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BBA

BACHELOR OF BUSINESS ADMINISTRATION

BBAR-603

Corporate Governance & Business Ethics

Corporate Governance & Business Ethics

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Edition : 2022

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self–instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self–instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual– skills objectives may be met by designing instructions that make use of students'prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face–to–face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this. Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self–instructional materials, be they print or otherwise. These materials are designed to achieve certain pre–determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure student's performance (continuous assessment).

PREFACE

We have put in lots of hard work to make this book as user–friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included many tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

Corporate Governance & Business Ethics

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Corporate Governance & Business Ethics

BLOCK-1 BUSINESS ETHICS–INTRODUCTION

UNIT 1
INTRODUCTION TO BUSINESS ETHICS

UNIT 2
VALUES, NORMS, BELIEFS AND STANDARDS

UNIT 3
MANAGING ETHICS

UNIT 4
ETHICAL DILEMMA AND ETHICAL DECISION MAKING

BLOCK 1 : BUSINESS ETHICS–INTRODUCTION

Block Introduction

Business ethics is an essential aspect of modern commerce and entrepreneurship. Ethics in business refers to the moral principles and values that guide the behavior of individuals and organizations in the business world. It encompasses the decisions and actions taken by businesses in their pursuit of profit, as well as their responsibilities towards stakeholders, including employees, customers, suppliers, and the wider society.The importance of business ethics lies in the fact that it fosters trust and credibility between businesses and their stakeholders. Companies that operate with integrity and a strong ethical foundation are more likely to attract and retain customers, investors, and employees. Moreover, ethical business practices help to create a fair and just society, where businesses are held accountable for their actions and are expected to contribute to the common good.

In recent years, there has been a growing focus on business ethics, particularly in light of the many corporate scandals that have rocked the business world. This has led to increased scrutiny of business practices and a greater demand for transparency, accountability, and sustainability. As such, it is essential for businesses to understand and uphold ethical standards in all their operations, from the boardroom to the factory floor.

This Block will explore the principles and practices of business ethics, including ethical decision–making, corporate social responsibility, sustainability, and stakeholder management. We will also examine the role of ethical leadership in promoting a culture of integrity within organizations and discuss the challenges and opportunities facing businesses in the pursuit of ethical excellence .Business ethics is an essential aspect of modern commerce and entrepreneurship. Ethics in business refers to the moral principles and values that guide the behaviour of individuals and organizations in the business world. It encompasses the decisions and actions taken by businesses in their pursuit of profit, as well as their responsibilities towards stakeholders, including employees, customers, suppliers, and the wider society.

Block Objectives

- Define and understand the concept of business ethics and its importance in modern business practices.
- Understand ethical issues that arise in various functional areas of a business such as accounting, marketing, finance, human resources, and operations.
- Identify the ethical responsibilities of businesses towards different stakeholders such as shareholders, customers, employees, suppliers, and the environment.
- Develop skills to recognize and respond to ethical dilemmas and make ethical decisions in business situations.
- Understand the legal and regulatory framework for ethical behavior in business, and the consequences of unethical behavior.
- Examine the role of corporate social responsibility (CSR) in business, and the benefits and challenges of implementing CSR initiatives.
- Explore the ethical issues related to globalization, international business, and cross–cultural communication.
- Critically evaluate ethical theories and frameworks, and apply them to real–world business scenarios.
- Learn about the ethical challenges of emerging technologies such as artificial intelligence, biotechnology, and social media.
- Develop communication and teamwork skills to collaborate on ethical decision–making processes and engage in constructive dialogue about ethical issues in business.

Block Structure

Unit 1 : Introduction to Business Ethics

Unit 2 : Values, Norms, Beliefs and Standards

Unit 3 : Managing Ethics

Unit 4 : Ethical dilemma and Ethical Decision Making

Unit 1

INTRODUCTION TO BUSINESS ETHICS

: UNIT STRUCTURE :

1.0 Learning Objectives :

- Understand the basic principles and theories of ethics and how they apply to business.
- Identify ethical issues and dilemmas that commonly arise in business, and be able to analyse and evaluate them.
- Develop critical thinking skills to assess and resolve ethical conflicts that may arise in a business setting.
- Learn how to apply ethical decision–making frameworks, such as the utilitarian, deontological, and virtue ethics approaches.
- Gain knowledge about legal and regulatory requirements for ethical behavior in business

1.1 Introduction :

Business ethics or corporate ethics refers to a study of the ethical and moral principles as well as problems which might arise while conducting business. Furthermore, this study is relevant to the habits of individuals and the entire organization.

Ethics can be recognized in three categories :

(1) Standardizing ethics,

(2) Descriptive ethics and

(3) Meta ethics.

Standardizing ethics can be utilized to direct the proper and off–base conduct of people.

Descriptive ethics, also called as connected morals, is utilized to consider questionable issues, such as abortion, creature rights, capital discipline and atomic war.

Meta ethics centres on the issues of universal truths, moral judgements and the meaning of moral terms.

❖ ETHICS AND BUSINESS ETHICS :

The term 'ethics' characterizes the guidelines that bear on right and off–base issues of society. Business ethics is hence a set of proficient guidelines, which emphasize principles of trustworthiness and obligation to the trade and the common people.

The other significant standards included in business ethics are :

- Fairness
- Judgment
- Commitment to agreements
- Broad–mindedness
- Considerateness
- Significance given to human regard and self–respect
- Mindful citizenship
- Endeavour to excel
- Accountability

These standards, in case entirely sought after, lead to a conventional commerce environment and create solid connections within the organization.

1.2 Introduction to Business Ethics :

In any organization from top official to foot line representatives, ethics is considered as everybody's business. It is only fair to accomplish tall level of financial execution and also to conduct one of business's most imperative social challenges, morally at the same time.

Here what we get a combination of two recognizable words–'Ethics and Business' in 'Business Ethics'.

Distinctive meaning is given to "Business Ethics" as follows :

- Business ethics are the application of common moral rules to organization's behaviour
- Business ethics are rules of trade by which appropriateness of commerce action may be judged.

By Cater Mcnamara – "Business morals is by and large coming to know what is right or wrong within the work environment and doing what is right–this is in respect to impacts of products / services and in relationship with stake holders".

"Attention to morals in working environment sensitizes directors and staff to know they should act so that they hold a solid ethical compass. Subsequently, commerce morals can create strong public image in the society"

1.3 The 3C's of Business Ethics :

The 3 C's of Business Ethics :

1. **Compliance : (The require for compliance of rules including) :**
   - Laws
   - Standards of morality
   - Arrangement of the company
2. **The Commitment (Trade can make to the society) :**
3. **The Center Values**
   - Quality of products/services
   - Employment
   - Convenience of exercises to encompassing activities
   - The Results of trade activity :
   - Toward environment interior and exterior the organization
   - Social obligation toward shareholders, financiers, clients and employees of Organization

1.4 Importance of Business Ethics :

"Good ethical and morals advances great business, those businesses can create on a long term bases which conducts activities on moral grounds.

Author Thomas Donaldson (Morals in trade– a modern see) has observed that –

"There are a few key reasons why commerce morals is imperative and why morals plays a key role in business."

(1) Positive Consequences : Business depends on the endorsement of the society, acknowledgment of rules, common trusts and confidence. Prof. Robert Day writes–"when moral conduct is shown, it puts a few kind of believe and certainty in relationship." So commerce with morals continuously leads to positive consequences.

(2) Goodwill of the Commerce and Businessman : Good moral behaviour will increment the goodwill of both commerce as well as the businessman. Strong open picture may be an indication of victory within the long run. On the other hand, once an organization's picture is discolored it would have coordinate results on deals, benefits, morale or day–to–day running of the business.

(3) Protection : Both Sides If moral suggestions are there in organization businessmen act more truly and the level of commitment would be higher. Morals ensures individuals in managing with each other. Prof. Robert Day composes "Good morals is sound commerce insurance."

(4) Self–satisfaction : In the energetic world, businessmen are looking for self fulfillment, mental help, free from anxiety, discharge pressure. To accomplish the internal fulfillment certain individuals consider as it were good ethics can advance great business. As a businessman is to begin with a part of the society than a businessman, so a few do not implement a choice which stands on deceptive ground since it wouldn't give the satisfaction to their sub–conscious mind.

(5) Energize Others : When a number of individuals begin taking after morals side by side to benefit making, they encourage, motivate others and set illustrations for them. As Prof. Learned and Associates writes– "Businessman who takes after the moral standards within the conduct of commerce, motivates others moreover, to take after the same principles."

(6) Victory and Development Ethical conduct of trade leads to improvement and arrangement of victory.

Learned writes – 'A earnest individual who does difficult work gets to be moral and continuously succeed in his efforts but an untrustworthy individual cannot'.

(7) Modern Management : In the time of worldwide economy, unused standards are required in modern administration. Prof. 'Day' writes that administration cannot gotten to be a calling so distant because it does not take after good ethics. A vital include of a profession is that it incorporates a laid down code of conduct which remains on all the standards of "service to humanity. So to run the great trade in cutting edge situation you've got to create and take after morals.

Check Your Progress – 1 :

1. What is the definition of business ethics ?

   (a) The study of moral principles and values that guide behavior in the business world.

   (b) The study of how to make a profit in business.

   (c) The study of how to create the most efficient business processes.

   (d) The study of how to improve employee productivity.

2. Which of the following is not a stakeholder in a business ?

a. Employees b. Shareholders

c. Customers d. Competitors

1.5 Ethical Concepts :

Ethics is the department of reasoning that's utilized to assess human activities. Some basic moral concepts in commerce are as follows :

(A) **Moral subjectivism :** This concept emphasizes that the moral choice of the person chooses the rightness or misleading quality of his behaviour.

(B) **Moral relativism :** According to this concept, no guideline is universally applicable and so it would be wrong to compare the conduct of one society with another's standards or benchmarks.

(C) **Consequentialism :** Consequentialism is based on two thoughts : the concept of esteem and the maximization of esteem. In case, for example, genuineness is considered an esteem, an act is considered moral as it were in the event that it maximizes this value. An act, which does not maximize the said esteem, isn't ethically permissible.

(D) **Deontological morals :** This concept stresses that moral values can be developed from the concepts of reason as all level headed people possess the capacity to reason. We may, for case, conclusion up causing pain unknowingly whereas attempting to make bliss. Hence, the ethical value of an activity cannot be decided by its results. Instep, it is in the rationale that lies behind the specific activity.

Morals of ideals : This concept emphasizes those characteristics that provide the individual a sense of fulfilment from moral point of see. High–minded acts like boldness, genuineness, resistance and liberality are done as a way of living and not by chance

1.6 Ethical Models :

Ethical models can be utilized to characterize moral circumstances and oversee ethical dilemmas which will happen within the organizations.

The Kantian Model :

This model is based on the theory that everyone has a few fundamental rights in this moral universe. So any activity is morally right if it protects the stakeholder's fundamental rights. Kant did not accept that any result was great from its origin. According to him great isn't continuously natural. He did not accept that in 'good' character, characteristics like ingenuity, insights and boldness exist. In reality, he utilized the term 'good' to describe 'goodwill', by which he implied the resolve to perform the act simply in accordance with one's obligation.

If the activities are prearrange at that point they cannot be portrayed as free and moral. He accepted that to act ethically, opportunity is required. Inclinations, making him indifferent to the sufferings of others. He gets to be versatile to his sufferings with the assistance of the tolerance and perseverance he has created in due course of time.

Kant presented some proverbs, which are subjective rules that direct activities and help any person to act accordingly. There's sufficient generality in depiction. All activities have maxims like :

- Never mislead your colleagues.
- Never act in a way that would make your family or organization ashamed of you.
- Always work difficult to be the leading performer.
- Its worthy to deceive in case the design requests it.

Utilitarian model :

This one is based on the principles of "greatest good for the greatest number of people".

There are three principles that serve as the basic pillars of utilitarianism.

(1) Pleasure or Happiness Is the Only Thing That Truly Has Intrinsic Value.

(2) Actions Are Right Insofar as They Promote Happiness, Wrong Insofar as They Produce Unhappiness.

(3) Everyone's Happiness Counts Equally.

Fairness model :

This one touches on the truth that everybody should be treated similarly notwithstanding of their position or impact in a company. fairness usually comes down to applying the same rules, standards and criteria in similar situations. The purpose is to reduce the role of bias in one's decision making, thus "leveling the playing field".

A Virtue approach model :

Virtue ethics is a broad term for theories that emphasize the role of character and virtue in moral philosophy rather than either doing one's duty or acting in order to bring about good consequences. This approach expects pioneers to put together moral norms with respect to widespread excellencies, for example, genuineness, boldness, sympathy, resistance, and numerous others.

Check Your Progress – 2 :

1. Which ethical model suggests that the moral worth of an action is determined by its consequences ?

   a. Deontology   b. Virtue Ethics

   c. Utilitarianism   d. Care Ethics

2. Which ethical model emphasizes the importance of moral duties and obligations ?

   a. Utilitarianism
   b. Virtue Ethics
   c. Deontology
   d. Care Ethics

3. Which ethical model is based on the belief that ethical decisions should be made based on the character and virtues of the individual ?

   a. Utilitarianism
   b. Deontology
   c. Virtue Ethics
   d. Care Ethics

1.7 Ethical Principles :

Beneficence :

The guideline of helpfulness directs the chief to make the right decision and great.

This need to "do great" makes a moral point of view and conceivable answer for a moral problem. This rule is additionally identified with the rule of utility, which states that we should try to create the biggest proportion of good in the world. This guideline stipulates that moral hypotheses ought to attempt to accomplish the best measure of good since individuals profit by the most great. This guideline is for the most part related with the utilitarian moral hypothesis examined earlier

Least harm :

Like benefience, least damage manages circumstances in which no decision seems valuable. In Understudies may contend that individuals have a more prominent obligation to "do no mischief" than to find a way to profit others. For instance, an understudy has a bigger duty to just stroll past an instructor in the foyer instead of to make slanderous comments about that instructor as he/she strolls past despite the fact that the understudy had bombed that instructor's class

Regard for Independence :

This guideline expresses that basic leadership should concentrate on permitting individuals to be self–governing–to have the option to settle on choices that apply to their lives.

Hence, individuals should have authority over their lives however much as could reasonably be expected in light of the fact that they are the main individuals who totally comprehend their picked sort of way of life

Justice :

There are four types of justice that people can seek when they have been wronged.

Distributive justice :

Distributive justice, also known as economic justice, is about fairness in what people receive, from goods to attention. Its roots are in social order and it is at the roots of socialism, where equality is a fundamental principle.

If people do not think that they are getting their fair share of something, they will seek first to gain what they believe they deserve. They may well also seek other forms of justice.

Procedural justice :

The principle of fairness is also found in the idea of fair play (as opposed to the fair share of distributive justice).

If people believe that a fair process was used in deciding what it to be distributed, then they may well accept an imbalance in what they receive in comparison to others. If they see both procedural and distributive injustice, they will likely seek restorative and/or retributive justice.

Restorative justice :

The first thing that the betrayed person may seek from the betrayer is some form of restitution, putting things back as they should be.

The simplest form of restitution is a straightforward apology. Restoration means putting things back as they were, so it may include some act of contrition to demonstrate one is truly sorry. This may include action and even extra payment to the offended party.

Restorative justice is also known as corrective justice.

Retributive justice :

Retributive justice works on the principle of punishment, although what constitutes fair and proportional punishment is widely debated. While the intent may be to dissuade the perpetrator or others from future wrong–doing, the re–offending rate of many criminals indicates the limited success of this approach.

1.8 Forms pf Ethical Theories :

Various classes of ethical theories incorporate

(A) Deontology

(B) Utilitarianism

(C) Rights theory

Deontology :

This theory expresses that individuals have to hold to their commitments and obligations when occupied with basic leadership when morals are in play.

This implies that an individual will follow their commitments to another individual or society on the grounds that maintaining one's obligation is considered morally right.

For example, a deontologist will consistently stay faithful to his obligations to a companion and will keep the law. An individual who sticks to deontological theory will deliver extremely reliable choices since they will be founded on the person's set obligations.

Merits of deontology theory :

1. Deontological ethics create a foundation for human conduct
2. Deontological ethics create higher levels of personal responsibility
3. Deontological ethics create moral absolutes
4. Deontological ethics emphasize the value of every person.
5. Deontological ethics provide certainty

Demerits of deontology theory :

1. Deontological ethics create a paradox.
2. Deontological ethics become useful as supernatural excuses.
3. Deontological ethics are a matter of subjective opinion.
4. Deontological ethics do not incorporate self–defence ideas
5. Deontological ethics are based on the actions that we take

Utilitarian :

This theory depends on one's capacity to foresee the outcomes of an activity.

To a utilitarian, the decision that yields the maximum benefit to the a great many people is the one that is ethically right.

There are two kinds of utilitarianism,

(1) Act utilitarianism and

(2) Rule utilitarianism.

Act utilitarian believe that whenever we are deciding what to do, we should perform the action that will create the greatest net utility. In their view, the principle of utility–do whatever will produce the best overall results–should be applied on a case by case basis. The right action in any situation is the one that yields more utility (i.e. creates more well–being) than other available actions

Rule utilitarians adopt a two part view that stresses the importance of moral rules. According to rule utilitarian,

(a) A specific action is morally justified if it conforms to a justified moral rule; and

(b) A moral rule is justified if its inclusion into our moral code would create more utility than other possible rules (or no rule at all)

The key difference between act and rule utilitarianism is that act utilitarian apply the utilitarian principle directly to the evaluation of individual actions while rule utilitarians apply the utilitarian principle directly to the evaluation of rules and then evaluate individual actions by seeing if they obey or disobey those rules whose acceptance will produce the most utility.

Merits of utilitarian theory :

1. We get to focus on happiness as a society.
2. It teaches us that harming other people is wrong
3. Utilitarianism is an easy theory to implement
4. It is a secular system that focuses on humanity
5. Utilitarianism seeks to create the highest good
6. It focuses on the democratic process for forward movement.
7. We get to focus on an objective, universal solution

Demerits of utilitarian theory :

1. We do not consider any other element besides happiness
2. It creates an unrealistic perspective for society.
3. Utilitarianism can be unpredictable
4. It also relies on people making consistent decisions.
5. Utilitarianism relies on multiple definitions of happiness
6. It creates the potential for the majority to rule through tyranny

Virtue theory of ethics :

Virtue ethics is a philosophy developed by Aristotle and other ancient Greeks. It is the quest to understand and live a life of moral character.

This character–based approach to morality assumes that we acquire virtue through practice. By practicing being honest, brave, just, generous, and so on, a person develops an honourable and moral character. According to Aristotle, by honing virtuous habits, people will likely make the right choice when faced with ethical challenges.

Virtue ethics helps us understand what it means to be a virtuous human being. And, it gives us a guide for living life without giving us specific rules for resolving ethical dilemmas.

Merits of Virtue theory of ethics :

1. **Character Traits :** Virtue Ethics deals with a person's virtues and how he or she uses them in making the lives of other people better. If a person has virtues, he or she can act morally and will be able to treat others with respect, compassion and love. These virtues prompt a person to do good things to others because these are innate in him or her, as opposed to the theory of Kant where people are forced to do good deeds out of duty.
2. **Better People :** Virtues such as generosity, honesty, compassion, friendliness, assertiveness and the like are already present in people and should be practiced in everyday living. The theory of Virtue Ethics makes it possible for people to be better individuals and members of society who are willing to help other people, thinking

of others first over personal interest. With these virtues, people become better persons.

3. **Broad and Holistic :** Having no particular criteria, Virtue Ethics encompasses different virtues which are important live in harmony with other people. It also does not attempt to worsen the complexity of things by categorizing what are moral acts or not nut instead had developed throughout the years. Also, as compared to other ethical theories which can be a threat to morality and are confusing, Virtue Ethics is a holistic approach that it considers the totality of a person, including the skills, character traits and emotions.

4. **Agent–centered :** Another powerful attribute of Virtue Ethics is its centeredness or focus on the character of the moral agent and not concerned on consequence and duty or obligation. This also makes it flexible since it allows an individual to decide depending on his or her moral values and not just by simply following the law.

5. **Sense of Community :** Virtue Ethics motivates an individual to have high regard to personal relationships and encourage or motivates a person to be sensitive of others and take care of other people.

6. **Preservation of Goodness :** According to Tacitus, people can be easily corrupted with power and luxury which can impede liberty. Having said this, Virtue Ethics serves as a shield against polluting the minds of individuals and making them bad people. Instead, this approach makes it possible for an individual to preserve and make better the life he or she already has and enjoy it rather than dream of a life with luxury and power

Demerits of Virtue Ethics :

1. **Without Focus :** Critics of virtue ethics say that this theory lacks focus when it comes to determining the types of actions that are morally acceptable and permitted from the ones that should be avoided. Instead, it concentrates more on the qualities an individual has to enhance or improve in order to become a good person. Virtue theorists can consider murder as an immoral act which makes it unsuitable to be used as a moral act when it comes to legislation, say in court. It is also considered to be not action–guiding.

2. **Nature of Virtues :** Another weakness attributed to virtue ethics is the difficulty in determining the nature if virtues. This is due to the difference in opinions and perspectives of people who are inherently different from each other and came from diverse cultures and societies. These aspects lead to differences on what is morally right or wrong for people. Thus, it is hard to identify these virtues.

3. **Self–centeredness :** According to opponents of virtue ethics, it deals with a person's own character when it is supposed to be how the actions of an individual affect other people. Other theory of

ethics expects a person to think or regard other people instead of personal gain and interest.

4. **Misguidance :** Those who are not in favor of virtue ethics find this theory to be misguiding when it comes to educating or motivating people. This is because it leads people to rely on luck when it comes to attaining moral maturity. Also, this can result to people asking why others are luckier to have achieved moral maturity while there will be those who are not lucky enough even if this is not brought about by their own doings.

5. **Limited :** Since Virtue Ethics concentrate on only a limited number of virtues, it is not able to help the population but only an individual. This is one of the weaknesses seen by opponents, saying that this theory is not concentrating on the bigger picture.

1.9 Let Us Sum Up :

Business ethics is an essential aspect of any organization. It refers to the set of principles and values that guide the behavior and decision–making of businesses and their employees. Business ethics helps to promote a culture of integrity, transparency, and accountability, which is crucial for building trust and maintaining long–term relationships with stakeholders such as customers, employees, shareholders, and the community.

Businesses that prioritize ethics are more likely to enjoy a positive reputation, attract and retain talented employees, and maintain the loyalty of their customers. Additionally, ethical behavior can help businesses to avoid legal and financial consequences that may arise from unethical practices.

In today's complex and interconnected business world, it is more important than ever for businesses to operate with high ethical standards. By doing so, they can help to create a more just and sustainable society, while also enhancing their own reputation and bottom line

1.10 Answers for Check Your Progress :

Check Your Progress – 1 :

1. a **2.** d

Check Your Progress – 2 :

1. c **2.** c **3.** c

1.11 Glossary :

1. **Deontological Ethics :** A theory that holds that the morality of an action should be based on whether it conforms to a set of rules or duties.

2. **Utilitarianism :** A theory that holds that the morality of an action should be based on its ability to maximize overall happiness or pleasure and minimize overall pain or suffering.

3. **Virtue Ethics :** A theory that holds that the morality of an action should be based on whether it is consistent with virtuous character traits..

4. **Care Ethics :** A theory that holds that the morality of an action should be based on whether it promotes caring relationships and meets the needs of individuals who are vulnerable or dependent

1.12 Assignment :

1. Explain the various ethical models with examples

1.13 Activities :

1. Prepare the list of advantages of following Business ethics

1.14 Case Study :

1. You are a CEO of company what ethical principles you will follow in your organization.

1.15 Further Readings :

1. Business Ethics and Corporate Governance by A. C. Fernando
2. Indian Ethos and Modern Management" by R. N. Mishra
3. Business Ethics : An Indian Perspective by A. C. Fernando
4. Ethical Dimensions in Business by P. R. Mishra
5. Business Ethics and Values by S. K. Mandal

Unit 2: VALUES, NORMS, BELIEFS AND STANDARDS

: UNIT STRUCTURE :

2.0 Learning Objectives :

- Defining and understanding the meaning of norms, values, standards, and morals.
- Exploring how norms, values, standards, and morals are developed and how they influence behavior and decision–making.
- Understanding the relationship between norms, values, standards, and morals and ethics.
- Identifying personal norms, values, standards, and morals and reflecting on how they impact individual behavior and decision–making.
- Evaluating conflicts between personal norms, values, standards, and morals and those of a larger community or society.
- Developing critical thinking skills to assess the validity and consistency of different norms, values, standards, and morals

2.1 Introduction :

Values, norms, beliefs, and standards are all important concepts that shape the way we live our lives and interact with others. While they are related, they are also distinct concepts that have different meanings.

Values are deeply held beliefs about what is important or desirable. They are principles or standards that guide our behavior and decision–making. Values are often shaped by cultural, social, and religious factors, and can vary widely between individuals and groups. Examples of values might include honesty, loyalty, fairness, or compassion.

Norms are unwritten rules or expectations that govern social behavior. They are the accepted ways of doing things in a particular community or culture, and can range from informal behaviors, such as shaking hands or giving gifts, to formal rules, such as laws and regulations. Norms are often learned through observation and imitation, and are reinforced through social pressure or reward.

Beliefs are ideas or convictions that we hold to be true, even if they cannot be proven or verified. They are often based on personal experience, cultural or religious teachings, or philosophical or ideological perspectives. Beliefs can be positive or negative, and can have a powerful influence on our thoughts, emotions, and behaviors.

Standards are specific criteria or benchmarks that we use to judge the quality or performance of something. They can be formal or informal, and can vary depending on the context. For example, standards for academic performance might include grades or test scores, while standards for professional conduct might include ethics codes or industry regulations.

2.2 Values :

Values are individual beliefs that motivate people to act one way or another. They serve as a guide for human behaviour

Generally, people are predisposed to adopt the values that they are raised with. People also tend to believe that those values are "right" because they are the values of their particular culture.

Ethical decision–making often involves weighing values against each other and choosing which values to elevate. Conflicts can result when people have different values, leading to a clash of preferences and priorities.

Some values have intrinsic worth, such as love, truth, and freedom. Other values, such as ambition, responsibility, and courage, describe traits or behaviors that are instrumental as means to an end.

Still other values are considered sacred and are moral imperatives for those who believe in them. Sacred values will seldom be compromised because they are perceived as duties rather than as factors to be weighed in decision–making. For example, for some people, their nation's flag may represent a sacred value. But for others, the flag may just be a piece of cloth.

So, whether values are sacred, have intrinsic worth, or are a means to an end, values vary among individuals and across cultures and time. However values are universally recognized as a driving force in ethical decision–making.

Value are the strong convictions that a particular method of lead or end–reality is socially best.

Values are what we pick as worthwhile or accept to have merit, in a general or wide sense.

Issues of right or wrong are identified with one's 'values' Values are our standard of good and bad.

In the case of something is correct or wrong doesn't involve truth. It is a matter of supposition. An activity might be maintained by somebody as right while others would have opposite view.

"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

– Edward Spranger'

'Stephen P. Robbins' defines value as "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."

Pioneer humanist Durkheim underlined the significance of qualities (however he utilized the term 'ethics') in controlling problematic individual interests.

He additionally focused on that qualities empower people to feel that they are a piece of an option that is greater than themselves.

E. Shils likewise makes a similar point and calls 'the focal worth framework,' (the primary estimations of society) are viewed as basic in making congruity and request.

Indian humanist R.K. Mukherjee expresses : "By their temperament, every human connection and conduct are inserted in values.

2.2.1 Nature of Values :

Values are progressively hard to change or adjust.

Values are also general standards to direct our everyday conduct. They provide guidance to our conduct as well as goals and targets in themselves.

They are the statement of a definitive finishes, objectives or reasons for social activity.

Our values are the premise of our decisions about what is alluring, excellent, appropriate, right, significant, beneficial and great just as what is unwanted, monstrous, off base, inappropriate and terrible.

These are amazingly useful, and valuation requires methods as well as a comprehension of the key setting.

These can give benchmarks of capability and ethical quality.

These can go past explicit circumstances or people.

Individual qualities can be impacted by culture, convention, and a mix of interior and outside variables.

These are generally changeless. These are progressively integral deeply of an individual.

The greater part of our fundamental beliefs are found out right off the bat in life from family, companions, neighborhood school, the mass print, visual media and different sources inside the general public.

Values are stacked with compelling considerations about thoughts, objects, conduct, and so forth.

They contain a critical component in that they convey a person's thoughts with respect to what is correct, acceptable, or alluring.

Qualities can contrast from culture to culture and even individual to individual.

Qualities assume a noteworthy job in the coordination and satisfaction of man's essential driving forces and want steadily and reliably fitting for his living.

They are conventional encounters in social activity made up of both individual and social reactions and frames of mind.

They develop social orders, incorporate social relations.

They form the perfect components of character and profundity of culture.

They impact individuals' conduct and fill in as criteria for assessing the activities of others.

They have an incredible task to carry out in the direct of public activity. They help in making standards to manage everyday conduct.

Value will in general be moderately steady and persevering. A huge segment of the values, we hold is built up in our initial a very long time from guardians, educators and others. So these value are initially learned.

Value establish the establishments of one's character. They are at the center of character and an incredible power influencing conduct.

Value are dynamic portrayal of what individuals accept to be correct, legitimate and worth while to seek after.

A few value are not fixed, yet they change our time and circumstance. Value have force and substance traits in which the substance property says that a method of lead or end–reality is significant and the force characteristic clarifies how significant it is.

The value which are disguised by an individual, turns into a piece of his character, at that point they go past the zone of decision for the individual concerned.

His activity dependent on these value at that point become unconstrained and ceaseless, car and intuitive.

2.2.2 Value System Formation :

We all have an order of qualities that structures our value framework.

This framework is distinguished by the relative significance we dole out to such qualities as : opportunity, self regard, delight trustworthiness, submission and uniformity.

For a specific individual to acknowledge a specific incentive into his worth framework he should first discover the value of the quest for his life. The qualities in a person's worth framework are presented and later fortified over an actual existence time of understanding, yet more especially during growing up, developmental long stretches of person.

During this period different social organizations assume significant job in teaching values in the people's value framework, the major are :

(a) The family one is naturally introduced to.

(b) The school and other instructive establishments and all extra–educational program bodies–games and clubs.

(c) One's religion.

(d) The general public or network one has a place with.

So the qualities cultivated by every one of these organizations fortify the qualities educated by

Others and together they structure the worth arrangement of a person.

Singular worth development is best comprehended in the edge work of social brain research Hypotheses.

'Secord and Backman'– depicted two methodologies :

(1) Inter–individual Approaches :

It centres around the capacity of outside factors : "an individual's conduct is for the most part a reflection of the circumstance he happens to be in. Innate in the circumstance is the social powers that shape and decide his conduct at any development, in spite of the fact that it is perceived that his past encounters with such circumstances have inclined him to respond in specific manners in specific conditions".

As a result of inborn impediments of the two methodologies a blend clarification for conduct appears to be likely and has been known as the relational methodology.

An Individual's activities are influenced by cultural qualities just as hereditary and interior factors. An Individual learns cultural standards, qualities and customs through immediate or vicarious encounters and these qualities are authorized by society through gathering pressure. There is generally a scope of adequate practices and the individual pick conduct inside this run.

To put it plainly, in building up a worth framework an individual is impacted by both the outside condition and the inside psychological structure. This worth framework is influenced by the culture and subcultures to which an individual has a place.

(2) Intra–individual Approaches :

Concentrate on the capacity of factors inside the person. Analysts have generally restricted themselves to the individual, participating in a mission for 'genotypic' attributes which gives the reason for anticipating the subject's conduct with numerous sorts of individuals by and large.

In this methodology, conduct social examples mirror the intra–singular structures or instrument, for example, propensities, needs psychological structures or most habitually character waterways.

Importance of Values :

- It impacts our observation.
- Worth assists with understanding what should be or what should not to be.
- It contains translations of right or wrong.
- These impact frames of mind and conduct.
- It infers that specific practices on results are favored over others.
- These permit the individuals from an association to cooperate agreeably. These make it simpler to arrive at objectives that would be difficult to accomplish exclusively.
- These are objectives set for accomplishments, and they spur, characterize and shading every one of our exercises psychological, emotional include connective.
- They are the guideposts of our lives, and they direct us to who we need to be.
- Qualities and ethics can direct as well as rouse and inspire an individual, give vitality and a get–up–and–go for living and for accomplishing something significant

Sources of Values :

They are an comprehensive guidebook for decision making for both the beginners as well as experienced employees in organization

It treats decision making as both as a art and a science and proposes a far reaching approach through which organizations can augment their worth.

For the most part, no qualities will in general be moderately steady and persevering.

A huge segment of the qualities we hold is built up in our initial a long time from guardians, educators, companions, and others. There are such a significant number of sources from which we can obtain various qualities.

Sources of Values are;

- **Family :** Family is an extraordinary wellspring of qualities. A youngster leams his first incentive from his family.
- **Companions and friends :** Friends and companions assume a fundamental job in accomplishing esteems.
- **Network or society :** As a piece of society, an individual leams values from society or various gatherings of society.
- **School :** As a student, school and instructors additionally assume a significant job in presenting esteems.
- **Media :** Media, for example, – Print media, Electronic media likewise assume the job of expanding esteems in the psyche of individuals.
- **Family members :** Relative additionally assists with making esteems in the psyches of individuals.
- **Association :** Different associations and foundations additionally assume a fundamental job in making esteem.
- **Religion.**
- **History.**
- **Books.**
- **Others.**

2.2.3 Types of Values :

Rokeach divided values into two types.

Two types of values are;

(A) Terminal Values.

(B) Instrumental Values.

Terminal Values are generally alluring to people and Instrumental qualities are perspectives on how human wants ought to be accomplished.

Terminal Values :

These are values that we believe are generally significant or generally attractive. These allude to attractive end–realities, the objectives an individual might want to accomplish during their lifetime.

They incorporate joy, confidence, acknowledgment, inward agreement, having a prosperous existence, and expert greatness.

Instrumental Values :

Instrumental qualities manage sees on worthy methods of conductor methods for accomplishing the terminal qualities.

These incorporate being straightforward, genuine, moral, and being aggressive. These qualities are increasingly cantered around character attributes and character.

2.3 Norms :

Norms are desire for appropriate conduct not the prerequisite of that conduct. Standards are the manners in which an individual expects all the individuals to act in a given circumstance. They are conflicting and all inclusive. Standards are not distributed, may not be obeyed and can't be upheld aside from by assents of a gathering who use punishments as dissatisfaction or rejection.

