The policies and practices involved in carrying out the ‘People’ or HR aspects of a management position, including recruiting, screening, training, rewarding and appraising. HR management activities like recruiting, hiring, training, compensation, appraising and developing employees is part of every manager job. It’s also a separate ‘staff’ function and that the H.R. managers assist all managers in many important ways.

As far as HRM is concerned, what is ethical and what is unethical in general may not be easy to answer. As we know that ethics is the discipline dealing with what is good or bad and with moral duty and obligations. An organisations human resource policies and practices represent important forces for shaping employee behaviour and attitudes. Thus, there is a close linkage between HRM and ethics.

Ethics in HRM can be defined as, functioning and performing HRM policies and practices with some standards norms, managing human resources so that mutual benefits can be achieved. To understand the role of ethics in HRM, we go through the separate parts of human resource management and see how each one is related with ethical implications.

**7.6.1 Ethics in Job Design**

An understanding of job/work design can help executives to design and redesign job in such a way that it positively affects employee motivation. It includes work simplification, job rotation, job enlargement, job enrichment, job sharing, independent work teams, dejobbing and empowering the workforce.

**Job rotation**

Job rotation takes place when any employee suffers from over reutilisation of his work. Then the employee is rotated to another job, at the same level that has similar skill requirements but sometimes we find some unethical issues like rotating the worker in the kinds of jobs where no innovative perspectives are present and the periodic shifts of workers may be the outcome of some conflicts among workers and employees who are involved in job design.

**Work simplification**

It means simplifying the work of the employee, so they can understand it well and perform to full of their skills. The unethical issue has come in to the picture when work is over simplified that lead to boredom, more mistakes, less interests and tendering resignations.
**Job enlargement**
Job enlargement is nothing but the horizontal expansion of jobs. This concept was introduced around 40 years back. It increases the number and variety of tasks that an individual has to perform. Though, motivational impacts are there of job enlargement, yet it may sometimes result in much more boring tasks.

**Job enrichment**
Job enrichment is nothing but the vertical expansion of job. In fact to deal with the shortcomings of job enlargement, it has been introduced to deal with the shortcomings of enlargement. In an enriched job, an employee would do the work with complete activities, more freedom and increased responsibility. The only thing which should be handled carefully is to take care while selecting the employee whose job should be enriched.

**Job sharing**
Job sharing is simply the practice of having two or more people split a 40 hour week job. So people find it as an opportunity to get an experience of two heads. The unethical issue involve here is to intentionally involve two person to do single job who do not successfully coordinate.

**Dejobbing**
Dejobbing is the practice in this global environment which checks the companies from overstaffing to prepare committed employees. But, it is more suitable for the competitive markets. It is not ethical to go for dejobbing if not required at all.

**Empowerment**
In this option employees go for requiring skills and additional knowledge to do the job in which they have their interest and aptitude.

### 7.6.2 Ethics in Human Resource Planning
Human resource planning is an interpreted approach to performing personnel function in order to have a sufficient supply of adequately developed and motivated people to perform the duties and tasks, required to meet organisational objectives and satisfy the individual needs and goals of the organisational members. Thus, the main objective behind HRP is to get workforce in the desired form of the organisation. A successful human resource planner is the one who plans out for human resources in such a way that in future the firm will get adequately developed skilled people to carry out the activities and contribute in the firm’s growth. So if we apply ethics in HRP what can be said is the main theme of utilitarian theory which suggests if outcome of any event or activity is well it is ethical. Thus we can say that if the manager is able to re-plan for that kind of workforce who will be really required and proved out the best it is ethical. But, if not it comes out as unethical conduct of the HR planner.

### 7.6.3 Ethics in Recruitment and Selections
Recruitment is the process of searching for prospective employees and stimulating them to apply for job in an organisation.

![Fig. 7.2 Types of recruitment](image-url)
First any organisation search for a suitable person for its requirement internally, so people say it is been ethical towards the employee, they would get good changes of their promotion if the company opts internal recruitment.

But as we know, now the world demands highly skilled and talented people. So suppose if the internal sources are not as skilled as required, the company should hunt for suitable candidates outside, if the company recruits internal candidates, even though they are not suitable to the job requirement. It would be unethical.

Though, people say that an organisation is more ethical if it goes for internal recruitment and further provides training and development to the employees, if required. But how far is it ethical to make compromises as far as skill and talent concern? In any organisation so many selection devices have been used like interviews written tests, performance simulation tests, etc. There are also some practical ethical questions arise like:

- Sometimes organisations select unsuitable employees to pressure from Sometimes the due top level, some internal politics, etc. If it happens in selection process, it directly leads towards inefficiency and then has impact on organisation growth and productivity.
- Selection of a candidate as he/she suits the job is ethical but when people make some adjustment in job specification according to the suitability of the candidate just because of any corrupt activity, it is called as unethical.
- The practice of taking more employee than the need is also a common unethical practice in selection procedure.

7.6.4 Ethics in Training and Development

Competent employees don’t remain competent forever; competency skills deteriorate and can become obsolete. So organisations spend a good amount on training and development. Training is an organised procedure by which people learn knowledge/skill for a definite purpose. It can be basic literacy, technical, interpersonal and problem solving. It improves the skills and increases employee’s self-efficacy. Some unethical practices make training sometimes ineffective like:

- When trainers are less qualified and less interested in providing training.
- Trainees have been selected not as per needs, but based in favouritism and nepotism.
- Trainees do not take training programme as seriously as they should.
- Making the training program less interesting.

7.6.5 Ethics in Career Development

Career planning and development of employees are the responsibility of employee as well as the management. Though, it is increasingly being done by individual employee rather than by the management. As far as organisation’s responsibilities concern the managers should create growth opportunities, offer financial assistance, communicate organisation’s goal and future strategies, etc.

From employee side they should be aware of themselves, manage the reputation, build and maintain network contacts and keep the options open. So from any side whosoever is shrinking their responsibilities towards themselves or towards other party is deemed as unethical.

