CORPORATE GOVERNANCE AND BUSINESS ETHICS

BBA - 603

BLOCK 1:
INTRODUCTION TO CORPORATE GOVERNANCE AND BUSINESS ETHICS

Dr. Babasaheb Ambedkar Open University
Ahmedabad

Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

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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 students' 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 may 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!

BBA-603 CORPORATE GOVERNANCE AND BUSINESS ETHICS

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UNIT 1: INTRODUCTION TO CORPORATE GOVERNANCE

Learning Objectives

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• To know the Corporate Governance (CG)

• To understand Factors for Organization Success

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Structure

1.1 Introduction

Governance implies a degree of control to be exercised by key stakeholders' representatives. Governance is about governing, to is not merely about ownership. Even- an owner has to learn to governance implies that the institution is run for the optimum benefit for the stock holder in it.

The resignation of issue relating to corporate governance is timely as it is applying that we come across so any instances of well regarded corporate looting their shareholder for personal gains of managers of the owners

The list of companies that usually indulge in unethical business practices perhaps exceeds the list of good companies. A few companies which have attained the dubious distinction of appearing in press are NEPS Groups, MS Shoes East Limited (arrest Pawn Sachdeva), Manu Chhabria Group, Orkay Mills, Harshad Mehta epic stock scam, Sterling group, JVJ, recent UTI 64Scam and host of engaged in teak plantations.

The bedrock of good corporate governance is conducting the affairs of a Company in such a way as to ensure fairness to customers, employees, investors, vendors, the government and society at large. It requires quality of leadership, values, transparent management, vision and goals, respect for law, crucial aspect of governance is investor-friendliness. Companies will have to focus on understanding the expectations of diverse groups of investors and constantly communicate with them.

Meaning of Corporate Governance

It is a system by which companies are directed and controlled. Thus, placing board of directors of a company in centre.

A corporate governance is "a conscious deliberate and sustained efforts on the part of corporate entity to strike a judicious balance between its own interest and the interest of various constituents on the environmental in which it is operating".

Adrian Cadbury in UK emphasizes, "Corporate governance basically, has to do with power and accountability; who exercise power, on behalf of whom, and how the exercise of power is controlled."

It is way of Life

Corporate governance is a way of life and not a set of rules. A way of life that necessitates taking into account the shareholders' interests in very business decision. In practice, the term means to the role of the board of directors of the company and the auditors and their relationship with shareholders. The Ethical duties of nominated directors to all shareholders (foreign/local) and beyond the sectional interests they may represent cloud also be covered.

The underlying philosophy in this effort is to enhance the accountability of board members to shareholders. Good governance implies that institution is run for optimal benefit of stakeholders in it.

Even in competitive environment, the expectations all around -are of fair play and effort to excel by ethical means. Indeed ethical conduct promotes corporate success. It motivates the employees. Good corporate governance and ethical conduct is good policy for achieving success.

Developing Codes of Ethics

Ethical codes are statements of the norms and beliefs of on organization. This norms and beliefs are generally proposed, discussed, and defined by senior executives in the firm and then published an distributed to all the members. A code of ethics specifies the ethical rules o operation.

Most important thing is developing and continuing dialogue around codes and values. Occasionally, employees react to codes with suspicion, believing code and values are window dressing. But Carter McNamara points out "that when managing a complex issue, especially in a crisis, having code is critical." He further highlights that "continued dialogue and reflection around ethical values produces ethical sensitivity and consensus."

Also update the code periodically-all ethical values are attractive to include in a code; however, we should include those that provoke behaviors needed in the organization.

Conditions for Making Codes Effective

In a resent Dutch study Kaptein and Klamer (1991) list six conditions for effective codes of ethics:

(i) A valid motivation for its introduction: It should insist on important benefit for adopting and complying with the code. An 'us too' attitude is not enough.

(ii) Broad acceptance within the company: Involve representatives from all departments in the process of elaborating the code. The code should be discussed, checked and redefined before it is finally laid down.

(iii) Continuous feedback: Difficulties occur during the implantation of the code, and also norms on how to act is specific situations change. This calls for feedback. Living up to a code is not simple a matter of blindly applying rules, it is part of a process.

(iv) Verification and control: Any inconsistencies between rules and practices should be disclosed. One method of achieving this is peer discussions. New guidelines should be drown up if the rules prove inadequate in any way.

(v) Integration into a broad company philosophy on corporate services and responsibilities: the set of rules should be part of a wider ethical mission statement. This may involve staff training programmes, a company ethical committee or discussion with external stakeholders.

(vi) Sanctions and control; Compliance with codes needs enforcement-both positive and negative. In order to become effective, some system of sanctions must exist. Free-wheeling permissiveness would only lead to lip service. Many companies do now have severe sanctions against, for example, bribery.

Establishing Priority between Norms and Beliefs

However, the basic difficulty with codes of ethics is that they do not establish priority between norms and beliefs. The priorities are true values of a firm and they are not included. As an example, one division in a firm is faced with declining sales and profits; the question is whether to reduce employment and cut over head costs (the classic down sizing decision).

Norms are, of course, are standards of behavior; they are the ways the senior people in the organization want the others to act when confronted with a given situation. An example would be,"employees of this company will not accept personal gifts with a monetary value over Rs. 400 In total, from any business friend, and they are expected to pay their full share of the costs for meals or other entertainment (theatre, sporting events, etc.) that has the values above Rs. 400 per person."

The norms in an ethical cod are generally expressed as a series of negative statements (list of things a person should not do).

The beliefs in an ethical codes are standards of thought. They are the ways that senior people want others to think. It is to encourage ways that senior people want others to think. It is to encourage ways of thinking and patterns of attitudes that will lead towards wanted behavior. Beliefs in ethical code are generally expressed in a positive form. Example:

(i) "Our first responsibility is to our customers."

(ii) "We wish to be good citizens of every community in which we operate."

Illustration of Codes of Ethics

Some illustrations of corporate codes of ethics are given in Annexure I to this chapter.

Code of conduct or ethics of some professional bodies are contained in Annexure II of this chapter.

Difficulties in Implanting Codes of Ethics

However the basic difficulty with codes of ethics is that they do not establish priority between norms and beliefs. The priorities are true values of a firm, and they are not included:

(a) As an example, one division in firm is faced with declining sales and profits; the question is whether to reduce employment and cut overhead costs (the classic downsizing decision), but code of ethics says in one section that we respect our employees and in another section that we expect "fair" profits. How do we decide? The code of ethics does not tell us.

(b) Another example, whether direct distribution from factory "to retailer would be economical" when our code of ethics says "we work closely with distributors, for they too a profits." But we can reduce our prices to our customers and gain a competitive advantage for ourselves, if we eliminate the wholesalers and ship directly. The code does not tell us to choose.

(c) Are ethical codes-effective at ensuring that the moral standards of senior executives are known and followed throughout the organization. If yes, then some events can be just anomalies such as-for years, GE has been regarded in USA as one of the examplarly companies, a breed ground for managerial excellence, a good corporate citizen. But unfortunately GE was convicted 3 times of crimes, i.e. price fixing, bribery and fraud. GE pleaded guilty of charges of defrauding the government on missile-warhead contracts.

In such a case we have to examine causes of unethical actions in individual cases. In this connection an example of code of Johnson & Johnson, inc. helped managers in time of crisis. Johnson & Johnson spent over $ 100 million removing Tylenol from shelves of every store after non-prescription drug was found to have been deliberately poisoned in Chicago area during 1982, causing death of 4 individuals. James Burke, Chairman o Johnson $ Johnson, credits that code with guiding the actions of his company. "This document of code of ethics spells out our responsibilities to all our

Constituencies: consumers, employees, community, stock-holders. It served to guide all of us during the crisis, when hard decision had to be made. All our employees world-wide were able to watch the process of Tylenol, withdrawal and subsequent reintroduction in temper-resistant packing." "There was a great sense of shared pride in the knowledge. that the credo was being tested and it worked." "I think we can agree that the employees of J & J should be proud of the response of the firm which put consumer safety ahead of company profits."