Standards are casual rules adjoin what is viewed as ordinary (what is right or off base) social conduct in a specific gathering or social unit. Standards structure the premise of aggregate desires that individuals of a network have from one another, and have a key influence in social control and social request by applying a weight on the person to adjust.

Check Your Progress – 1 :

1. Which of the following best describes values ?
   a. Rules that dictate behaviour
   b. Beliefs about what is right and wrong
   c. Social norms that dictate behaviour
   d. Laws that govern society
2. Which of the following best describes norms ?
   a. Rules that dictate behaviour
   b. Beliefs about what is right and wrong
   c. Social norms that dictate behaviour
   d. Laws that govern society

2.4 Belief :

Belief in a moral code are benchmarks of thought. Convictions are criteria of unique idea that doesn't really bring out activity. It may impel or powers certain mission in the condition that sticks one to carry on in a specific way.

Beliefs are among the most crude and focal of mental builds, but then there is little understanding regarding what they are or how they ought to be understood. They are fundamental to our comprehension of a wide scope of focal marvels in present day brain science.

For model our convictions are key segments of our characters and faculties of character, and our behaviours of convictions regularly characterize us to Others .

A significant number of our responses to others depend on our convictions and our view of theirs, and it is difficult to get prejudice, partiality, strict and national clashes without considering contradiction in fundamental conviction frameworks

2.5 Standards and Morals :

Morals are the prevailing standards of behaviour that enable people to live cooperatively in groups. Moral refers to what societies sanction as right and acceptable.

Most people tend to act morally and follow societal guidelines. Morality often requires that people sacrifice their own short–term interests for the benefit of society. People or entities that areindifferent to right and wrong are considered amoral, while those who do evil acts are considered immoral.

While some moral principles seem to transcend time and culture, such as fairness, generally speaking, morality is not fixed. Morality describes the particular values of a specific group at a specific point in time. Historically, morality has been closely connected to religious traditions, but today its significance is equally important to the secular world. For example, businesses and government agencies have codes of ethics that employees are expected to follow.

Some philosophers make a distinction between morals and ethics. But many people use the terms morals and ethics interchangeably when talking about personal beliefs, actions, or principles. For example, it's common to say, "My morals prevent me from cheating." It's also common to use ethics in this sentence instead.

So, morals are the principles that guide individual conduct within society. And, while morals may change over time, they remain the standards of behavior that we use to judge right and wrong.

Amoral vs. Immoral

Be careful with the terminology in this category. Sometimes, the words "amoral" and "immoral" are interchanged. However, they're quite different. If someone is amoral, they have no sense of right and wrong. They don't have the foundation that comes with a sound set of values.

Meanwhile, if someone if immoral, you can be sure they know right from wrong. They're just choosing to do the wrong thing.

A Moral Dilemma

Given the personal nature of morals, someone might deem an action to be "good" even if it's breaking a law. For example, what if a daughter couldn't afford the life–saving medicine her dying mother needed but she, somehow, had access to the storeroom where the medicine was housed?

In this instance, her core values might tell her stealing is wrong. However, her morality would tell her she needs to protect her mother. As such, the daughter might end up doing the wrong thing (stealing, as judged by her values) for the right reasons (saving her mother, as judged by her morals).

Kohlberg's Theory of Moral Judgment.

Lawrence Kohlberg built up a hypothesis portraying the improvement or on the other hand moral judgment dependent on ideas of objectivity, equity, and reasonableness. His examination initially was centered around young men matured ten to sixteen, and was later refined and modified. His hypothesis represents the advancement of good judgment continuing through three levels, each with two phases.

Pre–conventional Level

At the Pre–conventional level, a kid reacts to social standards and names of fortunate or unfortunate, set in stone, in view of the outcomes of the conduct, for example, prize or discipline, and the intensity of the individual who communicates the principles.

STAGE 1 : Punishment Obedience Orientation.

Avoidance of discipline and yielding to control are esteemed what's more, the physical outcomes of activity decide its decency or then again disagreeableness.

Example : It would be awful for me to take my companion's toy since the educator will rebuff me.

STAGE 2 : Instrumental–Relativist Orientation

Satisfaction of one's own needs and sporadically the requirements of others decide activities. Components of decency, sharing and correspondence are comprehended with regards to smugness as opposed to being founded on ideas of reliability or equity.

Example : If Katy is pleasant to me, I'll be pleasant to her, however on the off chance that she is intend to me, I won't feel awful about being mean as well.

conventional Level

At the conventional Level satisfying the hopes of one's family, gathering or country is an essential worth. The individual distinguishes with the gathering, fits in with its desires, and effectively bolsters also, keeps up the gathering's desires.

STAGE 3 : Interpersonal Concordance Orientation.

Behavior is moulded by what gets endorsement from others, and there is a lot of adjustment to cliché pictures of what is the lion's share conduct. Well–meaning goals likewise procure support.

Example : I better not drive drunk on the grounds that my companions will consider less me and I, thusly, will consider less myself.

STAGE 4 : Law and Order Orientation.

Good conduct is controlled by a frame of mind of doing one's obligation, demonstrating regard for power, and keeping up the social request for the good of its own.

Example : I am by and by against the war, however could never openly fight it on grounds without the organization's authorization.

Post conventional Level

This level is described by the meaning of virtues in view of acknowledgment of the qualities and standards as having legitimate social legitimacy instead of on the grounds that the person relates to the gathering or acknowledges authority.

STAGE 5 : Social Contract. Legalistic Orientation, Generally with Utilitarian Overtones.

Correct conduct is characterized by perspectives on singular rights furthermore, cultural measures that have been fundamentally inspected furthermore, settled upon by society. The individual knows that there are contrasts in close to home estimations and feelings, and that the conditions of a given circumstance can influence conduct results. The individual perceives that laws speak to a cultural accord of settled upon rules, yet, that laws might be changed dependent on objective argumentation.

Example : It can't be correct that gigantic organizations some of the time make good on no duties; that law should be changed, so that the weight of assessments falls all the more similarly on everybody's shoulders.

STAGE 6 : Universal–Ethical–Principle Orientation

Behavior is governed by a choice of inner voice in accord with self–picked moral standards. These standards are in light of widespread ideas of equity, correspondence, fairness and regard for the pride of every person.

Example : I won't comply with a law, which doesn't treat students right

Check Your Progress – 2 :

1. Which of the following best describes standards ?
   a. Personal beliefs about what is right and wrong
   b. Objective principles of right and wrong
   c. Cultural beliefs about what is right and wrong
   d. Social expectations of behavior
2. Which of the following best describes morals ?
   a. Personal beliefs about what is right and wrong
   b. Objective principles of right and wrong
   c. Cultural beliefs about what is right and wrong
   d. Social expectations of behavior

3. What is the difference between standards and morals ?
   a. Standards are objective while morals are subjective
   b. Standards are cultural while morals are personal
   c. Standards are principles while morals are beliefs
   d. Standards and morals are the same thing

2.6 Let Us Sum Up :

Norms, values, standards, and morals are all related concepts that are used to describe different aspects of societal and individual behavior. Norms are the unwritten rules and expectations that govern social behavior. They are the social conventions that people follow in order to fit in with their community or group. Values are the beliefs or principles that people hold to be important or desirable. They are the things that people believe are worth pursuing or upholding. Standards are the established levels of quality or behavior that are expected of individuals or organizations. They are the benchmarks against which people are judged. Morals are the principles of right and wrong behavior that are based on personal or cultural beliefs. They are the ethical guidelines that people follow in order to live a good life.

2.7 Answers for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** a

Check Your Progress – 2 :

1. b **2.** a **3.** c

2.8 Glossary :

1. **Standards :** A set of rules or guidelines established by an industry or organization to ensure consistency, safety, and quality in products or services.

2. **Norms :** Socially accepted behaviours or expectations that guide people's actions and interactions in a given culture or society."

2.9 Assignment :

1. Explain the concepts of values and morals with examples

2.10 Activities :

1. Prepare the list of various values and norms you follow in your daily life

2.11 Case Study :

1. You are a CEO of company explain how you will apply Kohlberg's Theory of Moral Judgment in an organization

2.12 Further Readings :

1. Business Ethics and Corporate Governance by A. C. Fernando
2. Indian Ethos and Modern Management" by R. N. Mishra
3. Business Ethics : An Indian Perspective by A. C. Fernando
4. Ethical Dimensions in Business by P. R. Mishra
5. Business Ethics and Values by S. K. Mandal

Unit 3

MANAGING ETHICS

: UNIT STRUCTURE :

3.0 Learning Objectives :

- Understand the concept of ethics and how it relates to leadership and business.
- Recognize the importance of ethical leadership in fostering a positive workplace culture and building trust with stakeholders.
- Identify common ethical challenges and dilemmas faced by leaders and organizations, such as conflicts of interest, whistleblowing, and diversity and inclusion.
- Develop skills for ethical decision–making, including identifying stakeholders, considering consequences, and applying ethical principles and values.

3.1 Introduction to Ethical Leadership :

Ethical leadership is a form of leadership in which individuals demonstrate conduct for the common good that is acceptable and appropriate in every area of their life.

It is composed of the following major elements :

Be the Example

A respectable nature of a leader is showing others how it's done. As a head, it is your activities that speaks stronger than words. Individuals are bound to pass judgment on somebody dependent on how they act, instead of what they state.

By rehearsing and showing the utilization of moral, legitimate and unselfish conduct to subordinates, moral leaders may start to acquire the regard of their friends. Individuals might be bound to follow a leader who regards others and shows respectability.

Champion the Importance of Ethics "

One job of ethical leader is concentrating on the general significance of morals, including moral principles and other moral issues, and how these elements can impactsociety.

As ethical head, it's essential to show subordinates morals, particularly in situations where they are confronted with a moral issue in the work environment.

Communicate :

Successful ethical leaders will in generally be more acceptable communicators. Individuals convey in various manners. Some may feel great talking in broad daylight, paying little mind to work force or circumstance, while others might be reluctant to talk with a leader on account of dread, uneasiness or just not realizing how to explain what they are attempting to state.

It's significant for leaders to fabricate fellowship with their group. Quality connections will in general be based on trust, decency, uprightness, transparency, empathy and regard.

3.2 Impacts of Ethical Leadership :

- Ethical leaders can help establish a positive environment with productive relationships over three levels : the individual, the team and the overall organization.
- A leader is an essential piece of an association, since the leader makes a difference the association to accomplish the objectives and destinations.
- The different reasons why the leaders are significant for an association are as per the following :
- Nurturing the relationships at each of these levels can lead to the following outcomes and benefits
- The Well–Being of the Individual and maintaining a positive working atmosphere is an important responsibility of a strong ethical leader.
- Ethical leaders who lead by example may influence others to do the same. Generally, people are affected by the interactions that occur around them.
- Positive communication among co–workers may help influence job productivity and attitude.
- A leader goes about as a companion to the workers he is driving.
- A leader perceives the possibilities of the people and changes them into real factors.
- A leader wins the certainty of the representatives of an association.

- A leader joins the individuals as a group and develops cooperation.
- A leader keeps up discipline among his gathering and builds up a feeling of obligation among them.
- A leader develops a high spirit among the representatives of the association.
- A leader persuades his gathering so as to accomplish the objectives and targets of an association.
- A leader keeps up the moral principles among the representatives of an association.
- A leader goes about as a connection between the work gatherings and the powers outside the association.

The Energy of the Team :

Ethical leadership can also involve the management of conduct and collaboration within a team.

Typically, morale is higher in the workplace when people are getting along with each other. When co–workers are working as a team, it can help build relationships in the workplace and help the overall performance of the group. Generally, strong leaders lead by example.

The Health of the Organization :

The importance of maintaining a positive attitude in the workplace has a lot to do with improving the overall health of the organization. When people can show respect for one another, and can value other's opinions, it may help create a productive working environment.

An ethical organization can occur when communities of people work together in an environment of mutual respect, where they can grow personally, build friendships and contribute to the overall goal.

The 4–V Model of Ethical Leadership :

The 4–V model helps align the internal beliefs and values with the external behaviours and actions for the purpose of the common good. The four V's stand for

(1) Values,

(2) Vision,

(3) Voice and

(4) Virtue,

The characteristics that help create a strong ethical leader. In the end, the main goal of an ethical leader is to create a world in which the future is positive, inclusive and allows the potential for all individuals to pursue and fulfil their needs and meet their highest potential.

Traits of an Ethical Leader :

An effective and ethical leader has the following traits / characteristics :

Dignity and Respectfulness :

He respects others. An ethical leader should not use his followers as a medium to achieve his personal goals. He should respect their feelings, decision and values. Respecting the followers implies listening effectively to them, being compassionate to them, as well as being liberal in hearing opposing viewpoints. In short, it implies treating the followers in a manner that authenticate their values and beliefs.

Serving others :

He serves others. An ethical leader should place his follower's interests ahead of his interests. He should be humane. He must act in a manner that is always fruitful for his followers.

Justice :

He is fair and just. An ethical leader must treat all his followers equally. There should be no personal bias. Wherever some followers are treated differently, the ground for differential treatment should be fair, clear, and built on morality.

Community building :

He develops community. An ethical leader considers his own purpose as well as his followers' purpose, while making efforts to achieve the goals suitable to both of them. He is considerate to the community interests. He does not overlook the followers' intentions. He works harder for the community goals.

Honesty :

He is loyal and honest. Honesty is essential to be an ethical and effective leader. Honest leaders can be always relied upon and depended upon. They always earn respect of their followers. An honest leader presents the fact and circumstances truly and completely, no matter how critical and harmful the fact may be. He does not misrepresent any fact.

Initiative is a type of the board, and can be characterized as the craft of getting things done by others. Along these lines, the term the executives partitions all the representatives of the association into two gatherings. These gatherings are :

Managers : Managers are the people in the association who are answerable for coordinating the exercises of others.

Workers : Workers are the people who are working under the influence of the Administrators pioneers.

Administration includes arranging, sorting out and controlling the assets of the Association in order to accomplish the objectives and goals of the association. The Administrators of the association make a few standards to arrange and control their Subordinates in the correct way.

These principles can be dictated by the condition and the way of life of the association. These principles likewise characterize the relationship of the chiefs with their subordinates and friends.

These principles characterized by the administrators of the association are named as elucidating morals since nobody is compelled to tail them.

Check Your Progress – 1 :

1. What is ethical leadership ?
   a. A type of leadership that prioritizes profits over people
   b. A type of leadership that prioritizes ethical decision–making and values
   c. A type of leadership that emphasizes authoritarianism and control
   d. A type of leadership that focuses on achieving goals at any cost
2. What are the key characteristics of ethical leaders ?
   a. Honesty, integrity, and respect for others
   b. Authoritarianism, control, and competitiveness
   c. Profitability, growth, and success
   d. Aggressiveness, assertiveness, and dominanc

3.3 Ethical Corporate Behaviour :

Elements of programmes for developing ethical corporate Behaviour in the organization :

(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 so many companies have started their training programmers in ethics like some US companies; 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 programmes 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 organization 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.

key features of effective ethics training programme

- Top management support.
- Open discussion in resolving of realistic cases.
- An organization 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.

(2) Codes of Ethics :

A code of ethics basically reflects an organization's primary values, norms beliefs and Ethical rules of operations.

Codes of ethics must be framed to encourage ethical behaviour in any organization

And must be supported by top management. The general practice which is prevalent in organization the codes of ethics are planned, proposed, discussed and defined by top Executives of 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 organization just Show the false picture.

Examples :

Codes of Ethics for Marketing Managers

(By American marketing Association)

- 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) Organizational Ethics Development System (OEDS)

Some important constituents are :

- 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 on the basis of ethics.
- Sound ethics reporting and conflict resolution process for wrong doers.
- By Bench Marking to assess individual as well as organization integrity system.

(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.

(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.

(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 support 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.

According to **"Purcell and James Weber"** Institutionalizing ethics can be accomplished :

1. By formation of ethics committee.
2. By providing training in ethics in management development programme.
3. By Establishing Ethical rules, norms and codes of ethics.

(7) Checklist Method :

It has become a new attraction in ethics seminar and workshop. **"Gellermn"** explains.

That using checklist method employees can avoid the situation when people do unethical Behaviour justifies it by merely saying like – **"It's not really illegal."**

What 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.

(8) Reward Punishment System :

As we know motivation is having a great impact on employees 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 organization must develop a kind of system in which Anyone who shows ethical behaviour must be rewarded and Anyone who shows s unethical behaviour must be punished visibly. So that people will take lesson and try to act in ethical manners.

(9) Whistle Blowing :

Whistleblowing is the term used when a worker passes on information concerning wrongdoing. In this guidance, we call that "making a disclosure" or "blowing the whistle". The wrongdoing will typically (although not necessarily) be something they have witnessed at work.

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.

Types of Whistle Blowing :

(1) Internal Whistle Blowing :

An employee informs about the misconduct to his officers or seniors holding positions in the same organization.

(2) External Whistle Blowing :

Here, the employee informs about the misconduct to any third person who is not a member of an organization, such as a lawyer or any other legal body.

Most often, the employees fear to raise a voice against the illegal activity being carried out in the organization because of following reasons :

- Threat to life
- Lost jobs and careers
- Lost friendships
- Resentment among workers
- Breach of trust and loyalty

Now, the question comes in the mind that which offenses are considered valid for whistle blowing and for which the protection is offered by the law. Following are the acts for which the voice can be raised and are law protected :

- Fraud
- Health and safety in danger
- Damage to the environment
- Violation of company laws
- Embezzlement of funds
- Breach of law and justice

To be covered by whistleblowing law, a worker who makes a disclosure must reasonably believe two things.

The first is that they are acting in the public interest. This means in particular that personal grievances and complaints are not usually covered by whistleblowing law.

The second thing that a worker must reasonably believe is that the disclosure tends to show past, present or likely future wrongdoing falling into one or more of the following categories :

- criminal offences (this may include, for example, types of financial impropriety such as fraud)
- failure to comply with an obligation set out in law
- miscarriages of justice
- endangering of someone's health and safety
- damage to the environment
- covering up wrongdoing in the above categories

Other Guidelines :

- Establish audit agency reporting to outside directors.
- Practice what you preach should be followed by the leaders of the company.
- Surprise and unpredictable audits.
- Ethics should be evaluated in terms of long range consequences for the individual and the organization.

Check Your Progress – 2 :

1. What is the importance of ethical leadership in organizations ?

   a. It ensures compliance with laws and regulations

   b. It fosters a culture of trust and accountability

   c. It maximizes profits and revenue

   d. It encourages competition and innovation

2. What is ethical behaviour in a corporate setting ?

   a. Acting in accordance with the law and regulations

   b. Conducting business with transparency and honesty

   c. Maximizing profits at all costs

   d. Following the orders of the highest authority in the company

3. Which of the following is an example of unethical corporate behavior ?

   a. Donating a portion of profits to charity

   b. Paying employees a fair wage

   c. Bribing government officials for business favors

   d. Providing excellent customer service

3.4 Let Us Sum Up :

Ethical leadership and ethical corporate behavior are essential for the long–term success and sustainability of any organization. Ethical leadership involves setting the right example, inspiring employees, and promoting values that are in line with ethical behavior. Ethical corporate behavior is about implementing policies and practices that promote fairness, transparency, accountability, and responsibility towards all stakeholders, including employees, customers, shareholders, and the broader society. When leaders prioritize ethical behavior and create a culture of integrity, it can have a positive impact on employee morale, customer loyalty, and overall business performance. Ethical leaders also help to create a more just and equitable society by promoting fairness and accountability.

However, ethical leadership and ethical corporate behavior are not always easy to achieve, and there may be times when leaders are faced with difficult decisions that require balancing competing interests. In such situations, it is crucial to remain committed to ethical principles and seek guidance from experts and stakeholders.

In conclusion, ethical leadership and ethical corporate behavior are crucial for organizations to build trust, reputation, and sustainable growth. Leaders who prioritize ethical behavior and create a culture of integrity can set a positive example for employees and inspire them to act with honesty, fairness, and responsibility."

3.5 Answers for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** a

Check Your Progress – 2 :

1. b **2.** b **3.** c

3.6 Glossary :

1. **OEDS :** Organizational Ethics Development System
2. **Whistleblowing :** the term used when a worker passes on information concerning wrongdoing. In this guidance, we call that "making a disclosure" or "blowing the whistle

3.7 Assignment :

1. Explain the Impact of Ethical leadership in organization

3.8 Activities :

1. Prepare the list of various whistle blowing examples from various real world organizations

3.9 Case Study :

1. You are a manager of your company explain how you will carry out ethical leadership role in an organization

3.10 Further Readings :

1. Business Ethics and Corporate Governance by A. C. Fernando
2. Indian Ethos and Modern Management" by R. N. Mishra
3. Business Ethics : An Indian Perspective by A. C. Fernando
4. Ethical Dimensions in Business by P. R. Mishra
5. Business Ethics and Values by S. K. Mandal

Unit 4 ETHICAL DILEMMA AND ETHICAL DECISION MAKING

: UNIT STRUCTURE :

4.0 Learning Objectives :

- To understand the concept of ethical dilemmas and the factors that contribute to their occurrence.
- To recognize the importance of ethical decision making in personal and professional contexts.
- To develop the ability to analyse and evaluate ethical dilemmas using ethical frameworks and principles.
- To identify and evaluate potential consequences of ethical decisions.
- To develop skills in communication, collaboration, and negotiation in ethical decision making processes.
- To recognize the potential impact of cultural, social, and contextual factors on ethical decision making.
- To develop a personal ethical code and apply it to ethical decision making processes.
- To recognize the role of leadership in creating ethical organizational cultures and promoting ethical decision making.
- To identify and apply strategies for addressing ethical violations and promoting ethical behaviour.
- To understand the ongoing nature of ethical decision making and the need for continuous reflection and learning

4.1 Introduction and Features to Ethical Dilemmas :

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

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

There exist many different ethical dilemma in an organization or at the workplace.

Some of them are as follows :

- identifying the conflict issues in the organization and trying to avoid them
- deciding different methods to motivate employees
- Managing fairness in employee performance appraisals
- protecting secret information of the organization
- Identifying the areas of interest of customers, employees, suppliers, owners and the staff
- Taking action against the reports of complaints in the organization
- handling different problems of employees
- Taking corrective action against employees

While deciding if what you are doing is ethically right or wrong, you can ask yourself the following questions :

Legal Test :

Is there a law being broken? If yes, the issue is of disobedience with enforceable laws, as opposed to the unenforceable principles of a moral code. If it is legal, there are three more tests to decide whether it is right or wrong.

Stench Test :

Does the course of action have the stench of corruption? This is a test of your instincts and determines the level of morality on a psychological level.

Front Page Test :

How would you feel if your action showed up on the front page of the newspaper the next day ? Most people would never do certain things if there was a chance that other people would find out about it. This is a test of your social morals

❖ FEATURES OF ETHICAL DILEMMA :

An ETHICAL DILEMMA is quite certain in nature and having some exceptional and remarkable highlights like –

(1) Uncertain results :

One wouldn't he be able to secure with the outcomes result from most moral decisions.

(2) Different decisions and Alternatives :

Like moral issues in which these are just two decisions 'yes' or 'not' here in moral quandary, circumstances are diverse chiefs discover more than two choices which must be considered.

(3) Blended results :

Moral dilemmas and issues in the board when explored, the out–comes contradict to one another. One choice however considered as ideal by one gathering and horrible by another gathering, for instance, a choice of end of 10% workforce and addition in the compensations of staying 90% workforce.

(4) Direct/circuitous inclusion :

What will befall specific circumstance in which individuals face moral quandary, one side one individual is legitimately included and on the opposite side another is simply looking into from separation and not straightforwardly included, clearly moral choice are progressively hard to make when individual, by and by engaged with it.

For instance, what might you do when your quick manager needs from you to make bogus TA/DA bills and move the advantages to him? So would you tail him or on the other hand blow the whistle against him? In both the cases you will be in issue.

It is a general conviction that moral choices decrease financial benefits of the organization be that as it may, they don't legitimately effect on directors compensation or their different plan. So officials now and then pick the way where overall revenue may diminish, keeping themselves on more secure sides.

Hence to finish up we state that moral issues are unpredictable in nature. Determination of any one decision among a few is very troublesome just as unsafe.

4.2 Methods and Approaches of Resolving Ethical Dilemmas :

A simple framework for resolving ethical dilemma is as following

(1) Establish the facts surrounding the ethical dilemma :

Facts are important in law enforcement. To investigate all cases, officers must rely on facts to guard against misinformation and cognitive biases. This is also true in ethical dilemmas that we face. If the facts are not known to us, we must investigate everything that surrounds the dilemma to ensure we are acting on the right information. Avoid acting on rumours and gossip by verifying information through factual information and evidence.

(2) Determine your legal obligations and duties :

We must be sure what our professional and legal obligations are. Professional and legal obligations will likely allow us to easily decide on a course of action to take in an ethical dilemma. However, while professional and legal obligations may not always require a course of action that coincides with these obligations, our awareness of any professional and legal obligations must be known to allow us to be fully cognizant of the consequences of our actions should we choose to ignore professional or legal obligations.

(3) Establish the interested participants involved :

It is important to know who will be impacted by the course of action that we decide upon. Often the primary participants are easy to identify and it is the secondary participants that are often not considered. These may include friends, families, or employees that are related somehow to the primary participants in the ethical dilemma. Knowing the impact of the decision made to secondary participants may be particularly important for a decision made with utilitarian underpinnings; where the rights of those who are not part of the majority may not be considered.

(4) Determine the ethical values of each participant :

Determining ethical values is important to allow us an understanding of what is truly at stake. A participant in an ethical dilemma may value loyalty as the most important value. However, another participant may value equality as the more important value. When considered, the value of loyalty may not compare with equality, depending upon the ethical dilemma.

(5) Consider normative ethical theories as an aide to determine a course of action :

When considering options, normative ethical theories may assist us in determining the consequences of actions, or the duties we may be obligated to follow that fall outside of the laws, rules, and procedures. We may also assess whether the decision we are considering is rational from another perspective we have not considered. We may also settle on an option, and rely on an ethical theory to assist us in articulating the reasoning behind the option we have chosen.

(6) Consider options that would be ethically sound :

There may be several options to consider, and each option ought to be considered critically by determining what harm it would cause and what values the person being harmed holds. The participant should consider the positives and negatives of the decision and determine the risks and benefits associated with each option, as well as the benefits of each action, with these values in mind.

(7) Consideration of the possible negative and positive outcomes of each possible option :

Try to predict what may otherwise be unintended consequences of your decision. These consequences may not be readily apparent, but they require a critical analysis of the consequences of your decision.

4.3 Approaches to Resolving Ethical Dilemma :

(1) Utilitarian (end–based)

(2) Universalism (rule based)

(3) care–based

(4) Virtue ethics

(1) Utilitarian (end–based approach) :

The utilitarianism framework was begun by the British scholar Jeremy Bentham (1748– 1832). It targets making the best level of advantages for the biggest number of individuals.

As indicated by this framework, a human direct is considered as acceptable on the off chance that it brings about advantages for society and terrible on the off chance that it creates mischief to the general public.

Actually Utilitarianism is an uncommon variant of "Teleology". Teleology accentuate mostly upon the results of on person's activity and not on the goal of the person. That is why it is called as "Consequentialism" or end based morals

(2) Universalism (rule based) :

The methodology of universalism depends on the obligations and commitments of a person (Deontology). The ethical worth on singular activity ought to be made a decision by the aim of The individual, not by the result of the activity. It expect that well–meaning goals consistently result In great results, at last if not right away.

'Immanuel Kant' (1724–1804) proposed the "All out Imperactive" –

One should act just in manners that one would wish all others to act confronted with the equivalent situation, and furthermore to treat others with poise and regard. Everybody's worth is equivalent. Henceforth nobody's privileges ought to be subjected to those of others

(3) Care–based Approach :

You need to save the difficulty remembering that you have a commitment to think about those with whom you have cozy relationship or who thinks about you. You should think about them just to keep up a solid bond in the relationship however some incredible men put some contention against it that it would make preference while working with those you have important relationship just as it can decline into unreasonable preference and penance of possess needs to think about kids, guardians, life partner and companions with whom you have cozy connections.

(4) Virtue Ethics :

'Peter Partley 'The essence of business ethics) Says– "Ideals morals can be spoken to as a psychological development with reasonability. All the more precisely this metal development has two roofs – one is delegated by private reasonability and the other by open judiciousness. The picture depicts how we can recognize two circle of greatness, open and private well being one should bend over backward to increase a more extensive comprehension of corporate private furthermore, social prosperity."

Then again By and large we state that when an individual follows uprightness morals that implies while playing out any activity he/she ought to build up an ethically temperate character

Check Your Progress – 1 :

1. Which of the following is an example of an ethical dilemma ?
   a. Deciding whether to wear a blue shirt or a green shirt
   b. Choosing between buying a new car or saving money for retirement
   c. Deciding whether to lie to protect a friend's feelings or tell the truth
   d. Deciding whether to eat pizza or salad for lunch
2. Which of the following is an example of an ethical decision ?
   a. Deciding whether to cheat on a test
   b. Deciding whether to help a stranger in need
   c. Deciding whether to skip work to go to a concert
   d. Deciding whether to steal from a store

4.4 Ethical Decision–Making :

Ethical decision–making refers to the process of evaluating and choosing among alternatives in a manner consistent with ethical principles. In making ethical decisions, it is necessary to perceive and eliminate unethical options and select the best ethical alternative.

The process of making ethical decisions requires :

Commitment : The desire to do the right thing regardless of the cost

Consciousness : The awareness to act consistently and apply moral convictions to daily behaviour

Competency : The ability to collect and evaluate information, develop alternatives, and foresee potential consequences and risks

- Good decisions are both ethical and effective :
- Ethical decisions generate and sustain trust;

- Demonstrate respect, responsibility, fairness and caring; and are consistent with good citizenship. These behaviours provide a foundation for making better decisions by setting the ground rules for our behaviour.
- Effective decisions are effective if they accomplish what we want accomplished and if they advance our purposes.
- A choice that produces unintended and undesirable results is ineffective.
- The key to making effective decisions is to think about choices in terms of their ability to accomplish our most important goals. This means we have to understand the difference between immediate and short–term goals and longer–range goals.

The additional things that needs to be remembered while making ethical decision choices :

- Identify and dispose of unscrupulous choices in the other options.
- Identify unpredictable, equivocal and inadequate realities and attempt to stay away from them
- Determine the moral issue and resolve it.
- Select the best moral other option

Types of Decisions :

Ethical decision making choices can contrast in various manners, which starts improvement of various kinds of choices from which associations can pick the proper choices. Authoritative choices are essentially arranged on the premise of the motivation behind basic leadership. Information on results is another approach for ordering authoritative choices. A result characterizes what is going to occur if a specific choice is gone in or a specific direction is taken.

Authoritative choices include choosing the best option from among the accessible other options. Authoritative choices are ordered into the accompanying classes :

(A) **Strategic arranging choices :** These are the choices wherein a chief creates destinations and apportions assets for accomplishing these targets. Choices under this classification are utilized for an extensive stretch of time and include an enormous speculation. For instance, presenting new items and the securing of another association are vital arranging choices.

(B) **Management control choices :** These are the choices taken by the board control–level administrators, who are at the center degree of the board progressive system in an association. These administrators manage the utilization of assets in the association. The administration control choices incorporate the examination of difference, item blend and arranging choices.

(C) **Operational control choices :** These are the choices that manage the everyday issues that influence the activity of an association. For model, choices, for example, generation booking and stock control fall under this class. Choices under this classification are taken by the operational–level administrators, who are at the base degree of the executive's progression in an association.

(D) **Structured choices :** These are the choices that are very much characterized and require application and usage of some predetermined technique or choice standard so as to arrive at a choice. Such choices require less time for creating choices in the structure stage. Organized choices are made by working systems or by utilizing other acknowledged instruments. More current methods for settling on such choices include activities investigate (Or then again), numerical examination, demonstrating and reproduction.

(E) **Unstructured choices :** These are the choices which are not well characterized and have no pre–indicated technique or choice standard. These choices may extend from one–time choices identifying with an emergency to choices identifying with repeating issues. The unstructured choices typically expend a lot of time in the plan period of the basic leadership process. These choices could be unravelled utilizing judgment and instinct.

Present day ways to deal with such choices remember uncommon information examination for PCs and heuristic methods. Such choices are normally taken care of by key arranging level supervisors as a result of their unstructured nature.

(F) **Semi–organized choices :** These are the choices that are not one or the other organized nor unstructured. These choices fall somewhere close to the organized and unstructured choices. For instance, the presentation of a new item is a semi–organized choice.

Characteristics of Good Decision–making

Characteristics of a good decision–making are :

- Decision problems should be grabbed by the management both in space and time. This means, the decision problem should be analysed thoroughly by the management.
- The decision made by the decision–maker should keep him in a state of calm.
- Decisions made by the management should contribute to harmony in the organization.
- Self–interest and self–orientation should not come in the way of decision making

Problems in the Decision–making Process

There are different issues looked by an administration in the basic Decision–making process. These issues are :

(1) **Insufficient data :** It alludes to the absence of data which influences the presentation and nature of the administration in an association.

(2) **Insufficient information :** It alludes to the contrast between accessible information and the necessary data for the administration to take a choice.

(3) **Lack of time :** It alludes to the weight on the administration to make choices. On the off chance that time is restricted, at that point the administration needs to take rushed choices.

(4) **Poor interchanges :** It prompts the issue that emerges due to inappropriate correspondence of data.

Different confinements of any administration in the basic leadership process are with regard to the powerlessness of the human personality to deal with accessible information as too human conduct.

4.5 Ethical decision Making Process :

(1) Gather the facts

(2) Define the ethical issues

(3) Identify the affected parties (stakeholders)

(4) Identify the consequences

(5) Identify the obligations (principles, rights, justice)

(6) Consider your character and integrity

(7) Think creatively about potential actions

(8) Check your gut

(9) Decide on the proper ethical action and be prepared to deal with opposing arguments.

(1) GATHER THE FACTS :

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

(2) DEFINE THE ETHICAL ISSUE(S) :

- Don't jump to solutions without first identifying the ethical issue(s) in the situation.
- Define the ethical basis for the issue you want to focus on.
- There may be multiple ethical issues – focus on one major one at a time.

(3) IDENTIFY THE AFFECTED PARTIES :

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

(4) IDENTIFY THE CONSEQUENCES :

- Think about potential positive and negative consequences for affected parties by the decision (Focus on primary stakeholders to simplify analysis until you become comfortable with the process).
- What are the magnitude of the consequences and the probability that the consequences will happen.
- Short term vs. Long term consequences – will decision be valid over time.
- Broader systemic consequences – tied to symbolic and secrecy consequences – Each decision sends a message.
- Secrecy consequences – What are the consequences if the decision or action becomes public?
- Did you consider relevant cognitive barriers/biases?
- Consider what your decision would be based only on consequences – then move on and see if it is similar given other considerations.