7.6.6 Ethics in Performance Evaluation

Performance evolution is needed for so many purposes compensation, performance feedback, training promotion and research, etc. The main objective of performance evaluation is to access accurately an individual’s performance contribution as a basis for making reward allocation decisions. As it is always beneficial to the organisation as well as to the employee but sometimes people do not take performance evaluation, as it should be. They conduct some activities related with evaluation just for formality. This happens mostly in public sector undertakings where people are very rigid for change, not give much importance for self-development as well as organisation’s development.
7.6.7 Ethics in Wages and Salary Administration

It is also a very important part of any company’s human resource practices. The wages policies before 1991 were based on socialistic patterns like:

Minimisation of the gap between the highest and the lowest wage, payment of equal ways to all the employees doing the same job irrespective of their job performance, reduction in wage/salary inequalities. But a number of questions arise regarding the wage and salary administrations ethical issues.

Some queries are like - Is it fair to give equal payment to the employees one who does the least and other who makes the highest contribution to the job? How for it is ethical to give bonus the rate of 8.33% of the annual basic pay of the employee if company is under losses? Though, in this 21st Century there are some industries which have already started paying, the employees, based on their contribution and very soon this concept would be implemented in other industries in the 21st century.

7.6.8 Ethics in Layoffs

Layoff is a kind of practice which means discharging the unneeded workers temporarily. Now a day’s organisations in every segment of business industry, govt. Or education are downsizing. Is it ethical? It’s difficult to answer, but in any case we can say that it is not necessarily desperate move on the part of failing and non-profit making company.

7.7 Ethical Guidelines

As we have seen ethics is involved in each and every corner of HRM. Thus here in the following section some guidelines have been provided to HR professional by which they would be able to handle it in much better ways.

7.7.1 Ethical Leadership

Human resource professional should exhibit individual leadership as a role model for maintaining the highest standard of ethical conduct. The intention behind ethical leadership is like:

• To earn individual respect
• To earn our credibility with those whom we serve
• To set example and standard for others

Some guidelines have been developed for the HR managers which would help them to exhibit Ethical leadership:

• Be ethical and act ethically in every sphere of professional interaction
• To check out individual and group actions regarding the ethical decisions are implemented in an ethical manner
• To for expert opinion and guidance if any doubt about the ethicality of any situation.
• Generate more ethical leaders in organisation by teaching and monitoring

7.7.2 Professional Responsibility

In today’s scenario the important responsibility of HR professional is to add value to the organisation which they serve and contribute to the ethical success of the organisation. The purposes and aims behind developing professional responsibility are:

• To influence workplace and recruitment practices
• To assist the organisations in achieving their objectives and goals
• To encourage professional decision making and responsibility
• To build up credibility, respect and strategic importance for HR profession internal as well as external

Guidelines: Some guidelines which make HR professional to discharge there professional responsibilities are:

• Strive to achieve the highest levels of service, performance and social responsibility
• Achieve and maintain the highest standards of ethical and professional behaviour
• Practicing the appropriate use and appreciation of human beings as employees
• Comply with the law
• Consistency of work with the value of the profession should be maintained
• To influence decision making and results, advocate open debate well within the established forums

7.7.3 Fairness and Justice
The care ethical responsibility of HR professional is to promote and faster fairness and justice for all employees and their organisations. The basic intention behind that is to create and sustain an environment that encourages all individuals and the organisation to reach their fullest potential in a positive and productive manner.

Guidelines:
• Treat people with respect, dignity and compassion to develop an environment which would be free from harassment, intimidation and discrimination
• Plan, develop, manage and advocate policies and procedure that foster fair consistent and equal treatment to all
• The organisation’s decision legal and ethical irrespective of personal interests must be supported. Each individual has some uniqueness and intrinsic worth, so respect for it
• An inclusive approach in the organisation should be followed which ensure that each and every one in the organisation has an opportunity to develop the skills
• If the organisation deals in international businesses then sound management practices with full of responsibilities should be shown

7.7.4 Professional Development
As professional development is a non-ending continuous process. The professionals must strive to meet the highest standards of competence and commit to strong them the competencies. The basic purposes behind the development are:
• To broaden the understanding of how organisation carry out the work
• To expand and advance the knowledge about HRM to better understand how the organisation function.

Guidelines: Some guidelines for HR professionals for their professional development:
• Commitment for continuous learning and skill development
• Try to pursue formal academic opportunities
• Contribute to the evolution of the profession and the growth of individuals through research and development teaching.

7.7.5 Conflicts of Interest
The HR professionals must maintain a high level of trust with their stake holder. They should protect the professional integrity and the interest of all the stakeholders. They should not engage in the kind of activities which create potential conflict of interests. This principle has been developed with the intention to avoid conflicts which may appear with any of the provisions of this code of ethical and professional standards in HRM.

Guidelines:
• Make a list of priority obligations to identity conflicts of interest
• Advocate the use of published policies on conflicts of interests within the organisation
• Never-ever indulge in giving or seeking preferential treatment in human resources processes
• Using the power of the position for personal material or financial gain is unethical.
7.7.6 Use of Information
It is the basic duty of HR professionals to ensure that there is a flow of truthful communication and informed decision making in the organisation where they serve. They should maximise the open exchange of information by this they would be able to build trust among all organisations constituents and it would reduce the worries about inaccurate and inappropriate information among the members of the organisation.

Guidelines:

- Acquire and provide information through ethical and responsible means
- Maintain up to date as well as accurate HR information
- Proper investigation about the accuracy and source of information before it is to be used in decisions
- Take care and safeguard measures for restricted or confidential information
- Take proper steps to ensure the accuracy and competence of all communicated information about HR Policies
- Take proper steps to make it sure that the above information is used in HR related training
Summary

• Marketing is the task of creating, promoting and delivering goods and services to consumers and businesses.
• Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goods.
• Human resource management is the process of acquiring, training, appraising and compensating employees and attending to their labour relations, health, safety and fairness concern.
• Ethics in HRM can be defined as, functioning and performing HRM policies and practices with some standards norms, managing human resources so that mutual benefits can be achieved.
• Job rotation takes place when any employee suffers from over reutilisation of his work.
• Job enlargement is nothing but the horizontal expansion of jobs.
• Dejobbing is the practice in this global environment which checks the companies from overstaffing to prepare committed employees.
• Recruitment is the process of searching for prospective employees and stimulating them to apply for job in an organisation.
• Performance evolution is needed for so many purposes compensation, performance feedback, training promotion and research, etc.