Role of Codes

The norms of conduct for the members of Directors are extensively dealt within the Indian companies Act. It is now being realized that legislation alone cannot ensure ethical conduct; self-regulation is a more vital part in market systems. The spirit invoked by codes that are voluntarily administrated is much more important than mere law. Thus, the Bajaj Committee of the CII (Confederation of Indian Industry) has a stricter norms in the codes than in the companies Act and requires the director to resign if he does not attend at least 50% of the meetings. He cannot be a member or more than 10 boards, etc.

The most important happenings of the year 2001 from the corporate governance point of vive are:

- SEBI asks all Group A companies to submit a corporate governance report along with their annual reports, starting April 1,2001. This is one of the recommendations of Kumar Mangalam Birla Committee Report on Governance.
- Tata Group Chairman Ratan Tata bags the Government of India award for corporate governance. It recognizes the Tata Business Excellence Model (TBEM) that evaluates Tata

companies on the basis of seven criteria-leadership, strategic planning, customer and market focus, information and analysis, process management, HR and business results.

- In a bid to company with the corporate governance code, Dablar India inducts three independent Directors on its board to nine.
- ICAR announces its plan to rate companies based on corporate governance. The parameters, transparency, accountability, responsibility, and fairness.
- The Conference Board completes its report Determining the Effectiveness of the Board of Directors, which takes a critical look at some of the top 25 Indian companies.
- USAID agrees to fund Price Water House Coopers to train institutions like SEBI and UTI areas of corporate governance and insider-trading.

To conclude, all knowledge shines more in practice than just theory. It is especially true o ethics. Gandhiji put this idea powerfully, when in response to a question on what his message to humanity was, he said: "My life is my message." He meant that people follow his attempt at ethical living, than read his speeches and writings, without any change in their lives.

1.2 Company Management

In this chapter we shall briefly discuss the following aspects relating to managing companies.

(1) Government machinery for administration of The Companies Act, 1956.
(2) Function of the board of directors.
(3) The chairman of the board.
(4) The committee's of the board.
(5) Duties of Directors.
(6) Role of Company Secretary.

(I) Government Machinery for Administration of the Companies Act, 1956

Central Government is to administer and enforce this Act through Department of Company Affairs under Ministry of Finance.

I.1 the Company Law Board

For day-to-day administration of the Act, the Company Law Board is set-up. Its powers have enlarged from 1991.

(i) It is a quasi-judicial body. It exercises powers of the court or hitherto with government.

(ii) Members of Company Law Board not to exceed 9 and are to be appointed by the government and one of them to be Chairman. Tenure of members is upto 3 years.

(iii) Members form separate benches and will enjoy powers of civil court to enforce inspection of documents/evidence.

(iv) Members have powers for execution of its orders.

(v) Appeal against the orders of the Company Law Board lies before High Court and is final.

I.2 Registrar of Companies (ROC)

He is most of routine functions of Company Law Board, such as for filing documents and returns. ROC is basically a registry and an office of record. It has four regional offices at Mumbai, Kolatta, Chenai and Kanpur.

Advisory Committee: It is to advise Company Law Board and the government as may be referred by either of them.

I.3 Jurisdiction of Courts

Respective High Courts have power for their jurisdiction. Central government may empower any district court to exercise powers of High Court except for:

(i) Investigation. into company's affairs,

(ii) Power to sanction compromise with creditors, and

(iii) Sanction amalgamation.

Civil courts under general law can exercise power of personal rights, i.e. matters such as bench of trust, compensation by company to shareholders.

(2) Functions of the Board of Directors

Good government is the primary duty of the board. it is responsible for setting standards and ensurance that company achieves them. The chairman' will have a major impact. Board is considered as agent or trustees. They are liable for negligence, bench of trust under the Company Law.

(a) Board is the representative of the shareholders to ensure the company has clear goals and to measure progress against these goat ;
(b) The board will agree the strategy and resources needed to achieve it.
(c) The chief executive is appointed by the board who monitors his performance.
(d) Board must annually review succession and management development plans.
(e) Board will set and monitor the operating climate in the company through statement of values (policies, etc.)
(f) Limiting senior executive's compensation.
(g) Environmental protection.
(h) Avoidance of fraud within company.
(i) Hiring and firing key executives.
(j) Caring for employee's interest.
(k) Ensuring active participation in local community welfare schemes.
(l) Acquisition and disposal of assets of the company or its subsidiaries.

(m) Investments, capital projects, authority levels, treasury (banking policies and risk management policies).
(n) Director to act in good faith and act honestly.

(3) The Chairman of the Board

It is proper to separate role of Chairman from Chief Executive in the interest or providing checks and balances.

• Chairman is leader of the Board.

• Chairman must set standards for Board of Directors.

• Chairman is a link between Board and shareholders.

• Chairman must be satisfied with corporate reporting to shareholders such as interim and annual results, annual general meetings, etc.

(4) The Committee's of the Board

There are three major committees of the board. Their role is explained:

(i) Audit Committee

a) Most important committee for providing checks and balances and for internal control.
b) Review the interim and final accounts.
c) Keep board informed of financial reporting and areas of disagreements with the auditors.
d) To decide impartially disputes between management and external auditors.
e) Audit fee is appropriate and auditor work plan is adequate.
f) Meet atleast twice a year.
g) It comprises of minimum three directors who are non-executives.

(ii) Remuneration Committee

a) To keep lid on executive remuneration.
b) To have a reward policy that can attract, retain and motivate director's to achieve goals of the company.
c) Acts independently with access ti its own external advice.
d) Performance packages decided are linked with shareholder interest.
e) Annual Report presents clear view of policies of the company.

(iii) Nomination Committee

It is chaired by the Chairman and non-ex-Director's are brought in for selection.

(5) Duties of Directors

1. To attend board meetings and devote attention and care to the affairs of the company.

2. Not allow other Directors to commit liable acts.
3. Not to exceed his powers.
4. Act in best interests of company and stakeholders and customers, also creditor (not to defraud them).
5. Maintain confidentiality.
6. Not to make secret profits.
7. Not to misapply company assets.
8. Not to compete in business with the company.

Directors to "act in good faith and generally otherwise liable in the court under Sections 201 and 633 of the Companies Act, 1956. Court to be satisfied that director had acted honestly and reasonably.

(6) Role of Company Secretary

The Company Secretary finds his or her rightful place as a professional by virtue of being a member of a recognized professional body, which exercises supervisory jurisdiction over its members. The Institute of the Company Secretaries of India highlights that in every corporate, there is a strong back-bone-the company secretary. By virtue of integrated knowledge of multiple disciplines of law, management, finance and corporate governance, a Company Secretary is the vital link between the companies, its board of directors, shareholders. Government and other agencies.

The Company Secretary is

- An expert in corporate laws, securities laws and capital market and corporate governance.
- Chief advisor to the board of directors on best practices in corporate governance.
- Responsible for all regulatory compliances of company.
- Corporate planner and strategic manager.
- Continuing professional development.
- Pre-membership Training (16 months).
- Final Examination (9 papers).
- Intermediate Examination (8 Papers).
- Foundation Examination (5 Papers).

CS Course: Eligibility

• For intermediate Course: Graduation.

• For Foundation Course: 10 + 2

• Students of any discipline in Arts, Commerce and Science excluding Fine Arts can pursue this course.