(5) IDENTIFY THE RELEVANT PRINCIPLES, RIGHTS, AND JUSTICE ISSUES :

- Obligations should be thought of in terms of principles and rights involved
- What obligations are created because of particular ethical principles you might use in the situation?
- Examples : Do no harm; Do unto others as you would have them do unto you; Do what you would have anyone in your shoes do in the given context.
- What obligations are created because of the specific rights of the stakeholders ?
- What rights are more basic vs. secondary in nature? Which help protect an individual's basic autonomy ?
- What types of rights are involved – negative or positive ?
- What concepts of justice (fairness) are relevant – distributive or procedural justice ?
- Did you consider any relevant cognitive barriers/biases ?
- Formulate the appropriate decision or action based solely on the above analysis of these obligations.

(6) CONSIDER YOUR CHARACTER &INTEGRITY :

- Consider what your relevant community members would consider to be the kind of decision that an individual of integrity would make in this situation.
- What specific virtues are relevant in the situation?
- Disclosure rule – what would you do if the New York Times reported your action and everyone was to read it.
- Think about how your decision will be remembered when you are gone.
- Did you consider any relevant cognitive biases/barriers?
- What decision would you come to based solely on character considerations?

(7) THINK CREATIVELY ABOUT POTENTIAL ACTIONS :

- Be sure you have not been unnecessarily forced into a corner
- You may have some choices or alternatives that have not been considered
- If you have come up with solutions "a" and "b," try to brainstorm and come up with a "c" solution that might satisfy the interests of the primary parties involved in the situation.

(8) CHECK YOUR GUT :

- Even though the prior steps have argued for a highly rational process, it is always good to "check your gut."
- Intuition is gaining credibility as a source for good decision making – knowing something is not "right."
- Particularly relevant if you have a lot of experience in the area – expert decision–making.

(9) DECIDE ON YOUR COURSE OF ACTION AND PREPARE RESPONSES TO THOSE WHO MAY OPPOSE YOUR POSITION :

- Consider potential actions based on the consequences, obligations, and character approaches.
- Do you come up with similar answers from the different perspectives?
- Do the obligation and character help you "check" the consequentialist preferred action ?
- How can you protect the rights of those involved (or your own character) while still maximizing the overall good for all of the stakeholders ?
- What arguments are most compelling to you to justify the action ethically ? How will you respond to those with opposing viewpoints?

Check Your Progress – 2 :

1. What is the first step in ethical decision–making ?
   a. Evaluating the consequences of each option
   b. Identifying the problem or dilemma
   c. Consulting with others for advice
   d. Choosing the option that benefits oneself the most
2. What is a common framework used in ethical decision–making ?
   a. Utilitarianism b. Egoism
   c. Individualism d. Hedonism
3. Which of the following is not a principle of ethical decision–making ?
   a. Autonomy b. Beneficence c. Deception d. Justice

4.6 Let Us Sum Up :

Ethical dilemmas are situations where individuals are faced with conflicting moral values or ethical principles, and they are required to make a decision that has significant consequences for themselves and others. Ethical decision–making is a process of analyzing and evaluating different ethical options and making a choice that is consistent with ethical principles and values.

Effective ethical decision–making involves identifying and understanding the ethical issue, gathering relevant information, considering alternative options, evaluating the consequences of each option, and choosing the option that is most ethical and morally justifiable. It is essential to consider the impact of one's decision on stakeholders, including employees, customers, shareholders, and society as a whole.

The decision–making process should also involve reflection and self–awareness, as one's personal values, biases, and beliefs can influence ethical decision–making. It is crucial to be honest and transparent in decision–making and to seek feedback and input from others.

Overall, ethical decision–making is a complex and challenging process that requires careful consideration of multiple factors. It is essential to develop and practice ethical decision–making skills to navigate ethical dilemmas effectively and make choices that align with ethical principles and values

4.7 Answers for Check Your Progress :

Check Your Progress – 1 :

1. c **2.** b

Check Your Progress – 2 :

1. b **2.** a **3.** c

4.8 Glossary :

1. **Ethical Dilemma :** a conflict between moral principles, values, and responsibilities.
2. **Ethical Decision Making :** Ethical decision–making is the process of analysing and evaluating ethical dilemmas and choosing the course of action that is consistent with ethical principles, values, and standards
3. **Consequences :** refer to the outcomes or results of a decision or action. They can be positive or negative and have ethical implications

4.9 Assignment :

1. Explain the concepts of Ethical Dilemma

4.10 Activities :

1. Prepare the list of Steps for ethical decision making

4.11 Case Study :

1. Describe a scenario where an ethical decision needs to be made, including all relevant details and stakeholders involved. Then, outline the potential courses of action available and discuss which course of action you would recommend and why?

4.12 Further Readings :

1. Business Ethics and Corporate Governance by A. C. Fernando
2. Indian Ethos and Modern Management" by R. N. Mishra
3. Business Ethics : An Indian Perspective by A. C. Fernando
4. Ethical Dimensions in Business by P. R. Mishra
5. Business Ethics and Values by S. K. Mandal

BLOCK SUMMARY

The term 'ethics' characterizes the guidelines that bear on right and off–base issues of society. Business ethics is hence a set of proficient guidelines, which emphasize principles of trustworthiness and obligation to the trade and the common people

The other significant standards included in business ethics are :

- Fairness
- Judgment
- Commitment to agreements
- Broad–mindedness
- Considerateness
- Significance given to human regard and self–respect
- Mindful citizenship
- Endeavour to excel
- Accountability

Forms of ethical theories

- Various classes of ethical theories incorporate
- Deontology
- Utilitarianism
- Rights theory

Types of values

- Terminal Values.
- Instrumental Values.

The 4–V Model of Ethical Leadership

- Values,
- Vision,
- Voice and
- Virtue

Key features of Ethical Corporate Behaviour

- Top management support.
- Open discussion in resolving of realistic cases.
- An organization 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

Features of ethical dilemma

- Uncertain results
- Different decisions and Alternatives
- Blended results
- Direct/circuitous inclusion

Approaches to resolving ethical dilemma

- Utilitarian (end–based)
- Universalism (rule based)
- care–based
- Virtue ethics

Ethical decision making process

- Gather the facts
- Define the ethical issues
- Identify the affected parties (stakeholders)
- Identify the consequences
- Identify the obligations (principles, rights, justice)
- Consider your character and integrity
- Think creatively about potential actions
- Check your gut
- Decide on the proper ethical action and be prepared to deal with opposing arguments.

Hence, business ethics is an essential aspect of any organization. It refers to the set of principles and values that guide the behaviour and decision–making of businesses and their employees. Business ethics helps to promote a culture of integrity, transparency, and accountability, which is crucial for building trust and maintaining long–term relationships with stakeholders such as customers, employees, shareholders, and the community

BLOCK ASSIGNMENT

Short Questions :

1. What are the 3C's of Business Ethics ?
2. Define ethical concept of consequentialism.
3. What is Belief ?
4. What is whistle blowing ?
5. Define ethical dilemma

Long Questions :

1. Discuss various Ethical models.
2. Explain various forms of ethical theories
3 What are the various types of values? Explain with examples
4 Discuss the impacts of ethical leadership in organization.
5 Explain the ethical decision making process ?

❖ **Enrolment No. :** ☐

1. How many hours did you need for studying the units ?

Unit No.	1	2	3	4
No. of Hrs.				

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	________
Language and Style	☐	☐	☐	☐	________
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	________
Conceptual Clarity	☐	☐	☐	☐	________
Check your progress Quest	☐	☐	☐	☐	________
Feed back to CYP Question	☐	☐	☐	☐	________

3. Any other Comments

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BBAR-603

Corporate Governance & Business Ethics

BLOCK-2 BUSINESS ETHICS AND FUNCTIONAL DECISION MAKING

BLOCK 2 : BUSINESS ETHICS AND FUNCTIONAL DECISION MAKING

Block Introduction

Business ethics and functional decision making are two essential aspects of any successful organization. Ethics in business refers to the moral principles and values that guide the behaviour of individuals and organizations in the business world. On the other hand, functional decision making is the process of making sound and effective decisions in an organization, considering the goals and objectives of the organization. In today's fast–paced and competitive business world, it is essential to have a solid understanding of business ethics and functional decision making. These two concepts are closely intertwined and can have a significant impact on the success or failure of an organization. Business ethics are critical to maintaining a positive image and reputation for any organization. Ethical behaviour is not only the right thing to do, but it can also be a competitive advantage for organizations. When companies operate ethically, they can gain the trust and loyalty of customers, employees, and stakeholders. In contrast, unethical behaviour can lead to loss of credibility and trust, which can be damaging to the organization's reputation and bottom line.

Functional decision making is essential for organizations to achieve their goals and objectives. Decision making is a critical aspect of management, and it involves identifying problems, evaluating alternatives, and choosing the best course of action. Effective decision making requires a systematic and analytical approach that considers the available data, resources, and constraints.

In the block, we will explore the intersection of business ethics and functional decision making. We will examine how ethical considerations impact decision making and how effective decision making can promote ethical behaviour in organizations. We will also explore the ethical challenges that organizations face and how they can navigate these challenges while making sound decisions.

Block Objectives

- To understand the role of ethics in functional decision making in organization
- To understand the concept of ethics and marketing
- To understand the concept of ethics and Human resource management
- To understand the concept of ethics and financial management
- To understand the concept of ethics and information technology
- To understand the concept of ethics and productions and operations management
- To understand challenges of applying business ethics in functional decision making in organization
- To understand advantages and disadvantages of applying ethics in various functions of organization

Block Structure

Unit 1 : Ethical aspect in Marketing

Unit 2 : Ethics in Human resource Management

Unit 3 : Ethics in production and operations Management

Unit 4 : Ethics in Finance

Unit 5 : Ethics and information technology

Unit 1

ETHICAL ASPECTS IN MARKETING

: UNIT STRUCTURE :

1.0 Learning Objectives :

- To understand ethical principles in marketing.
- To learn about ethical dilemmas and challenges in marketing.
- To be able to recognize unethical marketing practices.
- To understand the impact of unethical marketing on consumers, society, and the environment.
- To be able to apply ethical principles in marketing decision–making

1.1 Introduction to is Marketing Ethics :

Marketing ethics revolves around ethical marketing principles and standards that show acceptable marketing conduct. Ethical marketing is a vital part of the marketing definition, thus making it really crucial to understand.

Marketing ethics serve as moral principles and values that should be followed during marketing communication. They are the guidelines that let companies decide about their new marketing strategies. But also keep in mind that it depends on one's judgment of 'right' and 'wrong.'

Any unethical behaviour is not necessarily unlawful. For example, if a company makes any claims about its products and cannot live up to those claims, it may be called unethical behaviour.

Marketing ethics fosters fairness and honesty in all advertisements. Any fraudulent claims to the customers, intruding on consumers' privacy, stereotyping, and targeting the vulnerable audience (like children and elderly) are deemed unethical. Even trying to damage the competitor's image is considered immoral

Ethics are a collection of principles of right conduct that shape the decisions people or organizations make. Practicing ethics in marketing means deliberately applying standards of fairness, or moral rights and wrongs, to marketing decision making, behavior, and practice in the organization.

In a market economy, a business may be expected to act in what it believes to be its own best interest. The purpose of marketing is to create a competitive advantage. An organization achieves an advantage when it does a better job than its competitors at satisfying the product and service requirements of its target markets. Those organizations that develop a competitive advantage are able to satisfy the needs of both customers and the organization.

As our economic system has become more successful at providing for needs and wants, there has been greater focus on organizations' adhering to ethical values rather than simply providing products. This focus has come about for two reasons. First, when an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services. When marketing practices depart from standards that society considers acceptable, the market process becomes less efficient– sometimes it is even interrupted. Not employing ethical marketing practices may lead to dissatisfied customers, bad publicity, a lack of trust, lost business, or, sometimes, legal action. Thus, most organizations are very sensitive to the needs and opinions of their customers and look for ways to protect their long–term interests.

Second, ethical abuses frequently lead to pressure (social or government) for institutions to assume greater responsibility for their actions. Since abuses do occur, some people believe that questionable business practices abound. As a result, consumer interest groups, professional associations, and self–regulatory groups exert considerable influence on marketing. Calls for social responsibility have also subjected marketing practices to a wide range of federal and state regulations designed to either protect consumer rights or to stimulate trade.

1.2 Characteristics of Ethical Marketing :

Ethical marketing tends to encompass the following features :

- **Transparency** – An ethical marketing campaign will reveal all truths about the products to the customer, including ingredients, components, and production processes.

- **Customer data protection –** Ethical marketers don't disclose customer information without consent. The information collected is only used to benefit the customers, e.g. recommending products that match their previous purchases.
- **Human rights compliance –** Marketing campaigns should not offend certain population groups by criticizing their mistakes or flaws.
- **Sustainability –** With environmentalism on the rise, companies should show how their products are sustainable and ethically produced in marketing campaigns.
- **Customer value –** Ethical marketing should aim to bring as much value to the customer as possible while limiting societal risks.

1.3 Unfair or Deceptive Marketing Practices :

Marketing practices are deceptive if customers believe they will get more value from a product or service than they actually receive. Deception, which can take the form of a misrepresentation, omission, or misleading practice, can occur when working with any element of the marketing mix. Because consumers are exposed to great quantities of information about products and firms, they often become skeptical of marketing claims and selling messages and act to protect themselves from being deceived. Thus, when a product or service does not provide expected value, customers will often seek a different source.

Deceptive pricing practices cause customers to believe that the price they pay for some unit of value in a product or service is lower than it really is. The deception might take the form of making false price comparisons, providing misleading suggested selling prices, omitting important conditions of the sale, or making very low price offers available only when other items are purchased as well. Promotion practices are deceptive when the seller intentionally misstates how a product is constructed or performs, fails to disclose information regarding pyramid sales (a sales technique in which a person is recruited into a plan and then expects to make money by recruiting other people), or employs bait–and–switch selling techniques (a technique in which a business offers to sell a product or service, often at a lower price, in order to attract customers who are then encouraged to purchase a more expensive item). False or greatly exaggerated product or service claims are also deceptive. When packages are intentionally mislabelled as to contents, size, weight, or use information, that constitutes deceptive packaging. Selling hazardous or defective products without disclosing the dangers, failing to perform promised services, and not honouring warranty obligations are also considered deception

1.4 Role of Ethics in Marketing :

Ethical marketing refers to a marketer's obligation to ensure all marketing activities stick to core ethics principles, involving integrity, humility, and honesty – both internally and externally.

Our economic system has become adequate at providing wants and needs for the public with time.

This has turned the market's primary focus toward ethical values while serving customers' needs. This is mainly due to two reasons : When there is ethical behaviour from the organization's side, there is a more powerful positive public attitude to different services and goods. However, to make their efforts valid to the general public, they must stick to specific marketing standards.

In addition, ethical bodies and organizations manage to pressurize and hold organizations and companies responsible for their actions. As a result, there is a lot of inquiry and sets of guidelines, which have to be strictly followed.

Ethics in marketing plays a crucial role in ethical decision–making for a product or service's optimized presence in its target niche. An ethical marketing technique is liable for paying heed to different factors such as–

- Organizational aspects such as culture, norms, values, and opportunity
- Individual factors such as righteous philosophies and values
- Stakeholder interests and concerns
- The intensity of ethical issues in marketing and organization setup
- Ethical decision making
- Evaluation of ethical outcomes

For instance, your marketing team hires a design agency for a new marketing campaign. However, halfway through the campaign, your team finds the agency doesn't treat its workers lawfully and doesn't align well with your values in terms of environmental and social responsibility.

It's in your best interest to stop working with the agency as soon as possible and re–align yourself with agents that uphold the same standards you've established for your team internally.

Equally important, of course, is the public–facing element of ethical marketing.

Additionally, ethical marketing also implies treating workers reasonably, employing sustainable materials, and doing your part to help environmental or social causes that feel vital to your brand.

1.5 Importance of Marketing Ethics :

Ethical marketing is important to an organization's overall growth and development over time.

The involved set of guidelines and rules leads to a purely good, organized roadmap for everyone to follow. These sometimes overlap with media ethics since they are closely connected with definition and functioning.

Here are some of the reasons why ethical marketing is an integral part of the life of an organization.

Customer Loyalty :

It is one of the most critical factors for ethical marketing. With the proper adoption of ethics in business and operation, the company can earn its consumers' loyalty, trust, and confidence that can serve in the long run. The natural human inclination to go after the genuine brand will surely give them promising gains, both in the present and future

Long–term gains :

The company or organization's foundation is based not only on its ability to survive the present but also on planning a bright future. By adopting appropriate marketing ethics, brands can engage prospects with high credibility, customer loyalty, significant market share, improved brand value, better sales, and better revenue. These ethical practices will place their right towards achieving both short–term and long–term goals with perfection.

Improved credibility :

When the organization looks forward to keeping its commitments surrounding its services and products on a constant and consistent basis, it slowly and steadily goes towards the path of cutting itself into an authentic and genuine brand in the market and customers' minds.It is not just limited to these two, and a good process can even make good respect in front of investors, counterparts, competitors, stakeholders, etc.

Advanced Leadership qualities :

When a company pursues ethical practices for an extended period, it gradually presents itself as a leader who can benchmark its policies and strategies that surround its structure and functioning.

This eventually leads to numerous benefits like enhanced share in the market, higher sales, inspiration for others, respect, mutual benefits, etc.

Display of a rich culture :

This structure offers a positive outlook when seen from the outside, but it also leads to a good structure and environment within the hierarchy internally. It gives rise to higher production owing to a confident and highly motivated staff.

The attraction of the right talent at the right place :

Once the company can build brand value in the market, it becomes a beacon for prominent individuals for the association.

Various people like prospective employees, consultants, vendors, etc., look forward to associating and working with the ethical brands that encourage them exponentially. This further let them achieve their goals in a short period successfully.

The satisfaction of basic human wants and needs :

Once an organization is on route to the appropriate marketing ethics, it solves its customers' basic requirements and desires in the form of integrity, trust, and honesty. When this is displayed for a long time, various other benefits follow.

Reaching financial goals :

To function smoothly for long periods, the company has to have good financial partners that allow them to grow and make significant strides in the market. Moreover, it helps them earn the moral ground necessary to entice such people.

Enhancement of brand value in the market :

Once a proper code concerning ethical marketing is followed by the organization, the public in the form of consumers, competitors, stakeholders, etc., look up to such organizations. They pursue such brands with religious dedication, providing a sufficient boost to mark the market.

1.6 Examples of Marketing Ethics :

Over the years, businesses have adopted various marketing practices that ethically and morally appeal to the public.

These are a few examples of the same :

- **A charitable giving campaign :** Many ethical companies engage in significant charitable giving programs, donating money or goods to social causes and initiatives with a positive impact. An example of a charitable giving campaign is a one–to–one program built into the business model : The Company donates one product to charity for every product they sell.
- **Centring business decisions and impact on product pages :** A common ethical marketing strategy is to advertise the company's fair business practices on product pages. The site may give an inside look at the production process (like a factory or office space) or provide accurate numbers about the product's minimal environmental impact. This aims to establish brand loyalty and make customers feel proud about supporting a company that works hard to be ethical.
- **Socially responsible social media accounts :** Many companies work to show their ethical practices by being responsible and outspoken online about social and ethical issues. This marketing decision emphasizes the company is an ethical brand with a sense of social responsibility that customers want to support

1.7 Principles of Ethical Marketing :

A few key principles of marketing ethics include :

Fairness : Establishing fairness as a decision–making principle means companies commit to fair prices, better wages, and sustainable development.

Honesty : A cornerstone of ethical behaviour is honesty. Honest companies use marketing communications to provide factual and unexaggerated information about the functionality and impact of their products and services; they advertise without attempting to mislead.

Responsibility : Businesses may emphasize their responsibility in several ways, including their obligation to provide a reliable product or service, support social causes, give back to communities, treat their employees with respect, or protect the environment through sustainable practices.

Transparency : In business, transparency means being open to the public about your company's operations, particularly the ethical way you treat employees and the sustainability and environmental impact of your products or services.

1.8 Ethical Issues in Marketing :

Many ethical problems can arise as companies carry out their marketing campaigns. Here are some common examples :

Market research ethical issues :

A major ethical issue in market search is the invasion of privacy. Nowadays, technology allows businesses to collect, store and use customer information in marketing campaigns. While this helps match the right product with the right customer more quickly, individual freedom might be violated

There's also the problem of stereotypes when companies conduct preliminary research and make general assumptions about their customers – such as women prefer cooking or men enjoy watching sports. This no longer fits today's culture and can cause frustration among audiences who don't belong to these categories.

Negative Marketing :

Although every company strives to gain consumer preference and loyalty over competitors, advertising that highlights the negative aspects of a competitor's offering is unethical.

This negative advertising, also known as ***smear tactics***, aims to discredit a competitor's image to boost your reputation among consumers.

You can avoid this practice by establishing clear standards for all promotional activities and messaging and effectively communicating these to company marketers.

Unethical Data Gathering :

Market research is hugely beneficial to businesses at all stages of their operations. Using accurate consumer data to formulate and execute market strategies can significantly increase the effectiveness and ROI of promotional activities.

However, you must collect data ethically. Before beginning market research activities, you should ponder governmental data and privacy protection policies and ensure full compliance with these regulations.

Advertising misleading pricing :

There are some marketing issues involving price hikes and predatory promotions. When businesses artificially inflate prices either during a high–demand time or sales promotion, this is known as *price hiking*.

Predatory promotion is the practice of promoting extremely low prices to attract customers, stealing them away from competition. These advertised prices are typically so low that the competition can't beat the price, so customers leave for a better deal. After the customer signs on, the business returns to its normal pricing.

This bait–and–switch technique sometimes goes even further by advertising a lower price to get a customer's attention. The company then says the advertised products are unavailable and push the customer to more expensive choices.

Pricing is an important part of marketing, and being transparent about costs helps build trust with customers. Share your fixed prices, and show how your prices align with your products and services.

Portraying hurtful stereotypes :

When creating a message, consider if you are targeting a specific market or a stereotype. Examples of stereotypes include gender roles, race and age. Market research can help remove bias and assumptions and give specific demographics for a target market.

Avoid all campaigns that cross the line of target market demographics. The target market should be backed by research and not stereotypes. Market research challenges stereotypical judgments by talking to customers and studying the competition to speak appropriately to customers.

Using gender, race and age are sensitive topics, and without the right research, customers may call you out and let you know.

Misusing customer data :

You might not even know that you are misusing your customer data. Third–party vendors may also be using this data without your knowledge, but customers will fault your business whether you are aware of the issue or not.

Make sure the data you collect is safe from third parties. You may want to consult with a privacy expert to ensure your customer data is safe and not sold to other parties without your knowledge.

Customer privacy is a big concern as people are skeptical of how companies use their personal information and track their behaviour. However, companies use this information to understand their target market and help produce the products they want.

Transparency in marketing is critical to avoid crossing the privacy line. Most customers know that companies get information from them, but companies need to share what information they collect and how.

Deceptive advertising :

This is the case where companies make certain claims about a product or service that they can't live up to. Deception in marketing often leads to severe consequences.

Forceful selling :

Forceful selling exploits human emotions to make a sale. Marketers only care about getting the product sold, regardless of customers' needs.

Check Your Progress – 1 :

1. Which of the following is an example of unethical marketing ?
   a. Offering a promotion with limited availability
   b. Making false claims about a product's benefits
   c. Using celebrity endorsements to promote a product
   d. Providing accurate information about a product
2. Which of the following is an example of ethical marketing ?
   a. Targeting vulnerable populations with deceptive advertising
   b. Using personal data to send unsolicited promotional emails
   c. Disclosing potential side effects of a medication in advertising
   d. Using subliminal messaging in advertising

1.9 Dos and Don'ts of Ethical Marketing :

Dos of Ethical Marketing :

Be Transparent :

Whenever you are marketing a product or service to customers, ensure that you are fully transparent about it, including key information about its safety and effective use.

Protect Consumer Data and Privacy :

Consumers are becoming increasingly concerned about entrusting their personal data with companies. For this reason, it's important to emphasise the company's commitment to consumer privacy

Commit To Sustainability and Human Rights :

Ethical consumerism is becoming a bigger priority for many customers. People want to feel assured that what they are purchasing is sustainable and ethically produced. Be honest about your ingredients, product components, and your supply chain.

Respond Meaningfully To Consumer Concerns :

If customers have safety concerns about a product or service, then this should be seen as a company's top priority. Always seek to protect consumer rights and immediately investigate any complaint.

Maximise Benefits and Minimise Risks :

Every ethical marketing strategy should try to benefit as many people as possible while creating as little harm or cost as possible. Making an overall and lasting positive impact should always be the aim.

Don'ts of Ethical Marketing :

Don't Exaggerate :

When you exaggerate the benefits of a product or service, you are making a false claim. You are promising a customer a level of quality that cannot be delivered.

Don't Make False Comparisons :

This is an unscrupulous tactic that involves making false, inaccurate, or misleading statements about a competitor's products.

Don't Make Unverified Claims :

This involves promising to deliver results (e.g. improved skin) without providing any scientific evidence to back this up.

Don't Stereotype :

This involves the promotion of stereotypes (e.g. portraying women as sex objects) in order to sell a product. The harm here is that this sort of marketing helps to maintain a sexist culture.

Don't Exploit Emotions :

Getting an emotional reaction from consumers is one of the most effective ways to generate interest. However, if you evoke negative emotions such as rage, fear, sadness in a tasteless way, this could be seen as exploitative. Customers want their emotions to be sympathised with, not manipulated

Check Your Progress – 2 :

1. Which of the following is an example of ethical marketing research ?
   a. Conducting research without obtaining informed consent from participants
   b. Falsifying research data to achieve desired results
   c. Offering incentives to participants in exchange for biased responses
   d. Conducting research with a diverse sample population to ensure accuracy

2. Which of the following is an example of unethical pricing strategies ?
   a. Offering discounts to loyal customers
   b. Pricing products higher in certain geographic areas
   c. Offering temporary promotions with limited availability
   d. Using psychological pricing tactics to manipulate consumer behaviour
3. Which of the following is an example of ethical product development ?
   a. Selling products without disclosing potential health risks
   b. Using environmentally harmful materials in product manufacturing
   c. Conducting safety tests to ensure products meet regulatory standards
   d. Introducing products to market without conducting market research

1.10 Let Us Sum Up :

We can conclude marketing ethics as an area of applied ethics associated with moral principles behind the operation and regulation of marketing that ethical companies employ to differentiate between right and wrong marketing judgments and their implementations.

Marketing ethics refers to the company's moral principles and values during marketing communications. Companies should always keep a 'good conscience' and avoid advertising that confuses, hurts, or misleads customers.

Ethical marketing characteristics include transparency, customer data protection, sustainability, human rights compliance, and customer value maximization. Maintaining ethics in marketing can allow businesses to increase sales, build customer loyalty, attract and retain talents, and keep stakeholders' interest. Many ethical issues still exist in marketing, including forceful selling, deceptive marketing, invasion of privacy and stereotype marketing.

1.11 Answers for Check Your Progress :

Check Your Progress – 1 :

1. d **2.** c

Check Your Progress – 2 :

1. d **2.** d **3.** c

1.12 Glossary :

1. **Deceptive Advertising :** Misleading or false advertising that deliberately misrepresents a product or service to consumers.
2. **Ethical Marketing :** Marketing practices that are guided by ethical principles and promote honesty, transparency, and fairness.

3. **Misleading Marketing :** Marketing that is technically true but deliberately omits important information that would alter a consumer's decision–making process

1.13 Assignment :

1. Explain the advantages of companies following ethics in marketing

1.14 Activities :

1. Prepare the list of companies following unethical practices in marketing

1.15 Case Study :

1. You are a CEO of company what ethical marketing practices you will follow in your organization

1.16 Further Readings :

1. Ethics in Human Resource Management : A Review by S. S. Khanka
2. Ethical Dilemmas in HR Practices by Kavita Singh
3. Corporate Ethics and Human Resource Management by V.K. Jain
4. Ethics in HRM : An Indian Perspective by Renuka Garg and Jaya Gupta

Unit 2

ETHICS IN HUMAN RESOURCE MANAGEMENT

: UNIT STRUCTURE :

2.0 Learning Objectives :

- Identify ethical issues that arise in human resource management.
- Understand the importance of ethical behaviour in human resource management.
- Apply ethical principles to HR decision making.
- Evaluate the consequences of unethical behaviour in HR management.
- Develop strategies to prevent and address ethical issues in HR management.
- Communicate effectively about ethical concerns in HR management.
- Recognize and respect diverse ethical perspectives in HR management

2.1 Introduction :

Human resource management deals with manpower planning and development related activities in an organization. Arguably it is that branch of management where ethics really matter, since it concerns human issues specially those of compensation, development, industrial relations and health and safety issues. There is however sufficient disagreement from various quarters.

There are different schools of thought that differ in their viewpoint on role of ethics or ethics in human resource development. One group of thought leaders believes that since in business, markets govern the organizational interests and these interests are met through people, the latter are therefore at the highest risk. They believe that markets claim profits in the name of stakeholders and unless we have protocols, standards and procedures the same will develop into a demon monopolizing markets and crushing human capital; HR ethics are become mandatory.

There is another group of ethicists inspired by neo–liberalism who believe that there are no business ethics apart from realization of higher profits through utilization of human resources. They argue that by utilizing human resources optimally, there is more value creation for the shareholders, organization and the society and since employees are part of the society or organization, they are indirectly benefited. Nevertheless ethics in human resource management has become a perennial debate of late !

Discussions in ethics in HRD stem from employee relationships and whether or not there can be a standard for the same. Employee rights and duties and freedom and discrimination at the workplace are issues discussed and covered by most texts on the topic. Some argue that there are certain things in employment relationship that are constant others disagree with the same. For example, right to privacy, right to be paid in accordance with the work (fair compensation) and right to privacy are some areas that cannot be compromised upon.

Ethics in human resource management refers to the principles, values, and standards that guide the behaviour of HR professionals in their interactions with employees, applicants, and other stakeholders. It involves the application of moral and ethical principles to the employment relationship and the management of people in the workplace.

2.2 Ethical Considerations in HR Management Include :

Fairness : Ensuring fair and equitable treatment of employees in all aspects of employment, such as hiring, promotion, compensation, and termination.

Confidentiality : Maintaining the confidentiality of employee information and using it only for legitimate business purposes.

Respect : Treating employees with respect and dignity, and promoting a culture of mutual respect in the workplace.

Compliance : Adhering to legal and regulatory requirements and avoiding discriminatory practices.

Honesty : Communicating truthfully and honestly with employees and other stakeholders.

Responsibility : Taking responsibility for the impact of HR policies and decisions on employees, the organization, and society as a whole.

2.3 Role of Ethics in Human Resource Management :

It is important that you understand the role of ethics in human resources to effectively run a business. Besides encouraging employee collaboration and accountability, here are the essential functions of ethics in human resource management.

1. Abide by Employment Law :

HR ethics helps you conduct business in line with the employment law due to fair employment practices. For instance, policies related to minimum wage and employee overtime pay show that your company compensates employees in accordance with the law. In addition, policies against discrimination attract applicants from diverse groups, thus indicating that you engage in fair employment practices.

2. Protecting Your Employer Brand/Reputation :

Conducting business unethically can ruin your reputation since word will spread everywhere about your misdeeds. These can include sexual harassment, discrimination, unfair employment policies, etc. As a result, not only will you be able to lose important clients, but attracting quality talent for various positions will be a challenge. That being said, build your reputation with the best HR ethics activities and keep your business ahead of the competition.

3. Promotes Employee Retention :

HR ethics and compliance in the organization promote trust among the employees. As a result, your workers will be loyal and strive to impress you by putting more effort into work. In addition, they will work in your organization for more extended periods, thus gaining more experience that contributes to increased production. More importantly, hiring and recruiting costs will be reduced.

4. Better Decision Making :

Business ethics in human resource management encourages collaboration and accountability. As a result, employees will be able to be accountable for their actions, allowing you to easily make the best organizational decisions. What's more, workplace conflicts that tend to occur more frequently will also reduce since no employee will want to be in the spotlight as a troublemaker at all times.

2.4 Ethical Issues in HR :

Of all the organisational issues or problems, ethical issues are the most difficult ones to handle or deal with. Issues arise in employment, remuneration and benefits, industrial relations and health and safety.

Cash and Compensation Plans :

There are ethical issues pertaining to the salaries, executive perquisites and the annual incentive plans etc. The HR manager is often under pressure to raise the band of base salaries. There is increased pressure upon the HR function to pay out more incentives to the top management and the justification for the same is put as the need to retain the latter.

Further ethical issues crop in HR when long term compensation and incentive plans are designed in consultation with the CEO or an external consultant. While deciding upon the pay–out there is pressure on favouring the interests of the top management in comparison to that of other employees and stakeholders.

Race, gender and Disability :

In many organisations till recently the employees were differentiated on the basis of their race, gender, origin and their disability. Not anymore ever since the evolution of laws and a regulatory framework that has standardised employee behaviours towards each other.

In good organisations the only differentiating factor is performance! In addition the power of filing litigation has made put organisations on the back foot. Managers are trained for aligning behaviour and avoiding discriminatory practices.

Employment Issues :

Human resource practitioners face bigger dilemmas in employee hiring. One dilemma stems from the pressure of hiring someone who has been recommended by a friend, someone from your family or a top executive.

Yet another dilemma arises when you have already hired someone and he/she is later found to have presented fake documents. Two cases may arise and both are critical. In the first case the person has been trained and the position is critical. In the second case the person has been highly appreciated for his work during his short stint or he/she has a unique blend of skills with the right kind of attitude. Both the situations are sufficiently dilemmatic to leave even a seasoned HR campaigner in a fix.

Privacy Issues :

Any person working with any organisation is an individual and has a personal side to his existence which he demands should be respected and not intruded. The employee wants the organisation to protect his/her personal life.

This personal life may encompass things like his/her religious, political and social beliefs etc. However certain situations may arise that mandate snooping behaviours on the part of the employer.

For example, mail scanning is one of the activities used to track the activities of an employee who is believed to be engaged in activities that are not in the larger benefit of the organisation.

Similarly there are ethical issues in HR that pertain to health and safety, restructuring and layoffs and employee responsibilities. There is still a debate going on whether such activities are ethically permitted or not. Layoffs, for example, are no more considered as unethical as they were thought of in the past.