References


Recommended Reading

• Jones, C., Parker, M. & Bos, R., 2005. For Business Ethics, Routle
**Self Assessment**

1. Which of the following is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goods?
   a. Human Resource Management
   b. Marketing
   c. Supply Chain Management
   d. Materials Management

2. Which of the following is the process of acquiring, training, appraising and compensating employees and attending to their labour relations, health, safety and fairness concern?
   a. Human Resource Management
   b. Marketing
   c. Supply Chain Management
   d. Materials Management

3. ________ is the process of searching for prospective employees and stimulating them to apply for job in an organisation.
   a. Training
   b. Analyzing
   c. Recruitment
   d. Development

4. Which one of the following is the practice in this global environment which checks the companies from overstaffing to prepare committed employees?
   a. Job sharing
   b. Job enrichment
   c. Job enlargement
   d. Dejobbing

5. ________ is quite common unethical practice in India by strengthening the returns and minimising the weaknesses and risk factors.
   a. Deception
   b. Unsuitability
   c. Inappropriate and excessive trading
   d. Unequal bargaining power

6. ________ is a quite common unfair practice along with unequal information in the financial market.
   a. Deception
   b. Unsuitability
   c. Inappropriate and excessive trading
   d. Unequal bargaining power

7. Selling below the cost when just having the intention to destroy competition is known as ________.
   a. Price fixation
   b. Price discrimination
   c. Deceptive pricing
   d. Predatory pricing
8. Which of the following occurs when a company sells a product/service at two or more prices that do not reflect proportional differences in costs?
   a. Predatory pricing
   b. Deceptive pricing
   c. Price discrimination
   d. Price fixation

9. Which of the following is needed for so many purposes compensation, performance feedback, training promotion and research, etc?
   a. Performance evolution
   b. Professional responsibility
   c. Career development
   d. Professional development

10. Job enlargement is nothing but the ________ expansion of jobs.
    a. Vertical
    b. Horizontal
    c. Straight
    d. Fixed
Chapter VIII
Environmental Ethics

**Aim**

The aim of this chapter is to:

- explain environmental ethics
- explain role of ethics in environmental protection
- elucidate ethics in human resource management

**Objectives**

The objectives of this chapter are to:

- enlist the facets of environment ethics
- explain the Environment Protection Act (1986)
- explain Public Liability Insurance Act (PLIA) 1991

**Learning outcome**

At the end of this chapter, you will be able to:

- understand the Factories Act, 1948
- describe environmental pollution
- understand the National Environment Appellate Authority Act, 1997
8.1 Introduction

An environment can be said as the totality of man’s surroundings. It includes water, air and land and their interrelationship with human beings, other living creatures, plants, micro organisms and property. The environment is made up of following two things:

![Environment](image)

Fig. 8.1 Classification of environment

8.2 Environmental Ethics— Meaning

How to keep a balance between business and environment has been a burning issue in this industrialisation era. Due to rapid spreading of environmental consciousness, the traditional perception about tradeoffs between environmental quality and economic growth is also changing. Now people believe that these two concepts-economic growth and environmental quality are complementary. Though, the current focus on environment is not new. It has been an integral part of the Indian culture. More than three thousand years ago the need for conservation and sustainable use of natural resources has been expressed in Indian scriptures. Even before 1947, several environment legislations existed but the real developed framework came only after the UN conference on the Human Environment.

8.3 Pollution

Pollution has become the first enemy of mankind. It is not a new phenomenon. It is as old as civilisation itself. Dr. Kurt Waldheim, the Secretary General of United Nations addressing a conference in 1972, observed that pollution of environment is a problem, “no nation, no continent, no hemisphere, no race, no system can handle alone. He further observed that “the quality of our atmosphere can be nothing else but the by-product of the behaviour of the nations”.

8.3.1 Air Pollution

Air is the most essential necessity of human beings. 30 lbs of air is the minimum requirement every day of an average man. The dry air has concentration of certain gases, which are naturally present in the atmosphere. So when this balance of natural composition of air is disturbed and have an adverse effect on man or environment can be called as air pollution. Pollutants may be generated by interaction among two or more primary pollutants or may be directly emitted into the atmosphere from the identifiable sources like: solids, aerosol, metallic dust fluorides vehicular smoke, nitrogen compounds, etc.

Adverse affects

Air pollution adversely affects human beings, animals, vegetation or other materials. When the air pollutant carbon monoxide is inhaled it displaces the oxygen in the blood and reduces the amount of oxygen carried to the body tissues. The gases impose an extra burden on the human being who is already suffering from anaemia, or certain heart diseases or some blood pressure problems and overactive thyroid. Similarly, sulphur-oxide can cause temporary and permanent injury to the respiratory system. Air pollution has wide spread damage on plant life, materials and building. Pollution control program must consist of legal, institutional, scientific and technological efforts to avoid or mitigate such excesses in the environment. It can be done by devising new technologies of manufacture that minimise or reduce pollutants and by recycling materials and commodities through reprocessing and resource recovery.
8.3.2 Water Pollution
As we know that water is plentiful, but pure water is scarce, which has a critical importance to life and that it would be difficult to think of life on any planet without it. Apart from air pollution, water pollution is also very serious and dangerous. According to central Board for prevention and control of water pollution, the fresh water that is so essential to our lives is only a small portion of the earth’s total water supply; it is only about two percent of the total. So water pollution can be defined as, “Such contamination of water or such alteration of the physical, chemical or biological properties of water or such discharge of any sewage or of trade effluent or of any other liquid, gaseous or solid substance into water. John R. Hobum defined water pollution as “the addition to water of an excess of material (or heat) that is harmful to humans, animals or desirable aquatic life, or otherwise causes significant departures from the normal activities”. There are many sources of water pollution:

- Industrial effluent directly entering into a stream or through a municipal sewer or through a discharge on land meant for irrigation causes water pollution.
- Most of the community wastage is discharged into the water sources.
- The uses of fertilizers also sometimes become the source of water pollution, when unused nitrogenous fertilizer is drained out of soil into likes and rivers.
- Using pesticides in agriculture may also cause pollution due to rain water washing into stream.
- Air pollutions may also be the sources of water pollution.
- Ground water is being polluted due to dump trade or sewage effluent into underground strata.
- The dumping and covering of vegetable materials in garbage result in their decomposition by percolating water into underlying ground water bodies from the articles.