Under the Company Secretaries Act, 1980

When the ICSI became a statutory body under the Company Secretaries Act, 1980, the code of conduct envisioned in the First and the Second Schedules to the Act became a statutory prescription. These schedules describe certain items of conduct, which are prohibited and they are considered as "Professional Misconduct." The Company Secretaries are required not to indulge in such practices. The professional misconducts are broadly described in the said schedules as under:

First Schedule

Part I: Professional misconduct applicable to the members of the Institute in Practice- (12 Clauses).

Part II: Professional misconduct in relation to the members of the Institute in Service- (3 Clauses).

Part III: Professional misconduct in relation to the members of the Institute generally- (4 Clauses).

Second Schedule

Part I: Professional misconduct in relation to the members of the Institute in Practice requiring action by a High Court-(10 Clauses).

Part-II: Professional misconduct in relation to the members of the Institute generally requiring action by a High Court-(2 Clauses).

With the Companies (Amendment) Act of 1988, the practising side of the Company Secretaries Profession came into being. This aspect has been growing very fast during the last few years, as can be seen from the certification works mentioned below:

(a) With the increase in the threshold limit to Rs. 2 crores, for appointment of whole-time secretary, secretarial compliance report has been introduced in the case of companies having a paid up share capital of ten lakhs of rupees or more, as to whether the company has complied with all the provisions of the Companies Act, 1956 and such a certificate of compliance issued by a Secretary in whole-time practice should be attached to the Board's report.

(b) Certification of Annual Return by secretary by a Secretary in whole time practice in the case of listed companies.

(c) Certification of certain forms and returns filed with the ROC.

(d) Secretarial Audit Report introduced by SEBI regarding reconciliation of total admitted capital with both the depositories and the total issued and listed capital.

(e) Certification of Compliance of Corporate Governance.

(f) Various recognitions and certification work secured by the Institute.

The Companies (Amendment) Bill, 2003 proposes to enlarge further the scope practice by a Company Secretary, as under:

(b) The Central Government may at any time, direct Secretarial Compliance audit of a company, if that Government is of the opinion that the affairs of the Company are not being conducted in accordance with the provisions of the Companies Act, 1956 and such an audit should be conducted by Company Secretary-Section 383 B of the bill

(c) All documents returns, and forms required to be filed with the Register or any statutory authority should be pre-certified by a Company Secretary in whole-time practice [Section 383 C of the Bill].

Need for evolving new norms of Professional Ethics and Etiquette

What the Company Secretaries Act, 1980 describes as professional misconduct are minimum expectations. There is no limit for maximising and enhancing these values and norms.

Any effective system of code of conduct or misconduct cannot be legislated to meet al situations. There is a limit to legislative effort. At the same time, any code of conduct, however pervasive it may be, cannot remain static, as the value system keeps changing form time to time.

The professional misconducts described in the Company Secretaries Act are prohibitive in nature, as they are worded negatively. However, the professional ethics and etiquette must make positive assertions. of service, maintenance of confidentiality of 'clients' information and a high degree of ethical behaviour and morality. These are sterling qualities of head and heart and needs to be cultivated consciously.

Observance of Code of Conduct and Professional Ethics

It is clear from the above that the Company Secretary, be it in employment or practice renders a host of services to the corporate sector and other clients. The practising side of the Profession is fast expanding and the Company Secretary is being called upon to shoulder higher responsibilities. This calls for extensive training and an ability to distinguish between righteous conduct from those deviant and unedifying.

P. T. Rangamani states that Professionals are key figures in corporate management. They are change agents with the capability to clean up the organization and put in place proper legal and ethical strategies as part of the day-to-day management. A professional worth the name should have faith and commitment to the basic ethics of his calling.

1.3 Corporate Governance (CG) Factors for Organization Success

I. C.G. Subject Not In Vocabulary A Decade Ago

C.G. has an important role to play as an instrument of investor's protection. it is a tool to judge and evaluate the standards and ethics of corporate management.

C.G. Code is a guide to govern the operations and affairs of the company in a manner which will enhance the long-term value of the company for all those who are associated with it, viz. shareholders, creditors, customers, government, employees and society at large.

The importance of C.G. lies in its contribution both to business prosperity and to accountability to shareholders. C.G. has its origin in U.K. issues involving C.G. are taking a high profile and have come to the fore recently in India.

Awareness of C.G. in India is timely as it is appalling that we come across many instances of corporate looting their shareholders for personal gains of owners.

IMF study show that after liberalisation between 1992 to 1998 large number of public issues for capital collected large amounts.

• IMF study states Indians deposited hundred billion dollars in foreign banks.

• USA research study during 1994 and 1995 showed India's capital flight to UASA was to tune of four to eleven billion dollars.

Period	No. of Issues	Money Raised (Rs. In crores)
1991-92	195	1400
1992-98	4855	44462
1998-99	22	504

To mention some scams in India-Harshad Mehta, Ketan Parekh, UTI, RIL, etc. Corporate accounting scandals have created a crises of investor's confidence.

USA also facing scams-Worldcom, ENRON, TYCO, VIVEDI, MACRONI, QUEST, MERC, XEROX, etc. in 2001. Greed and dishonesty has lead to dismal ethical standards in business. USA is passing through trying time.

Pressures of competition have raised fresh concern about legal, ethical and moral dimensions of enterprise, such as invoking codes of conduct and benchmark best system and practices as a part of good corporate responsibility.

II Meaning and Basic Ingredients of Good Governance

Meaning: In practice, C.G. means role of the board of directors of the company, and its auditors, towards protecting the shareholders (in fact all stakeholders) interest in every business decisions. The board of directors have to set proper organization structure, systems, norms and process for direction, supervision and accountability of their corporation.

Basic ingredients of CG are

Accountability of board of directors to ultimate owners-shareholders and their satisfaction programme. Promoting a social and economic order.

(ii) Transparency in timely disclosures of right information with integrity.

(iii) Clarity in responsibilities of directors, chairman and managing director through empowerment to enhance accountability.

(iv) Quality and competence of directors and their track record. Popular participation in decision-making, implementation and responsiveness.

(v) Checks and balance in governance, conforming to, laws, rules and spirit of codes.

• Thus good C.G. is adaptation of best practices by ensuring higher level of transparency and accountability, fairness in operations, full disclosure, and integrity and compliance to laws.

III Corporate Governance Followed By Companies

Now companies are explaining in their annual reports about the compliance of C.G, I.T.C. Ltd. Highlighted C.G. (in August 1998) compliance set-up in their corporation.

Every year the prestigious "Golden Peacock award for excellence in Corporate Governance and Corporate Social Responsibility" is given. Last year it was won by TISCO.

IV. Factors for Success of Cg

1. Structural-Dimension

Norms of conduct for board of directors are laid in Indian Companies Act. Activism of regulators bodies (SEBI) is essential. Lot more tightening of regulations is needed.

Legislation alone cannot ensure ethical conduct. The spirit invoked by voluntary codes is also important. Chairman has to set personal example so that governance code is internalized within' the organization. Emphasis on this isa positive trend, but still more to go.

2. Cultural-Dimension

Society their values, morals and awakening, their response to corrupt practices are crucial to be highlighted by investigative business journalism. Role of internal" whistle blowers" is vital to bring to right wrong practices.

In final analysis, success of corporation depends on the professional ethics of managers/directors and they should not offer themselves as rubber stamp of M.D./owner. They have to create a value-based organization culture by following ethical standards. The chairman has to set personal example to interalise code of corporate governance.

Corporations have to recognize the importance of commitment to value and servicing the interest of stakeholders, which alone can ensure survival and growth in the long-run. Good C.G. can be created consciously adhering to entrepreneurship and pursuit of excellence. Corporation to ensure that highest standards of ethics and responsible conduct are met throughout the organization.

It is now established that a high sense of professional morality must comprise one of the core-values of corporate governance, for long-term as well as short-term success of the industry. Ethical values are now a days not looked upon, any more, as costs imposed on the industry, or a check on efficiency and profit maximization, but are considered imperatives for sustainable corporate growth. Prof. Armartya Sen asserts that ethics can be good economics and, thus a valid pursuit of corporate governance.