Check Your Progress – 1 :

1. Which of the following is not an ethical issue in HR ?

   a. Discrimination b. Harassment

   c. Nepotism d. Employee motivation

2. Which of the following is not a consequence of ethical violations in HR ?

   a. Damage to company reputation

   b. Legal action against the company

   c. Increased employee motivation

   d. Loss of employee trust and loyalty

2.5 Ethics in Human Resource Management Examples :

The role of HR in promoting ethics is to encourage the best code of ethics and lead by example for smooth business operations. Note that there are different types of ethics in HRM, and below, we have shared some of the significant ones to help you effectively manage your business.

- Guide, encourage, and mentor your employees to be on their best workplace behavior.
- Be respectful and always talk to them privately whenever they conduct themselves unethically.
- Keep communication as honest and transparent as possible to gain your workers' trust.
- Encourage social responsibility.
- Do not take advantage of your position for any gain whatsoever, whether financial, personal, or material. Simply put, avoid being biased

2.6 Basic HRM Ethics for an Organization :

Rules and regulations ought to be same for everyone.

Everyone needs to attend office on time irrespective of their designation, distance of their home from the workplace, salary or status. An individual cannot come to office late just because he is the team leader and his team is already present and working on his behalf. If a day's salary of a clerk is deducted for coming late to work, it should be the same for the marketing manager as well.

Company's policies need to be communicated clearly to each and every one.

There should be transparency at all levels of hierarchy. Employees are the backbone of any organization and thus they must have a say in company's goals and objectives.

An organization ought to respect its employees to expect the same in return.

Rules and regulations should not be too rigid. Don't expect an employee to attend office two days before his marriage date. If an employee is not keeping well, please do not ask him/her to attend office unless and until there is an emergency.

Management must not forget that only money is not a strong motivator for employees.

Everything is important, be it career, growth, job satisfaction but what is most important is employee's salaries. Do not unnecessary hold their salaries for a long time unless and until there is really shortage of funds. In case of marketing and sales employees, conveyance and mobile bills must be cleared at the earliest. Do not ask for unnecessary bills and documents.

Organization should not expect employees to attend office 365 days a year.

It is the responsibility of human resource professionals to prepare the holiday calendar at the beginning of the year and circulate the same among all employees. Let employees enjoy their respective festivals and come back to work with positive energy and smile. Infact allow them to go in the festive mood two days prior to the D day. Ask them to organize pre festival bashes at the workplace. Let them dress in colourful attires and have fun. Trust me, work never suffers this way. Rather, employees feel attached to the organization and strive hard to deliver their level best every time.

Give employees the space they require.

Key responsibility areas need to be communicated to the employees on the very first day of their joining. Roles and responsibilities need to be assigned as per an individual's expertise and experience. Do not expect an employee with one year experience to head the marketing team. Employees need to be trained well. Organizations need to give at least six months time to the new employees to adjust in the new environment.

It has been observed that most of the times employees crib when they are underpaid. Make sure employees get what they deserve. Salaries should be decided in the presence of the employee and also keeping in mind an individual's role in the organization, his/her gross salary in the previous organization, responsibilities within the current system and of course his/her years of experience. One of the major reasons as to why employees quit their jobs after a year or so is poor appraisal system. Increments ought to be directly proportional to the amount of hard work an employee puts in throughout the year and also his/her performance. Unnecessary favours are against the workplace ethics.

Do not be too strict with your employees.

Do not block all social networking sites. Blocking face book and instagram etc. is not the ideal way to ensure employees are working and not wasting their time. Even a 24 * 7 check would not prevent employees from wasting their time unless and until they realize it themselves. The moment, you are strict with something, people would tend to do the same more.

Check Your Progress – 2 :

1. Which of the following is an ethical issue in human resource management ?

   a. Favouritism

   b. Offering fair salaries

   c. Providing training opportunities

   d. All of the above

2. Which of the following is an ethical dilemma faced by human resource managers ?

   a. Deciding how much to pay employees

   b. Choosing the best candidate for a job

   c. Deciding whether to fire an underperforming employee

   d. None of the above

3. Which of the following is a potential consequence of unethical behavior in human resource management ?

   a. Increased employee morale

   b. Decreased employee turnover

   c. Legal action against the organization

   d. All of the above

2.7 Ways to Promote Ethical HRM Practices at Workplace :

Workplace ethics ensures employees are treated with utmost respect. It also leads to a sense of satisfaction among employees and they develop a feeling of attachment towards their respective organizations. The feeling of loyalty is a feeling which is seen in very few individuals. For them, going to work is the best source of earning money and also keeping one–selves occupied. Organizations often complain of employees moving on when they are fully trained. An organization invests its time, money and energy in training a new employee and thus it is a big blow when he/she quits all of a sudden.

The best way to promote workplace ethics is to be very specific and careful while recruiting potential employees who would be representing the top levels especially the human resource department.

It is rightly said that human resource professionals are the face of an organization. They need to understand the psychology of individuals well as they are the ones who have the responsibility of formulating policies, rules and regulations of the organization. Remember, policies should neither be too flexible nor too rigid. If policies are too flexible, no one actually follows them and if policies are too rigid, again employees would depend on excuses and lies to escape them. You must understand your nature of business. An organization which works primarily for US Clients can't ask employees to report early in the morning as I am sure employees must be working till late or probably the whole night.

Human resource professionals ought to communicate the organization policies and code of conduct clearly to the employees the very first day. Also send them a mail for their ready reference.

Tell them very clearly the office timings, hierarchy, dress code, salary structure, leave procedure, reporting structure and so on. In this case, they would never have an excuse later. Tell them from the very beginning that there are certain things which are expected out of them and organization is very strict on certain policies like coming to office on time, informed leaves etc. Make them clear that if they are caught bunking office or participating in unfair practices like stealing, passing on confidential information, they would be shown the exit door the very next day. Trust me, no one would even think of doing the same. Problems arise when employees are not aware of rules and regulations. Transparency between management and employees is of utmost importance and the best way to promote workplace ethics.

Listen to what your employees have to say. Let them come out with their problems. Superiors need to interact with employees on a regular basis and address their grievances.

Management needs to make employees feel comfortable. They might come up with lots of issues and as a boss it is your responsibility to guide them and help them with a solution. Even if the problem is illogical, do not be harsh to them. Make them realize as to where they are wrong. Open communication is the best way to promote workplace ethics. Constant mentoring plays an important role in motivating the employees to adhere to the organization policies.

No employee should be given special treatments.

Bonuses and hikes must be proportional to the employee's performance over a period of time. Appreciating the employee who really deserves is essential. Do not favour anyone just because you like him/her. Fair judgement is of utmost importance. You have nothing to do with his/her personal life. There should be absolutely no problem if an employee goes out to meet his girlfriend after office hours.

Organization needs to support its employees always, even at the hours of crisis.

Job security and constant career growth are two most important factors which ensure employees stick around for a long time and also are satisfied with their current assignment. If employees are happy and contended and feel respected, they would also strive hard to deliver their level best every time

2.8 Let Us Sum Up :

"In conclusion, ethics plays a critical role in human resource management (HRM). Ethical behaviour in HRM involves treating employees fairly, with respect, and in a manner that is consistent with legal and moral standards. HR professionals should strive to create an ethical work culture that fosters honesty, transparency, and accountability. Ethical considerations should be incorporated into all HR functions, from recruitment and selection to performance management and employee relations. Adhering to ethical principles can help organizations attract and retain talented employees, build a positive reputation, and improve overall business performance. Ultimately, ethical HRM is not just the right thing to do, it is also good for business

2.9 Answers for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** c

Check Your Progress – 2 :

1. a **2.** c **3.** c

2.10 Glossary :

1. **Discrimination :** Treating an individual or group differently based on their race, ethnicity, gender, religion, age, or other protected characteristics.
2. **Diversity :** The practice of creating a work environment that respects and values the differences among employees, such as differences in race, ethnicity, gender, age, and sexual orientation.
3. **Equal Employment Opportunity :** The principle that all employees and job candidates should have equal access to employment opportunities regardless of their race, gender, age, religion, or other protected characteristics

2.11 Assignment :

1. Explain the advantages and advantages for the companies following ethics in HRM

2.12 Activities :

1. Prepare the list of unethical activities carried out in Human Resource Management

2.13 Case Study :

1. Being a HR manager of company what ethical Human resource management practices you will follow in your organization

2.14 Further Readings :

1. Marketing Ethics and Social Responsibility by S. Dash
2. Ethics in Marketing and Communications : Towards a Global Perspective by B. Prasad and S. Pathak
3. Business Ethics and Marketing : Indian Context by M. Prasad and M. K. Jaiswal."

Unit 3

ETHICS IN PRODUCTION AND OPERATIONS MANAGEMENT

: UNIT STRUCTURE :

3.0 Learning Objectives :

- Understand the importance of ethical decision–making in production management.
- Identify ethical issues that may arise in production management.
- Apply ethical principles to resolve ethical dilemmas in production management.
- Develop strategies to create an ethical culture in production management.
- Analyse the impact of unethical behaviour on stakeholders in production management

3.1 Introduction :

Ethics in production is a subset of business ethic that is meant to ensure that the production function or activities are not damaging to the consumer or the society. Like other ethics there is a certain code of conduct or standards to be followed, however ensuring that the ethics are complied with is often difficult.

One of the most important characteristic of the business today is that there is a great degree of interdependence between various business functions. Production cannot happen without marketing and sales and vice versa.

In order to survive in the competitive sphere organizations try to reduce the costs involved in production processes. This cost efficiency is sometimes achieved at the cost of quality. Poor processes and technology is used to keep the cost down, this is especially true for small players who cannot afford economies of scale. Having said this there are also examples of industry giants that compromised on certain production processes, cola companies make up for a good example.

All the production functions are governed by production ethics but there are certain that are severely harmful or deleterious which need to be monitored continuously. The following are worth mentioning :

1. There are ethical problems arising out of use of new technologies that are deleterious to health, safety and environment. Technological advancements like genetically modified food, radiations from mobile phones, medical equipment etc are less problems are more of dilemmas.
2. Defective services and products or products those are innately deleterious like alcohol, tobacco, fast motor vehicles, warfare, chemical manufacturing etc.
3. Animal testing and their rights or use of economically or socially deprived people for testing or experimentation is another area of production ethics.
4. Ethics of transactions between the organization and the environment that lead to pollution, global warming, increase in water toxicity and diminishing natural resources.

3.2 Meaning of Ethics in Production :

Ethical manufacturing is a holistic approach to the manufacturing process that focuses on good health for all involved. This means that a product's design, creation, and use maintain sustainable standards and that the item and the process of making these has a positive impact on communities.

An ethical manufacturer has oversight and cares about each section of their business and their own supply chain, prioritising the well–being of both customers and staff, as well as the environment in which they work, shop, and source materials.

Ethical businesses want to operate in the best interest of workers. The health and happiness of staff become priorities, going beyond the standard legal requirements. This means that safety is not sacrificed, and workers are treated fairly. In turn, this can benefit a business through a boost in productivity and staff retention.

Ethical production may include material and energy use. Is renewable energy used as part of the manufacturing process ? Are materials recycled or are products designed to minimize the amount of waste produced in manufacturing ?

This is key for many manufacturing businesses that have waste management issues, such as fashion and clothing manufacturers. An estimated 92 million tons of textile waste is created annually from the fashion industry. Ethical clothing manufacturers must ensure that their processes decrease or limit their waste through the design of their garments or by reusing materials. This process can be extended and translated across other manufacturing industries

3.3 Importance of Ethical Production for Businesses :

Ethical production is important for staff, customers, and environmental well–being. But it can also have significant benefits for businesses. By utilizing sustainable processes and materials, manufacturers are ensuring that their future is secure. For example, some toilet paper companies will plant trees to replace the ones used for their production. This action is circular, as it means that their impact on the environment is limited and that they have future materials to continue their manufacturing.

Also, ethical businesses that provide a positive work environment are likely to improve productivity. Ethical businesses can continue the development of staff and their skills, improving their work. Oxford University found that happy workers are 13 percent more productive than those who are not. Training staff could also help retention, as 93 percent of employees said they would stay at a company longer if it invested in their career. Ethical manufacturing businesses do not just have to rely on material sustainability – the ethical impact can extend to their workers as well.

Sustainability and ethical manufacturing are also key to attracting customers. Customers are more likely to purchase from an ethical company, displaying a need to know that their corporate mission is genuine and from a well–founded place. From a business perspective, ethical manufacturing has clear financial benefits. Aligning your production, staff development, and customer outreach within a framework of ethical manufacturing can lead to improved quality, more productivity, and increased revenue.

Check Your Progress – 1 :

1. What is the most important ethical consideration in production ?

   a. Maximizing profits　　b. Ensuring worker safety

   c. Meeting production quotas　　d. Meeting customer demands

2. What is a potential consequence of prioritizing production speed over worker safety ?

   a. Increased profits b. Improved worker morale

   c. Decreased product quality d. Decreased worker turnover

3.4 Dilemma of Ethics in Production :

There are certain processes involved in the production of goods and a slight error in the same can degrade the quality severely. In certain products the danger is greater i.e. a slight error can reduce the quality and increase the danger associated with consumption or usage of the same exponentially. The dilemma therefore lies in defining the degree of permissibility, which in turn depends on a number of factors. Bhopal gas tragedy is one example where the poisonous gas got leaked out due to negligence on the part of the management.

Usually many manufactures are involved in the production of same good. They may use similar or dissimilar technologies for the same. Setting a standard in case of dissimilar technologies is often very difficult. There are many other factors that contribute to the dilemma, for example, the involvement of the manpower, the working conditions, the raw material used etc.

Social perceptions also create an impasse sometimes. For example the use of some fertilizer by cola companies in India recently created a national debate. The same cold drinks which were consumed till yesterday became noxious today because of a change in the social perception that the drinks are not fit for consumption

3.5 Implications of Ethics in Production :

While maintaining high ethical standards and complying with laws and regulations are important for all businesses, manufacturing companies face additional challenges because of the potential for harming employees and consumers. When you operate a manufacturing line, the potential for injury to workers and the possibility that your products are unsafe for consumers is always present. Implementing policies, procedures and controls to reduce these risks is not only ethical – it is often a legal requirement.

Maintaining a Safe and Ethical Manufacturing Environment

Ethical businesses prioritize safety in the workplace. In a manufacturing environment, the presence of machines and raw materials make adequate safety procedures both legally mandatory and ethically necessary. In addition to basic safety rules, such as wearing protective gear and refraining from engaging in risky behavior, the main issues relate to a reasonable balance between inconvenience, productivity and safety. Applying too many rules creates compliance problems, while not addressing safety issues can lead to injury. If you give the employees a role in developing safety regulations for a production line, it helps in the implementation of effective rules that strike the right balance.

Reducing Harm to the Environment

Manufacturing processes use energy and produce waste. Legal restrictions govern how companies can produce energy while limiting emissions and how they have to treat waste to reduce environmental damage. Ethics in production influence the overall approach of a company toward environmental degradation caused by its manufacturing operations. Taking into account both legal and ethical factors, you have to reduce your energy use by increasing energy efficiency and exploring the use of alternative technologies. At the same time, you can reduce waste by looking at where it is generated and changing your manufacturing process to produce as little as possible.

Operating a Fair and Secure Workplace

Employers have a legal and ethical responsibility to ensure workers are not subject to sexual harassment or other forms of workplace hostility and to treat all employees fairly. If your manufacturing environment has mostly male workers, you have to be especially vigilant that female employees feel welcome and comfortable. To meet both the legal and ethical challenges, institute detailed policies against harassment and make sure all employees comply.

Duty to Provide Safe Products

In addition to internal issues, manufacturing companies face liability once their products leave the factory. Product safety is governed by legislation, and ethical concerns mean you should only ship products that have been tested for safety. While knowingly shipping dangerous products is illegal and unethical, the use of your products also may have unintended and harmful effects. Going beyond legal requirements to thoroughly test all aspects of the use of your products reduces your exposure to possible law suits and fulfills your ethical duties.

3.6 The Code of Conduct for Ethics in Production :

Following are some of the code of conduct that businesses can follow for ethics in production

(1) No use of child labour

(2) No use of forced labour

(3) Safe and healthy working conditions

(4) Legal labour contract

(5) Payment of a living wage

(6) Freedom of Association and the right to collective bargaining

(7) No discrimination against employees

(8) No excessive hours of work

3.7 Advantages of Ethics in Production Management :

Ethics plays a crucial role in production management, as it helps to ensure that a company operates in a socially responsible manner. Here are some of the advantages of ethics in production management :

Improved reputation : Companies that operate with ethical values are often viewed positively by the public, which can enhance their reputation and lead to increased customer loyalty.

Increased customer trust : When a company operates in an ethical manner, customers are more likely to trust its products and services, which can lead to increased sales and revenue.

Better employee morale : Ethical behaviour can help to create a positive work environment, which can improve employee morale and reduce turnover.

Improved quality control : Companies that prioritize ethics in production management are more likely to have effective quality control processes in place, which can improve the consistency and reliability of their products.

Compliance with regulations : Ethical behaviour can help to ensure that a company complies with all relevant regulations and laws, reducing the risk of legal problems or fines.

Sustainability : Ethical production management practices can help to reduce the environmental impact of a company's operations, which can benefit both the environment and the company's reputation."

Check Your Progress – 2 :

1. What is the purpose of an ethical supply chain ?

   a. To increase profits

   b. To comply with laws and regulations

   c. To ensure worker safety and fair labor practices

   d. To increase customer satisfaction

2. What is a potential consequence of using child labor in production ?

   a. Increased worker productivity b. Lower production costs

   c. Improved product quality d. Violation of human rights

3. What is the role of a code of ethics in production ?

   a. To increase profits

   b. To establish production quotas

   c. To provide guidance for ethical decision–making

   d. To satisfy customer demand

3.8 Characteristics of Ethics in Operations Management :

Ethics in operations management refers to the principles and values that guide decision–making and behaviour in the field of operations management. Here are some key characteristics of ethics in operations management :

Responsibility : Operations managers have a responsibility to ensure that their actions and decisions do not harm employees, customers, stakeholders, and the environment. They must take responsibility for the consequences of their actions and make ethical decisions that benefit all parties involved.

Integrity : Ethical operations managers act with integrity by being honest, transparent, and truthful in their interactions with others. They uphold ethical principles even when faced with difficult decisions or situations.

Fairness : Operations managers must be fair and equitable in their treatment of employees, customers, suppliers, and other stakeholders. They should avoid favouritism and discrimination, and treat everyone with respect and dignity.

Compliance : Operations managers must comply with all relevant laws, regulations, and ethical standards in their industry. They should not engage in any unethical or illegal practices, and should actively seek to prevent unethical behaviour in their organization.

Sustainability : Ethical operations managers prioritize sustainability by considering the environmental, social, and economic impacts of their decisions. They strive to minimize waste, reduce emissions, and promote social responsibility in their operations.

Continuous improvement : Ethical operations managers are committed to continuous improvement, both in their own ethical behavior and in the ethical standards of their organization. They seek out feedback, learn from mistakes, and continuously strive to improve their ethical performance

3.9 Let Us Sum Up :

Ethics in production and operations management involves considering the impact of business decisions and actions on stakeholders, including employees, customers, suppliers, and the environment. A company that operates with ethical principles seeks to create value for all stakeholders while minimizing harm and maximizing benefits.

In conclusion, ethics is an essential component of production and operations management as it guides decision–making, shapes corporate culture, and contributes to sustainable business practices. A company that prioritizes ethics in its operations is more likely to build trust with its stakeholders, enhance its reputation, and create long–term value. Therefore, it is important for organizations to integrate ethical considerations into their production and operations management processes and continuously evaluate and improve their ethical practices.

3.10 Answers for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** c

Check Your Progress – 2 :

1. c **2.** d **3.** c

3.11 Glossary :

1. **Sustainable Production :** Production that meets the needs of the present without compromising the ability of future generations to meet their own needs
2. **Fair Labour Practices :** Workplace policies that ensure fair treatment of employees, including fair wages, reasonable working hours, and safe working conditions

3.12 Assignment :

1. Explain the Characteristics of the ethics in Operations Management

3.13 Activities :

1. Prepare the list of Advantages of Ethics in Production and operations management

3.14 Case Study :

1. Being a manager of company develop Code of conduct for Ethics in production

3.15 Further Readings :

1. Ethical Issues in Operations Management by R. Paulraj and S. Ganesan
2. Sustainable Operations and Supply Chain Management by Varun Gupta and R.K. Sharma
3. Business Ethics and Corporate Governance : A Managerial Perspective by A.C. Fernando

Unit 4

ETHICS IN FINANCE

: UNIT STRUCTURE :

1.0 Learning Objectives :

- Understand ethical principles and theories related to finance.
- Identify potential ethical issues and dilemmas in finance.
- Apply ethical decision–making frameworks to resolve ethical issues in finance.
- Understand the importance of ethical behavior in building trust and credibility in the finance industry.
- Understand the regulatory environment and legal requirements related to ethical behavior in finance.
- Understand the role of corporate social responsibility in finance.
- Understand the impact of unethical behavior in finance on individuals, organizations, and society as a whole.
- Understand the importance of professional codes of ethics and standards in finance.

4.1 Introduction :

Finance is concerned broadly with the generation, allocation, and management of monetary resources for any purpose. It includes personal finance, whereby individuals save, invest, and borrow money to conduct their lives ? Corporate finance, whereby business organizations raise capital, mainly through the issue of stocks and bonds, and deploy it to engage in economic production ? And public finance, whereby governments raise revenue by means of taxation, fees, and borrowing and spend it to provide services for their citizens. This financial activity is facilitated by financial markets, in which money and financial instruments are traded, and by financial intermediaries, such as banks, exchanges, and other financial services providers, which facilitate financial transactions.

Ethics in finance consists of the moral norms that apply to financial activity broadly conceived. That finance be conducted according to moral norms is of great importance, not only because of the crucial role that financial activity plays in the personal, economic, political, and social realms but also because of the opportunities for large financial gains that may tempt people to act unethically. Many of the ethical norms in finance are embodied in laws and government regulation and enforced by the courts and regulatory bodies. Ethics plays a vital role, in addition to laws and regulations, first, by guiding the formation of laws and regulations and, second, by guiding conduct in areas not governed by laws and regulations. In general, moral norms reflect the conduct in financial activity that follows from fundamental ethical principles.

Ethics in Finance talks about financial behaviour or activities that are ethically right or wrong. Business ethics that are followed by financial institutions, financial services, or financial markets are the integral parts of ethics in finance.

It is generally used for describing finance which takes into account the ethical channelization of financial returns along with ESG (environmental, social, and governance) factors

4.2 What is Financial Ethics or Ethics in Finance ?

The ethics in finance incorporate truthfulness, integrity, honesty, justice, and fairness in all sorts of financial activities.

Financial ethics or business ethics are actually subsets of general ethics. It is crucial for maintaining harmony and stability in financial services where people interact with one another and do any sort of financial or monetary transactions.

Ethics governs the course of action taken by a human that can be right or wrong. Ethics form the person's attitude to do right; and they can be specified in terms of a profession or even an organization in the form of business ethics

Since a company is primarily based on financial needs and directives, it must follow the ethics route towards the future. This can be achieved both internally and externally, thereby resulting in a suitable environment for employees, stakeholders as well as market position.

Ethics is one of the most critical and intricate aspects of an organization, especially in domains like finances. There is either "right" or "wrong" associated with any human action based on the organization's conventional morality and business ethics.

Finance ethics is highly crucial because of the countless scandals and ethical issues of the financial industry. Ethics in the finance sector mainly revolves around the handling of material non–public information and reporting of the unethical act.

Upholding ethical standards in finance–related activities by being aware, educated, and holding high moral standards in economic, corporate, business or finance activities. It resolves all sorts of unethical act and interests

4.3 A Framework for Finance Ethics :

Most financial activity takes the form of financial contracting, in which two parties come to some mutual agreement. For example, bank loans and stock trades are each kinds of contracts. Because so much financial activity consists of contracting, the ethical norms that apply in finance can be grouped under two main heads :

(1) Fairness in making contracts and the

(2) Observance of contractual obligations.

Virtually the whole of ethics in finance can be reduced to two simple rules :

(1) "Be fair (in making contracts) !" and

(2) "Keep your promises (made in contracts) !"

Although the ethical issues that arise in finance are numerous, they, too, can be grouped under a few main heads. These heads are as follows : financial markets, financial services, and financial management. The main ethical concern in financial markets, such as stock markets, is that they be fair, especially in cases of asymmetry, which occur when parties have unequal information or power. Ethical issues in the financial services industry and in the financial management of corporations mainly involve agents, who have an obligation to act in the interests of other parties, called principals, and fiduciaries, who have a fiduciary duty to act in the interest of beneficiaries. When agents and fiduciaries have a personal interest that interferes with their ability to serve others, they are said to have a conflict of interest

4.4 Importance of Ethics in Finance :

1. Provides a moral code of standard :

In the financial market, some barriers range from unequal information, misuse of power and resources, etc.

In such cases and those which involve third–party connections, there is a dire need for a proper code to be followed in the industry. From investment to trading to stock to economical activities of the corporate or finance system, all follow an ethical code in all their transactions

2. Ethics in finance channelizes confidence in business/corporate dealings :

The main objective of the financial industry is to have direct dealings with the industry.

These directly connect to their clients in the form of product or service delivery where they look forward to winning their confidence.

Despite the primary objective to maintain a competitive stature in the industry, they must do so on ethical grounds. In addition to such practices, being ethically right will gives businesses good returns in the long term.

3. Ethics makes business/corporate behaviour and activities harmonious :

In the financial industry, we can expect many people to be part of an organization

Since these have to work together at different levels and towards a similar core objective, there has to be a set of ethical rules and guidelines that have to be followed

Check Your Progress – 1 :

1. Which of the following is a reason why ethics are important in finance ?

   a. They ensure legal compliance

   b. They promote fair and honest behaviour

   c. They increase profitability

   d. They reduce risk

2. What is the role of ethics in financial decision–making ?

   a. They have no role in financial decision–making

   b. They provide a framework for making ethical decisions

   c. They prioritize profits over ethical considerations

   d. They are only relevant in personal finance, not business finance

4.5 Codes of Ethics in Finance :

Different moral codes that are supposed to be followed the finance–related behavior of a company towards its employees, customers, public and other stakeholders–

1. Acting with honesty and integrity while handling dilemmas of the world of finances

2. Not associating with any real/clear conflicts of interest in personal, or company relationships

3. Providing information that is full, accurate, fair, complete, relevant, objective, understandable, and timely in and for different documents and reports

4. Acting in accordance with all the applicable rules, laws, and regulations of governments along with other relevant public/private regulatory agencies
5. Acting responsibly and in good faith with due care, carefulness, and competence without any sort of misrepresentation of material facts
6. Respecting the confidentiality of information which is acquired in the business course and such information should not be used for the personal benefit
7. Promoting ethical behaviour among all the associates and stakeholders of a company
8. Adhering and promoting a code of ethics in the company

4.6 Implications of Ethics in Finances :

To deal with ethical problems in finances like those ranging from ethical codes in place for financial professionals to the replacement of the egoistic theory, there are a large variety of domains covered in business ethics.

It is not an uncommon practice of applying ethical means in contemporary businesses. These codes adhering to a morally established financial set of ethics are regulated and maintained by self–regulating agencies and official regulating authorities.

These are kept in place to ensure ethically and morally responsible behaviour from the various operatives that operate in the financial market.

Example of ethical violations in the financial market includes insider trading, investor management, campaign financing, and stockholder interest vs stakeholder interest.

Businesses in both financial and general markets have to be wary of loyalty and trust violations in both private and public dealings.

Following are some the important implication of ethics in finance

Maintaining Trust :

Ethical behaviour is essential to maintain trust and confidence in financial markets. Trust is the foundation of any financial system, and ethical practices are necessary to ensure that financial professionals and organizations operate in a transparent and fair manner. When investors and customers trust financial professionals and organizations, they are more likely to invest and engage in financial transactions, which can lead to increased economic growth and development.

Protecting Consumers :

Ethical practices in finance are essential to protect consumers from fraudulent or abusive financial practices. Financial professionals and organizations have a responsibility to act in the best interests of their clients and customers and provide them with accurate and reliable information. Ethical behavior ensures that financial products and services are designed and marketed in a fair and transparent manner, and consumers are provided with clear and concise information about the risks and benefits of financial products and services.

Encouraging Responsible Investment :

Ethical practices in finance encourage responsible investment in socially responsible and environmentally sustainable projects. Financial professionals and organizations have a responsibility to consider the social and environmental impact of their investments and to promote sustainable development. Ethical behavior ensures that financial resources are allocated to projects that contribute to the overall well–being of society and the environment.

Promoting Fair Competition :

Ethical practices in finance promote fair competition and prevent anti–competitive behaviour. Financial professionals and organizations have a responsibility to comply with laws and regulations governing

Check Your Progress – 2 :

1. What is the potential consequence of unethical behaviour in finance ?

   a. Increased profitability   b. Improved reputation

   c. Legal action   d. Increased customer loyalty

2. Which of the following is an example of unethical behaviour in finance ?

   a. Providing transparent financial statements

   b. Offering fair compensation to employees

   c. Engaging in insider trading

   d. Making charitable donations

3. What is the impact of ethical behaviour on a company's reputation ?

   a. It has no impact on a company's reputation

   b. It can enhance a company's reputation

   c. It can harm a company's reputation

   d. It is only relevant to non–profit organizations

4.7 Unethical Behaviour in Financial Markets :

1. Faking the Numbers :

In the reporting and analysis of finances, economics, investment, or business activities, "faking the numbers" is one of the common unethical behaviours.

2. Asset Misappropriation :

When funds of an organization are used for the things that are not related to the organization then it is an unethical act.

3. **Disclosure Concerns :** Disclosing information (public or private) overly or disclosing too little is also unethical in different situations. For instance, hiding a loss from potential investors is unlawful.

4. **Executive Focusing :**

   Another unethical concern is focussing too much upon the executives and giving them too much power, as it may give power to the executive to pressure the reporting and analysis team, it is also an essential and ethical duty to ensure that fair practices are being followed in the financial industry or society.

5. **No Direct Chain of Command :**

   Every company should incorporate a proper chain of command for offering reporting and analysis of the finances, and if it is not there, it would be unethical.

4.8 Let Us Sum Up :

Ethics in finance is a critical aspect of the financial industry that should be taken seriously by all participants, including individuals, corporations, and government entities. The ethical principles in finance ensure that investors, clients, and stakeholders are treated fairly and transparently, which helps to promote trust and confidence in the financial markets.

Ethical behaviour in finance requires practitioners to act with integrity, transparency, and honesty in all their dealings. It also involves making decisions that prioritize the best interests of clients, investors, and other stakeholders, while avoiding conflicts of interest and unethical behaviour.

In conclusion, ethics in finance is essential for promoting trust and confidence in the financial markets. Practitioners in the industry must adhere to ethical principles to ensure that they maintain the highest standards of professionalism and integrity, which is critical to the success and sustainability of the financial industry.

4.9 Answers for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** b

Check Your Progress – 2 :

1. c **2.** c **3.** b)

4.10 Glossary :

1. **Asset Misappropriation :** When funds of an organization are used for the things that are not related to the organization then it is an unethical act.

2. **Disclosure Concerns :** Disclosing information (public or private) overly or disclosing too little is also unethical in different situations. For instance, hiding a loss from potential investors is unlawful

4.11 Assignment :

1. Explain the Implications of the ethics in Finance for the companies

4.12 Activities :

1. Prepare the list of code of Ethics in Finance

4.13 Case Study :

1. Being a Finance manager of company develop Framework for Finance Ethics

4.14 Further Readings :

1. Business Ethics by A.C. Fernando
2. Financial Ethics : An Indian Perspective by Shubhankar Karmakar
3. Ethics in Finance by Dr. Latha Chari
4. Ethics in Financial Management by Gopalasamy Ramesh

Unit 5

ETHICS AND INFORMATION TECHNOLOGY

: UNIT STRUCTURE :

1.0 Learning Objectives :

- To understand the ethical considerations involved in the creation, use, and dissemination of information technology.
- To recognize the potential impacts of information technology on society, individuals, and the environment.
- To identify the ethical principles and values that should guide decision–making in information technology.
- To develop critical thinking skills to evaluate ethical issues and dilemmas in information technology.
- To become familiar with ethical frameworks and theories that can help resolve ethical conflicts in information technology.
- To apply ethical principles and frameworks to real–world cases in information technology.
- To appreciate the role of professional codes of ethics and ethical standards in information technology.
- To recognize the importance of ethical behaviour in building trust and credibility in the information technology industry

5.1 Introduction :

Information technology ethics is the study of the ethical issues arising out of the use and development of electronic technologies. Its goal is to identify and formulate answers to questions about the moral basis of individual responsibilities and actions, as well as the moral underpinnings of public policy.

Information technology ethics raises new and unique moral problems because information technology itself has brought about dramatic social, political, and conceptual change. Because information technology affects not only how we do things but how we think about them, it challenges some of the basic organizing concepts of moral and political philosophy such as property, privacy, the distribution of power, basic liberties and moral responsibility.

Information Technology specifies to the components that are used to store, fetch and manipulate the information at the minimum level with the server having an operating system. Information Technology have a wide area of applications in education, business, health, industries, banking sector and scientific research at a large level. With the leading advancement in information technology, it is necessary to have the knowledge of security issues, privacy issues and main negative impacts of IT. To deal with these issues in IT society it is important to find out the ethical issues

5.2 Ethics in Information Technology :

The growth of the Internet, the ability to capture and store vast amounts of personal data, and greater reliance on information systems in all aspects of life have increased the risk that information technology will be used unethically. In the midst of the many IT breakthroughs in recent years, the importance of ethics and human values has been underemphasized–with a range of consequences. Here are some examples that raise public concern about the ethical use of information technology :

- Many employees have their email and Internet access monitored while at work, as employers struggle to balance their need to manage important company assets and work time with employees' desire for privacy and self–direction.
- Millions of people have downloaded music and movies at no charge and in apparent violation of copyright laws at tremendous expense to the owners of those copyrights.
- Organizations contact millions of people worldwide through unsolicited email (spam) as an extremely low–cost marketing approach.
- Hackers break into databases of financial and retail institutions to steal customer information, then use it to commit identity theft–opening new accounts and charging purchases to unsuspecting victims.
- Students around the world have been caught downloading material from the Web and plagiarizing content for their term papers.
- Web sites plant cookies or spyware on visitors' hard drives to track their online purchases and activities.