It is very crucial to control water pollution. Though in India some govt. acts and laws have been established like the water (Prevention and control of pollution) Act, 1974. But until and unless effective measures are taken by either governments or by general public, it is difficult to get rid of it.

8.3.3 Earth Warming
Earth’s atmosphere is warming continuously due to man-made activity and natural causes. Scientists deeply involved in the research to seek the answer as to who is more responsible for this changing climate and temperature of earth—Man or nature? Undoubtedly we can say that there are some natural causes like sulphate droplets called ‘aerosol’ cast a lot by corrupting volcanoes that reflect the sunlight and cool the atmosphere changes in solar radiation. But manmade causes like disposal of toxic, waste, emission of waste industrial gases like CO₂, sulphate aerosol from industrial smoke, eroding of the earth’s ozone layer acid.

8.3.4 Ozone Depletion
For over 50 years chlorofluorocarbons (CFCs) were thoughts of as miracle substances. They are stable, non-flammable, low in toxicity and in expensive to produce. Over times CFC found to be used in refrigerator, solvent other chlorine containing compound methyl chloroform and carbon tetrachloride an industrial chemicals.

These compounds have atmospheric life time along enough to allow them to be transported by winds in the stratospheres. Because they release chlorine/Bromine, when they break down they damage the protective ozone layer.

8.3.5 Noise Pollution
Noise is a part of human life and a natural product of human life and environment. So man has a relationship with noise from cradle to grave. To express our happy and sad moments of life we use noise. Sometimes we do silent compromise to take noise as a normal part of our life without realising that sometimes it adversely affects our health. Even noise pollution was not discussed in Stockholm conference (1971) at National and international level, it was exposed after scientific research about the most dangerous effects of noise on man’s health.

Industrialisation urbanisation, created the most acute problem of our century – noise pollution. Population explosion further expanded the problem of noise pollution. As the population increase, there are massive increases in human
activities in all spheres connected directly or indirectly with the human, beings. Commercialisation, further added to the intensity and extent of the problem of noise pollution.

But the sad part is most of the people are unconscious of the immediate and ultimate ill effects of noise, so life simply goes on without any tangible protest from the public. But there are a number of effects of noise pollution on man. It may cause heart attack, may change a mark psychological state, hypertension/ulcers and damage one’s hearing capacity. Now, here what exactly we mean by noise –

In the words of Harrell, “Noise is an unwanted sound which increases fatigue and under some industrial conditions it causes deafness”. According to Blum, “noise is a distractor and therefore, interfering with efficiency”.

According to J. Tiffin, “Noise is a sound which is disagreeable for the individual and which disturbs the normal way of an individual”. The effects of noise can be broadly divided into two parts:

- **Psychological**
- **Psychological**

The undesired sound (noise) may cause annoyance. Prolonged chronic noise can also produce stomach ulcers. It may cause abortions and other congenital defects in unborn children. Therefore, some of the conscious efforts can be made to control noise pollution:

**Administrative efforts**
Administration is the strong arm of the state which dominates in policy and planning of all the development programmes of the state. The administrative agencies play a quite significant role in giving effect to any legal process and as much the commitment and sincerity level is high, and there is more success in preventing the pollution.

**Judicial efforts**
Judicial efforts can also be proved very effective in dealing with noise pollution. Judiciary should exercise the discretion of judicial review in favour of administrative orders and must reflect its concern for environmental protection by providing effective remedies to persons who approach the court.

**Legislative efforts**
Legislative action is the most effective approach. As laws are the instruments of social changes, so as other administrative bodies passed by legislature and operate within the limitation prescribed by law.

**Public involvement**
Any law or judicial activity will remain ineffective if public doesn’t take active part and fully co-operate with any programme towards securing pollution free environment.

**International co-operation**
As pollution is not restricted to one country or another country, it is spreading its roots universally. National action needs to be supplemented by international measures and co-operation. It can be achieved by exchange of appropriate technology, research programmes, legal and other methods.

In the early, 1970s researchers began to investigate the effects of various chemicals on ozone layer, particularly CFCs, and other chlorine resources – Chlorine from swimming pools, industrial plants, sea salt – they do not reach to stratosphere, they rain out of the troposphere very quickly. In contract, CFCs are very stable and do not dissolve in the rain. Over times winds drive the CFCs into stratosphere. The CFCs are so strong that only exposure with UV rays breaks them down then CFC molecule releases chlorine atoms that can destroy over 1, 00,000 ozone molecules?
Numerous research and experiments have shown that CFCs and other widely used chemicals produce roughly 85% of the chlorine in the stratosphere while natural sources contribute only 15%.

Reduction in ozone layer will lead to higher levels of UV rays reaching the earth surface. Laboratory studies suggest that UV rays cause skin cancer, some health problems, damage to crops and other materials and certain type of marine lives.

It is difficult to figure out the weight age of human activity impact on earth’s climate basically earth’s climate is affected like:

![Diagram showing factors affecting the atmosphere](image)

**Fig. 8.2 Factors affecting atmosphere**

From the above diagram though it is obvious that warming and cooling of the atmosphere are affected by both (Natural and man made) factors but the human activity causes are more and more dangerous. So the researchers suggest that strict controlled actions should be taken by each and every nation.

### 8.4 Role of Ethics in Environmental Protection

Chakraborty (1995) says, “While commending Indian values in Environment protection as he sees them, many would not see the Indian past as kindly as he does. Western thinkers more often than not, look at environmental ethics as basically human centered and not nature controlled. The definitions of environmental and environmental pollution in Indian law are amenable to be used both as a human central and nature centered values”.

As the magnitude of the problems of environmental pollution are increasing whose root causes sources are in industrial production. Seeing these threatening situations, people started thinking about environment ethics, which has now become an essential part of business ethics.

The concept of environment ethics is a recent discovery. It says understand the situation, identify the causes the disorder or imbalance occurred in environment, take preventive measures to eliminate it or else reduce it.
8.5 The Main Facets of Environment Ethics

Following figure shows the main facets of environment ethics:

![Diagram of Environment Ethics]

**Fig. 8.3 Facets of environment ethics**

8.5.1 Resolving the conflicts

The origin of conflict of interest can be understood in two ways:

**Invisible area**
Conflicts of interest in invisible areas are due to development and operations of market systems. Industrialist says that if industry produces, smoke has to come out, pollution is unavoidable. If we take preventive and corrective measures we could reduce it a bit but someone else would destroy the environment if they do not. If simply means that in the expansion, growth of no. Of industries, multiple machines which produce million and million tons of products, industrialist are aware of themselves, they look after their own affairs, little information about others though similar business, similar industry but called as competitors.