A high developed sense of integrity and ethics enables corporate governance to build a trusting, long-term relationship with customers and consumers. Ethics, thus surely makes a lot of economic sense.

V. Factors Influencing Quality of Governance

Quality of governance is influenced by integrity of the management, ability of the board, adequacy of the processes, commitment level of individual board members, and quality of corporate reporting and participation of stakeholders in the management.

Quality of governance depends on the following factors :

(i) **Integrity of Management:** A Board of directors with a low level of integrity is tempted to misuse the trust reposed by the shareholders and other stakeholders to take decisions that benefit a few at the cost of others.

(ii) **Ability of the Board:** The collective ability, in terms of knowledge and skill, determines the effectiveness of the Board.

(iii) **Adequacy of the process:** Board of the Directors cannot effectively supervise the executive management if the process fails to provide sufficient and timely information to the Board, necessary for reviewing plans and the performance of the enterprise.

(iv) **Commitment level of individual board Members:** The quality of a board depends on the commitment of individual members to trasks, which they are expected to perform as board members.

(v) **Financial Reporting:** Accuracy and transparency in financial statements and disclosure, internal controls and independence of auditors.

(vi) **Participation of Stakeholders in the management:** The level of participation of stakeholders determines the number of new ideas being generated in opt9mum utilization of resources and for improving the administrative structure and the process.

(vii) **Quality of Corporate Reporting:** The quality of corporate reporting depends on the transparency and timeliness of corporate communication with shareholders. This helps the shareholders in making economic decisions and in correctly evaluating the management in its stewardship.

Best practices of corporate governance will broadly include - a definition of practices that define good governance; a code of best practices covering the constitution of the board, its various Committees, defining their goals and responsibilities, exploring preferred internal systems and disclosure requirements. Qualitative improvement in the corporate governance in our country based on a code of good corporate practices and meaningful disclosure of information to shareholders hold the key to corporate success.

This is necessary in the context of changing profile of corporate ownership, with the increasing flow of foreign investment, preferential allotment of shares to the promoters of companies and the new role being given to mutual funds. This means better governance and management of corporate bodies, prompt compliance of legal and financial obligations and adherence to ecological and environmental standards. The benefit of such governance must accrue to the investors, customers and lenders of finance and to the society at large.

1.4 Objective of Good Governance

It is felt that objective of corporate governance, i.e. the overall objective of wealth generation and competitiveness for the benefit of all can best be achieved through the twin companies of:

• An "inclusive approach to director's duties which requires directors to have regard to all the relationship on which the company depends and to the long, as well as the short-term implications of their actions, with a view to achieving company success for the benefit of shareholders as a whole; and

• Wider public accountability: this is to be achieved principally through improved company reporting.

1.5 Towards better Corporate Governance — Some Critical Areas

By virtue of being family owned and managed, in most Indian companies, in 1920s and 1930s, the executives and directors were either the promoters themselves or their kith and kin — people they truted.

During pre-independence period, Jamsetji Tata, G.D. Birla and Kasturibhai Lalbhai business empire more out of a spirit of entrepreneurship than any motive of accumulation of personal wealth, they set their own standards of good corporate governance. There is no better standard of corporate governance than the philosophy that owners are trustees.

Jayaprakash Narayan wrote about the Tata Trusts — The concept of trusteeship fostered by Mahatma Gandhi received a much-needed fillip in Tata enterprises. After all, what is this concept of trusteeship? Under it, all wealth is a social trust and every individual the employer, the engineer or even the ordinary mistry is a trustee entitled to its proper utilization for the common good. True to the ideals of its founder, the House of Tata has always promoted this concept of trusteeship and today, more than 85% of its profits go to trust.

The House of Tata had progressive and nationalistic outlook right from the very beginning. Jamsedji Tata, the Founder of House of Tata.

Critical Area for Good Governance

1. The Board of Directors

The Board of Directors of a company have to overview the performance, vouch for the accuracy of company's disclosure and disgorge personal profits from corporate wrongdoings. When Enron Corporation collapsed, board of directors of the company were rightly singled out. The board has to keep a watchful eye on management and the shareholders should watch the board. Every board should conduct an extensive self-evaluation, involving a review of board policies and an anonymous appraisal of individual directors. The findings should be made public and every three years, the board members with the lowest ratings should resign. The board should contribute substantially in the performance and growth of the company.

2. Executive Pay

Management Guru Peter F. Drucker has long warned that the growing pay gap between CEOs and workers could threaten the very credibility of leadership. He argued in the mid 1980s that no CEO should earn more than 20 times the company's lowest paid employee. He said that if a CEO took too large a share of the rewards, it would make a mockery of the contributions of all the other employees in a successful organization. Stock-option was once viewed as a symbol of enlightened governance. But it has resulted into CEOs commanding a vast wealth through the use of this financial instrument. There is a fundamental difference between investors who have put their own money at risk in the share market and option-holders, who do not. But companies have gone even further to shield top executives from losses in a falling stock ,market. Worse still, the system does not provide an incentive for outstanding perforthance. Employees feel betrayed by bosses who grown rich on stock options, huge salaries and other benefits.

3. Accounting

Corporate accounting is very important. The spate of recent accounting scandals reveal involvement of all the players. The board fingers management, management blames the auditor and the auditor blames the rules. They all pass the buck on others making it difficult to fix up accountability. As a matter of fact, the audit panel should review all non-audit engagements to ensure that they don't jeopardize the audit. The auditors should rotate after certain years to ensure a fresh look by an audit firm. An expanded auditor statement in the annual report should be there instead of just asserting that the financial statement meet generally accepted accounting principles. The auditors are placed in a unique position to judge how dependant the financial statements are on assumptions that could prove faculty.

4. Analysts

Analysts are often rewarded for their ability to attract and maintain investment business. They are generally under pressure from the companies they analyze to maintain a positive ratings. These are conflicts that may never be resolved. But there are some steps that could alleviate the pressures that prevent analysts from telling the truth.

First, the investors should be imparted information about their investment. They should realize that the free research which they get is often just a marketing tool. Secondly, it should be mandatory that reports prominently disclose a firms specific investment-banking-relationship with the company that has been covered. Thirdly, normally most ratings sound like variations on "we think, this is a decent stock that you should own." In ratings, terms such as "accumulate", "hold" and "sale" are part of an elaborate web of euphemism in which "neutral" means "dump this loser and run for your life." It would make sense if all analysts used the same terms. Analysts should present real position of a company. They should not play with words and figures and misguide investors. The searching eye of the research analysts has been a material factor in making corporate managements more alive to their responsibilities.

5. The regulator

The Security and Exchange Board of India (SEBI) was first set-up as an administrative entity in 1988. In January 1992, it was granted statutory powers. However, the regulator still lacks the teeth to police the market effectively. The SEBI took two years to complete its investigation of Harshad Mehta's 1998 rigging of share prices of Videocon, Sterlite and BPL. It is true that SEBI does not have enough powers. Justice Dhanuka report, which recommended strengthening of SEBI in November 1998, is still pending with the Ministry of Finance. In addition to more powers, SEBI needs experts services of professionals, not bureaucrats to make it dependant and market-savvy. And instead of its decisions being reviewed by appellate tribunals, they should go to the High Courts directly. Nowhere in the world, quasi-judicial decisions by market regulators are reviewed by an arm of the executives. SEBI should be given greater freedom which will create confidence amongst domestic as well as Flls that India is a well-regulated market.