5.3 Major Ethical Issues Faced by Information Technology (IT) :

Some of the Major ethical issues faced by Information Technology (IT) are as follows

Personal Privacy :

It is an important aspect of ethical issues in information technology. IT facilitates the users having their own hardware, operating system and software tools to access the servers that are connected to each other and to the users by a network. Due to the distribution of the network on a large scale, data or information transfer in a big amount takes place which leads to the hidden chances of disclosing information and violating the privacy of any individuals or a group. It is a major challenge for IT society and organizations to maintain the privacy and integrity of data. Accidental disclosure to inappropriate individuals and provisions to protect the accuracy of data also comes in the privacy issue

Access Right :

The second aspect of ethical issues in information technology is access right. Access right becomes a high priority issue for the IT and cyberspace with the great advancement in technology. E–commerce and Electronic payment systems evolution on the internet heightened this issue for various corporate organizations and government agencies. Network on the internet cannot be made secure from unauthorized access. Generally, the intrusion detection system are used to determine whether the user is an intruder or an appropriate user

Harmful Actions :

Harmful actions in the computer ethics refers to the damage or negative consequences to the IT such as loss of important information, loss of property, loss of ownership, destruction of property and undesirable substantial impacts. This principle of ethical conduct restricts any outsiders from the use of information technology in manner which leads to any loss to any of the users, employees, employers and the general public. Typically, these actions comprises of the intentional destruction or alteration of files and program which drives a serious loss of resources. To recover from the harmful actions extra time and efforts are required to remove the viruses from the computer systems

Patents :

It is more difficult to deal with these types of ethical issues. A patent can preserve the unique and secret aspect of an idea. Obtaining a patent is very difficult as compared with obtaining a copyright. A thorough disclosure is required with the software. The patent holder has to reveal the full details of a program to a proficient programmer for building a program

Copyright :

The information security specialists are to be familiar with necessary concept of the copyright law. Copyright law works as a very powerful legal tool in protecting computer software, both before a security breach and surely after a security breach. This type of breach could be the mishandling and misuse of data, computer programs, documentation and similar material. In many countries, copyright legislation is amended or revised to provide explicit laws to protect computer programs

Trade Secrets :

Trade secrets is also a significant ethical issue in information technology. A trade secret secures something of value and usefulness. This law protects the private aspects of ideas which is known only to the discover or his confidants. Once disclosed, trade secret is lost as such and is only protected by the law for trade secrets. The application of trade secret law is very broad in the computer range, where even a slight head start in the advancement of software or hardware can provide a significant competitive influence.

Liability :

One should be aware of the liability issue in making ethical decisions. Software developer makes promises and assertions to the user about the nature and quality of the product that can be restricted as an express warranty. Programmers or retailers possess the legitimate to determine the express warranties. Thus they have to be practical when they define any claims and predictions about the capacities, quality and nature of their software or hardware. Every word they say about their product may be as legally valid as stated in written. All agreements should be in writing to protect against liability. A disclaimer of express warranties can free a supplier from being held responsible of informal, speculative statements or forecasting made during the agreement stages.

Piracy :

Piracy is an activity in which the creation of illegal copy of the software is made. It is entirely up to the owner of the software as to whether or not users can make backup copies of their software. As laws made for copyright protection are evolving, also legislation that would stop unauthorized duplication of software is in consideration. The software industry is prepared to do encounter against software piracy. The courts are dealing with an increasing number of actions concerning the protection of software

Check Your Progress – 1 :

1. Which of the following is not an ethical issue in information technology ?

   a. Privacy　　b. Accessibility

   c. Intellectual property　　d. All of the above

2. What is the ethical issue related to the use of cookies in web browsing ?

   a. Privacy　　b. Intellectual property

   c. Cyberbullying　　d. None of the above

5.4 Advantages of Ethics in Information Technology :

Ethics play a critical role in information technology (IT) as they help guide professionals in the industry to act responsibly and make decisions that consider the well–being of individuals, organizations, and society as a whole. Here are some of the key advantages of ethics in information technology :

Protection of Privacy : IT professionals with a strong ethical foundation are better equipped to protect user privacy and ensure that sensitive information is not mishandled or misused.

Security and Data Protection : Ethical considerations help IT professionals to design and implement security measures to safeguard data and systems from cyber threats and breaches.

Improved Corporate Reputation : Organizations that prioritize ethical behavior and practices tend to enjoy a positive reputation among customers and stakeholders, which can lead to greater trust, loyalty, and business success.

Compliance with Legal and Regulatory Standards : Adherence to ethical principles can help organizations ensure that they comply with legal and regulatory requirements, avoiding costly fines and penalties.

Social Responsibility : Ethical considerations in IT can help professionals to design and implement technologies that benefit society and minimize harm, such as those that support environmental sustainability or promote social justice.

Professional Growth : Practicing ethics in IT can help professionals to build their skills, knowledge, and credibility in the field, leading to greater job opportunities, career advancement, and personal fulfilment.

Overall, ethics in information technology is crucial for ensuring that technology is used in a responsible, beneficial, and sustainable way that supports the interests of individuals, organizations, and society as a whole

5.5 Characteristics of Ethics in Information Technology :

Ethics in information technology (IT) refers to the principles and standards that guide the behaviour of IT professionals and users in their interactions with technology. Some of the characteristics of ethics in information technology include :

Responsibility : IT professionals have a responsibility to use technology in ways that benefit society and the environment, and to avoid using it in ways that cause harm.

Privacy : The use of technology must respect the privacy and confidentiality of individuals' personal information.

Security : IT professionals have a responsibility to ensure that technology systems are secure and protected from unauthorized access.

Accountability : IT professionals must be accountable for their actions and decisions related to technology.

Transparency : IT professionals should be transparent in their actions and decision–making processes, and provide clear explanations for their actions when necessary.

Fairness : The use of technology must be fair and just, and not discriminate against individuals or groups based on factors such as race, gender, or religion.

Respect for intellectual property : IT professionals must respect the intellectual property rights of others, including patents, copyrights, and trademarks.

Professionalism : IT professionals should maintain high standards of professionalism and conduct themselves in a manner that upholds the integrity of the IT profession."

Check Your Progress – 2 :

1. What is the ethical issue related to using personal data for targeted advertising ?

   a. Privacy b. Accessibility

   c. Intellectual property d. None of the above

2. What is the ethical issue related to the use of open–source software ?

   a. Intellectual property b. Accessibility

   c. Cyberbullying d. None of the above

3. What is the ethical issue related to the use of artificial intelligence (AI) in decision–making ?

   a. Privacy b. Bias

   c. Accessibility d. None of the above

Implications for ethics in information technology

Information technology has brought about significant advancements in our society, providing us with faster, more efficient, and convenient ways of communicating, accessing and processing data. However, these advancements have also brought with them a range of ethical concerns that need to be addressed. Here are some of the key implications for ethics in information technology :

Privacy : With the increasing use of technology, personal information is being collected, processed, and shared on an unprecedented scale. Ethical concerns arise when individuals' personal information is collected without their knowledge or consent or used for purposes other than what was originally intended. Ethical considerations must be taken to protect individual privacy rights.

Cyber security : The increasing dependence on technology has made it easier for malicious actors to target individuals and organizations with cyber–attacks. Ethical considerations must be taken to ensure that appropriate security measures are in place to protect sensitive information from unauthorized access.

Artificial Intelligence : The development of AI technology raises ethical questions about the ethical implications of decision–making by machines, such as bias and discrimination. Ethical considerations must be taken to ensure that AI is used in ways that align with ethical values and principles.

Intellectual Property : Information technology has made it easier to create, reproduce and distribute digital content, raising ethical questions about intellectual property rights. Ethical considerations must be taken to ensure that creators and owners of digital content are protected from infringement and that the rights of content consumers are respected.

Digital Divide : Technology has the potential to create economic and social inequality, with certain groups being left behind in terms of access to technology and the benefits it provides. Ethical considerations must be taken to ensure that the benefits of technology are accessible to all, regardless of socio–economic status."

5.6 Let Us Sum Up :

The field of information technology has created new opportunities and challenges for individuals and organizations alike, and ethical considerations are a critical aspect of this rapidly evolving domain. In conclusion, ethics in information technology involves recognizing and addressing the ethical dilemmas that arise from the use and development of technology.

Some of the key ethical issues in information technology include privacy and security, intellectual property rights, accessibility, and the impact of technology on society as a whole. It is essential for IT professionals to prioritize ethical considerations when designing, implementing, and using technology, and to be aware of the potential risks and consequences of their actions.

Ultimately, ethics in information technology requires a commitment to responsible decision–making and a willingness to engage in ongoing reflection and dialogue about the ethical implications of technology. By doing so, we can help to ensure that technology is used in ways that are beneficial for all individuals and society as a whole"

5.7 Answers for Check Your Progress :

Check Your Progress – 1 :

1. b   **2.** a

Check Your Progress – 2 :

1. a   **2.** a   **3.** b

5.8 Glossary :

1. **Privacy :** The right to be free from unwanted intrusion, surveillance or monitoring of one's personal information.
2. **Intellectual Property :** The legal concept that refers to the ownership of creative works and inventions, such as copyrights, patents, and trademarks.
3. **Data privacy :** The protection of personal information that is stored, processed, and transmitted by computer systems.

5.9 Assignment :

1. Explain the Characteristics of the ethics in Information Technology

5.10 Activities :

1. Prepare the list of code of Ethics in Information Technology

5.11 Case Study :

1. Being a manager of company what will be implications of ethics in Information Technology

5.12 Further Readings :

1. The Ethics of Information Technology and Business" by Richard Spinello and Herman T. Tavani
2. Information Ethics : Privacy, Property, and Power" by Adam D. Moore
3. Ethics and Technology : Controversies, Questions, and Strategies for Ethical Computing" by Herman T. Tavani
4. Business Ethics by A.C. Fernando

BLOCK SUMMARY

Business ethics and functional decision making are two essential aspects of any successful organization. Ethics in business refers to the moral principles and values that guide the behaviour of individuals and organizations in the business world. On the other hand, functional decision making is the process of making sound and effective decisions in an organization, considering the goals and objectives of the organization. In today's fast–paced and competitive business world, it is essential to have a solid understanding of business ethics and functional decision making. These two concepts are closely intertwined and can have a significant impact on the success or failure of an organization

Characteristics of Ethical Marketing

- Transparency –
- Customer data protection
- Human rights compliance.
- Sustainability
- Customer value

Role of Ethics in Marketing

An ethical marketing technique is liable for paying heed to different factors such as–

- Organizational aspects such as culture, norms, values, and opportunity
- Individual factors such as righteous philosophies and values
- Stakeholder interests and concerns
- The intensity of ethical issues in marketing and organization setup
- Ethical decision making
- Evaluation of ethical outcomes

Principles of Ethical Marketing

- Fairness
- Honesty
- Responsibility
- Transparency

Ethical considerations in HR management include

- **Fairness :** Ensuring fair and equitable treatment of employees in all aspects of employment, such as hiring, promotion, compensation, and termination.
- **Confidentiality :** Maintaining the confidentiality of employee information and using it only for legitimate business purposes.
- **Respect :** Treating employees with respect and dignity, and promoting a culture of mutual respect in the workplace.

- **Compliance :** Adhering to legal and regulatory requirements and avoiding discriminatory practices.
- **Honesty :** Communicating truthfully and honestly with employees and other stakeholders.
- **Responsibility :** Taking responsibility for the impact of HR policies and decisions on employees, the organization, and society as a whole.

Ways to Promote Ethical HRM practices at workplace

- The best way to promote workplace ethics is to be very specific and careful while recruiting potential employees who would be representing the top levels especially the human resource department.
- Human resource professionals ought to communicate the organization policies and code of conduct clearly to the employees the very first day. Also send them a mail for their ready reference
- Listen to what your employees have to say. Let them come out with their problems. Superiors need to interact with employees on a regular basis and address their grievances
- No employee should be given special treatments.
- Organization needs to support its employees always, even at the hours of crisis.

The Code of Conduct for ethics in production

Following are some of the code of conduct that businesses can follow for ethics in production

- no use of child labour
- No use of forced labour
- Safe and healthy working conditions
- Legal labour contract
- Payment of a living wage
- Freedom of Association and the right to collective bargaining
- No discrimination against employees
- No excessive hours of work

Advantages of ethics in production management

- Improved reputation
- Increased customer trust
- Better employee morale
- Improved quality control.
- Compliance with regulations.
- Sustainability

A Framework for Finance Ethics

The ethical norms that apply in finance can be grouped under two main heads :

(1) Fairness in making contracts and the

(2) Observance of contractual obligations.

Virtually the whole of ethics in finance can be reduced to two simple rules :

(1) "Be fair (in making contracts)!" and

(2) "Keep your promises (made in contracts)!

Major ethical issues faced by Information Technology (IT)

- Personal Privacy
- Access Right

Harmful Actions

- Patents
- Copyright
- Trade Secrets
- Liability
- Piracy

Functional decision making is essential for organizations to achieve their goals and objectives. Decision making is a critical aspect of management, and it involves identifying problems, evaluating alternatives, and choosing the best course of action. Effective decision making requires a systematic and analytical approach that considers the available data, resources, and constraints

BLOCK ASSIGNMENT

Short Questions :

1. What is Deceptive Advertising ?
2. Define ethics in Human Resource Management.
3. What is Asset Misappropriation ?
4. What are the intellectual property rights ?
5. Define ethics in Production

Long Questions :

1. Explain the importance of Ethics in Marketing ?
2. Discuss ethical issues in Human resource management
3. Explain the implications of ethics in production
4. Discuss unethical behaviour in financial markets
5. What are the various advantages of ethics in Information technology ? Explain in brief

❖ **Enrolment No. :** ______________

1. How many hours did you need for studying the units ?

Unit No.	1	2	3	4	5
No. of Hrs.					

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any other Comments

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Corporate Governance & Business Ethics

BLOCK-3 CORPORATE GOVERNANCE : EVOLUTION & CONCEPT

BLOCK 3 : CORPORATE GOVERNANCE : EVOLUTION & CONCEPT

Block Introduction

This block will provide an overview on Corporate Governance. Corporate Governance has become a buzz word in the current scenario. It has been believed that good Corporate Governance is a basic requirement for growth of the economy and the nation as well. In this block we will discussed on history of Corporate Governance. Different models of Corporate Governance are discussed in this block. This block will provide an importance of corporate governance in National as well International context. As pre prevailing prudent practices, any subject or area of study gradually develops with some prudent principles or theories. This block provides you an issues and concerns related to Corporate Governance in Context of Independent Directors, Institutional Shareholders, Proxy Advisory Firms.

Block Objectives

After learning this block, you will be able to understand :

- Introduce the concepts of Corporate Governance.
- Understand the importance of Corporate Governance in country's development.
- Introduce the concepts of Corporate Governance in India.
- To understand Corporate governance models of different countries.
- To understand models for Decision–making.
- To provide appropriate solutions for an organisation.
- To understand issues in Corporate Governance.
- To understand shareholders activism.
- To understand about global organisations and funds.
- To understand rule based decisions.

Block Structure

Unit 1 CORPORATE GOVERNANCE : AN OVERVIEW

: UNIT STRUCTURE :

1.0 Learning Objectives :

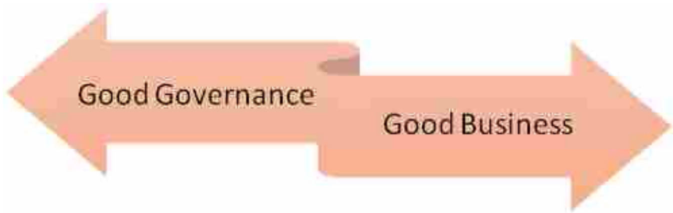
After learning this unit, you will be able understand :

- Introduce the concepts of Corporate Governance.
- Understand the importance of Corporate Governance in country's development.
- Introduce the concepts of Corporate Governance in India.

1.1 Introduction :

Corporate Governance has become a buzz word in the current scenario. It has been believed that good Corporate Governance is a basic requirement for growth of the economy and the nation as well.

It is also believed that Corporate Governance is one of the critical issues in the business world today. On one side, for the companies, good governance means securing access to broader–based cheaper capital. However the for the investors, a commitment to good governance means enhanced shareholder value. For both, good governance equals good business.



The world has seen many U.S.A. based companies like Enron, WorldCom, Bear Starns, Fanny Mae, Countrywide, Washington Mutual, Lehmen Brothers, AIG and Wachovia, U.K. based companies like Northern Rock, Kaupthing, Fortis and ING all such companies which were very reputed and respected at one point of time landed up in deep financial distress. In India we have seen the incidents like Satyam Computers, Ketan Parekh Securities, Speak Asia, Home Trade, Saradha Chit Fund. All these have one thing in common and that apart from landed up in deep financial distress, many of them disappeared in the first decade of 21st century.

Even one such incident of corporate governance failure is capable of creating an economic disaster. Recently the country has seen the following financial scandle.

- PMC Bank Scam
- DHFL Scam
- INX Media Case
- IMA Ponzi Scheme
- Rotomac Bank Fraud
- Punjab National Bank Scam

All these scams have damaged the economy of the country and also questioned the corporate governance practises prevailing in the country as well.

The last few years have witnessed a dramatic collapse of major corporates across the world. This has brought to a major lacuna in the corporate governance systems. Hence, the focus of the governments, regulators, companies, investors and the general public has shifted to updating the efficiency of the corporate governance system. The need of the hour is to inculcate in the system and element of fairness, accountability and transparency.

1.2 Why is Corporate Governance Important to a Country ?

There are several reasons why corporate governance is considered an inseparable element of a country's economic DNA. Just as it is the government's responsibility in a civilised nation state to provide clean water and air, efficient communications, and so on, it is also, arguably, its responsibility to provide for an orderly and transparent business environment that would inspire confidence and trust on the part of domestic and international investors. In countries with weak laws or their poor implementation, permitting overseas investments by their national, domestic investors may prefer to invest overseas in countries where corporate government standards and the legal protection framework are perceived as more favourable, unless domestic stock returns are considerably more attractive to cover poor governance risks adequately.

According to Harold M Williams, a former chairman of U.S. Securities and Exchange Commission corporations should behave themselves and be seen to be doing if they were to preamp oppressive and overly reactive regulation or legislation. It was an indictment of governments not regulating business adequately and in time.

Another important reason for ensuring good corporate governance is the inevitability, in the case of large corporations, of involvement of "other peoples' monies" in financing their operations. Equity capital and debt capital, including various hybrid forms of credit, constitute the sources of funding of any corporations as normally displayed in their financials. There is nothing strictly private about the corporation to the extent that large proportions of a corporation's funding are thus traceable to other people's monies.

1.3 Governance for Sustainable Development :

Globalization, to become successful, has to be preceded by good governance. The key principle for success is to ensure that growth is sustained and shared; sustained in that it is robust and can withstand shock; shared in that brings prosperity to many; rather than a few. There are many good players involved in good (corporate) governance – owners, shareholders, board of directors, managers and employees. They are the internal architecture. The external architecture comprises the legal and statutory requirements, regulatory standards, stock markets, government policies, media, reputation, agents such as standards and accounting bodies all of which affect the corporation's credibility and stock value.

With economic downturn leading to the collapse of large scale market, corporate governance is once again becoming an issue of worldwide importance. Good governance is a powerful competitive differentiator and critical to economic and social progress. The business has a key role to play in providing employment, public and private services, goods and infrastructure. Efficiency and accountability of business are now both public and private interest, and governance, therefore, comes at the top of international agenda. Even if the business is privately owned, calling for local or international capital, governance is decisive. The term sustainable development first appeared in 1987 in a report entitled 'Our common future' by the World Commission on Environment and Development of the United Nations. The commission defined sustainable development as "………. development that meets the need of the present without compromising the ability of future generations to meet their own needs." In general, development means progress or change for the better. Development involves maximizing the efficiency of resource allocation to meet the needs– which is dominant model of economics at the present time. As a result, sustainable development, essentially, is an economic concept. It holds human being responsible for the current state of environment, and challenges them to accept responsibility for initiating the changes necessary to attain sustainability. This challenge was reinforced at the United Nation's Conference on Environment and Development held in Rio De Janeiro in 1992. Agenda 21 was issued by the conference for the purpose. There has been a little since then. In October 1994 a group of 16 members that included scientists, economists, policy makers and business leaders met at Carnoules in France and published a declaration, known as "Carnoules Declaration". The declaration has called for major increase in resource productivity. The group has made only basic rational recommendation for satisfying human needs without damaging environment, and the implementation has faced monumental resistance. The problem with the implementation of sustainable development agenda, as with other issues such as globalization, poverty and inequality, is that it has always been dealt with in isolation and not as a part of an interrelated and integrated approach. Also there is little effort in involving the mainstream business and allaying its fears that sustainable development will curtail its profit potential. This cripples creativity and inhibits businessmen from using their innovative ability to reach the target in the most cost effective manner. Little has been done to educate businesses world that sustainability in business has a vast business potential by opening untapped markets and by serving the unarticulated customers. Sustainable development is the language of business.

Business can be made to realize that the pollution and waste are nothing more than business inefficiencies and process inadequacies, and there is money to be made in their elimination. Business has a lot to gain from sustainable development. Private sector is the key to initiate an overarching strategy for a sustainable future for mankind. An important prerequisite to sustainable development is the adoption of good governance practices based on transparency, accountability, equity, integrity and responsibility. There are enough good people in the world and there is a strong public opinion to generate money to begin sustainable development strategies in developing countries. The biggest stumbling block for improving the business environment is poor governance. Good governance can ensure better market framework conditions by encouraging freedom of competition. Highlighting the means of achieving the result, the public policy should focus on the target, the desired end result. Governance structures should be such that they support the entrepreneurial action and risk taking or innovation.

Good governance can find several ways to bring down the world poverty and inequality. Nurturing innovation is another area that can be a greater equalizer for the purpose. In real meaning, there is only one way to transfer this world and ensure sustainable development. This is through innovation and responsible governance. Unless the business world has participatory, transparent, equitable and responsible governance systems, innovation is unlikely a foster. There are so many vested interests that use all kinds of tactics to frustrate the innovator. Human ingenuity has no limit. This is the only hope for better environment, a better world, a sustainable world. But to let its ingenuity flourish in a productive way, one must break the current moulds and transcend self inflicted field barriers. We must educate our next generation to be more courageous and transparent than we have been. Business people must celebrate failure and not fear it. Business must value diversity as it values capital. It must build trust, sense of sharing and equity for healthy and long lasting tomorrow. Good corporate governance framework, therefore, has to take care of a triple bottom line approach i.e. profit, people and planet for sustainable wealth creation.

1.4 Corporate and Ethics :

Corporate governance implies a connection between business and ethics; that is among that is among the management, governance and control systems of an organization. In practice, there are interrelated code of ethics, ethics management systems and corporate. Business ethics can be understood as governance structures by which firms controls, protect and develop the integrity in their operations. Theorical investigation and integration of these ethical systems has till now been developed only to a limited extent and has been confined to individual aspects. It explained as moral claims in organization. There is a conceptual destination between the moral values of an individual in a given function i.e. management ethics. Business ethics has to refer constitutively to the form of a 'firm' as a governance structure.

It can be systematically be developed as governance ethics only under conditions where individual virtues can and must have their effect. Ethics tends to be something that passes through our organization's culture. One has to change one's images of success from "winner takes all" and "success at all costs" and develop an inner value system that prides on ethics, innovation, equity, legitimacy, transparency, the courage to own failures. Generation of 21st century has enormous capabilities to improve the quality of life on this planet. The gap between what needs to be done and what can be done has never been smaller– only if one changes one's goal from making money to making a difference. Eventually suitable success of the business organization needs a collective effort of everyone as Rigveda says, "Let us come together; let us think together; let us combine our intellectual strength; let our collective brilliance shine; let there be no ill will; this is the true way to progress."

The management should develop a business firm as a collective actor/ cooperative project. One must understand business ethics via the values of 'willingness to co–operate' and 'capability to co–operate' as the immanent problematic of the form of a co–operation project. The elements of governance ethics are the moral values and behavioural constrains and extensions deriving from organizational rules and values as well as their communication in and via co–operation. Accordingly, it is not the notion of action, but of governance that is its point of reflection that creates win – win situation. Governance structures are sets or matrices of communicated formal and informal rules and values that constitute the co–operative player as constrains, and furnish him or her with explicit rules of the game for contractual and organizational relations for the realization of specific transactions. In conclusion, the governance ethics of the firm is the theory of the comparative analysis of a moral sensitive design and communication of governance structures for specific economic transaction via cooperation. Considering the core values of organization in mind, a business unit frames its vision and mission statements (what one wants to become), and the entire time that will knock in the minds of the management about the basic standards of the organization. Business manager's motto should be : 'get on; get honours; get honest' considering this ethical role in an organization.

If one look at the age–old Indian philosophical tradition and Indian Shashtras, one can derive certain values which are also consistent with the value systems of other civilizations. Athreysin his seminar paper titled "Business Values for the 21st Century" has aptly summarized the concept of 'Dharma' as enshrined in the *Indian Shashtra*. Following are the briefly illustration of some perceptions **:**

- **Dharma (Righteousness) :** the right path that will uphold the family, organizational and the social fabric.
- **LokaSangraha (Public Good) :** work not just for personal gains but for the society/public good. Practice swarthprartha (self plus others), seeking one's own gains catering to the welfare of others.
- **Vividhta (innovation) :** beyond survival, business has to be the engine of innovation, constantly seeking more effective solutions to meet economic and social expectations. Such innovation is is required in processes, product, materials, machines, organization, strategies, systems and people.
- **Kushalam (effectiveness) :** optimum utilization of resources efficiently and productively; judicious use of resources and reserving them for the future generations.
- **Jigyasa (learning) :** change and continuity will coexist. Hence, corporations have to keep learning from the feedback from society and through the internal processes of questioning, challenges, debates and training.

Dharma has been explained to be that which helps the uplift of living beings. Therefore it ensures that welfare is surely 'Dharma' MANU says :

Akasmaykriyakaschdrishayatenehkahinchil,

Yadvatikarutekinchhittattkamassechestitam.

It means that there is no action of man that is free from desire; whatever man does is the result of desire. The force behind ever action of human being in his desire, which is KAMA. There is natural desire to have enjoyment and wealth, i.e. material pleasure, which is ARTHA. Both artha and kama are subject of DHARMA. The profounder of dharma did appreciate that fulfillment of desires of human beings was an essential aspect of life but were of opining that unless these desires of human being are regulated by law, it is bound to give undesirable results.

Therefore all the profounder of dharma were unanimous in saying that for the existence of an orderly society, the desires of material enjoyment and pleasures should always conform to DHARMA. In this case dharma is nothing but the 'codes' of the best practices developed by various institutes , however what is needed is uniformity in those codes. When one say that one should observe dharma then it is necessary to cite Manu where he explains the necessity of scrupulous practice of dharma. Manu says :

Dharma aevhatohantidharmorakshatirakshita

Tasmadharmo no hatavyo ma nahatovidhit.

Dharma protects those who protect it. Those who destroyed dharma gets destroyed. The pillars of Indian philosophical tradition, which have explicitly provided for the proper conduct, both in social and personal life, need to be incorporated in our dealings with other people, where political or economic in nature. Corporate governance can be ethical only when it rests on the core value of honesty, integrity, respect, fairness, purposefulness trust, responsibility, citizenship and caring. These values are not to be lost sight of by one under any circumstances, irrespective of the goals that are to be achieved.

Good governance is not simply a matter of structures and procedures. The last thing one wants is a 'Tick in the box' attitude to the whole subject. It depends on the ethics of the people overseeing and running the enterprise. On having a fundamental sense of what is right and what is wrong, a belief in their honesty for its own sake and a sense of personal responsibility.

(**Note :** The article on next two pages is reproduced for the purpose of widening the horizon related to corporate governance for the benefit of the readers.)

Check Your Progress :

1. Right path that will uphold the family, organizational and the social fabric.

   a. Dharama b. Vividhta c. Kushalam d. Loka Sangraha

2. Artha and Kama are subject of ....

   a. Dharma b. Vividhta c. Kushalam d. Jigyasa

3. Let us come together; let us think together; let us combine our intellectual strength; let our collective brilliance shine; let there be no ill will; this is the true way to progress." Said by .....

   a. Rigveda b. Aayurved c. Mahabharata d. Ramayana

4. Dharama is nothing but ....

   a. Code b. Maturity

   c. Eligibility d. None of the above.

5. Full form of UTI.

   a. Unit Trust of India b. United Trust of India

   c. Unit Tax of India d. United Transfer in India

1.5 Corporate Governance in India :

James McRitchie, May 12, 2015,

(Source : https://www.corpgov.net/2015/05/corporate–governance–in–india Accesseed on 01 April 2020 at 1706 hrs)

What is corporate governance ?

It is a process set up for the firms based on certain systems and principles by which a company is governed. The guidelines provided ensure that the company is directed and controlled in a way so as to achieve the goals and objectives to add value to the company and also benefit the stakeholders in the long term.

The high profile corporate governance failure scams like the stock market scam, the UTI scam, Ketan Parikh scam, Satyam scam, which was severely criticized by the shareholders, called for a need to make corporate governance in India transparent as it greatly affects the development of the country.

To understand the scope of the legal framework and study the amendments, proxy advisory firms analyze the role of directors and how they are impacted by changes in the amendments. Proxy firms offer analytical data for the shareholders and corporate advisory services to companies.

1.6 The Objectives of Corporate Governance :

Transparency in corporate governance is essential for the growth, profitability and stability of any business. The need for good corporate governance has intensified due to growing competition amongst businesses in all economic sectors at the national, as well as international level.

The Indian Companies Act of 2013 introduced some progressive and transparent processes which benefit stakeholders, directors as well as the management of companies. Investment advisory services and proxy firms provide concise information to the shareholders about these newly introduced processes and regulations, which aim to improve the corporate governance in India.

Corporate advisory services are offered by advisory firms to efficiently manage the activities of companies to ensure stability and growth of the business, maintain the reputation and reliability for customers and clients. The top management that consists of the board of directors is responsible for governance. They must have effective control over affairs of the company in the interest of the company and minority shareholders. Corporate governance ensures strict and efficient application of management practices along with legal compliance in the continually changing business scenario in India.

Corporate governance was guided by Clause 49 of the Listing Agreement before introduction of the Companies Act of 2013. As per the new provision, SEBI has also approved certain amendments in the Listing Agreement so as to improve the transparency in transactions of listed companies and giving a bigger say to minority stakeholders in influencing the decisions of management. These amendments have become effective from 1st October 2014.

1.7 Why is Corporate Governance in India Important ?

A company that has good corporate governance has a much higher level of confidence amongst the shareholders associated with that company. Active and independent directors contribute towards a positive outlook of the company in the financial market, positively influencing share prices. Corporate Governance is one of the important criteria for foreign institutional investors to decide on which company to invest in.

The corporate practices in India emphasize the functions of audit and finances that have legal, moral and ethical implications for the business and its impact on the shareholders. The Indian Companies Act of 2013 introduced innovative measures to appropriately balance legislative and regulatory reforms for the growth of the enterprise and to increase foreign investment, keeping in mind international practices. The rules and regulations are measures that increase the involvement of the shareholders in decision making and introduce transparency in corporate governance, which ultimately safeguards the interest of the society and shareholders.

Corporate governance safeguards not only the management but the interests of the stakeholders as well and fosters the economic progress of India in the roaring economies of the world.

1.8 Let Us Sum Up :

It is also believed that Corporate Governance is one of the critical issues in the business world today. On one side, for the companies, good governance means securing access to broader–based cheaper capital. However the for the investors, a commitment to good governance means enhanced shareholder value. For both, good governance equals good business.

Even one such incident of corporate governance failure is capable of creating an economic disaster. Recently the country has seen the following financial scandle.

- PMC Bank Scam
- DHFL Scam
- INX Media Case
- IMA Ponzi Scheme
- Rotomac Bank Fraud
- Punjab National Bank Scam

All these scams have damaged the economy of the country and also questioned the corporate governance practises prevailing in the country as well.

Athreysin his seminar paper titled "Business Values for the 21st Century" has aptly summarized the concept of '*Dharma*' as enshrined in the *Indian Shashtra*. Following are the briefly illustration of some perceptions :

- Dharma (Righteousness)
- LokaSangraha (Public Good)
- Vividhta (innovation)
- Kushalam (effectiveness)
- Jigyasa (learning)

1.9 Answers to Check Your Progress :

1. a **2.** a **3.** a **4.** a **5.** a

1.10 Glossary :

1. **Ethics :** Moral principles that govern a person's behaviour or the conducting of an activity.
2. **Legitimacy :** Ability to be defended with logic or justification.

1.11 Assignments :

1. Write a note on Indian Corporate Governance system in India.

1.12 Activities :

1. Make a list on corporate governance policy prepared by Government of India.

1.13 Case Study :

1. Find out the company who has been used Corporate Governance theory for the first time.

1.14 Further Reading :

1. Modh, Satish, Ethical Management : Text and Cases in Business Ethics and Corporate Governance. New Delhi : Macmillan Publishers India Ltd, 2005.

2. Mathur, U.C., Corporate Governance and Business Ethics : Text and Cases. New Delhi : Macmillan Publishers India Ltd, 2005.

Unit 2 POPULAR MODELS OF CORPORATE GOVERNANCE

: UNIT STRUCTURE :

2.0 Learning Objectives :

- To understand Corporate governance models of different countries.
- To understand models for Decision–making.
- To provide appropriate solutions for an organisation.

2.1 Introduction :

- **Corporate Governance :**

As we have seen in the previous module, about rising importance of corporate governance in National as well International context. As pre prevailing prudent practices, any subject or area of study gradually develops with some prudent principles or theories.

In this block of unit, the popular models of the corporate governance are explained. Taking broader scenario, the discussion here is about popular models.

As it is a well–known fact that a Corporate form of business is generally managed by the Board of Directors and the board members are elected by shareholders. The board in turn appoints the professional managers to manage the business. Different countries have different regulations and corporate governance models differ based on these differences.

2.2 About Models of Corporate Governance :

We are aware that the Corporate Governance is a subject which is beyond Geographic Boundaries of any country. Therefore this topic is global in nature. Considering this fact, the models are discussed and developed in context of one particular country or nation or region or group of countries.

One thing is very common across several countries that mostly, the corporate governance structure of joint stock corporations is determined by several factors such as :

- The legal and regulatory framework outlining
- The rights and responsibilities of all parties involved in corporate governance;
- The de facto realities of the corporate environment in the country; and
- Each corporation's articles of association.

While corporate governance provisions may differ from corporation to corporation, many de facto and de jure factors affect corporations in a similar way. Therefore, it is possible to outline a "model" of corporate governance for a given country.