So, they all are doing harm, destroy the environment and they jointly destroy the common environment. So this face of environment ethics says that if they unite, cooperate with each other, keep adequate information of the others and understand the basic concept which might be invisible that environment protection is for their mutual good, so it should be protected. Though selfishness is inherent characteristics of any human being but this thing also could make them unite and cooperate with each other. Some institution should be invented in which each one is accountable for what he does; contributive efforts would make it work. Some union government laws can also be made, simultaneously some incentive schemes like subsidies, tax concessions to support for environmental protection.

**Visible area**
Another visible area is a direct consequence of the concept of rights that has taken root in India. It says that India’s environmental problems arise from the deliberate actions of the state not because of market forces.

8.5.2 Intergenerational Ethics

This is an important face of environment ethics. It deals with the activities of mankind which have direct consequences upon the lives of the future generations.

This concept has been given by Rawls (1971) who argues, “In a situation like this, distributive justice would require that one should pass on to posterity that one wants or inherits from the previous generations. Though, the distributive justice and social contract theory’s implementation are with a person who is unborn or dead. This theory of Rawl’s has been a brave and brilliant effort which brought a rational logic in the history of environmental ethics. He suggested that if we are really serious about it we must review many of our project appraisal methods of financial system which gives greater importance to present consumption than to future benefits to the unborn. So, it is a kind of agreement among three generations-past, present and future. We must commit that what we have received from previous generation, we would pass on to the future generation.
8.5.3 Spiritual Ethics

When Ethics extends its hands to reach animals, birds, plants and inanimate objects, this is something which we say spirituality in environmental ethics. So ethics scope is not restricted to human centered but to be life centered, animal centered, rock centered. “The new vision of deep ecology is consistent with perennial philosophy of spiritual traditions, another of Christian mystics of the Buddhists or of the American Indian traditions”. In India we find that from ancient times Indian Philosophers thought of the environment. Indians had a scared respect for the environment from the time of ‘Rig Veda’, it had been involved in our culture to talk, think, respect about environment and its parts. But the sad part of this picture is in this new century, due to much industrialisation, materialistic attitudes, poverty, population explosion, unemployment, etc. Indians are showing some different attitudes and treatment towards environment which is far away from the concept of spiritual ethics.

8.6 Environment Protection in India

Environment protection in India is not new. Though the traditional concept and modern views are different but in our Indian scriptures this topic had been expressed three thousand years ago. Indian government, politicians, entrepreneurs, businessmen all have now realised that the time has come to think seriously about this serious issue of environment pollution. They admit that environment is to be protected. India’s approach towards environment issue is changing; social workers, NGO’s and government involvement in environmental concern are increasing. To make our younger generations aware of environmental theories, laws, environment pollution, etc., its affects, harms, etc., a subject in their course curriculum has been started at different stages.

Recently, Maharashtra State Government has declared that from this session a new subject is to be launched on environment as a compulsory subject of 100 marks in SSC Board exams. Due to strict rules, regulations, and timely monitoring the activities of all the industries; industrialists started following statutory provisions seriously. By holding environmental values, they follow and obey environmental laws, do the work in the boundaries of all the rules and regulation as they come to know that if they ignore it for today, tomorrow nothing will be left to work with. Even before, India’s independence in 1947, several environmental legislations existed but the real impetus for bringing about well developed framework came only after the UN conference on the Human Environment (Stockholm 1972) under the influence of this declaration, the national conference for environmental policy and planning within the department of science and technology set up in 1977.

This council later evolved into full fledged ministry of environment and forests (MOEF) in 1985, which today is the apex administrative body in the country for regulating and ensuring environment protection. After the Stockholm conference in 1976, constitution sanction was given to environmental concern through the 42nd amendment, which incorporated them into the directive principles of state policy and fundamental rights and duties.

Since 1970, an extensive network of environmental legislation has grown in the country. The pollution control boards (both-central pollution Control board CPCB and State pollution control board SPCB) together with MOEF from the regulatory and administrative core of the sector. To develop and promote initiative for protection and improvement of Environment, a policy statement was brought out by MOEF in 1992. The main focus was on abatement of pollution and the national conservation strategy development. The EAP (Environmental action programme) was formulated in 1993 with the objective of improving environmental services and integrating environmental considerations in to development programme. Our government has established some legal laws and regulation regarding environmental protection such as:

The Environment Protection Act (1986)

These rules lay down the procedures for setting standards of emission or discharge of environmental pollutions. The rules prescribe the parameters for the central government, under which it can issue orders of prohibition and restrictions on the location and operation of industries in different areas. The rules lay down the procedure for serving notice, taking samples, submission of samples for analysis and laboratory reports.

The Factories Act, 1948 and its Amendment in 1987

The factories act 1940 was a post independence state that explicitly showed concern for the environment, the primary aim of the 1948 act has been to ensure the welfare of workers not only in their working conditions in factories but also their employment benefits. While ensuring the safety and health of the worker, the Act contributes to environment protection.
The Act contains the list of 29 categories of industries including hazardous processes, which are defined as a process or activity where unless specific care is taken, raw material used therein, or the intermediate or the finished products

- cause material impairment to health of the persons engaged
- result in pollution of the general environment

**Hazardous wastes**

- There are number of laws developed which directly or in directly deal with hazardous wastes like Hazardous wastes (Management and Handling) Rules, 1989 – which brought out a guidelines for manufacture, strong, and import of hazardous chemicals and for management of hazardous wastes.
- Municipal Wastes (Management and handling) rules 2000 – whose aim was to enable municipalities to dispose municipal solid wastes in scientific manner.
- Bio chemical wastes (Management and handling) rules 1998 – was formulated along parallel lines for proper disposal, transport, etc., of infectious wastage.
- Hazardous wastes (Management and handling) Amendment rules 2000- A recent notification issued with the view of providing guidelines for the import and export of hazardous waste in the country.