6. The Stock Markets

The early 1980s witnessed the equity cult gaining ground. In April 1988, the SEBI was constituted. Over the Counter Exchange of India (OTCEI) was formed in 1992 to encourage small companies list their securities. The creation of the National Stock Exchange (NSE) by lending financial institutions in 1992 triggered the move to screen-based trading for equities, debt instruments, and hybrids. Globalization had opened up the Indian markets to Foreign Institutional Investors (FII) in 1992. Foreign custodian and brokerage firms have brought their best global practices to Indian markets. Equity research gained prominence. Dematerialization (Demat) form of settlement was introduced in 1996. Derivatives trading began in June 2000.

1.6 Self Assessment Test

1. Discuss the factors that are influencing quality of Governance.

2. Explain the ingredients of good governance and factors for success of CG.
3. Illustrate government machinery for administration of the Companies Act, 1956.
4. Write short notes :
   a. Meaning of Corporate Governance
   b. Functions of the Board of Directors
   c. The Company Law Board
   d. Role of Company Secretary

1.7 Further Reading

- Business Ethics: Ethical Decission makingand Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leavning classroom Edition : Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Jospeph R. Desjardirs
- Managing Business Ethics: Straight talk about how to do it Right.
- Business Ethics by Joseph W. Weiss

Assignment

Explain the role of Company Secretary in companies' success.

UNIT 2 : BASIS OF BUSINESS ETHICS

Learning Objectives

The students will learn the following aspects:-

- Share knowledge, build skills and develop minds of the young entrepreneurial managers of tomorrow to shoulder the ethical responsibility.
- Provide clarity and insights into concepts of business ethics and corporate governance so that young managers avoid business misconduct.
- Include high level of integrity and create moral anyi social awareness so that they can decide when faced with business dilemma.
- Help in fostering ability to reason when applying .Ahical principles.
- Help realize their social responsibility and values, wisdom and way of life to improve our social life style.
- To study the Ethics of business
- Why Business Ethics is Vital for Managers/Students/Organizations?
- Myths about Business Ethics
- Building Company's Commitment to Ethics Management
- Ethical Values
- Professionals and Ethics
- Reality of Business Ethics

Structure

2.1 Introduction

Business ethics and corporate governance have become topics of worldwide importance in present times. These have become top concerns of international business community and financial institutions. In recent years we have media filled with shocking stories of corporate misconduct and wrong doing by individual business people. It is difficult to imagine areas of study that have greatly importance to business, managerial leaders and society at large.

2.2 Background for Ethical Models

The first approach, Corporate Social Responsibility has its origin in USA about seven decades ago. It is an obligation of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interests. Such decisions may affect environment, consumers and community. It was Peter Drucker who later emphatically argued that management should assume social responsibility. Management should consider the impact of every business policy and action upon society. It has to consider the actins that are likely to promote the public good and to advance the basic beliefs of society, and to contribute to its stability, strength and harmony. He laid emphasis on "Quality of product and customer service".

The second concept, Business Ethics with its social values and social concerns came to focus in 1970's in USA, which forced companies to abstain their policies that violate consumer protection and environmental problems as well as awareness of environment. Business ethics safeguards business particles to different stake-holders or constituencies (i.e.internal and external constituencies). Business ethics are rules of business conduct by which propriety of business activities may be judged. Business ethics equally relates to the behavior and responsibilities of managers and ethical obligations ;f business professionals.

Another concept which is aimed similar in approach to protect various interest is social responsibility of business. It means the obligation of business enterprise to make decision and follow lines of action which are desirable in terms of the objectives and values of society. Decision may affect environment, employees, consumers and community. Social responsibility is thus an obligation of decision makers to take actions which protect and improve the welfare of society as a whole long with their own interest.

2.3 Business Ethics

There is no agreement as to what the term business ethics means, Let us Remember story of a boy who went to a priest and said, "I will give you an Apple if you tell me where God is "? Priest replied, "But I will give you two pples if you tell me where he is not?"

It is much the same with Y itsiness ethics; one can hardly say where it is not. It is a discipline which addre: ;es numerous issues, problems and dilemmas, problems and dilemmas.

Scope of Business Ethics

Ethical issues are there everywhere, at all levels of business activity. Business ethics concern the ground rules of individual company and societal behavior.

(a) Societal Level

- Concern for poor and down-trodden,
- No discrimination ageist any particular section or group
- Concern for clean environment,
- Preservation of scarce resources for posterity
- Contributing to better quality of life.

(b) Stakeholder's Level

(i) Employees

- Security of job.
- Better working conditions.
- Participative management.
- Better recommendation.
- Welfare facilities

(ii) Customers

- Better quality of job
- Goods and services at reasonably price.
- Not to corner stocks and create securities.
- Not practice discriminatory pricing.
- Not to make false claims about products in advertisements.

(iii) Shareholders

- Ensure capital appreciation.
- Ensure steady and regular dividends.
- Disclose all relevant information.
- Protect minority shareholders interests.
- Not to window dress balance sheet.
- Product interests in times of merges, amalgamations and takeovers.

(iv) Banks and other leading institutions

- Guarantee safety of borrowed funds.
- Protect repaymer of loans.

(v) Government

- Complying with rules and regulations.
- Honesty in paying taxes and other regulations.

- Acting as partner in the progress of country.

(vi) Internal policy level

- Fair practices relating to recruitment, compensations, lay-offs, peaks, promotions, etc.
- Transformational leadership to motivate employees to aim better and higher things in life.
- Better communication at all level.

(c) Internal policy Level

- Fair practices relating to recruitment, compensations, lay-offs, peaks, promotions, etc.
- Transformational leadership to motivate employees to aim better and higher things in life. Better communication at all level

Nature of Business Ethics

Ethical issues occur frequently in management and extend for beyond the commonly discussed problems of bribery, collusion and theft, reaching into area such as corporate acquisitions, marketing policies and capital investments. For example, after the merger of two firms, ethical question arises whether to demote or fire the employees those who have been serving honestly for so many years.

Ethics requires a manager to be honest with him and society, the manager's performance and quality reflect in the success of a business. Sometimes ethical issues occur as managerial dilemmas because they represent a conflict between an organization's economic performance (measured by revenues, costs and profits) and its social performance (stat end in terms of obligation to persons both inside and outside the organization).

Ethical Base of Business

Now, what is the relevance of ethics for business? A business, regardless of its organizational structure, is manned only by human beings, and us, business too cannot and shall not be immune to ethics. The goal of business is to provide goods and services to customers and clients and earn profits or income. If business has ethics, it will ensure that the goods and services are of reasonable equality and are offered at reasonable prices to earn reasonable profits, as distinguished from profiteering.

More importantly, the interests of the stakeholders shall receive care and consideration at the hands of business. The stakeholders include customers, suppliers, creditors, government employees, shareholders and the community. Business has to promote its growth wit fairness and truth in its advertisements.

This is broadly known as social responsibility of business. As an extension of this concept, business is also expected to share a part of its prosperity with the community in the midst of which it is located by offering amenities and services not otherwise available to the needy in that community,.

The new concept of "Maximizing shareholder value" is being touted as the be all and end all of business in recent times. This concept assumes that the investors (promoters and larges shareholders) are the most valuable constituents of Business and all others are peripheral ones. If a company can enhance the value of its shares in stock markets, its market capitalization goes up. In many cases, speculative reports, creative accounting other manipulative methods also achieve this even without proven fundamentals. Thus, this theory is not one without flaws. "Ethics is a matter of developing good habits, and it doesn't happen overnight. It happens through repetition and a long process of development." (P.T. Rangamani)

A Two-Fold Objective

According to Peter Parley (The Essence of Business ethics) business ethics has a two-fold objective: "it evaluates human practices by calling upon moral standards; also it may give prescriptive advice on how to act morally in a specific kind of situation.

i. The first aim implies analysis and evaluation. It leads to an ethical diagnosis of past actions and events. The analysis consists of clarifying standards and lines of argument. Here ethics can be useful, as one is often unaware about most moral values and habits of thought. The basic assumptions behind our moral actions and judgments are mainly taken for granted.