In each country, the corporate governance structure has certain characteristics or constituent elements, which distinguish it from structures in other countries. To date, researchers have identified eight models of corporate governance in developed capital markets. These are as under (these models are discussed at length in this unit) :

- The Anglo–American Model.
- Japanese Model
- German Model

There are some other models which are also introduced in this unit, they are as under :

- Italian Model
- France Model
- Canadian Model

Here, it is to be noted that each model aims to identify the following constituent elements :

- Key players in the corporate environment;
- The share ownership pattern in the given country;
- The composition of the board of directors (or boards, in the German model);
- The regulatory framework;
- Disclosure requirements for publicly–listed stock corporations;
- Corporate actions requiring shareholder approval; and
- Interaction among key players.

As mentioned earlier, the purpose of this unit is to introduce each model, describe the constituent elements of each and demonstrate how each developed in response to country–specific factors and conditions.

It is to be understood that it is not possible to simply select a model and apply it to a given country. Instead, the process is dynamic : the corporate governance structure in each country are being developed in response to country–specific factors and conditions.

1. Anglo – American Model of Corporate Governance :

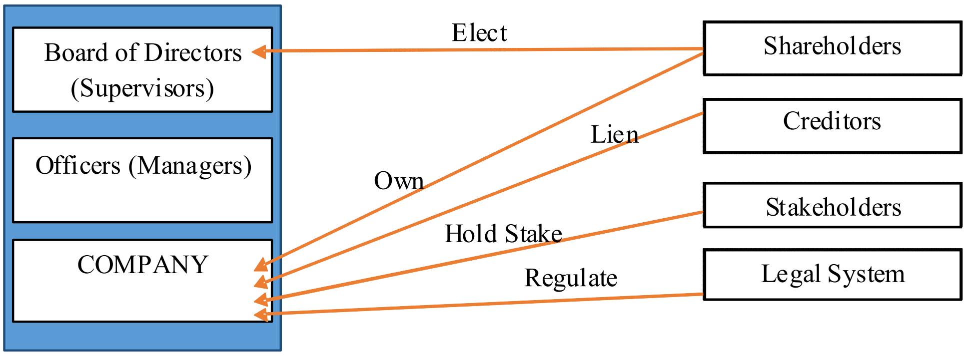
The countries like USA has seen various corporate debacles. However, we need to understand the model in its true spirit.

This model is also called as single tired model or shareholder model. In country like USA and Canada, this traditional model of corporate governance is followed. This model is based on Milton Friedman's premise that, "The social responsibility of the business is to increase the profits". Shareholders have right to elect the members, who act as an agent for them, to the board.

The board has to perform three roles :

- Controlling
- Strategy Formulation and
- Accountability to shareholder.

The model is graphically explained as under :



As shown in the above diagram, there are total seven boxes which reflect the inter–connection with the company and other stake holders. Let us try to understand them.

1. Share Holders

As we know, the share–holders are the owner of the organization. Here, the shareholders play two important roles.

(i) The Shareholders Elect the Board of Directors (who are also supervisors for the company)

(ii) The Shareholders are the ultimate owners of the company.

2. Board of Directors

The group of directors, responsible to supervise the operations of the company is known as the Board of Directors. As per the Anglo–US model the Board of Directors of most corporations includes both "insiders" and "outsiders".

An "insider" is as a person who is either employed by the corporation (an executive, manager or employee) or who has significant personal or business relationships with Corporate management.

An "outsider" is a person or institution which has no direct relationship with the corporation or corporate management.

A synonym for insider is executive director; a synonym for outsider is non–executive Director or independent director.

3. Officers (Managers)

The officers are normally headed by CEO (Chief Executive Officer) who may report to the Managing Director of the company.

4. Creditors

Creditors are those community who have landed money to company or from whom the company has borrowed money (directly or indirectly).

5. Stakeholders

The stakeholder community includes employees, customers, suppliers and all other members of the related society.

6. Legal System

The legal system includes the mandatory and non mandatory requirements to be fulfilled by the company for ensuring proper disclosure and other requirement as mandated by prevailing act or regulations.

7. Other Stake–holders includes external stakeholders including like customers, suppliers, employees and others.

Anglo–US Model and Share Ownership Pattern

In several countries, there are individual as well as the institutional share–holders. However, in some of the studies it has been found that the share holding pattern of institutional share– holders as well as the individual share holders vary.

In several countries it has been observed that during 1990s, institutional investors held more than 60 percent of the shares of UK corporations, and individuals held around 20 percent. However, in the decade of 1980s the trend was exactly reverse.

The increase in ownership by institutions has resulted in their increasing influence. In turn, this has triggered regulatory changes designed to facilitate their interests and interaction in the corporate governance process.

Anglo–US Model and Board Composition.

The directors are classified in various categories like full time, part time, executive, non– executive and independent etc. In some cases the directors are classified as "insiders" as well as "outsiders".

An "insider" is as a person who is either employed by the corporation (an executive, manager or employee) or who has significant personal or business relationships with corporate management.

An "outsider" is a person or institution which has no direct relationship with the corporation or corporate management. A synonym for insider is executive director; a synonym for outsider is non–executive director or independent director.

Historically, it has also happened that the same person has served as both chairman of the Board of Directors and Chief Executive Officer (CEO) of the corporation. In such cases, this practice led to abuses, including : concentration of power in the hands of one person or concentration of power in a small group of persons (for example, a board of directors composed solely of "insiders"; management and/or the board of directors' attempts to retain power over a long period of time, without regard for the interests of other players (entrenchment); and the board of directors' flagrant disregard for the interests of outside shareholders.

It also happened in 1990s that only one individual served as both CEO and Chairman of the board in over 75 percent of the 500 largest corporations in the US. In contrast to the US, a majority of boards in the UK have a non–executive director. However, many boards of UK companies have a majority of inside directors. It was observed that in early 1990s, only 42 percent of all directors were outsiders and nine percent of the largest UK companies had no outside director at all.

Currently there is, however, a discernible trend towards greater inclusion of "outsiders" in both US and UK corporations. Beginning in the mid–1980s, several factors contributed to an increased interest in corporate governance in the UK and US. These included : the increase in institutional investment in both countries; greater governmental regulation in the US, including regulation requiring some institutional investors to vote at AGMs; the takeover activity of the mid– to late–1980s; excessive executive compensation at many US companies and a growing sense of loss of competitiveness vis– ?–vis German and Japanese competitors.

We have to note here that the Board composition and board representation remain important shareholder concerns of shareholders in the UK and US. Perhaps this is because other corporate governance issues, such as disclosure and mechanisms for communication between corporations and shareholders, may have largely been resolved.

It was also found in some of the trends that the UK and US boards are generally smaller than boards in Japan and Germany. There was as survey conducted in this regards. A survey of the boards of the 100 largest US corporations conducted by an agency had found that boards were shrinking slightly; the average size was 13, whereas earlier they were 15 earlier years.

Anglo–US Model and Regulatory Framework

In the countries like USA and UK, a wide range of laws and regulatory codes define relationships among management, directors and shareholders.

In the US, a federal agency, the Securities and Exchange Commission (SEC), regulates the securities industry, establishes disclosure requirements for corporations and regulates communication between corporations and shareholders as well as among shareholders.

It would be interesting to know that there are several Laws which are regulating pension funds also have an important impact on corporate governance. In late 1980s, the agency of the Department of Labor responsible for regulating private pension funds ruled that these funds have a "fiduciary responsibility" to exercise their stock ownership rights. This ruling had a huge impact on the behavior of private pension funds and other institutional investors : since then, institutional investors have taken a keen interest in all aspects of corporate governance, shareholders' rights and voting at AGMs.

The regulatory framework of corporate governance in the UK is established in parliamentary acts and rules established by self–regulatory organizations, such as the Securities and Investment Board, which is responsible for oversight of the securities market. Note that it is not a government agency like the US SEC. Although the framework for disclosure and shareholder communication is well–developed, some observers claim that self–regulation in the UK is inadequate, and suggest that a government agency similar to the US SEC would be more effective. Stock exchanges also play an important role in the Anglo–US model by establishing listing, disclosure and other requirements.

Anglo–US Model and Disclosure Requirements

As noted above, the US has the most comprehensive disclosure requirements of any jurisdiction. While disclosure requirements are high in other jurisdictions where the Anglo–US model is followed, none are as stringent as those in the US.

US corporations are required to disclose a wide range of information. The following information is included either in the annual report or in the agenda of the annual general meeting (formally known as the "proxy statement") : corporate financial data (this is reported on a quarterly basis in the US); a breakdown of the corporation's capital structure; substantial background information on each nominee to the board of directors (including name, occupation, relationship with the company, and ownership of stock in the corporation); the aggregate compensation paid to all executive officers (upper management) as well as individual compensation data for each of the five highest paid executive officers, who are to be named; all shareholders holding more than five percent of the corporation's total share capital; information on proposed mergers and restructurings; proposed amendments to the articles of association; and names of individuals and/or companies proposed as auditors.

Disclosure requirements in the UK and other countries that follow the Anglo–US model are similar. However, they generally require semi–annual reporting and less data in most categories, including financial statistics and the information provided on nominees.

Anglo–US Model and Corporate Actions Requiring Shareholder Approval

The two routine corporate actions requiring shareholder approval under the Anglo–US model are elections of directors and appointment of auditors. Non–routine corporate actions which also require shareholder approval include : the establishment or amendment of stock option plan; mergers and takeovers; restructurings; and amendment of the articles of incorporation.

There is one important distinction between the US and the UK : in the US, shareholders do not have the right to vote on the dividend proposed by the board of directors. In the UK, shareholders do vote on the dividend proposal.

The Anglo–US model also permits shareholders to submit proposals to be included on the agenda of the AGM. The proposals – known as shareholder proposals – must relate to a corporation's business activity. Shareholders owning at least ten percent of a corporation's total share capital may also convene an extraordinary general meeting (EGM) of shareholders.

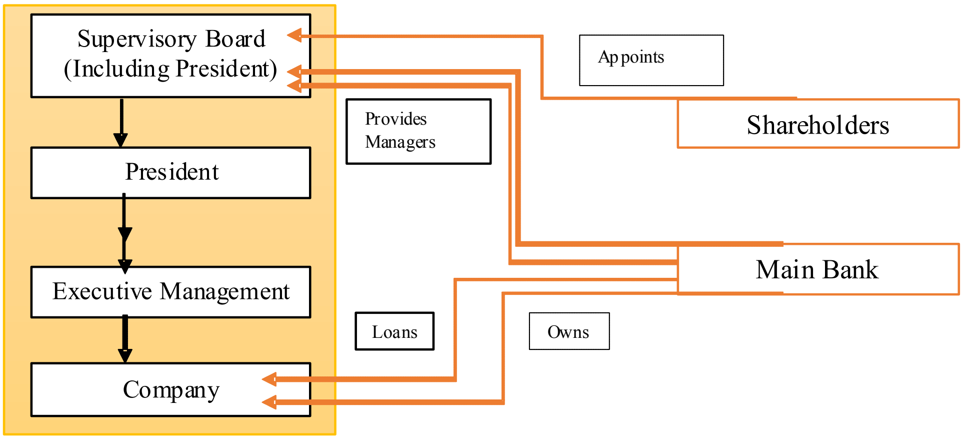
In the US, the SEC has issued a wide range of regulations concerning the format, substance, timing and publication of shareholder proposals. The SEC also regulates communication among shareholders.

2. Japanese Model

In the Japanese model, the financial institutions has an additional role in governance. The shareholders the bank together appoint Board of Directors and President.

The distinctive features are **:**

- Inclusion of the president who consults both the supervisory board and the executive management
- Importance of the lending bank is highlighted.



As mentioned in the above diagram, there are total six stakeholders in the Japanese Model.

1. Share Holders
2. Supervisory Board
3. President
4. Executive Management
5. Main Bank
6. Company,

Here, shareholders appoint supervisory board, Main Bank provides Managers to supervisory boards and loans to company, The Supervisory Board Rectifies President Decision and consults president. The President Consults Executive Management (Primary Board of Directors) and delegates tasks to the management of the company.

Here it is to be noted that this model is characterized by a high level of stock ownership by affiliated banks and companies; a banking system characterized by strong, long–term links between bank and corporation; a legal, public policy and industrial policy framework designed to support and promote "keiretsu" (industrial groups linked by trading relationships as well as cross–shareholdings of debt and equity); boards of directors composed almost solely of insiders; and a comparatively low (in some corporations, non–existent) level of input of outside shareholders, caused and exacerbated by complicated procedures for exercising shareholders' votes.

Japanese Model and Share Ownership Pattern

In Japan, financial institutions and corporations firmly hold ownership of the equity market. It was observed that in 1990s, financial institutions (insurance companies and banks) held approximately 43 percent of the Japanese equity market, and corporations (excluding financial institutions) held 25 percent. Foreigners currently own approximately three percent.

In both the Japanese and the German model, banks are key shareholders and develop strong relationships with corporations.

Japanese Model and Board Composition.

As against the other models, the Composition of Board of directors in context to Japanese Model are different. Here, the board is mostly composed of insiders.

In some of the cases in the Japanese model the composition of the board of directors is conditional upon the corporation's financial performance.

It has also been observed that Japanese boards are generally larger than boards in the UK, the US and Germany. The average Japanese board contains 50 members.

Japanese Model and Regulatory Framework

It has been observed that in recent years, several factors have weakened the development and implementation of a comprehensive industrial policy. One of the reason is due to the growing role of Japanese corporations at home and abroad, policy formation became fragmented due to the involvement of numerous ministries, most importantly, the Ministry of Finance and the Ministry of International Trade and Industry. The second reason is the increasing internationalization of Japanese corporations made them less dependent on their domestic market and therefore somewhat less dependent on industrial policy. The Third reason is the growth of Japanese capital markets led to their partial liberalization and an opening, albeit small, to global standards. While these and other factors have limited the cohesion of Japanese industrial policy in recent years, it is still an important regulatory factor, especially in comparison with the Anglo–US model.

Japanese Model and Disclosure Requirements

It has been observed that the disclosure requirements in Japan are relatively stringent, but not as stringent as in the US.

In Japan, the Corporations are required to disclose a wide range of information in the annual report and or agenda for the AGM, including : financial data on the corporation (required on a six–monthly basis); data on the corporation's capital structure; background information on each nominee to the board of directors (including name, occupation, relationship with the corporation, and ownership of stock in the corporation); aggregate date on compensation, namely the maximum amount of compensation payable to all executive officers and the board of directors; information on proposed mergers and restructurings; proposed amendments to the articles of association; and names of individuals and/or companies proposed as auditors.

Japanese Model and Corporate Actions Requiring Shareholder Approval

It has been observed that in Japan, the routine corporate actions requiring shareholder approval are : payment of dividends and allocation of reserves; election of directors; and appointment of auditors.

There are some other common corporate actions which also require shareholder approval this includes, capital authorizations; amendments to the articles of association and/or charter payment of retirement bonuses to directors and auditors; and increase of the aggregate compensation ceilings for directors and auditors.

Non–routine corporate actions which also require shareholder approval include mergers, takeovers and restructurings

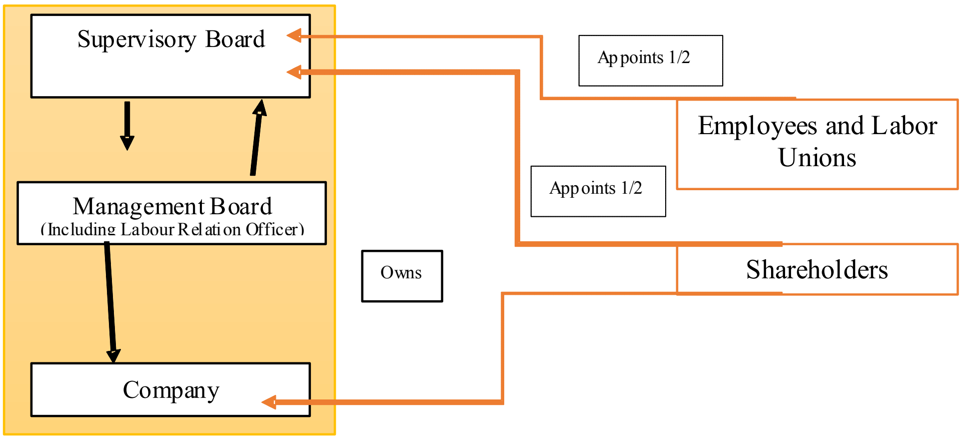
Thus, it can be observed that even though Japanese companies are having significant presence across the world, they have to comply with significant high level of corporate governance standards.

3. German Model

In this model, although the shareholders own the company, they do not entirely dictate the governance mechanism. As shown below, shareholders elect 50 percent of members of supervisory board and the other half is appointed by labour unions. This ensures that employees and labourers also easily a share the governance. The supervisory board appoints the management board. There is a reporting relationship between them, although the management board. There is a reporting relationship between them, although the management board independently conducts the day–to–day operations of the company.

The distinctive features :

- Banks and financial institutions have substantial stake in equity capital of companies.
- Labour relation officer is represented in the management board. Worker participation in management is practiced.
- Both shareholders and employees have equal say in selecting the members of supervisory board.



As mentioned in the above diagram, there are total six stakeholders in the Gernman Model.

1. Share Holders
2. Supervisory Board
3. Management Board

4. Employees and Labour Unions
5. Company,

As mentioned in above diagram, the Shareholders owns the company. The Employees and Labour Unions appoints ½ of the supervisory board while remaining are appointed by Employees and Labour Unions. The management board is appointed by the supervisory board. But the unique thing about Management Board that it includes the Labour Relation Officer as Board Member.

German Model and Share Ownership Pattern

It has been observed that the German banks and corporations are the dominant shareholders in Germany. It was observed that in 1990s, corporations held more than 40 percent of the German equity market, and institutional owners (primarily banks) owns around 25 to 30 percent. However, neither institutional agents, such as pension funds or individual owners are significant in Germany. Foreign investors held around 20 percent in 1990s, and their impact on the German corporate governance system is increasing.

German Model and Board Composition.

As mentioned in the diagram, the German Model is two tired. The Management Board is known as "Vorstand", where as the Supervisory Board is known as "Aufsichtsrat". It is to be noted here that the management board is composed solely of "insiders", or executives. The supervisory board contains no "insiders", it is composed of labour / employee representatives and shareholder representatives.

German Model and Regulatory Framework

In case of Germany, A federal regulatory agency for the securities industry was established in 1995.

However, it is to be noted here that Germany has a strong federal tradition; both federal and state law influence corporate governance. The Regulation of Germany's stock exchanges is, however, the mandate of the states.

German Model and Disclosure Requirements

It has been observed that the disclosure requirements in Germany are relatively stringent. Corporations are required to disclose a wide range of information in the annual report and/or agenda for the AGM, including : corporate financial data (required on a six–monthly basis); data on the capital structure; limited information on each supervisory board nominee (including name, hometown and occupation/affiliation); aggregate data for compensation of the management board and supervisory board; information on proposed mergers and restructurings; proposed amendments to the articles of association; and names of individuals and/or companies proposed as auditors.

One key accounting difference in Germany is that corporations are permitted to amass considerable reserves. These reserves enable German corporations to understate their value. This practice is not permitted under US GAAP.

German Model and Corporate Actions Requiring Shareholder Approval

The routine corporate actions requiring shareholder approval under the German model are : allocation of net income, ratification of the acts of the management board for the previous fiscal year; election of the supervisory board; and appointment of auditors etc.

Approval of the acts of the management board and supervisory board are basically a "seal of approval" or "vote of confidence."

Italian Model of Corporate Governance

Italian Corporate Governance has evolved radically in the last decades thanks to both the evolution of the Corporate law, the adoption of the European Directives and the introduction and revision of the code of good governance. Today Corporate Governance of the listed Companies is characterized by a relative high protection of the shareholders' rights, and board of Directors characteristics are at least formally, very similar to the best practices at international level.

Here, the Listed companies are governed by a board of directors that meets at regular intervals and that adopts an organisation and a modus operandi enabling it to guarantee effective and efficient performance of its functions.

France Model of Corporate Governance

Depending on the activity and size of the company, Corporations increasingly seek to enhance the diversity of their boards, particularly through complementarity of competence, but also through internationalization, the french code of Corporate Governance is flexible enough to support such demands of the Corporate Society.

French law gives all limited companies, including listed corporations, the choice between **:**

- A unitary formula with a Board of Directors

OR

- A two–tier structure with a Management Board and a Supervisory Board based on a distinction between management functions and the supervision of this management.

Moreover, companies with a Board of Directors have a choice between separating and combining the offices of Chairman and Chief Executive Officer. In France, the majority of companies now have a one tier or unitary board.

Canadian Model

Canada has a history of French and British colonisation. The industries inherited those cultures. The cultural background in these industries affected subsequent developments. The country has large influence of French merchantism

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Check Your Progress :

1. How many models are there for Corporate Governance ?

   a. 4 b. 5 c. 6 d. 7

2. How many stakeholder are associated with Japanese Model ?

   a. 4 b. 5 c. 6 d. 7

3. Full form of SEC …………

   a. Securities and Exchange Commission.

   b. Services and Export Commission.

   c. Securities and Exchange Corporation.

   d. Securities and Exchange Commission.

4. How many stakeholder are associated with German Model ?

   a. 4 b. 5 c. 6 d. 7

5. Full form of GAAP.

   a. Generally Accepted Accounting Principles.

   b. Global Accepted Accounting Principles.

   c. Generally Accepted Accounting Protocol.

   d. Generally Advisable Accounting Principles.

2.3 Let Us Sum Up :

Rising importance of corporate governance in National as well International context. As pre prevailing prudent practices, any subject or area of study gradually develops with some prudent principles or theories. In this block of unit, the popular models of the corporate governance are explained. As it is a well–known fact that a Corporate form of business is generally managed by the Board of Directors and the board members are elected by shareholders. The board in turn appoints the professional managers to manage the business. Different countries have different regulations and corporate governance models differ based on these differences.

We are aware that the Corporate Governance is a subject which is beyond Geographic Boundaries of any country. Therefore this topic is global in nature. Considering this fact, the models are discussed and developed in context of one particular country or nation or region or group of countries.

One thing is very common across several countries that mostly, the corporate governance structure of joint stock corporations is determined by several factors such as :

- The legal and regulatory framework outlining
- The rights and responsibilities of all parties involved in corporate governance;
- The de facto realities of the corporate environment in the country; and
- Each corporation's articles of association.

While corporate governance provisions may differ from corporation to corporation, many de facto and de jure factors affect corporations in a similar way. Therefore, it is possible to outline a "model" of corporate governance for a given country.

In each country, the corporate governance structure has certain characteristics or constituent elements, which distinguish it from structures in other countries. To date, researchers have identified eight models of corporate governance in developed capital markets. These are as under (these models are discussed at length in this unit) :

- The Anglo–American Model.
- Japanese Model
- German Model

There are some other models which are also introduced in this unit, they are as under :

- Italian Model
- France Model
- Canadian Model

2.4 Answers to Check Your Progress :

1. c **2.** c **3.** a **4.** b **5.** d

2.5 Glossary :

1. **Colonisation :** Control by one power over a dependent area or people.
2. **Influence :** Change or control somebody/something
3. **Jurisdictions :** Legal power or authority

2.6 Assignments :

1. Write a note on Anglo–US model in detail.

2.7 Activities :

1. Discuss on any model and implement it for in two groups.

2.8 Case Study :

1. Prepare a case which is based on Japanese model. Also discuss how it will work in Japan ?

2.9 Further Reading :

1. Modh, Satish, Ethical Management : Text and Cases in Business Ethics and Corporate Governance. New Delhi : Macmillan Publishers India Ltd, 2005.
2. Mathur, U.C., Corporate Governance and Business Ethics : Text and Cases. New Delhi : Macmillan Publishers India Ltd, 2005.

Unit 3

PERSPECTIVES IN CORPORATE GOVERNANCE

: UNIT STRUCTURE :

3.0 Learning Objectives :

- To understand issues in Corporate Governance.
- To understand shareholders activism.
- To understand about global organisations and funds.
- To understand rule based decisions.

3.1 Introduction :

Why Corporate Governance is more important in modern era ?

From Evolution of Corporates, the Corporate Governance word is viewed more significantly.

We need to understand that As on 31st March 2020 the market cap of Bombay Stock Exchange was Rs. 1,13,48,756.59 Crore. Which is the total for Approx. 5,000 listed Companies. This shows that large amount of money are invested in listed companies. The country as a whole needs a strong framework of Corporate Governance.

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This kind of fraud has a significant large impact. Such incidents does not only hampers personal financial life but significantly damages the smooth function of economy as well. Moreover, it was immensely harmful for investor's confidence and safety of investors' money.

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3.2 Issues and Concerns Related to Corporate Governance in Context of :

Reasons for issues and concerns related to Corporate Governance

Corporate governance issues arise due to various reasons. Some of the reasons are discussed as under :

- **Independent Directors**

The Companies Act, 2013 defines the Independent Director as under :

"Independent Director means an independent director referred to in sub–section (6) of section 149." (Section 2 (49))

The Sub Section (6) of Section 149 is as under **:**

An independent director in relation to a company, means a director other than a managing director or a whole–time director or a nominee director,–

(a) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;

(b) (i) who is or was not a promoter of the company or its holding, subsidiary or associate company;

(ii) who is not related to promoters or directors in the company, its holding, subsidiary or associate company;

(c) who has or had no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;

(d) None of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;

(e) who, neither himself nor any of his relatives–

(i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

(ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of–

(A) A firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

(B) Any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent. or more of the gross turnover of such firm;

(iii) Holds together with his relatives two per cent. or more of the total voting power of the company; or

(iv) Is a Chief Executive or director, by whatever name called, of any non–profit organisation that receives twenty–five per cent. Or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent. Or more of the total voting power of the company; or

(f) Who possesses such other qualifications as may be prescribed

Above is the definition of Independent Director with reference to The Companies Act 2013.

Now, here we need to understand that the independent directors are people with a high reputation and immense experience who generally sit on multiple boards. The last thing they want is to be seen as trouble makers for the management.

However, historically when we look at India's history of corporates, the best step that independent directors have taken in the face of such conflicts is to resign from the board.

- **Institutional Shareholders :**

Let us understand some basics about the institutional share–holders who are also known as institutional investors

(a) About Institutional investors

Institutional investors are non–bank persons or organizations involved in the collection of significant amounts of money for trading in securities, real estate and other investment assets. Operating companies who invest some of their profits in these types of assets also come under this definition.

(b) Types of Institutional investors

Banks, insurance companies, retirement/pension funds, hedge funds, investment advisors and mutual funds comprise some types of institutional investors. They function as highly specialized investors on behalf of others. To cite an example, the pension that an employee is entitled to receive from his employer is invested by the latter into a fund. The fund, in turn, can be used to buy shares in a company or other financial products. Such funds are useful as they hold a broad portfolio of investments in many companies. This means that the risk is spread and if any one company were to fail, only a small portion of the whole fund's investment will be affected.

(c) Importance of institutional investors in context to company.

Institutional investors have to deal with fewer protective regulations as they are considered to be more knowledgeable about market operations and hence better able to protect themselves. Furthermore, they can yield significant influence in the management of corporations as they are usually entitled to exercise the voting rights in a company. As institutional investors have the freedom to buy and sell shares, their actions can also play a huge role in determining whether companies remain solvent or end up bankrupt.

(d) Role of institutional investors

The principal objective of institutional investors is to buy and sell stocks. They strive hard to buy undervalued stocks and offer good prospects. For this, they employ specialists such as analysts and researchers to get the best information about companies. The institutions have regular meetings with company CEOs, assess industry conditions and study in depth the prospects for every company they intend investing in. Besides, institutional investors with large stakes have a vested interest in increasing the value of their shareholdings.

Here we need to understand that in many instances, the institutional shareholders have not been very assertive on the boards. FPIs (Foreign Portfolio Investment) typically leave the corporate governance issues to proxy firms. Domestic institutions prefer not to disrupt the existing management to protect their investment value. India really does not have influential investors like Carl Icahn, Ackman, and Daniel Loeb who can pressure the managements.

- **Proxy Firms**

Let us try to understand about the proxy firms

A proxy firm (also a proxy advisor, proxy adviser, proxy voting agency, vote service provider or shareholder voting research provider) provides services to shareholders (in most cases an institutional investor of some type) to vote their shares at shareholder meetings of, usually, quoted companies.

The typical services provided include agenda translation, provision of vote management software, voting policy development, company research, and vote administration including vote execution. According to their websites, not all firms provide voting recommendations and those that do may simply execute client voting instructions.

The votes executed are called "Proxy Votes" because the shareholder usually does not attend the meeting and instead sends instructions – a proxy appointment – for a third party, usually the chairman of the meeting to vote shares in accordance with the instructions given on the voting card.

Proxy advisory firms are independent research outfits that evaluate the pros and cons of corporate matters such as mergers, acquisitions, top appointments and CEO pay, which shareholders are expected to vote on in AGMs, EGMs or court–convened meetings. These firms engage in heavy–duty analysis of the major actions that are put to vote, and produce detailed reports advising shareholders on how they should swing to safeguard their interest. Proxy advisory firms charge fees to institutional investors and provide regular, independent voting recommendations on the companies that the latter own.

India has home–grown proxy advisory firms such as Institutional Investor Advisory Services (IiAS), InGovern and Stakeholder Empowerment Services (SES) that provide these services.

Importance of Proxy Firms

The following paragraphs indicate about importance of proxy advisory firms.

Ideally, Shareholders would be interested in the proper running of their companies and hold the management and the board accountable for their actions. They would attend all AGMs and EGMs religiously, eschew gifts and sweet boxes, and vote only with their consciences, for the long–term benefit of their companies. They would read all notices and resolutions carefully and not treat them as junk mail.

But we know the reality is different. Shareholders, generally, are uninterested in voting and care a lot about dividends, bonuses, free coupons and gifts at the AGMs. Yes, institutional investors such as mutual funds and insurers often represent retail investors as proxies in company meetings.

But as with these firms also juggling hundreds of stocks at a time, they don't have the bandwidth to dig deep into every corporate event.

So you need someone both independent and knowledgeable to weigh the advisability of a particular step being taken by the company, whether it is okay to let the bright young scion take over daddy's mantle as MD, or if the professional CEO deserves a 30 per cent pay hike because all his peers in the industry have received one. Proxy advisory firms weigh such matters and offer an independent view. As long as they avoid charges of conflict of interest, they serve investors quite well.

Thus, proxy firms are yet to take off in India and the handful of proxy firms, at best, play the role of a sounding board for shareholders.

Note the below mentioned article is sourced from The Economic Times. The Article is reproduced for the benefit of the readers.

3.3 Proxy advisors : Boon or Bane for Corporate Governance ?

These firms evolved as guideposts for institutional investors and a tool to keep management in check. But they have become too powerful and their analyses may be at odds with other shareholders. Concentration of power may also need to be checked, writes Shilpy Sinha.

Last fortnight, ISS may have lit the touch paper on the role of proxy advisors after the three–decade–old US firm advised global funds to vote against a resolution that had sought the re–appointment of Deepak Parekh as the nonexecutive chairman of HDFC. ISS thought Parekh was hard–pressed for time, as he is on the board of eight other companies.

ISS Proxy Analysis & Benchmark Policy Voting Recommendations said that investors may be concerned whether directors could fulfil their fiduciary responsibilities when they are serving on many boards. "While the demands of each board will vary, and the capacity of each person will vary, holding the equivalent of more than six directorships with publicly listed companies may make it challenging for a director to devote adequate time to the affairs of each company," the report said.

An otherwise uneventful AGM at India's biggest mortgage lender grabbed national headlines after the above piece of counsel became widely known, tilting the voting decision for global funds. In India, non–executive directors above the age of 75 years need shareholder support through a special resolution to continue in the job. And a special resolution requires the stamp of approval from more than 75 per cent of shareholders to continue as director on board. After an unexpected cliffhanger during the balloting, which is otherwise perfunctory, Parekh got 77.36 per cent votes in his favour – and the mandate to continue in his role.

Advisory and Its Effect

Company Name	Date	Type of Agenda Item	Vote Against
Mangalore Chem	27 Sep '16	RPT	99.96
Kolte Patil Dev	28 Sep '17	RPT	98.70
Raymond	5 Jun '17	RPT	97.68
J& K Bank	7 Jul '18	Appointment of NED	86.84
Hinduja Global	11 Jul '17	ESOPs	85.00
Finolex Cables	29 Sep '17	Office of profit	77.89
Cummins India	21 Mar '18	Waiver of excess remuneration	75.51
DB Realty	29 Sep '17	RPT	51.82
Suzlon Energy	27 Jul '16	Issue of securities	42.49
KPIT Tech	22 Aug '17	ID - R A Mashlekar	35.23
Sintex Inds	14 Sep '17	ID - Indira J Parikh	25.22
Finolex Cables	28 Sep '17	ID - Sumit N Shah	63.78
PTC India	25 Sep '17	NED-Mathew Cyriac	70.61

Source: SES Advisory — All resolutions were rejected at the AGM

RPT: Related party transaction; ID: Independent director; NED: Non executive director

3.4 Shareholder Activism :

"The issue got attention because it involved a high–profile company and high–profile personalities," said JN Gupta of SES Advisory. "It is not the only case where shareholders have expressed dissatisfaction. Rather than describing as activism, I would say that shareholders are becoming enlightened, realising their responsibility and are becoming conscious of the price that they pay because of their passivity."

Many institutional investors across the globe are voting based on the recommendations of proxy advisory firms. The decisions on whether to vote for or against various resolutions by shareholders at the annual general meetings is increasingly being driven by what the proxy advisor recommends. Also, voting is largely done by the custodians on behalf of the institutional investors, based on recommendations of the proxy advisors.

"Shareholder activism in India is still in a nascent stage," said TT Ram Mohan, a professor at IIM Ahmedabad. "Fund managers cannot disregard the views of advisory firms; if they do, the onus will be on them to explain why they disregarded the advice. The concern the firms had, namely, that it is difficult to do justice to board membership if one is on too many boards, is well founded. The advisory firms are only enforcing norms they have applied globally. Board members will now come to realise that they must meet the expectations of advisory firms."

As per their rules, a director who sits on the boards of more than five public companies is construed as 'over boarded' and thus, be automatically disqualified. Two directors at HDFC – Bansi Mehta and Bimal Jalan – had to forgo reappointment before the AGM as proxy advisory firms insisted on a younger board.

"Our view is that Indian companies need younger boards and there should be appropriate board refreshment. If there is a board where many directors are above 75 years, we look at the average age, the reason and contributions made by the board members and make appropriate recommendations," said Shriram Subramanian, MD, InGovern Research Services.

3.5 Global Firms and Global Funds :

There are two large global proxy advisory firms – ISS and Glass Lewis. Foreign institutional Investors, who own large stakes in Indian companies, are delegating much of their governance work to proxy advisors.