**Public liability Insurance Act (PLIA) 1991**
The Act covers the accidents involving hazardous substances and insurance coverage for these. Where death or injury result from an accident, this act makes the owner liable to provide relief as is specified in the schedule of the Act. The PLIA was amended in 1992, and the central government was authorised to establish the Environmental Relief fund, for making relief payment.

**National Environment Tribunal Act, 1995**
The Act provided strict liability for damages arising out of any accident occurring while handling any hazardous substance and for the establishment of a National Environment Tribunal for effective and expeditious disposal of cases arising from such accident, with a view to give belief and compensation for damages to persons property and the environment and for the matters connected there with or incidental there to.

**The National Environment Appellate Authority Act, 1997**
The Act provided for the establishment of a national Environment Appellate Authority to hear appeals with respect to restriction of areas in which any industry operation or process or clears of industries, operation or processes could not cry out or would be allowed to carry out subject to certain safeguards under the Environment (Protection) Act, 1986.

### 8.7 Some Examples of Environmental Pollution

#### Bhopal Gas Tragedy

On 3rd December 1984, in a highly populated city, Bhopal, Central India, poisonous vapour burst from the tall stakes of the union carbide pesticide plant isocyanate. This vapour was a highly toxic cloud of methyl. Around 800,000 people living in Bhopal at the time, 2000 died immediately, and as many as 300,000 were injured. In addition, about 7,000 animals were injured, of which about one thousand were killed. The post accident analysis of the process showed that the accident started when a tank containing methyl isocyanate leaked.

MIC is an extremely reactive chemical and is used in production of the insecticide carbaryl. The scientific reason for the accident at Bhopal is that water entered the tank where 40 cubic meters of MIC was started when water and MIC mixed, an exothermic reaction started, producing lot of heat. Because of increased pressure, the safety valve of the tank burst. About 20-30 tonnes of MIC were released during the have that the leak took place. The gas leaked from 30 metre high chimney and this height was not enough to reduce the effects of the discharge.

The reason was that the high moisture content (aerosol) in the discharge when evaporating, gave risk to heavy gas which rapidly rank sank to the ground. Numerous studies have been conducted on the incident and in most of the studies, the two main agencies analyzed were the union carbide corporation and Indian govt. one of the major reason
for the tragedy was a result of a combinations of human factors and incorrectly designed safety system. Union carbide itself believed that the tragedy resulted when a disgruntled plant employee, apparently bent on spoiling a batch of methyl isocyanides, added water to a storage tank. Some other experts in industrial safety believe that the tragedy was preventable and it was due to the negligence on the part of the union carbide corporation and its corporate subsidiary union carbide of India Ltd, which had the responsibility for taking care of the day-to-day operations of the facility. The corporation and its subsidiary were also charged with corporate irresponsibility for pursuing the profits instead of the safety and hazard standards. The Indian government, in response to the tragedy and pressure from the Indian people, filed a compensation lawsuit against the UCC for an estimated 3 billion dollar; on the other hand, UCC strongly felt that the Indian govt. was to blame. 13 years later not much has changed. Union Carbide India Ltd is an abandoned site in Bhopal.

In Oct. 1991 the Indian Supreme Court upheld a settlement which had been appealed from a lower court decision of 1989, under which union carbide had to pay and 470 million in compensation of all claims. Today, union carbide is a six billion dollar company whose world-wide sales% is increasing every financial year. But any how Bhopal gas tragedy was one of the worst industrial disasters in history.

**Chernobyl accident**

On (April 25-26) 1986 the world’s worst nuclear power accident occurred at Chernobyl in the former USSR (now Ukraine). The Chernobyl nuclear power plant located 80 miles north of Kiev had 4 reactors where numerous safety procedures were disregarded. At 1.23 a.m. the chain reaction in the reactor became out of control creating explosions and a fire ball which blew off the reactor’s heavy steel and concrete lid. This accident killed more than 30 people immediately, and as a result of the high radiation levels in the surroundings 20 mile radius, 135,000 people had to be evacuated. The main causes of Chernobyl Accident were lack of a safety culture, design fault in the RBMK reactor, violation of procedure, etc. After the Chernobyl accident radioactive material was widely dispersed and was measurable and resulted in effects over a vast area. The effects have been felt all over practically the whole of the northern hemisphere.
Summary

- An environment can be said as the totality of man’s surroundings. It includes water, air and land and their interrelationship with human beings, other living creatures, plants, micro organisms and property.
- Air pollution adversely affects human beings, animals, vegetation or other materials.
- Pollution control program must consist of legal, institutional, scientific and technological efforts to avoid or mitigate such excesses in the environment.
- Industrialisation urbanisation, created the most acute problem of our century – noise pollution.
- Reduction in ozone layer will lead to higher levels of UV rays reaching the earth surface. Laboratory studies suggest that UV rays cause skin cancer, some health problems, damage to crops and other materials and certain type of marine lives.
- The concept of environment ethics is a recent discovery. It says understand the situation, identify the causes the disorder or imbalance occurred in environment, take preventive measures to eliminate it or else reduce it.

References


Recommended Reading

Self Assessment

1. ______ control program must consist of legal, institutional, scientific and technological efforts to avoid or mitigate such excesses in the environment.
   a. Population
   b. Pollution
   c. Poverty
   d. Corruption

2. Which of the following can be said as the totality of man's surroundings?
   a. Environment
   b. Neighbourhood
   c. Habitat
   d. Ecosystem

3. The ______ has concentration of certain gases, which are naturally present in the atmosphere.
   a. Cold air
   b. Wet air
   c. Hot air
   d. Dry air

4. When the air pollutant carbon monoxide is inhaled it _____ the oxygen in the blood and ______ the amount of oxygen carried to the body tissues.
   a. Joins, reduces
   b. Displaces, reduces
   c. Replaces, increases
   d. Displaces, increases

5. The_______ was amended in 1992, and the central government was authorised to establish the Environmental Relief fund, for making relief payment.
   a. The National Environment Appellate Authority Act
   b. National Environment Tribunal Act
   c. Public liability Insurance Act
   d. The Environment Protection Act

6. _____ is an extremely reactive chemical and is used in production of the insecticide carbaryl.
   a. MIC
   b. NIC
   c. CIC
   d. PIC