Normative ethics sets itself a second and more curative purpose. Ethics develops rational methods for answering the present and future issues. In order to achieve this second objective one has to well informed. Balanced judgments are based on the careful assessment of relevant information; also one has to be quite specific when deciding upon appropriate normative standards. If both these conditions are met, ethical thought may lead to valid prescriptions.

ii. So, the second objective is to provide therapeutic advice. It suggests solutions and policies when facing the present dilemmas and future dangers, based on well-informed opinions. This especially requires an identification of relevant stakeholder and a clear understanding of the vital issues at stake."

Ethics

To begin with, let us understand, what `Ethics'? Is The word "Ethics" has origin in Greek word "Ethics" means character; norms, morals and ideals prevailing in a group, society. Ethics may be referred to as some standardized form of conduct / behavior of individuals understood and accepted in a particular field of activity, or

Ethics is a mass of moral principles or sets of values about what conduct ought to be. They give an idea what is right or wrong, true or false, fair of unfair, just or unjust, proper or improper, e.g. honesty, obedience, equality, fairness, etc. and respect and then doing the right thing.

Ethics is a fundamental, personal trait which one adopts and follows as a guiding principle or basic Dharma in one's life. It implies moral conduct and honorable behavior on the part of an individual.

Ethics in most cases runs parallel to law and shows due consideration of others' rights and interests in a civilized society, Compassion on the other hand may induce a person to give more than what ethics might demand.

Even while rendering a service for a quid pro quo, the individual is expected to ensure that his services do not militate against public good, are not morally indefensible or are not prohibited or punishable by law. Those placed in positions of trust and recognized for their knowledge and expertise shall perform their duty with integrity, independence, sincerity and honesty that is the basic norm of professional ethics. A professional cannot justify his failure, negligence of compromise, with excuses and explanations.

Every rational human being practices ethics for his own and others' welfare and safety.

Business Ethics

Different meaning is given to business ethics by various people. Business ethics are rules of business conduct, by which the propriety of business activities may be judged. Ethical principles are dictated by the society and underlie broad social policies. These principles when known, understood and accepted, determine generally the propriety or impropriety of business activities.

Business ethics also relates to the behavior of manager. It can be defined as an attempt to ascertain the responsibilities and ethical obligations of business professionals. Here the focus is in people, how individuals should conduct themselves in fulfilling the ethical requirements of business?

One writer (Deepak Parekh, CMO HDFC in his J.R.D. Tata Corporate Leadership Award lecture in 27.2.1997) has given one line definition of ethics: "Do not do something that you would be ashamed of, if it becomes public." It is not too difficult to achieve this reality. There is no pillow as soft as a clear conscience.

Carter McNamara has defined: "Business ethics is generally coming to know what is right or wrong in the work place and doing what is right-this is in regard to effects of products/services and in relationships with stakeholders." "Attention to ethics in the work place sensitizes managers and staff to how they should act so that they retain a strong moral compass. Consequently, business ethics can be strong preventive medicine."

Business Ethics is now a Management Discipline

McNamara further states that "Business ethics has come to be considered a management discipline, especially since the birth of the social responsibility of business." Business owed responsibility to work to improve society, e.g. environmental protection, equal rights, public health and improving education. Business operations have replaced the word "stockholder" with "stakeholder", meaning to include employees, customers, suppliers and the wider community.

According to Robert Kreitner in his book, "Management", "Highly publicized accounts of corporate misconduct in recent years have led widespread cynicism about business ethics . And when a 1992 Gallup Poll asked Americans to rat e the ethical standards of various professions, only 18 per cent

scored business executives either high or very high on honesty and ethical standards. Other professions rated as follows: druggists/pharmacists, 66 per cent; medical doctors 52 per cent police officers, 42 per cent; funeral directors 35 per cent journalists, 27 per cent stock brokers, 13 per cent; members of Congress, 11 per cent; and car salespeople 5 per cent "Fortunately, the subject of ethics is receiving serious attention in management circles these days.

Conceptual Model for Business Ethics

Madsen in his book, "Essentials of Business Ethics", explains business ethics can broadly be divided into separate areas"

Three "C's" of Business Ethics

1. The need for compliance of rules, including-
   - Laws,
   - Principles of morality, the customs of community, and
   - Policy of the company and fairness.

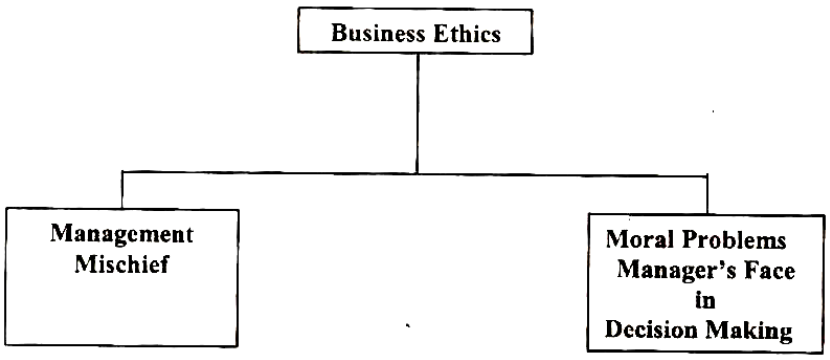


Fig. 2.1

1. Managerial Mischief **Concerning:** II. Illegal acts. III. II. Unethical or questionable practices of individual managers, its causes, and remedial measures to eradicate them. **Example** i. Fraud, Kickbacks, bribery, improprieties, illegal disposal of hazardous materials, international viola tions of work place safety, stealing expense account cheating. ii. Dumping of pesticides banned in USA to other countries, providing money or sexual favor to buyers. **Causes of Misconduct:**	**2. Moral problems** Managers Face in decision making **1. Micro-Level Problems** Individual front line managers while dealing, e.g. • Fairness in performance appraisals. • Confidentiality of company. • Accepting gifts. • Confronting expense account cheating. • Treatment of problem employees. • Continuing harmful environmental practices and failing or exceeding in managerial role. **2. Micro-issues dealt by top management**

1. Individual monitory gain to commit illegalities. 2. Organization pressures due to competition and desire to succeed with emphasis on short-term profits. Fosters improper ties. 3. Corporate values and peer pressure influence individual's business conduct. Success at any cost leads to managerial mischief.	• Corporate Social Responsibility. By laying corporate mission/objectives, purpose. For Example, a pharma company laying objective of promoting better health and saving life. • Laying Ethical standards, e.g. codes of conduct, statement of corporate responsibility, and laying polices and practices for ethical decision-making.

2. The contribution business can make to society through-

- The core values,
- Quality of one's products and services,
- By providing jobs to employees,
- Usefulness of activities to surrounding community, and
- QWL (Quality of Work Life) influenced by ethical and moral values.

3. The consequences of business activity

- Towards environment inside the plant and outside the organization and community, e.g. Bhopal Gas Leaking Tragedy.
- Social responsibility towards shareholders, bankers, suppliers, customers and employees of organization.
- Good public image. Sound business practices so that public image is not tarnished.

2.4 Ethics, Social Responsibility, and Diversity

Ethics and Stakeholders

- Stakeholders: people or groups that have an interest in the organization.
  - Stakeholders include employees, customers, shareholders, suppliers, and others.
  - Stakeholders often want different outcomes and managers must work to satisfy as many as possible.
- Ethics: a set of beliefs about right and wrong.
  - Ethics guide people in dealings with stakeholders and others, to determine appropriate actions.
  - Managers often must choose between the conflicting interest of stakeholders.

Ethics

It is difficult to know when a decision is ethical. Here is a good test:

Managerial ethics : If a manager makes a decision falling within usual standards, is willing to personally communicate the decision to stakeholders, and believes friends would approve, then it is likely an ethical decision.