"The absence of adequate competition in the advisory business is an issue," said Ram Mohan. "Foreign investors tend to be guided by their advice. Corporates should, therefore, make every effort to address the concerns of proxy advisory firms. That is the lesson from the Deepak Parekh episode."

In case of banks, the regulations require promoters to bring down their stake to 15 per cent over a period. In case of HDFC, the company does not have any promoter holding, while all 100 per cent of its shares are listed, with a dominant foreign shareholding at 75 per cent. Higher FII holdings need not mean loss of control. Even at a non–finance firm such as Infosys, the promoters have continued to exercise control with a very low stake.

Companies run by professionals do not necessarily fear losing control if they performed. Institutional investors would have no reason to evict them. But in non–bank firms run by industrial houses, the threat of losing control is very real and promoters tend to raise their holdings to ward off challenges.

3.6 Rule–Based Decisions :

Internationally, both institutional investors and proxy advisory firms have norms that the CEO should not be in his or her job for more than a certain period. Both the age of the CEO and the number of years of tenure are considered before voting. The average tenure of a CEO is on an average 4–5 years, down from seven or more in the past. There are exceptions, such as PepsiCo's Indra Nooyi, who has served as CEO for some 12 years. She has now announced her decision to step down.

The entire eco–system changed with the introduction of e–voting under the Companies Act, 2013, Sebi LODR, and regulators, including pension fund, insurance and capital market regulator mandating voting by the institutional investor.

"In the earlier show of hands voting system, the defeat of resolutions was almost impossible. Now it is a reality and lot many investors are expressing their dissatisfaction through the vote," said Gupta. "There have been a few high–profile defeats as well : Tata Motors, United Spirits and Siemens have experienced shareholder ire."

3.7 Regulating the Proxy Firms :

Recently, Asia's richest banker Uday Kotak flagged concerns over regulating global proxy firms. While India is probably the only jurisdiction that has regulations for proxy services, many countries have guidelines and best practices for them.

"We had opposed giving power to proxy firms to vote in response to IRDA's consultation paper in 2017," said Gupta. "If proxy advisory services do vote, it gives them disproportionate power, which we believe is not our objective. We are facilitators and would prefer to remain the same. SES would strongly oppose this. Such powers can lead to undesirable outcomes."

Check Your Progress :

1. Full form of IRDA ……..

   a. Insurance Regulatory Development Authority.

   b. Indian Regulatory Development Authority.

   c. Insurance Rules Development Authority.

   d. Indian Regulatory Development Autonomous.

2. How many companies are registered under BSE ?

   a. 3000 b. 4000 c. 5000 d. 6000

3. In which Companies Act introduced ?

   a. 1948 b. 1960 c. 2000 d. 2013

4. "Shareholder activism in India is still in a nascent stage" said by ……..

   a. TT Ram Mohan b. JN Gupta

   c. Bimal Jalan d. Bansi Mehta

5. Who is served CEO services in PepsiCo ?

   a. Indra Nooyi b. Mr. Gupta c. Uday Kotak d. Glass Lewis

6. What is Hedge fund ?

   ____

   ____

   ____

   ____

   ____

   ____

7. Define Institutional investor.

8. Define commercial banks in context of RBI.

3.8 Let Us Sum Up :

From Evolution of Corporates, the Corporate Governance word is viewed more significantly.

We need to understand that As on 31st March 2020 the market cap of Bombay Stock Exchange was Rs. 1,13,48,756.59 Crore. Which is the total for Approx. 5,000 listed Companies. This shows that large amount of money are invested in listed companies. The country as a whole needs a strong framework of Corporate Governance.

India has seen many financial frauds in past. However it is observed as a general trend that after adoption of policy of Liberalisation, Privatization and Globalization from the year of 1991, the number of financial frauds have significantly increased. Along with this, the amount involved in the financial fraud is also becoming huge day by day.

This kind of fraud has a significant large impact. Such incidents does not only hampers personal financial life but significantly damages the smooth function of economy as well. Moreover, it was immensely harmful for investor's confidence and safety of investors' money.

The importance of Corporate Governance can also be understood in the light of the fact that that the equity market awareness is yet to spread in a big way and hence the impact of corporate governance on small shareholders is minimal. But Indian economy has seen a massive retail influx into equity mutual funds and that makes them indirect shareholders. If bad governance destroys the value of stocks and bonds, then it indirectly impacts the NAVs of mutual funds.

As it is a well–known fact that Today, the mutual fund industry manages nearly Rs. 25 lakh crore worth of assets of which nearly Rs. 8 lakh crore is in equities and another Rs10 lakh crore is in bonds. We saw how mutual fund NAVs took a hit due to excessive exposure to midcap stocks of dubious quality and has laid enormous negative footprint on economy.

We have also seen how exposure to one particular infrastructure sector related organization debt created problems for many mutual funds. Retail investors are infusing nearly $1.2bn per month in the form of SIPs. That means small investors do have a major stake, indirectly if not directly, in ensuring that corporate governance standards are practiced.

Issues and Concerns Related to Corporate Governance in Context of :

- Independent Directors
- Institutional Shareholders
- Proxy Advisory Firms

3.9 Answers to Check Your Progress :

1. a **2.** c **3.** d **4.** a **5.** a

3.10 Glossary :

1. **Dividends :** A part of a company's profits that is paid to the people who own shares in it
2. **NAV :** Net Assets Value
3. **AGM :** Annual General Meeting
4. **EGM :** Extraordinary general meeting

3.11 Assignments :

1. Discuss on different issues faced in Corporate Governance in brief.

3.12 Activities :

1. To study on different policies provided by Government of India regarding Corporate Governance and discuss it in classroom.

3.13 Case Study :

1. Analyse the case study on Corporate Governance of Infosys.

3.14 Further Reading :

1. Modh, Satish, Ethical Management : Text and Cases in Business Ethics and Corporate Governance. New Delhi : Macmillan Publishers India Ltd, 2005.
2. Mathur, U.C., Corporate Governance and Business Ethics : Text and Cases. New Delhi : Macmillan Publishers India Ltd, 2005.

BLOCK SUMMARY

It is also believed that Corporate Governance is one of the critical issues in the business world today. On one side, for the companies, good governance means securing access to broader–based cheaper capital. However the for the investors, a commitment to good governance means enhanced shareholder value. For both, good governance equals good business.

Even one such incident of corporate governance failure is capable of creating an economic disaster. Recently the country has seen the following financial scandle.

- PMC Bank Scam
- DHFL Scam
- INX Media Case
- IMA Ponzi Scheme
- Rotomac Bank Fraud
- Punjab National Bank Scam

All these scams have damaged the economy of the country and also questioned the corporate governance practises prevailing in the country as well.

Athreysin his seminar paper titled "Business Values for the 21st Century" has aptly summarized the concept of '*Dharma*' as enshrined in the Indian *Shashtra*. Following are the briefly illustration of some perceptions :

- Dharma (Righteousness)
- LokaSangraha(Public Good)
- Vividhta(innovation)
- Kushalam(effectiveness)
- JIgyasa(learning)

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- Japanese Model
- German Model

There are some other models which are also introduced in this unit, they are as under :

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Issues and Concerns Related to Corporate Governance in Context of :

- Independent Directors
- Institutional Shareholders
- Proxy Advisory Firms

BLOCK ASSIGNMENT

Short Questions :

1. Write a note of history of Corporate Governance in India.
2. Discuss German model in the context of Corporate Governance.
3. Discuss Japanese model in context of Corporate Governance.
4. Explain Reasons for issues and concerns related to Corporate Governance.
5. Discuss Governance for Sustainable Development.

Long Questions :

1. What is Corporate ?
2. Define Governance.
3. What is code of conduct ?
4. What is proxy vote ?
5. What is proxy firm ?

❖ **Enrolment No. :** ______________

1. How many hours did you need for studying the units ?

Unit No.	1	2	3
No. of Hrs.			

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any other Comments

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....

Dr. Babasaheb
Ambedkar
OpenUniversity

BBAR-603

Corporate Governance & Business Ethics

BLOCK-4 CORPORATE GOVERNANCE : EVOLUTION & CONCEPT

UNIT 1

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BLOCK 4 : CORPORATE GOVERNANCE IN INDIA AND PREVAILING COMPANIES ACT

Block Introduction

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It is the framework that defines the relationship between the management, shareholders, and other stakeholders of a company, and is critical for ensuring transparency, accountability, and ethical conduct in business.

In India, the Companies Act, 2013 is the primary legislation governing corporate governance practices. The Act replaced the Companies Act, 1956 and introduced several new provisions to enhance transparency, accountability, and shareholder rights.

The Companies Act, 2013 mandates the appointment of independent directors, the establishment of audit committees, and the formation of a nomination and remuneration committee. It also provides for stricter norms for related–party transactions and the disclosure of corporate social responsibility initiatives.

Corporate governance has become increasingly important in India, as the country's economy continues to grow and attract investment. Effective corporate governance practices help to build investor confidence, promote sustainable growth, and create a more transparent and accountable business environment.

However, despite the introduction of the Companies Act, 2013, there are still challenges in implementing effective corporate governance practices in India. The role of independent directors, the disclosure of related–party transactions, and the effectiveness of board committees continue to be areas of concern.

Overall, there is a need for continued efforts to strengthen corporate governance practices in India, with a focus on transparency, accountability, and ethical conduct in business

This Block will explore what is corporate governance and need for corporate governance. We will also examine the role of various committee in evolution of corporate governance in India this block will also help you understand code of conduct and most importantly key disclosure requirements for corporate governance

Block Objectives

- Understand the concept of corporate governance and its significance in the Indian context.
- Familiarize with the historical development of corporate governance in India and its evolution over time.
- Analyze the role of the board of directors, shareholders, and other stakeholders in corporate governance.
- Identify the principles of corporate governance in India, including transparency, accountability, fairness, and responsibility.
- Assess the regulatory framework of corporate governance in India and the legal requirements under the Companies Act.
- Examine the corporate governance practices of Indian companies and their compliance with the Companies Act and other regulations.
- Discuss the challenges faced by Indian companies in implementing good corporate governance practices and strategies to overcome them.
- Evaluate the impact of corporate governance on business performance, reputation, and sustainability.
- Apply the knowledge of corporate governance to real–life cases and scenarios, including corporate scandals, governance failures, and best practices.

Block Structure

Unit 1

INTRODUCTION TO CODE OF CONDUCT

: UNIT STRUCTURE :

1.0 Learning Objectives :

- To understand the expectations and standards of behaviour
- To help individuals make informed and ethical decisions.
- Fostering a positive workplace culture
- Identifying and managing conflicts of interest
- Enhancing ethical awareness and responsibility

1.1 Introduction :

Code of Conduct are Guidelines that an organization or community creates to govern the behaviour of its members. It outlines the acceptable and unacceptable behaviours of individuals within the organization or community, as well as the consequences for violating those behaviours.

A code of conduct typically includes standards of behaviour such as respect for others, honesty and integrity, inclusivity and diversity, confidentiality, and professionalism. It may also include guidelines for communication, conflict resolution, and appropriate use of technology.

The purpose of a code of conduct is to create a safe and respectful environment for all members of the organization or community. It helps to prevent discrimination, harassment, and other forms of misconduct, and promotes a culture of accountability and responsibility.

A code of conduct is typically enforced through a process of reporting and investigation, with consequences such as warnings, suspension, or expulsion for individuals found to be in violation. It is important for organizations and communities to regularly review and update their code of conduct to ensure that it remains relevant and effective

There are various definitions of code of conduct provided by different authors, here are a few examples :

According to the Cambridge Dictionary, a code of conduct is "a set of rules about how to behave and do business with others."

The International Organization for Standardization (ISO) defines a code of conduct as "a set of guidelines for employees to follow to ensure ethical and moral behavior in the workplace."

The Society for Human Resource Management (SHRM) defines a code of conduct as "a document that provides guidance to employees on expected ethical and professional behavior in the workplace."

The Ethics Resource Center defines a code of conduct as "a comprehensive guide to an organization's values, principles, and expectations that outline the behavior expected of employees."

The Center for Nonprofit Excellence defines a code of conduct as "a set of standards that guides the behavior of an organization's staff, volunteers, and board members, ensuring that they act with integrity, professionalism, and respect for the people they serve

1.2 The Code of Conduct : Structure and Contents :

Traditionally, a business is seen as a vital system whose dynamism can be assessed in relation to its capacity to manage relations with the other systematic entities that surround it.

In today's hypercompetitive world, company operates in a complex global market and corporate governance becomes essential to regulate the economic and social relationships.

The code of conduct can be considered a tool of corporate governance because it identifies corporate responsibilities towards stakeholders and obliges top managers to comply with certain guidelines when exercising their authority, both inside and outside the company.

We must carefully look in to the following points for better understanding of the the code of conduct and the code of ethics :

- The Code of Conduct is 'rules based',
- The Code of Conduct aims to offer a solution to every possible situation'
- The Code of Conduct helps to outline corporate strategies, i.e. the behaviours to adopt when specific problems emerge; the latter, which is 'value based', provides a set of ethical principles and corporate values.

- The code of conduct is therefore closely linked to the code of ethics because the behaviour to adopt in specific situations depends on the strategic mission principles, and may even incorporate a code of ethics.
- Many codes place oneself between these two extremes, because they are composed of an introduction that sets out the ethical principles and shared values, and a subsequent section that outlines the rules of conduct to be adopted in certain situations.
- Moreover the code of conduct and code of ethics are closely linked to the concepts of integrity and loyalty.
- In particular, the code of ethics addresses the moral integrity of the individuals in the company, because it identifies the values that employees must respect in their tasks: for example, honesty in their actions, tolerance of diversity and courtesy of service to customers.
- On the other hand, behaviours dictated by the code of conduct simply requires immediate execution by the members of the organization, without questioning whether or not it is opportune to do so.
- The code of conduct is designed to build strong loyalty to the company among employees.
- It contributes to create: cohesive and aligned behaviour; organisational efficiency; and better coordination between decision making and functional areas.
- The code of conduct also helps to contain internal conflicts by fostering favorable attitudes and consensus towards the company.
- The code of conduct encompasses a wide variety of subjects, because it addresses all the stakeholders who make up the operating scenario in which the corporate management evolves in relation to its environment.
- Moreover, it is an expression of the corporate culture since it reveals how the rules of conduct towards the company's interlocutors derive from cultural values and principles.
- The code is therefore structured in two sections: a preamble containing a code's description and the corporate principles, and a section with the rules and the standards of behaviour.

1.3 Characteristics of Code of Conduct :

A code of conduct is a set of rules and guidelines that establish a standard of behavior for individuals and organizations to follow. The characteristics of a code of conduct typically include:

Clarity : A code of conduct should be clear and easy to understand. It should clearly state what behaviors are acceptable and what are not.

Comprehensive : A code of conduct should cover a wide range of behaviors, including ethical, legal, and social responsibilities.

Specificity : A code of conduct should be specific in its language and examples of behaviors, so that people know exactly what is expected of them.

Consistency : A code of conduct should be applied consistently across all members of the organization, regardless of their position or status.

Enforcement : A code of conduct should have a system in place for reporting violations and enforcing consequences for non–compliance.

Flexibility : A code of conduct should be flexible enough to allow for changes over time, as societal norms and expectations evolve.

Accessibility : A code of conduct should be easily accessible to all members of the organization and should be regularly reviewed and updated as needed

Check Your Progress – 1 :

1. What is the purpose of a code of conduct ?
   - a. To establish rules and expectations for behavior within an organization
   - b. To allow employees to act however they want without consequences
   - c. To limit the liability of the organization
   - d. None of the above
2. Who is responsible for following the code of conduct ?
   - a. Only new employees
   - b. Only the HR department
   - c. Every member of the organization, including employees, managers, and executives
   - d. None of the above

1.4 Types of Code of Conducts in Organization :

A code of conduct is a set of rules and guidelines that outline expected behavior and ethical standards within an organization. Here are some types of code of conducts that organizations may have :

Employee Code of Conduct : This type of code of conduct outlines the expectations and standards of behavior for employees within the organization. It covers topics such as ethical behavior, conflict of interest, harassment and discrimination, and company policies and procedures.

Supplier Code of Conduct : A supplier code of conduct is a set of ethical and social standards that suppliers and vendors are expected to adhere to when doing business with an organization. It covers topics such as labor and human rights, environmental practices, and business ethics.

Customer Code of Conduct : A customer code of conduct outlines the expectations for customers when interacting with an organization. It covers topics such as appropriate behavior, respect for employees and other customers, and adherence to company policies and procedures.

Board Code of Conduct : A board code of conduct outlines the expectations and ethical standards for members of an organization's board of directors. It covers topics such as conflicts of interest, confidentiality, and fiduciary responsibility.

Volunteer Code of Conduct : A volunteer code of conduct outlines the expectations and standards of behavior for volunteers within an organization. It covers topics such as ethical behavior, confidentiality, and adherence to policies and procedures.

Social Media Code of Conduct : A social media code of conduct outlines the expectations and guidelines for employees and volunteers when using social media in relation to the organization. It covers topics such as privacy, confidentiality, and appropriate use of social media platforms.

These are just a few examples of the different types of code of conducts that organizations may have. The specific content and structure of a code of conduct will vary depending on the organization's size, industry, and culture

1.5 Advantages of a Code of Conduct :

Provides a clear standard of behavior

One of the primary advantages of having a code of conduct is that it provides a clear standard of behavior for individuals or groups. By setting out specific rules and guidelines, people know what is expected of them and what behaviors are acceptable or unacceptable. This can help to reduce confusion and ensure that everyone is on the same page.

Promotes ethical behavior

Another benefit of having a code of conduct is that it promotes ethical behavior. By outlining what is considered ethical and what is not, a code of conduct can help to prevent unethical behavior, such as fraud or discrimination. This can help to build trust between individuals or groups and promote a culture of integrity.

Encourages accountability

A code of conduct can also encourage accountability. When individuals or groups are held accountable for their actions, they are more likely to act in a responsible and ethical manner. This can help to prevent misconduct and promote positive behavior.

Fosters a positive workplace or community culture

By setting clear standards for behavior, a code of conduct can help to foster a positive workplace or community culture. When everyone knows what is expected of them, they are more likely to act in ways that are respectful and professional. This can help to create a positive environment where people feel comfortable and supported.

Provides a basis for discipline

When someone violates a code of conduct, it provides a basis for discipline. By setting out specific rules and guidelines, there is a clear standard for what behavior is considered unacceptable. This can help to prevent confusion and ensure that disciplinary action is fair and consistent

Check Your Progress – 2 :

1. What should employees do if they observe a violation of the code of conduct ?

   a. Ignore it

   b. Report it to their manager

   c. Report it to HR

   d. Report it to an outside organization

2. What are some common components of a code of conduct ?

   a. Confidentiality, anti–discrimination, anti–harassment, conflict of interest, and compliance with laws and regulations

   b. Employee dress code, vacation policy, and overtime rules

   c. Only confidentiality and compliance with laws and regulations

   d. None of the above

3. Which of the following is NOT a common element of a code of conduct ?

   a. Ethical principles   b. Policies and procedures

   c. Punishments for violations   d. Goals and objectives

1.6 Disadvantages of Code of Conduct :

While a code of conduct can be an effective tool for promoting positive behavior and maintaining a safe and inclusive environment, there are also some potential disadvantages to consider. Here are some of the most common ones :

Limited effectiveness : A code of conduct is only as effective as the commitment of those who are expected to follow it. If people do not take the code seriously, or if there are no consequences for violations, the code may not have much impact.

Unrealistic expectations : Some codes of conduct may be overly broad or vague, making it difficult for people to understand what is expected of them. This can lead to confusion, frustration, and a lack of buy–in.

Inflexibility : Codes of conduct may be difficult to update or modify, which can be problematic if circumstances change or new issues arise. This can result in a code that is outdated or ineffective.

Enforcement challenges : It can be difficult to enforce a code of conduct fairly and consistently, especially in large and complex organizations. This can lead to accusations of bias or unfair treatment.

Unintended consequences : Codes of conduct may have unintended consequences, such as stifling creativity or limiting free speech. It's important to consider these potential downsides before implementing a code of conduct.

Overall, a code of conduct can be a useful tool for promoting positive behavior and maintaining a safe and inclusive environment, but it's important to be aware of these potential disadvantages and to work to mitigate them where possible

1.7 Let Us Sum Up :

A code of conduct is a set of guidelines and principles that outlines the expected behavior of individuals within a particular community or organization. It serves as a framework for promoting and maintaining positive relationships, mutual respect, and ethical conduct.

Having a code of conduct is important for any group or organization, as it can help establish a culture of accountability and professionalism. It provides a clear set of expectations for behavior and helps prevent misunderstandings and conflicts.

A well–written code of conduct should be comprehensive, concise, and easy to understand. It should cover a range of topics, such as discrimination, harassment, conflicts of interest, confidentiality, and compliance with laws and regulations.

It is important to ensure that the code of conduct is communicated effectively to all members of the organization or community, and that it is regularly reviewed and updated to reflect changing circumstances and needs.

Ultimately, a code of conduct can contribute to a healthy and productive work environment or community by fostering a sense of trust, respect, and shared values

1.8 Answers to Check Your Progress :

Check Your Progress – 1 :

1. a **2.** c

Check Your Progress – 1 :

1. c **2.** a **3.** c

1.9 Glossary :

1. **Code of Conduct :** Guidelines that an organization or community creates to govern the behaviour of its members
2. **Employee Code of Conduct :** This type of code of conduct outlines the expectations and standards of behavior for employees within the organization

1.10 Assignment :

1. Explain the various types of code of conducts in organization with examples

1.11 Activities :

1. Prepare the list of advantages and disadvantages of code of conduct

1.12 Case Study :

1. Being a CEO of company prepare a list of code of conducts that you would have in your organization

1.13 Further Readings :

1. Code of ethics for Indian Business by M.C.Bhandari
2. Business Ethics and Corporate Governance by A. C. Fernando
3. Business Ethics and Values by S. K. Mandal

Unit 2

CONCEPT AND TYPE OF DIRECTORS.

: UNIT STRUCTURE :

2.0 Learning Objectives :

- To understand the role of directors in an organization.
- To differentiate between executive and non–executive directors.
- To identify the different types of directors, such as independent directors, nominee directors, and shadow directors.
- To recognize the legal duties and responsibilities of directors.
- To understand the importance of a board of directors in corporate governance

2.1 Introduction :

"Directors are individuals elected by shareholders to oversee the management and direction of a company. They are responsible for making strategic decisions and ensuring that the company operates in an ethical and transparent manner. The concept of directors is a vital aspect of corporate governance, which refers to the system of rules, practices, and processes by which a company is directed and controlled.

The history of directors can be traced back to the 19th century, when companies started to issue shares to raise capital. Shareholders wanted to ensure that their investments were being managed effectively, and they began to elect directors to represent their interests. Initially, directors were primarily concerned with financial management, but over time their responsibilities expanded to include strategic decision–making, risk management, and compliance.

In modern corporate governance, directors play a critical role in ensuring that companies are managed in the best interests of shareholders and stakeholders. They are responsible for setting the company's strategic direction, appointing and supervising senior management, monitoring financial performance, identifying and managing risks, ensuring compliance with laws and regulations, and engaging with shareholders.

One of the most important responsibilities of directors is setting the company's strategic direction. This involves identifying the company's goals and objectives, developing a plan to achieve them, and overseeing the implementation of the plan. Directors must be able to balance short–term and long–term interests, taking into account the needs of shareholders, employees, customers, and the wider community.

Directors are also responsible for appointing and supervising senior management. This involves selecting a CEO and other senior executives, setting their goals and objectives, and ensuring that they are fulfilling their roles and responsibilities. Directors must also monitor the performance of senior management, and take action if they are not meeting expectations.

Monitoring financial performance is another key responsibility of directors. They must ensure that the company is meeting its financial targets and obligations, and that it is managing its resources effectively. This involves monitoring financial statements, budgets, and cash flows, and taking action if there are any issues or concerns.

Directors are also responsible for identifying and managing risks. This includes financial, operational, and reputational risks, as well as risks related to environmental and social responsibility. Directors must develop a risk management plan, and ensure that it is being implemented effectively.

Ensuring compliance with laws and regulations is another important responsibility of directors. They must be aware of the laws and regulations that apply to the company, and ensure that it is complying with them. This includes laws related to accounting, taxation, employment, and environmental protection, among others.

Engaging with shareholders is also an important responsibility of directors. They must ensure that shareholders are informed about the company's performance and strategy, and that their interests are represented and protected. This includes holding regular meetings with shareholders, providing them with financial and other information, and responding to their concerns and questions.

In conclusion, the concept of directors is a vital aspect of corporate governance. Directors play a critical role in ensuring that companies are managed in the best interests of shareholders and stakeholders. Their responsibilities include setting the company's strategic direction, appointing and supervising senior management, monitoring financial performance, identifying and managing risks, ensuring compliance with laws and regulations, and engaging with shareholders. Directors face a range of challenges in today's complex business environment, but their role is essential for the long–term success of the company.

2.2 Roles and Responsibilities of Directors :

The roles and responsibilities of directors vary depending on the company's size, structure, and industry. However, some of the common duties and responsibilities of directors include:

Setting and overseeing the company's strategic direction : Directors are responsible for setting the company's strategic goals and objectives and overseeing their implementation.

Appointing and supervising senior management : Directors are responsible for appointing and supervising the senior management team, including the CEO, and ensuring that they are fulfilling their roles and responsibilities.

Monitoring financial performance : Directors are responsible for monitoring the company's financial performance and ensuring that it is meeting its financial targets and obligations.

Risk management : Directors are responsible for identifying and managing the risks that the company faces, including financial, operational, and reputational risks.

Compliance : Directors are responsible for ensuring that the company complies with all applicable laws, regulations, and ethical standards.

Shareholder engagement : Directors are responsible for engaging with the company's shareholders and ensuring that their interests are represented and protected.

2.3 Importance of Directors :

Directors play a critical role in the governance and management of organizations, and their importance cannot be overstated. Here are some key reasons why directors are important:

Strategic direction : Directors are responsible for setting the strategic direction of the organization, including its mission, vision, and values. They help ensure that the organization is focused on achieving its goals and that its resources are being used effectively.

Oversight : Directors provide oversight of the organization's operations and management, ensuring that the organization is operating in compliance with laws and regulations, and that risks are being managed appropriately. They also help ensure that the organization is being run in an ethical and responsible manner.

Accountability : Directors are accountable to the organization's stakeholders, including shareholders, employees, customers, and the broader community. They help ensure that the organization is meeting its obligations to these stakeholders and that it is delivering value to them.

Leadership : Directors provide leadership to the organization, setting an example for employees and stakeholders alike. They help establish a culture of accountability, transparency, and ethical behaviour.

Expertise : Directors bring a diverse range of expertise and experience to the organization, including in areas such as finance, law, operations, marketing, and technology. They help ensure that the organization has access to the knowledge"

2.4 Characteristics of Directors :

Directors are individuals who sit on the board of directors of a company or organization, and are responsible for overseeing its management and making key decisions. Here are some characteristics that are commonly associated with successful directors:

Leadership : Directors must be able to lead and inspire others, and have the ability to make tough decisions.

Experience : Directors typically have experience in the industry or sector in which the company operates, and have a deep understanding of its operations.

Strategic thinking : Directors must be able to think strategically and have a long–term vision for the company, in order to guide it towards sustainable growth.

Financial acumen : Directors should have a good understanding of financial statements and be able to make informed decisions based on financial data.

Communication skills : Directors must be able to communicate effectively with other board members, company executives, and shareholders.

Ethical conduct : Directors must act with integrity and ethical conduct, and avoid conflicts of interest.

Accountability : Directors must take responsibility for their decisions and actions, and be accountable to shareholders and other stakeholders.

Adaptability : Directors must be able to adapt to changing market conditions, and be willing to learn and embrace new ideas and technologies

Check Your Progress – 1 :

1. Who is a director ?

   a. A person who manages the day–to–day operations of a company.

   b. A person appointed or elected to the board of directors of a company.

   c. A shareholder of a company who has a significant ownership stake.

   d. A government official who oversees business activities.

2. What is the role of a director ?

   a. To manage the day–to–day operations of a company.

   b. To represent the interests of the company's shareholders.

   c. To provide financing for the company's operations.

   d. To oversee the work of the company's employees

2.5 Types of Directors :

There are different types of directors chosen in a firm. The Companies Act 2013 defines a director under Section 2(34) as a director appointed to the Board of a company; this primer will be divided into four sections, i.e., Minimum Requirements, Functions, Appointment, and Residuary Types. The latter three sections deal with the types of directors, while the first section deals with minimum requirements for all Company Law Directors

Minimum Requirements :

The minimum requirements can be based on two broad grounds, composition and eligibility

Composition :

- All public companies should have a minimum of 3 directors maximum of 15 directors, and 1/3 of them must be independent directors
- All private companies must have a minimum of 2 directors and a maximum of 15 directors
- To have more than 15 directors, a special resolution must be passed by Section 114.

Eligibility of Directors :

Any person other than the following would be eligible to be a director

- Auditory of the company.
- A previously banned director.
- A minor under 16 years of age.
- Any person declared to be bankrupt or insolvent.

Various Types of Directors :

Residential Director

As per the law, every company needs to appoint a director who has been in India and stayed for not less than 182 days in a previous calendar year.

Independent Director

Independent directors are non–executive directors of a company and help the company to improve corporate credibility and enhance the governance standards. In other words, an independent director is a non–

executive director without a relationship with a company which might influence the independence of his judgment.

The tenure of the Independent directors the hall up to 5 consecutive years; however, they shall be entitled to reappointment by passing a special resolution with the disclosure in the Board's report. Following companies need to appoint at the least two independent directors:

- Public Companies with Paid–up Capital of Rs. 10 Crores or more,
- Public Companies with Turnover of Rs. 100 Crores or more,
- Public Companies with total outstanding loans, deposits, and debenture of Rs. 50 Crores or more.

Small Shareholders Directors

A listed company, could upon the notice of a minimum of 1000 small shareholders or 10% of the total number of the small shareholder, whichever is lower, shall have a director which would be elected by small shareholders.

Women Director

A company, whether be it a private company or a public company, would be required to appoint a minimum of one woman director in case it satisfies any of the following criteria:

- The company is a listed company and its securities are listed on the stock exchange.
- The paid–up capital of such a company is Rs.100 crore or more with a turnover of Rs.300 crores or more.

Additional Director

A person could be appointed as an additional director and can occupy his post until the next Annual General Meeting. In absence of the AGM, such term would conclude on the date on which such AGM should have been held.

Alternate Director

Alternate director refers to personnel appointed by the Board, to fill in for a director who might be absent from the country, for more than 3 months.

Nominee Directors

Nominee directors could be appointed by a specific class of shareholders, banks or lending financial institutions, third parties through contracts, or by the Union Government in case of oppression or mismanagement.

Executive Director

An executive director is the full–time working director of the company. They look after the affairs of the company and have a higher responsibility towards the company. They need to be diligent and careful in all their dealings.

Non–executive Director

A non–executive director is a non–working director and is not involved in the everyday working of the company. They might participate in the planning or policy–making process and challenge the executive directors to come up with decisions that are in the best interest of the company.

Managing Director

A managing director means a director entrusted with the substantial powers of management of the company by virtue of the articles of a company, agreement with the company, resolution passed in the company general meeting or by the board of directors.

Check Your Progress – 2 :

1. Which of the following is a type of director who does not participate in the day–to–day management of the company but provides guidance and oversight ?

   a. Independent director   b. Executive director

   c. Non–executive director   d. Nominee director

2. Which of the following types of directors is responsible for the day–to–day management of the company ?

   a. Independent director   b. Executive director

   c. Non–executive director   d. Nominee director

3. Which of the following is a type of director who is not an employee of the company and does not have any material relationship with the company ?

   a. Independent director   b. Executive director

   c. Non–executive director   d. Nominee director

2.6 Liabilities of a Director :

The liability of a director arises because of his position as officers or agents of the Company and also for being the trustees and having a fiduciary relationship with Company and its shareholders. Since a company and its Director are two separate entities, a Director does not have personal liabilities on behalf of a company. Though, under certain scenarios (mentioned below), a Director might be held liable:

Liability for Tax

Under the Indian Income Tax Act, where there's tax due from any private company with respect to an income of any previous year which isn't recovered from the private company, every director of such company during the relevant previous financial year is liable, severally and jointly, for payment of such tax.

Misstatement in company's prospectus

Civil liability could be imposed on the directors for any false statement in the company's prospectus if he was the Director while issuing the prospectus, unless :

- The director proves that he withdrew his consent before prospectus was issued, or
- That the prospectus was issued without his consent or authority or without his knowledge, or
- That, once he became aware of the false statement, he withdrew his consent and gave public notice of the same, or
- He proves that he believed the doubted statements to be true.

Debts of the Company

Usually, a director isn't liable personally for any of the debt of a company until and unless fraud on part of the Director could be established.

Fraudulent Business Conduct

A Director might be held liable personally, for debts or other liabilities of a company in case he was knowingly a party to the fraud(s) while carrying on the business.

Share application money refund

Directors of a company are personally liable together with the company for repaying the share application money or the surplus share application money received if it is not repaid within the specified time period.

Liability to pay for qualification shares

In case the Director hasn't acquired the qualification shares within the stipulated time frame and such company goes into the liquidation after the expiry of this period, such Director would be called upon by Official liquidator for paying for such shares he was supposed to acquire.

2.7 Let Us Sum Up :

In conclusion, the role of a director is crucial to the success of a company. Directors are responsible for providing strategic guidance, overseeing management, and making decisions that impact the company's overall performance. There are different types of directors, including executive directors, non–executive directors, independent directors, and nominee directors. Each type of director brings a unique perspective and set of skills to the boardroom, and the mix of directors can vary depending on the company's needs and goals. A well–functioning board of directors is essential for the long–term success of a company, as it can help ensure that the company operates in a responsible and sustainable manner, while also maximizing value for shareholders

2.8 Answers to Check Your Progress :

Check Your Progress – 1 :

1. b **2.** b

Check Your Progress – 2 :

1. c **2.** b **3.** a

2.9 Glossary :

1. **Additional Director :** A person could be appointed as an additional director and can occupy his post until the next Annual General Meeting. In absence of the AGM, such term would conclude on the date on which such AGM should have been held.
2. **Alternate Director :** Alternate director refers to personnel appointed by the Board, to fill in for a director who might be absent from the country, for more than 3 months.
3. **Nominee Directors :** Nominee directors could be appointed by a specific class of shareholders, banks or lending financial institutions, third parties through contracts, or by the Union Government in case of oppression or mismanagement.
4. **Executive Director :** An executive director is the full-time working director of the company. They look after the affairs of the company and have a higher responsibility towards the company. They need to be diligent and careful in all their dealings.
5. **Managing Director :** A managing director means a director entrusted with the substantial powers of management of the company by virtue of the articles of a company, agreement with the company, resolution passed in the company general meeting or by the board of directors.