7. Reduction in ozone layer will lead to higher levels of ______ reaching the earth surface.
   a. X-ray
   b. Gamma rays
   c. UV rays
   d. Beta rays
8. Which of the following is the strong arm of the state which dominates in policy and planning of all the development programmes of the state?
   a. Administration
   b. Judicial
   c. Public involvement
   d. International cooperation

9. Which of the following efforts can also be proved very effective in dealing with noise pollution?
   a. Judicial efforts
   b. Legislative efforts
   c. Public involvement
   d. Administration

10. ____________ may be generated by interaction among two or more primary pollutants or may be directly emitted into the atmosphere from the identifiable sources like: solids, aerosol, metallic dust fluorides vehicular smoke, nitrogen compounds, etc.
    a. Polymers
    b. Polythene
    c. Pollutants
    d. Pollution
Case Study I

Jet Airways

Introduction
In October 2008, Jet Airways (India) Limited one of India’s leading domestic airlines, decided to lay off more than 1,000 employees to streamline its operations. The retrenchment was the second phase of its trimming operations.

The first phase, which took place a day earlier, saw the airline showing the door to 850 cabin crew members. The second phase of retrenchment included employees from all operations - cabin crew, pilots, ground staff, airport services staff, and employees from management departments.

The sudden decision not only took the employees by surprise but also caused alarm in the Indian aviation sector. Amidst great opposition by various organisations and political parties, Naresh Goyal (Goyal), chairman of Jet, reinstated the employees a day later amidst great emotional drama. He was quoted as saying he had been appalled by the retrenchments of his employees, which he claimed, he had come to know only through media reports.

He added that he would “not be able to live as long as he lives” with the tough decision his management had taken and clarified that he was taking back the employees as they were “family to him and as head of the family he would take care of them. A month later - in November 2008, Jet announced that it would consider serious salary cuts for its staff to handle the aviation crisis.

While many industry analysts were surprised by the turn of events that had led to the reinstatement of the sacked employees, they opined that Jet had been forced to take drastic decisions such as laying off employees or initiating pay cuts because of the turbulent phase through which the aviation industry was passing.

In September 2008, the International Air Transport Association (IATA) had predicted that world over the aviation industry would lose about US$5.2 billion based on an average jet fuel price of US$140. The rise in fuel prices had pushed the fuel bills of the aviation industry to US$186 billion by the end of the year 2008.

Background Note
Jet, with its headquarters in Mumbai, India, began as an air taxi operator in April 1992 and started its commercial operations a year later, in 1993. It operated with just 24 flights across 12 destinations initially, but showed exceptional growth with more than 357 daily flights to about 62 domestic and international destinations in 2008. It was first listed in the National Stock Exchange (NSE) in the year 2005. As of June 2008, it operated over 370 daily flights to about 68 destinations both in India and abroad including San Francisco, New York, Toronto, Singapore, Brussels, London (Heathrow), Hong Kong, Shanghai, Kuala Lumpur, Colombo, Bangkok, Kathmandu, Dhaka, Kuwait, Bahrain, Muscat, Abu Dhabi, Dubai, etc.

HR Issues, Management and Decision Making at Jet
According to the company, Jet paid the utmost importance to the composition of its senior management and its human resources with emphasis on teamwork as a key success factor. Being in the service-based industry, Jet gave priority to high quality, professional service to its customers.

The Retrenchment Drama Unfolds
The retrenchment drama unfolded on October 16, 2008, when Jet announced that it would lay off nearly 1,100 of its staff a day after it had already laid off around 800 of its cabin crew members.

The second phase of 1,100 employees included those from departments like management, flight attendants, and the cockpit crew.

The company decided to lay off these employees with no prior notice but offered them a month’s remuneration.
Reasons for Retrenchment
The growing challenges in the Indian aviation industry were the main reason for the lay offs at Jet, according to the company and other industry analysts.


Questions
1. Which decision lead to HR disputes?
   Answer
   Jet Airways (India) Limited (Jet), one of India’s leading domestic airlines, decided to lay off more than 1,000 employees to streamline its operations. This sudden lay off lead to HR disputes.

2. When did Jet Airway dispute took place?
   Answer
   Jet Airways dispute took place in October, 2008.

3. What was the reason of retrenchment?
   Answer
   The growing challenges in the Indian aviation industry were the main reason for the lay offs at Jet, according to the company and other industry analysts.
Case Study II

Implementation of the Tata Code of Conduct at Tata Steel

Nearly a century old, Tata Iron and Steel Company Ltd. (TISCO), more popularly known as Tata Steel, is one of India’s oldest companies. Established in 1907 by Mr. Jamsetji Tata, a visionary — it is Asia’s first and India’s largest integrated private sector steel company. Since its inception, the company has focused on the customer, operational excellence, employee welfare, organisational leadership, and social responsibilities and citizenship.

Consistent with its thrust on these dimensions, the company is one of the most respected companies in the country for its value-based practices, ethical and dynamic practices, and competitive performance. The name ‘Tata’ has always been synonymous with trust. The statement of purpose of the Tata group (Tata Steel belongs to this group) explicitly seeks to improve the quality of life in the communities it serves. It says, “Our heritage of returning to society what we earn evokes trust among consumers, employees, shareholders, and the community.

This heritage will be continuously enriched by formalising the high standards of behaviour expected from employees and companies.” The values and principles that had governed the company (and Tata group) were articulated for the first time in 1998. It was in this year that the company formally published its ‘code of conduct.’ This document was aimed to guide each employee on the values, ethics, and business principles expected of them.

Among other things, the implementation of the Tata code of conduct was mandatory for the relatively autonomous group companies to leverage on ‘Tata’ as a brand. The successful implementation of this code of conduct was not a matter of choice for Tata Steel.

To implement the code of conduct, the company created a new position of ‘ethics counsellor’ at the senior management level. He was internally identified and made to report to the Managing Director of the company for the day-to-day functioning. However, he directly reported to the group headquarters. These ethics coordinators reported to the ethics counsellor directly on matters related to ethics. However, for other purposes, they continued to report to the heads of their respective departments. The ethics coordinators in consultation with the ethics counsellor organised a large number of awareness programmes every year. Such programmes were extended to the other stakeholders like suppliers and dealers of the company.