Ethical Origins

Societal Ethics: Standards that members of society use when dealing with each other.

- Bases on values and standards found in society's legal rules, norm, and mores.
- Codified in the form of law and society customs.
- Norms dictate how people should behave.

Societal ethics vary based on a given society.

• Strong beliefs in one country may differ elsewhere.

• Example : bribes are an accepted business practice in some countries.

Ethical Origins

Professional ethics: values and standards used by groups of managers in the workplace.

• Applied when decisions are not clear- cut ethically.

• Example: physicians and lawyers have professional associations that enforce these.

Individual ethics: values of an individual resulting from their family & upbringing.

• If behavior is not illegal, people will often disagree on if it is ethical.

• Ethics of top managers set the tone form firms.

Ethical Decisions

A key ethical issue is how to disperse harm and benefits among stakeholders.

- If a firm is very profitable for two years, who should receive the profits? Employees, managers and stockholders all want a share.
- Should we keep the cash for future slowdowns?

What is the ethical decision?

What about the reverse, when firms must layoff workers.

Final point: stockholders are the legal owners of the firm!

Ethical Decisions

Some other issues managers must consider.

• Should you hold payment to suppliers as long as possible to benefit your firm? This will harm your supplier who is a stakeholder.

• Should you pay severance pay to laid off workers?

This may decrease the stockholder's return.

• Should you but goods from overseas firm that hire children?

If you don't the children might not earn enough money to eat.

Why Behave Ethically?

Managers should behave ethically to avoid harming others.

• Managers are responsible for protecting and nurturing resources in their charge.

Unethical managers run the risk for loss of reputation.

• This is a valuable assets to any manager!

• Reputation is critical to long term management success.

• All stakeholders are judged by reputation.

Social Responsibility

Social Responsibility: the manager's duty to nurture, protect and enhance the welfare of stakeholders.

There are many ways managers respond to this duty:

Obstructionist response: managers choose not to be socially responsible.

• Managers behave illegally and unethically.

• They hide and cover-up problems.

Defensive Response: managers stay within the law but make no attempt to exercise additional social responsibility.

• Put shareholder interest above all other stakeholders.

• Managers say society should make laws if change is needed.

Accommodative Response: managers realize the need for social responsibility.

• Try to balance the interests of all stakeholders.

Proactive Response: managers actively embrace social responsibility.

• Go out of their way to learn about and help stakeholders.

Why be Responsible?

Managers accrue benefits by being responsible.

• Workers and society benefit.

• Quality of life in society will improve.

• It is the right thing to do.

Whistleblowers: a person reporting illegal or unethical acts.

• Whistleblowers now protected by law in most cases.

Social Audit: managers specifically take ethics and business into account when making decisions.

Promoting Ethics

There is evidence showing that ethical managers benefit over the long run.

Ethical Control System: A formal system to encourage ethical management.

• Firms appoint an ethics ombudsman to monitor practices.

• Ombudsman communicates standards to all employees.

Ethical Culture: firms increasingly seek to make good ethics part of the norm and organizational culture.

Managing Diverse Workforces

The workforce has become much more diverse during the last 30 years.

• Diversity refers to differences among people such as age, gender, race religion.

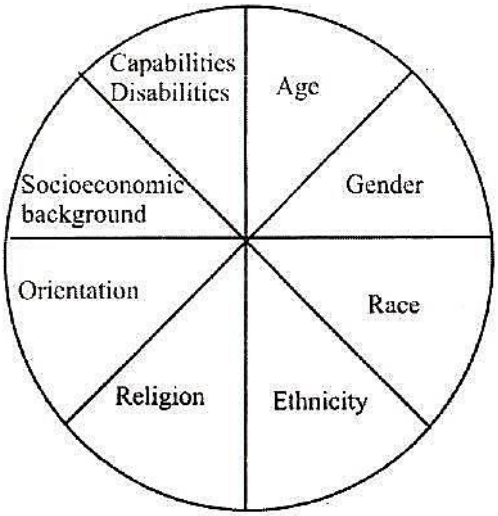
• Diversity is an ethical and social responsibility issue.

Managers need to give all workers equal opportunities.

• Not following this is against the law and unethical.

• When all have equal opportunity, the organization benefits.

Types of Diversity



Manage Diversity

Distributive Justice: dictates members be treated fairly concerning pay raises, promotions, office space and similar issues.

- These rewards should be assigned based on merit and performance.
- A legal requirement that is becoming more prevalent in American business.

Procedural Justice: Managers should use fair practices to determine how to distribute outcomes to members.

- This involves how managers appraise worker performance or decide who to layoff.

Diversity Makes Business Sense

Diverse employees provide new, different points of view.

- Customers are also diverse.

Still, some employees may be treated unfairly.

- **Biases:** systematic tendencies to use information in ways that result in inaccurate perceptions.
- People often view those like themselves positively and have biases about others.
- Social status is a type of bias conferred to people of differing social position.
- **Stereotypes:** inaccurate beliefs about a given group.

How to Manage Diversity

- **Increase diversity awareness:** managers need to become aware of their own bias.
- Understand cultural differences and their impact on working styles.

• Practice effective communication with diverse groups.

• Be sure top management is committed to diversity.

Sexual Harassment

Damages both the person being harassed and the organization.

• Both men and women can be victims.

Quid pro quo harassment: victim is requested to perform sexual favors to keep a job or win promotion.

Hostile work environment harassment: Some members are fact. .vith a hostile, intimidating work environment.

- Lewd jokes, pornographic displays and remarks.

Avoiding Harassment

Develop and communicate a sexual harassment policy.

- Point out that these actions are unacceptable.

Set up a fair complaint system to investigate allegations.

- If there are problems, correct them at once.

Provide harassment training to employees and managers.

2.5 Self Assessment Test

1. Discuss the scope of Business Ethics.
2. Does Ethical issues occur frequently in management and extend for beyond the commonly discussed problems of bribery, collusion and theft, reaching into area such as corporate acquisitions, marketing policies and capital investments. Discuss nature of ethics with examples.
3. Define Ethics and co-relate it with Business ethics.
4. What are the types of diversity and how to manage the diversity?
5. Write short notes on the following :-
   (a) Conceptual Model for Business Ethics
   (b) Ethical Base of Business
   (c) 3 Cs of Business Ethics
   (d) Scope of Business Ethics
6. How the sexual harassment damages both the persons being harassed and the organization? Make your own comments on it.

2.6 Further Reading

- Business Ethics: Ethical Decission makingand Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leavning classroom
- Edition : Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Jospeph R. Desjardirs

CORPORATE GOVERNANCE AND BUSINESS ETHICS

BBA - 603

BLOCK 2:

VARIOUS CODES AND LEGAL ASPECTS OF CORPORATE GOVERNANCE

Dr. Babasaheb Ambedkar Open University
Ahmedabad

Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

BBA-603

CORPORATE GOVERNANCE AND BUSINESS ETHICS

BLOCK 2 : VARIOUS CODES AND LEGAL ASPECTS OF CORPORATE GOVERNANCE

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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 students' 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 may 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!

BBA-603 CORPORATE GOVERNANCE AND BUSINESS ETHICS

Contents

UNIT 1 OVERVIEW OF VARIOUS CODES OF CG

Learning Objectives

- To understand the Committees On Corporate Governance: Global Perspective
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- To know the Recommendations Of Naresh Chandra Committee
- To understand the Principle Of Good Governance
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Structure

1.1 Introduction

In view of many scandals and frauds in accounting, it is felt that corporate governance should extend beyond corporate law. There should be greater transparency and maximizing sharehdlder's value, so there should be good corporate code containing corporate practices.

Benefits of the intemet are manifold. But the misuse of the technology has forced governments to allow intelligence agencies access to subscribe information. Every move made online is rewarded and stored in a detailed database. This raises the important questions about whether the government has the right to invade the privacy of citizens.