2.10 Assignment :

1. Explain the role and importance of a director in the company.

2.11 Activities :

1. Prepare the list of qualifications required to appoint independent director in the company

2.12 Case Study :

1. Being a director of a company prepare a list of what can be your liabilities towards comapny

2.13 Further Readings :

1. Business Ethics and Corporate Governance by A. C. Fernando
2. Business Ethics and Values by S. K. Mandal
3. A Practical Guide to Company Directors: Responsibilities, Duties, and Liabilities" by Ashok Kini and Kshama Loya
4. "The Director's Handbook: A Guide to Corporate Governance" by K.R. Chandratre

Unit 3 IMPORTANT COMMITTEES IN CONTEXT OF CORPORATE GOVERNANCE

: UNIT STRUCTURE :

3.0 Learning Objectives :

- Understanding the evolution of corporate governance in India
- Understanding various recommendations given by various committee on corporate governance
- Identifying best practices in corporate governance
- Analysing the role of regulators in corporate governance
- Understanding the impact of corporate governance on company performance
- Identifying areas for improvement in corporate governance
- Gaining knowledge of corporate governance frameworks
- Analysing the impact of corporate governance on stakeholders

3.1 Introduction :

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. One of the key elements of corporate governance is the use of committees to oversee different aspects of a company's operations.

Committees on corporate governance are groups of individuals who are appointed to oversee and advise on specific areas of a company's operations. These committees are typically composed of members of the board of directors, as well as other experts with relevant knowledge and experience

Some of the most common committees on corporate governance include:

Audit Committee : This committee is responsible for overseeing the company's financial reporting and audit processes. It ensures that the company's financial statements are accurate and reliable, and that the company is complying with relevant laws and regulations.

Compensation Committee : This committee is responsible for determining the compensation packages for the company's executives and directors. It ensures that these packages are aligned with the company's performance and are competitive with those of similar companies.

Nominating and Governance Committee : This committee is responsible for identifying and nominating candidates for the company's board of directors. It also oversees the company's corporate governance policies and practices.

Risk Committee : This committee is responsible for identifying and assessing the company's risks, and developing strategies to manage and mitigate those risks.

By using committees on corporate governance, companies can ensure that they are operating in a transparent and responsible manner, and that they are taking steps to manage risks and protect the interests of their stakeholders

3.2 CII Code of Desirable Corporate Governance (1998) :

For the first time in the history of corporate governance in India, the Confederation of Indian Industry (CII), an Industry association in India framed a voluntary code of corporate governance for the listed companies, which is known as CII Code of desirable corporate governance.

The main recommendations of the Code are summarised below :

(a) Any listed company with a turnover of Rs. 1000 million and above should have professionally competent and acclaimed non–executive directors,

Who should constitute :

(i) At least 30% of the board, if the chairman of the company is a non–executive director, or

(ii) At least 50% of the board if the chairman and managing director is the same person.

(b) For the non–executive directors to play an important role in corporate decision–making and maximising long–term shareholder value,

They need to:

(i) become active participants in boards, not passive advisors,

(ii) have clearly defined responsibilities within the board, and

(iii) know how to read a balance sheet, profit and loss account, cash flow statements and financial ratios, and have some knowledge of various company laws.

(c) No single person should hold directorships in more than 10 listed companies. This ceiling excludes directorship in subsidiaries (where the group has over 50% equity stake) or associate companies (where the group has over 25% but no more than 50% equity stake).

(d) The full board should meet a minimum of six times a year, preferably at an interval of two months, and each meeting should have agenda items that require at least half–a–days discussion.

(e) As a general rule, one should not re–appoint any non–executive director who has not had the time to attend even one–half of the meetings.

(f) Various key information must be reported to, and placed before the board, viz., annual budgets, quarterly results, internal audit reports, show cause, demand and prosecution notices received, fatal accidents and pollution problem, default in payment of principal and interest to the creditors, inter corporate deposits, joint venture foreign exchange exposures.

(g) Listed companies with either a turnover of over Rs. 1000 million or a paid up capital of Rs. 200 million, whichever is less, should set up audit committees within 2 years. The committee should consist of a least three members, who should have adequate knowledge of finance, accounts, and basic elements of company law. The committees should provide effective supervision of the financial reporting process. The audit committees should periodically interact with statutory auditors and internal auditors to ascertain the quality and veracity of the company's accounts as well as the capability of the auditors themselves.

(h) Consolidation of group accounts should be optional.

(i) Major Indian stock exchanges should generally insist on a compliance certificate, signed by the CEO and the CFO.

3.3 Kumar Mangalam Birla Committee (2000) :

Another Committee named as K.M. Birla Committee was set up by SEBI in the year 2000. In fact, this Committee's recommendation culminated in the introduction of Clause 49 of the Listing Agreement to be complied with by all listed companies. Practically most of the recommendations were accepted and included by SEBI in its new Clause 49 of the Listing Agreement in 2000.

The main recommendations of the Committee are :

(a) The board of a company should have an optimum combination of executive and nonexecutive directors with not less than 50% of the board comprising the non–executive directors. In case, a company has a non–executive chairman, at least one–third of board should be comprised of independent directors and in case, a company has an executive chairman, at least half of the board should be independent.

(b) Independent directors are directors who apart from receiving director's remuneration do not have any other material pecuniary relationship or transaction with the company, its promoters, management or subsidiaries, which in the judgement of the board may affect their independence of judgement.

(c) A director should not be a member in more than ten committees or act as chairman of more than five committees across all companies in which he is a director. It should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

(d) **The disclosures should be made in the section on corporate governance of the annual report :**

  (i) All elements of remuneration package of all the directors, i.e., salary, benefits, bonus, stock options, pension etc.

  (ii) Details of fixed component and performance linked incentives along with the performance

  (iii) Service contracts, notice and period, severance fees,

  (iv) Stock option details, if any, and whether issued at a discount as well as the period over which accrued and exercisable.

(e) **In case of appointment of a new director or re–appointment of a director, the shareholders must be provided with the information:**

  (i) a brief resume of the director,

  (ii) nature of his experience in specific functional areas, and

  (iii) names of companies in which the person also holds the directorship and the membership of committees of the board.

(f) Board meetings should be held at least four times in a year, with a maximum times gap of 4 months between any two meetings. The minimum information (specified by the committee) should be available to the board.

(g) A qualified and independent audit committee should be set up by the board of the company in order to enhance the credibility of the financial disclosures of a company and promote transparency. The committee should have minimum three members, all being non–executive directors, with majority being independent, and with at least one director having financial and accounting knowledge. The chairman of the committee should be an independent director and he should be present at AGM to answer shareholder queries.

Finance director and head of internal audit and when required, a representative of the external auditor should be present as invitees for the meetings of the audit committee. The committee should meet at least thrice a year. One meeting should be held before finalization of annual accounts and one necessarily every six months. The quorum of the meeting should be either two members or one–third of the members of the committee, whichever is higher and there should be a minimum of two independent directors.

(h) The board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration package for executive directors including pension rights and any compensation payment. The committee should comprise of at least three directors, all of who should be non–executive directors, the chairman of the committee being an independent director.

(i) A board committee under the chairmanship of a non–executive director should be formed to specifically look into the redressal of shareholder complaints like transfer of shares, non–receipt of balance sheet, declared dividends etc., The committee should focus the attention of the company on shareholders' grievances and sensitize the management of redressal of their grievances,

(j) The companies should be required to give consolidated accounts in respect of all their subsidiaries in which they hold 51% or more of the share capital,

(k) Disclosures must be made by the management to the board relating to all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the company at large. All pecuniary relationships or transactions of the non–executive directors should be disclosed in the annual report.

(l) As part of the Directors' Report or as an additional thereto, a management discussion and analysis report should form part of the annual report to the shareholders,

(m) The half–yearly declaration of financial performance including summary of the significant events in last six months should be sent to each household of shareholders,

(n) The company should arrange to obtain a certificate from the auditors of a company regarding compliance of mandatory recommendations and annex the certificate with the Directors' Report, which is sent annually to all the shareholders of the company,

(o) There should be a separate section on corporate governance in the annual reports of companies, with a detailed compliance report on corporate governance.

An advisory group on corporate governance under the chairmanship of Dr. R. H. Patil, then Managing Directors, National Stock Exchange was constituted by a standing committee of RBI in 2000. They submitted their report in March 2001, which contained several recommendations on corporate governance.

Check Your Progress – 1 :

1. What is CII ?

   a. A government regulatory body

   b. An industry association in India

   c. A non–profit organization that promotes education in India

   d. A political party in India

2. When was the Kumar Mangalam Birla Committee formed ?

   a. 1998 b. 2002 c. 2005 d. 2010

3.4 Naresh Chandra Committee (2002):

Consequent to the several corporate debacles in the USA in 2001, followed by the stringent enactments of Sarbanes Oxley Act, Government of India appointed Naresh Chandra Committee in 2002 to examine and recommended drastic amendments to the law pertaining to auditor–client relationships and the role of independent directors.

The main recommendations of the Committee are given below :

(a) The minimum board size of all listed companies as well as unlisted public limited companies with paid–up share capital and free reserves of Rs. 100 million and above, or turnover of Rs. 500 million and above, should be seven, of which at least four should be independent directors.

(b) No less than 50% of the board of directors of any listed company as well as unlisted public limited companies with a paid–up share capital and free reserves of Rs. 100 million and above or turnover of Rs. 500 million and above, should consist of independent directors.

(c) In line with the international best practices, the committee recommended a list of disqualification for audit assignment which included prohibition of:

   (i) Any direct financial interest in the audit client,

   (ii) Receiving any loans and/or guarantees,

   (iii) Any business relationship,

   (iv) Personal relationship by the audit firm, its partners, as well as their direct relatives, prohibition of

   (v) Service or cooling off period for a period of at least two years, and
   (vi) Undue dependence on an audit client.

(d) Certain services should not be provided by an audit firm to any audit client, viz.:
   (i) Accounting and book keeping,
   (ii) Internal audit,
   (iii) Financial information design,
   (iv) Actuarial,
   (v) Broker, dealer, investment advisor, investment banking,
   (vi) Outsourcing,
   (vii) Valuation,
   (viii) Staff recruitment for the client etc.

(e) The audit partners and at least 50% of the engagement team responsible for the audit of either a listed company, or companies whose paid–up capital and free reserves exceeds Rs. 100 million or companies whose turnover exceeds Rs. 500 million, should be rotated every 5 years.

(f) Before agreeing to be appointed (Section 224 (i)(b)), the audit firm must submit a certificate of independence to the audit committee or to the board of directors of the client company.

(g) There should be a certification on compliance of various aspects regarding corporate governance by the CEO and CFO of a listed company.

It is interesting to note that majority of the recommendations of this committee are the culmination of the provisions of Sarbanes Oxley Act of the USA

4.5 N.R. Narayana Murthy Committee (2003) :

SEBI constituted this Committee under the chairmanship of N.R. Narayana Murthy, chairman and mentor of Infosys, and mandated the Committee to review the performance of corporate governance in India and make appropriate recommendations. The Committee submitted its report in February 2003.

The main items of Committee recommendations are as follows :

(a) Persons should be eligible for the office of non–executive director so long as the term of office did not exceed nine years (in three terms of three years each, running continuously).

(b) The age limit for directors to retire should be decided by companies themselves.

(c) All audit committee members shall be non–executive directors. They should be financially literate and at least one member should have accounting or related financial management expertise.

(d) **Audit committee of listed companies shall review mandatorily the information, viz.:**

   (i) Financial statements and draft audit reports,

   (ii) Management discussion and analysis of financial condition and operating results,

   (iii) Risk management reports,

   (iv) Statutory auditors' letter to management regarding internal control weaknesses, and

   (v) Related party transactions.

(e) The audit committee of the parent company shall also review the financial statements, in particular, the investments made by the subsidiary company.

(f) A statement of all transactions with related parties including their bases should be placed before the independent audit committee for formal approval/ratification. Of any transaction is not on an arm's length basis, management should provide an explanation to the audit committee, justifying the same.

(g) Procedures should be in place to inform board members about the risk assessment and minimisation procedures.

(h) Companies raising money through an Initial Public Offering (IPO) shall disclose to the audit committee, the uses/application of funds by major category (capital expenditure, sales and marketing, working capital etc.) on a quarterly basis. On an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus. This statement shall be certified by the independent auditors of the company. The audit committee should make appropriate recommendations to the board to take up steps in this matter.

(i) It should be obligatory for the board of a company to lay down the code of conduct for all board members and senior management of a company. They shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed off by the CEO and COO.

(j) A director to become independent shall satisfy the various conditions laid down by the Committee.

(k) Personnel two observe an unethical or improper practice (not necessarily a violation of law) should be able to approach the audit committee without necessarily informing their supervisors. Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars etc. Companies shall annually affirm that they have not denied any personal access to the audit committee of the company (in respect of matters involving alleged misconduct) and that they have provided protection to whistle blowers from unfair termination and other unfair or prejudicial employment practices. Such affirmation shall form a part of the board report on corporate governance that is required to be prepared and submitted together with the annual report.

(l) For all listed companies there should be a certification by the CEO and CFO confirming, the financial statements as true and fair in compliance with the existing accounting standards, effectiveness of internal control system, disclosure of significant fraud and significant changes in internal control and/or of accounting policies to the auditors and the audit committee. It is worth noting here that majority of the recommendations of this committee have been accepted by SEBI and thereby incorporated in the revised Clause 49 of the Listing Agreement in 2003 and 2004.

Check Your Progress – 2 :

1. When was the Naresh Chandra Committee on Corporate Governance set up ?

   a. 1996 b. 1998 c. 2000 d. 2002

2. Which of the following is NOT a recommendation of the Naresh Chandra Committee on Corporate Governance ?

   a. Appointment of independent directors

   b. Separate roles of CEO and Chairman

   c. Disclosing of financial information

   d. Mandatory CSR spending

3. Who headed the Narayana Murthy Committee on Corporate Governance in India ?

   a. Naresh Chandra b. Narayana Murthy

   c. Uday Kotak d. Ratan Tata

4.6 J.J. Irani Committee (2005) :

The J.J. Irani Committee was constituted by the Government of India in December, 2004 to evaluate the comments and suggestions received on 'concept paper' and provide recommendations to the Government in making a simplified modern law. The Committee submitted its report to the Government in May 2005, which is under consideration till date.

The main features of its recommendations pertaining to corporate governance are as follows :

(a) The (new) company law should provide for minimum number of directors necessary for various classes of companies. There need not be any limit to the maximum numbers of directors in a company.

This should be decided by the companies or by its Articles of Association. Every company should have at least one director resident in India to ensure availability in case of any issue regarding accountability of the board.

(b) Both the managing director as also the whole time directors should not be appointed for more than five years at a time.

(c) No age limit may be prescribed in the law. There should be adequate disclosure of age of the directors in the company's document. In case of a public company, appointment of directors beyond a prescribed age (say) seventy years should be subject to a special resolution passed by the shareholders.

(d) A minimum of one–third of the total strength of the board as independent directors should be adequate, irrespective of whether the chairman is executive or non–executive, independent or not. A director to be independent should satisfy certain conditions laid down by the Committee.

(e) The total number of directorships, any one individual may hold, should be limited to a maximum of fifteen.

(f) Companies should adopt remuneration policies that attract and maintain talented and motivated directors and employees for enhanced performance. However, this should be transparent and based on principles that ensure fairness, reasonableness and accountability. There should be a clear relationship between responsibility and performance vis–a–vis remuneration. The policy underlying directors' remuneration should be articulated, disclosed and understood by investors/stakeholders.

(g) There need not be any limit prescribed to sitting fees payable to non–executive directors including independent directors. The company with the approval of shareholders may decide on remuneration in the form of sitting fees and/or profit related commissions payable to such directors for attending board and committee meetings, and should disclose it in its director's remuneration report forming part of the annual report of the company.

(h) The requirement of the Companies Act, 1956 to hold a board meeting every three months and at least four meetings in a year should continue. The gap between two board meetings should not exceed four months. Meetings at short notices should be held only to transact emergency business. In such meetings, the mandatory presence of at least one independent director should be required in order to ensure that only well considered decisions are taken. If even one independent director is not present in the emergency meeting, then decisions taken in such meeting should be subject to ratification by at least one independent director.

(i) Majority of the directors of the audit committee should be independent directors if the company is required to appoint independent directors.

The chairman of the committee should be independent. At least one member of the audit committee should have knowledge of financial management or audit or accounts. The recommendation of the committee, if overruled by the board should be disclosed in the Directors' Report along with the reasons for overruling.

(j) There should be an obligation on the board of a public listed company to constitute a remuneration committee, comprising non–executive directors including at least one independent director. The chairman of the committee should be an independent director. The committee will determine the company's policy as well as specific remuneration packages for its managing/executive directors/senior management.

(k) The rights of minority shareholders should be protected during general meetings of the company. There should be extensive use of postal ballot including electronic media to enable shareholders to participate in meetings. Every company should be permitted to transact any item of business through postal ballot, except the items of ordinary business, viz., consideration of annual accounts, reports of directors and auditors, declaration of dividends, appointment of directors, and appointment and fixation of remuneration of the auditors.

(l) All non–audit services may be pre–approved by audit committee. An audit firm should be prohibited from rendering certain non–audit services as specified by the committee,

(m) Public listed companies should be required to have a regime of internal financial controls for their own observance. Internal controls should be certified by the CEO and the CFO of the company and mentioned in the Directors Report.

(n) Detail of transactions of the company with its holding or subsidiary or associate companies in the ordinary course of business and transacted on an arm's length basis should be placed periodically before the board through the audit committee. The transactions not in a normal course of business and/or not on an arm's length justification for the same. A summary of such transaction should form part of the annual report of the company.

(o) Every director should disclose to the company on his directorships and shareholdings in the company and in other companies.

It is important to mention here that despite various recommendations made by the above Committee on corporate governance, the Committee kept silence on two major issues on corporate governance.

They are :

(i) Chairman and CEO duality (particularly in regard to separation of these two posts), and

(ii) Appointment of nomination committee.

3.7 Let Us Sum Up :

In conclusion, corporate governance is an essential aspect of the Indian business ecosystem. Various committees have been set up over the years to ensure that companies operate with transparency, accountability, and fairness. These committees have formulated recommendations and guidelines that have significantly improved the corporate governance practices of Indian companies. The Companies Act, 2013, has also played a crucial role in strengthening the legal framework of corporate governance in India.

Some of the notable committees that have played a pivotal role in shaping corporate governance practices in India include the Kumar Mangalam Birla Committee, the Narayana Murthy Committee, the Securities and Exchange Board of India (SEBI), and the Ministry of Corporate Affairs (MCA). These committees have provided valuable insights and recommendations on various aspects of corporate governance, such as the composition of boards, audit committees, and shareholder rights.

In recent years, there has been a growing emphasis on environmental, social, and governance (ESG) factors in corporate governance. This trend is expected to gain more prominence in the coming years as companies increasingly recognize the importance of sustainable and responsible business practices. The Indian government has also taken several initiatives to promote ESG practices, such as mandatory CSR spending and the introduction of a Business Responsibility and Sustainability Report (BRSR).

Overall, India has made significant progress in improving its corporate governance practices over the years, but there is still a long way to go. Continued efforts and reforms are necessary to ensure that companies operate with the highest standards of corporate governance, which will ultimately benefit all stakeholders in the Indian economy

3.8 Answers to Check Your Progress :

Check Your Progress – 1 :

1. b **2.** b

Check Your Progress – 2 :

1. c **2.** d **3.** b

3.9 Glossary :

1. **CII :** Confederation of Indian industries
2. **SEBI :** Securities and Exchange board of India

3.10 Assignment :

1. Enumerate main recommendations of Kumar mangalam Birla committee of corporate governance.

3.11 Activities :

1. Prepare the list of various committees formed over the years on corporate governance in India

3.12 Case Study :

1. Being a Management of company what are the various recommendations that you will include in your company for corporate Governance

3.13 Further Readings :

1. Corporate Governance: Principles, Policies, and Practices by A. C. Fernando
2. Corporate Governance in India: Theories, Practices, and Reforms by B. K. Bhattacharya
3. Business Ethics and Values by S. K. Mandal
4. Corporate Governance and Accountability" by K. R. Shanmugam

Unit 4 DISCLOSURE REQUIREMENTS FOR CORPORATE GOVERNANCE

: UNIT STRUCTURE :

4.0 Learning Objectives :

- Understanding the principles of good corporate governance:
- Identifying corporate governance issues:
- Evaluating the effectiveness of corporate governance practices
- Analysing the impact of corporate governance on company performance
- Developing critical thinking and analytical skills related to analysing complex information in various reports

4.1 Introduction :

Corporate governance refers to the set of processes, principles, and values that guide how a company is managed and controlled. Disclosure requirements are an essential part of corporate governance as they ensure that a company is transparent in its operations, financial reporting, and decision–making processes.

Disclosures can be classified into two main categories :

Mandatory Disclosures : These are disclosures that are required by law or regulatory bodies. Companies are obligated to provide certain information to the public, shareholders, and other stakeholders. Examples of mandatory disclosures include financial statements, annual reports, and information about executive compensation.

Voluntary Disclosures : These are disclosures that companies choose to provide beyond what is legally required. Voluntary disclosures can enhance a company's reputation, improve stakeholder relationships, and provide additional information to investors. Examples of voluntary disclosures include sustainability reports, social responsibility reports, and corporate social responsibility initiatives.

The purpose of disclosure requirements is to ensure that companies are transparent and accountable to their stakeholders. By providing relevant and timely information, companies can build trust and confidence with their stakeholders. It also allows investors and other stakeholders to make informed decisions about their involvement with the company.

In conclusion, disclosure requirements are an essential aspect of corporate governance. They provide transparency and accountability, help build trust and confidence with stakeholders, and allow for informed decision–making. Companies must comply with mandatory disclosures, and may also choose to provide voluntary disclosures to enhance their reputation and improve stakeholder relationships

4.2 Need for Corporate Governance in India :

The need for corporate governance has emerged because of the increasing concerns about the non–compliance of standards of financial reporting and accountability by boards of directors and management of companies causing heavy losses to investors. Following are the needs for corporate governance in India:

Changing Ownership Structure :

A corporate firm has lots of stakeholders with different attitudes towards corporate affairs, corporate governance protects the stakeholders' right by implementing it through its code of conduct. Today a company has a very large number of stakeholders spread all over the nation and even the world and a majority of shareholders act unorganised with an indifferent attitude towards corporate affairs. Maintaining a proper structure of a corporate body requires a practical implementation of rules and regulations through a code of conduct of corporate governance.

Social responsibility :

Society having greater expectations from corporate, they expect that corporates take care of the environment, pollution, quality of goods and services, sustainable development etc. Fulfilment of all these expectations is only possible with proper corporate governance.

Takeovers and Mergers :

Takeovers and mergers of corporate entities created lots of problems in the past. It affects the right of various stakeholders in the company and creates a problem of chaos, this factor also pushes the need of corporate governance in the country.

Confidence booster :

Corporate scams or frauds in the recent years of the past have shaken public confidence in corporate management. The need for corporate governance is then crucial for reviving investors' confidence in the corporate sector towards the economic development of society.

Mismanagement and corruption :

It has been observed in both developing and developed economies that there has been a great increase in the monetary payments and packages of top level corporate executives. There is no justification for exorbitant payments to top ranking managers, out of corporate funds which is a property of shareholders and society. This factor necessitates corporate governance to restrict the ill–practices of top managements in the companies.

Investors' influence :

Large corporate investors are becoming a challenge to the management of the company as they influence the decisions of the company. Corporate governance set the code to deal with such situations.

Globalization :

Globalization made the communication and transport between countries so easy and frequent. Many Indian companies are listed with international stock exchange which also triggers the need for corporate governance in India to structure the companies at par with international level.

Efficiency of management :

Hostile takeovers of corporations witnessed in several countries put a question mark on the efficiency of managements of take–over companies. Lack of efficient code of conduct for corporate management's points out to the need for corporate governance.

Check Your Progress – 1 :

1. What is corporate governance ?
   a. A set of laws that regulate businesses
   b. A framework of policies, processes, and rules that govern a company
   c. A system of financial reporting and auditing
   d. A code of ethics for business conduct
2. Why is corporate governance important for companies in India ?
   a. To comply with legal requirements
   b. To enhance transparency and accountability
   c. To improve access to capital markets
   d. All of the above

4.3 Key Disclosure Requirements :

In India, companies are required to comply with various disclosure requirements as part of their corporate governance obligations. Here are some of the key disclosure requirements:

Financial disclosures : Companies are required to disclose their financial performance, including their annual financial statements, quarterly financial results, and other financial information as prescribed by the Securities and Exchange Board of India (SEBI).

Board composition and remuneration : Companies are required to disclose the composition of their board of directors, the remuneration paid to their directors, and any related–party transactions with their directors.

Shareholding pattern : Companies are required to disclose their shareholding pattern, including the details of their promoters, institutional investors, and public shareholders.

Related–party transactions : Companies are required to disclose any related–party transactions, including those with their promoters, directors, and key management personnel.

Corporate social responsibility (CSR) : Companies are required to disclose their CSR policies and activities, including the amount of money spent on CSR initiatives.

Risk management : Companies are required to disclose their risk management policies and practices, including the identification and assessment of risks, and the steps taken to mitigate those risks.

Insider trading : Companies are required to disclose any instances of insider trading by their directors, key management personnel, and other designated employees.

These disclosure requirements are enforced by SEBI, the Ministry of Corporate Affairs, and other regulatory bodies in India. Non–compliance with these requirements can result in penalties, fines, and other legal consequences for the company and its directors

4.4 Corporate Governance Through Disclosures :

(A) Financial Reporting & disclosures

These are generally influenced by the regulatory requirements prescribed by various statues.

1. Companies Act, 2013

- The format of Balance sheet, P&L must be in accordance to Schedule III of the act
- The financial statement must be approved by BODs & signed by at least two directors
- The financial statements shall be filed to the concerned Registrar of Companies

2. Reserve Bank of India (RBI)

The financial statement of banking companies shall be conformity with Banking Regulations

The format of Balance sheet and Profit & Loss Statement to be followed by the banking companies has been prescribed by the Banking Regulations

3. Securities and Exchange Board of India (SEBI) for listed companies

Prepare consolidated statements in addition to Individual financial statements

Disclose their quarterly results in format prescribed by SEBI

The quarterly statement shall be audited one or may limited review by the auditors

(B) OTHER DISCLOSURES

ANNUAL REPORT UNDER COMPANIES ACT, 2013

- Chairman's Statement
- Key Financial and non–financial indicators
- Management discussion and Analysis report
- Directors' Report
- Secretarial Audit Report
- Corporate Governance Audit Report
- Business Responsibility Report
- Segment Reporting
- Human Resource Disclosure
- Auditors' Report
- Financial Statements
- Related Party Disclosures
- Joint Ventures Details
- Contingent Liability Disclosure

DISCLOSURES UNDER SEBI REGULATIONS

- BoD of listed entity shall authorize one or more KMPs to determine materiality of an event or information and for the purpose of making disclosures to stock exchange(s)
- Disclosure of Shareholding Pattern
- Corporate Governance Disclosure
- Financial Statement Disclosure
- Fair Disclosure of Unpublished Price Sensitive Information
- Trading by Promoters

- Encumbrance of Shares by Promoters
- Share re– reconciliation audit report
- Transfer & Transmission of Shares Certificate
- Fraud/Default Reporting and Disclosure
- Other disclosures

Check Your Progress – 2 :

1. What is the primary purpose of corporate governance disclosures ?

    a. To comply with legal requirements

    b. To provide transparency and accountability to stakeholders

    c. To protect the interests of management

    d. To increase profits

2. What is the role of board of directors in corporate governance disclosures ?

    a. To create financial statements

    b. To ensure that disclosures are accurate and complete

    c. To increase shareholder returns

    d. To protect the interests of management

3. Which of the following is an example of a corporate governance disclosure ?

    a. A company's annual report

    b. A company's advertising campaign

    c. A company's social media presence

    d. A company's press releases

4.5 Let Us Sum Up :

Corporate governance through disclosures is an essential aspect of modern business operations. Disclosures provide investors, stakeholders, and regulators with the information necessary to make informed decisions about a company's financial health, management practices, and risk management strategies.

The benefits of good corporate governance disclosures include increased transparency, accountability, and trust in the business world. Companies that disclose relevant and accurate information about their operations, financial performance, and risks can build a positive reputation among stakeholders, attract investors, and reduce the likelihood of legal and regulatory issues.

To achieve effective corporate governance through disclosures, companies need to adopt a robust disclosure framework, which includes policies and procedures for disclosing relevant and accurate information, clear communication channels, and an effective oversight mechanism. Companies should also keep up with the evolving regulatory environment and disclose information that is compliant with the relevant laws and regulations.

In conclusion, corporate governance through disclosures is a critical aspect of modern business operations. Effective disclosures can help build a positive reputation, attract investors, and reduce the likelihood of legal and regulatory issues. Companies should adopt a robust disclosure framework and keep up with the evolving regulatory environment to achieve effective corporate governance through disclosures.

4.6 Answers to Check Your Progress :

Check Your Progress – 1 :

1. b **2.** d

Check Your Progress – 1 :

1. b **2.** b **3.** a

4.7 Glossary :

1. **Board of Directors :** A group of individuals elected by shareholders to oversee and make decisions on behalf of the company.
2. **Shareholders :** Individuals or entities who own shares in a company and have a stake in its success.
3. **Annual Report :** A document published by a company each year, which typically includes financial statements, a letter from the CEO, and other information about the company's operations and performance

4.8 Assignment :

1. List down key disclosure requirements of corporate governance.

4.9 Activities :

1. Prepare the list of Financial Reporting & disclosures of corporate governance in India

4.10 Case Study :

1. Being a member of Board of directors of a public limited company what are the disclosures you will make in Annual report under companies act, 2013

4.11 Further Readings :

1. Corporate Governance: Principles, Policies, and Practices by A. C. Fernando
2. Corporate Governance in India: Theories, Practices, and Reforms by B. K. Bhattacharya
3. Corporate Governance and Accountability in India by Santosh Kumar Sharma
4. Corporate Governance and Accountability" by K. R. Shanmugam

BLOCK SUMMARY

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It is the framework that defines the relationship between the management, shareholders, and other stakeholders of a company, and is critical for ensuring transparency, accountability, and ethical conduct in business.

In India, the Companies Act, 2013 is the primary legislation governing corporate governance practices. The Act replaced the Companies Act, 1956 and introduced several new provisions to enhance transparency, accountability, and shareholder rights.

The Companies Act, 2013 mandates the appointment of independent directors, the establishment of audit committees, and the formation of a nomination and remuneration committee. It also provides for stricter norms for related–party transactions and the disclosure of corporate social responsibility initiatives

Characteristics of code of conduct

A code of conduct is a set of rules and guidelines that establish a standard of behavior for individuals and organizations to follow. The characteristics of a code of conduct typically include:

- **Clarity :** A code of conduct should be clear and easy to understand. It should clearly state what behaviors are acceptable and what are not.
- **Comprehensive :** A code of conduct should cover a wide range of behaviors, including ethical, legal, and social responsibilities.
- **Specificity :** A code of conduct should be specific in its language and examples of behaviors, so that people know exactly what is expected of them.
- **Consistency :** A code of conduct should be applied consistently across all members of the organization, regardless of their position or status.
- **Enforcement :** A code of conduct should have a system in place for reporting violations and enforcing consequences for non–compliance.
- **Flexibility :** A code of conduct should be flexible enough to allow for changes over time, as societal norms and expectations evolve.
- **Accessibility :** A code of conduct should be easily accessible to all members of the organization and should be regularly reviewed and updated as needed

Types of Directors

- Residential Director
- Independent Director
- Small Shareholders Directors

- Women Director
- Additional Director
- Alternate Director
- Nominee Directors
- Executive Director
- Non–executive Director
- Managing Director

Various committees on corporate governance

- CII Code of Desirable Corporate Governance (1998):
- Kumar Mangalam Birla Committee (2000):
- Naresh Chandra Committee (2002):
- N.R. Narayana Murthy Committee (2003):
- J.J. Irani Committee (2005)

Need for Corporate Governance in India

- Changing Ownership Structure
- Social responsibility
- Takeovers and Mergers
- Confidence booster
- Mismanagement and corruption
- Investors' influence
- Globalization

Key disclosure requirements

- In India, companies are required to comply with various disclosure requirements as part of their corporate governance obligations. Here are some of the key disclosure requirements :
- **Financial disclosures :** Companies are required to disclose their financial performance, including their annual financial statements, quarterly financial results, and other financial information as prescribed by the Securities and Exchange Board of India (SEBI).
- **Board composition and remuneration :** Companies are required to disclose the composition of their board of directors, the remuneration paid to their directors, and any related–party transactions with their directors.
- **Shareholding pattern :** Companies are required to disclose their shareholding pattern, including the details of their promoters, institutional investors, and public shareholders.
- **Related–party transactions :** Companies are required to disclose any related–party transactions, including those with their promoters, directors, and key management personnel.

- **Corporate social responsibility (CSR) :** Companies are required to disclose their CSR policies and activities, including the amount of money spent on CSR initiatives.
- **Risk management :** Companies are required to disclose their risk management policies and practices, including the identification and assessment of risks, and the steps taken to mitigate those risks.
- **Insider trading :** Companies are required to disclose any instances of insider trading by their directors, key management personnel, and other designated employees

Corporate governance is an essential aspect of the Indian business ecosystem. Various committees have been set up over the years to ensure that companies operate with transparency, accountability, and fairness. These committees have formulated recommendations and guidelines that have significantly improved the corporate governance practices of Indian companies. The Companies Act, 2013, has also played a crucial role in strengthening the legal framework of corporate governance in India

BLOCK ASSIGNMENT

Short Questions :

1. Define Code of Conduct
2. What is executive director ?
3. Define corporate governance ?
4. What is Insider Trading ?
5. Define Mandatory Disclosures.

Long Questions :

1. Discuss various advantages of Code of Conduct.
2. Explain various roles and responsibilities of Directors.
3. What are the main recommendations given by Naresh Chandra Committee on corporate Governance ? Explain in brief
4. Explain the need for corporate governance in India.
5. Explain various key disclosure requirement under corporate governance in India.

❖ **Enrolment No. :** ______

1. How many hours did you need for studying the units ?

Unit No.	1	2	3	4
No. of Hrs.				

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any other Comments

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