Having succeeded in creating awareness among the employees, the ethics counsellor organised nearly 15 awareness programmes for the families of the executives. The family members were made to feel proud that one of them was part of a ‘value-based’ organisation.

Formal control systems to uphold the code of conduct do not work owing to a lack of direct monitoring mechanisms. The workshops for the families were primarily restricted to the senior management levels. The ethics counsellor stated that implementation of the code was more critical for this group of employees. “Owing to larger responsibilities, they experience more temptations for violation of the code,” he explained.

Having organised the workshops, the company looked into the possibility of integrating ethics in the performance management system. Every month, one ethics coordinator was rewarded on the basis of quality of work. The employees and other stakeholders were rewarded whenever they demonstrated unique behaviour of high moral value. However, the company decided not to make it a part of performance appraisal system as the management felt that following the code was not a matter of discretion. Any proven violation of the code was viewed seriously. In fact, one of the employees was dismissed from the company for violation of the code of conduct. The news was widely publicised though the name of the employee was not revealed.

The outcome of these efforts was found to be encouraging. One of the executives stated, “I received an honorarium of Rs. 2,000 for delivering a lecture in one of the prestigious management institutes. I proactively asked the ethics counsellor whether I could accept such payment. I did not want to violate the code of conduct even by mistake. I strongly believe in the ethics of the company.”
The executives were extremely happy when they realised the advantage of the code of conduct in maintaining their relationships with external stakeholders. The managers found it difficult to interact with government officials without arranging for any favours in the early days after implementing the code of conduct.

However, the executives continued to insist on the directives of the top management and the principles of the code of conduct. Slowly, the officials realised that the company would continue to follow the code honestly. They stopped seeking gratifications from the Company.

During our interaction with the managers, we observed that the employees took pride in their association with a company that believed in the code of conduct. This sense of pride enhances the commitment of employees which, in turn, influences the performance of the company. Even interviews with the retired employees reflected a high respect for the company. Such behaviour of the employees enhances the image of an organisation, adds to the positive response of external stakeholders towards the organisation, and reduces the transactional cost


Questions
1. When was TISCO founded?
2. Which is Asia’s first and India’s largest integrated private sector steel company?
3. What action was taken to implement the code of conduct?
Case Study III

Napster Copyright Infringement Case

Duplicating software for friends, co-workers or even for business has become a widespread practice. All software programs are protected by copyright laws and duplicating them is an offense. How, then, has making illegal copies become such a common and accepted practice in people’s homes and places of work?

Part of the answer revolves around the issue that software isn’t like some other intellectual property. Intellectual property is that which is developed by someone and is attributable directly to the thinking process. Software is different from a book in that anyone can easily copy it and an exact replication is achievable. Another reason is related to cultural differences. People don’t see copy as stealing. People don’t find anything wrong in making a video copy of a hit feature film and selling it or hiring out. People defend their behaviour by saying: ‘Everybody does it! I won’t get caught! Or no one really loses!’

The same issue of copyright is involved in the famous Napster case in America. Napster is an online service that allows computer users to share high-quality digital copies (MP3s) of music recordings via the internet. The San Mateo-based company doesn’t actually store the recordings on its own computers, but instead provides an index of all the songs available on the computers of members currently logged on to the service. Napster, therefore, functions as a sort of clearing house that members can log on to, search by artist or song title, and identify where songs of their interest are so and download them from another user’s hard drive.

Napster has become one of the most popular sites on the internet, claiming some 15 million users in little more than a year. Indeed, so many students were downloading songs from Napster, that many universities were forced to block the site from their systems in order to regain bandwidth. Napster’s service has been almost as controversial as it has been popular. Barely a year after its launch, it was sued by the Recording Industry Association of America (RIAA), which represents major recording companies such as Universal Music, BMG, Sony Music, Warner Music Group, and EMI. The RIAA claimed by allowing users to swap music recordings for free, Napster’s service violated copyright laws. It also sought an injunction to stop the downloading of copyrighted songs owned by its members as well as damages for lost revenue. It argued that song swapping via Napster and similar firms has cost the music industry more than $300 million in lost sales. A few months after the RIAA lawsuit was filed, Metallica, a heavy metal band, and rap star Dr. Dre filed separate lawsuits accusing Napster of copyright infringement and racketeering. Lars Ulrich, Metallica’s drummer, told a senate committee that Napster users are basically stealing from the band every time they download one of its songs.

The 1998 Digital Millennium Copyright Act (DMCA) grants immunity to Internet Service Providers for the actions of their customers. Napster attorneys argued that the company has broad protection from copyright claims because it functions like a search engine rather than having direct involvement with music swapping. However, according to the legal community, ‘Napster does not take the legal steps required of search engines in dealing with copyright violations.’

Despite its claim, Napster was found guilty of direct infringement of the RIAA’s musical recordings. To date, the service has not been shut down, because doing so could violate the rights of artists who have given Napster permission to trade their music. However, the company was required to block all songs on a list of 5,000 provided by the RIAA.

Questions

1. Do you believe that there is nothing wrong in copying software, music or a video film?
2. Based on the facts of the Napster case, who do you think should have control over intellectual property— the artists or distributors of their work? How did the legal system answer this question?
3. Copying of software, music and films is very common in India. Is it due to our socioeconomic factor? Discuss.
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### Recommended Reading


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Self Assessment Answers

Chapter I
1. a
2. d
3. b
4. a
5. c
6. a
7. b
8. a
9. a
10. a

Chapter II
1. a
2. b
3. c
4. d
5. a
6. a
7. a
8. d
9. c
10. b

Chapter III
1. a
2. b
3. d
4. b
5. c
6. a
7. a
8. b
9. a
10. b

Chapter IV
1. a
2. d
3. a
4. a
5. a
6. b
7. a
8. d
9. d
10. a
Chapter V
1. a
2. a
3. a
4. d
5. b
6. a
7. a
8. d
9. b
10. a

Chapter VI
1. b
2. a
3. c
4. d
5. c
6. b
7. d
8. a
9. b
10. b

Chapter VII
1. b
2. a
3. c
4. d
5. a
6. d
7. d
8. c
9. a
10. b

Chapter VIII
1. b
2. a
3. d
4. b
5. c
6. a
7. c
8. a
9. a
10. c