Many developed countries have documented corporate codes to meet the need.

1.2 Codes of Corporate Governance and Audit Committee

1. Work on Corporate Governance in India

India has formulated codes of corporate governance through various committees, more important ones being:

(i) CII (Rahul Bajaj) Committee, 1996 recommendations

On Board of Directors

(i) Simple structure of Board and should meet 6 times a year and Y2 days' discussion.
(ii) Listed companies in excess of Rs. 200 crores and above to have non-executive directors' at least 30 %. They were to pay an important role in the interest of shareholders.
(iii) Director not to be on the board of 10 companies.
(iv) Director who does not attend 50 % or more meetings not to be considered for re-appointment.
(v) Audit committee to be appointed to assist the board.
(vi) All key information to be placed before the Board of Directors.

(ii) Kumar Mangalam Birla Committee on corporate Governance (2000)

Recommended that:

- Board to set-up qualified and independent audit committee to enhance the credibility of financial disclosure and to promote transparency.
- Companies to provide consolidated statements in respect of all its subsidiaries in which they hold 51 % or more of the share capital.
- Shareholders to show greater degree of interest and involvement in the appointment of directors and auditors.
- SEBI norms to be laid.

(iii) Naresh Chandra Committee on Corporate Audit and Governance (2002) Recommended that:

- Audit firm's rotation is not required. Every five years, audit partner should rotate.
- Audit Committee to he set-up of all independent directors.
- Companies to have at least 50 % independent directors.
- Certain professional assignments should not be undertaken by auditors.

(iv) Recommendations of Narayan Murthy Committee

SEBI constituted a Committee on Corporate Governance with the Chairmanship of Shri N.R. Narayan Murthy. The Committee included representatives from the stock exchanges, chambers, commerce and industry, investors associations and professionals, and debated on key issues and made recommendations as under. Some mandatory recommendations of the Committee are:

(a) Audit Committees of Public Listed Companies should required to review the following information mandatorily

i. Financial statement and draft audit report including quarterly, half yearly financial information.

ii. Management discussion and analysis of financial condition results of operations.

iii. Reports relating to compliance with laws.

iv. Management letter/letters of internal weakness issues by statutory/internal auditors.

v. Record of related party transactions.

(b) Disclosure of Accounting Treatment

In case a company has followed a treatment different from the prescribed in an accounting standard, companies should be give reasonable period of time within which to cure the qualifications SEBI/Stock Exchanges. A mere explanation from companies is not being sufficient.

(c) Risk Management-Board Disclosure:

Procedure should be to inform Board members about the risk assessment and minimization procedures.

(d) Training of Board Members:

Companies should be encouraged to train their Board members on the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors and the best ways to discharge them.

(e) Written Code of Conduct for Executive Management:

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. The code of conduct shall be posted on the website of the company.

All Board members and senior management personnel shall affirm compliance with code on an annual basis. The annual report of be company shall contain a declaration to this effect signed-off by CEO and COO.

(f) Nominee Directors-Exclusion of Nominee Directors from the Definition of independent Directors

The committee recommends that there shall be no nominee directors where an institute wishes to appoint a director on the board, such appointment should be made by the shareholders. An institutional director so appointed shall be subject to the same abilities as any other director. Similarly, elected and shall be subject to the same responsibilities and liabilities as other directors.

(g) Non-executive Directors' Compensation-Limits on Compensation paid to independent Directors

All compensation paid non-executive directors may be fixed by the meetings. Limits should be set for'the maximum number of stock options that can be granted to non-executive directors in any financial year and in aggregate. The stock options granted to the non-executive directors shall vest after a period of at least one year from the date such non-executive directors have retired from the board of the company.

(h) Internal Policy on Access to Audit Committees

Personnel who 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 should take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc.

(i) Whistle Blower Policy

Companies should annually affirm that they have not denied any personnel access to the audit committee of the company and that they have provided protection to 'whistle blower' from unfair termination and other unfair or prejudicial employment practices.

The appointment, removal and terms of remunerations of the chief internal auditor must be subject to review by the audit committee. Such affirmation shall form part of the board's Report on corporate governance that is required to be prepared and submitted together with the annual report.

2. Committees on Corporate Governance: Global Perspective

A number of Committees were set-up to look into various aspects of corporate governance. These include:

i. Sir Adrian Cadbury Committee on Financial Aspects of Corporate Governance (1992).
ii. Mervyn E King's Committee on Corporate Governance (1994).
iii. Greebury Committee on directors' remuneration (1995).

iv. Calpers global corporate governance principles (1996).
v. Business Round Table (BTR) Statement on Corporate Governance (1997).
vi. Hample Committee on Corporate Governance (1998).
vii. Blue Ribbon Committee on improving the Effectiveness of Corporate Audit Committee (1999).
viii. Combined Code of best practices (LSE), 1998.
ix. OECD Principles of Corporate Governance (1999).
x. CAGG principles for Corporate Governance in Commonwealth (1999).

These committees/codes recommended the following in relation to accounts, reporting audit.

(b) Cadbury Committee on Financial Aspects of Corporate Governance (1992).

• Audit committee to have minimum three members, written terms of reference and authority to investigate.

• Listed companies to publish full financial statements annually and half yearly reports interim.

Code of Best Practice to Incorporate

(a) Board to present assessment of company's position.
(b) Directors to report in effectiveness of internal control systems.
(c) Aspects to be included by audit committee.

(ii) King's Committee on Corporate Governance (1994)

• Effective internal Audit function.
• Establishment of Audit Committee.
• Observance of highest level of business and professional ethics.
• Accounting standards in line with international standards.

(iii) Blue Ribbon Committee on improving the Effectiveness of Corporate Audit Committees (1999).

- Members of Audit Committee to be independent.
- Audit Committee to consist of independent directors only.
- Audit Committee to have minimum of three directors- each to be financially literate.
- Audit committee to have formal written chapter, approved Notes by the full board, specifying.
  - Responsibilities, and
  - Structure, process and membership.
- Character to specify outside auditor's responsibility towards board and Committee.
- Companies to attach with Annual Report a letter from Audit Committee as to whether or not:
  - Management reviewed the audited financial statements with the committee;
  - Outside auditors discussed with the committee, their judgments; and

- Committee believes that company's financial statements are fairly presented in conformity with generally accepted accounting practices (GAAP).

(iv) CACG Guidelines-Principles for Corporate Governance in the Commonwealth (1999)

• Ensure that the corporation complies with all relevant laws, regulations and codes of best business practice;

• Ensure that the cotporatiOn communicates with shareholders and other stakeholders effectively;

• Serve the legitimate interests of the shareholders of the corporation and account to them fully.

• Regularly review processes and procedures to ensure the effectiveness of its internal systems and control, so that the decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at times; and

• Ensure annually that the corporation will continue as a going concern for its next fiscal year.

(v) Hampel Committee on Audit and Accountability:

Companies and auditors should apply the following principles:

• Financial reporting-The Board should present a balanced and understandable assessment of the company's position and prospects.

• Internal Control-The Board should maintain a sound system of internal control to safeguard shareholder's investments and repay assets.

• Relationship with auditors- The Board should establish forms and transparent arrangements for maintaining and appropriate relationships with the company's auditors. Audit committee should be established and be responsible to board. It should review the scope and results of the audit, its cost effectiveness and the independence and objectivity of auditors.

• External Auditors-The external auditors should independently report to shareholder in accordance with statutory and professional requirements and independently assure the board in the discharge of its responsibilities (financial reporting, internal control) in accordance with professional guidance.

• The auditors have dual responsibility-The public report to shareholders on the statutory financial statements and on other matters and additional private reporting to directors on operational matters.

Ronnie Hampel's final findings are as follows:

- Each company should establish an audit committee of at least three non-executive directors, at least two of them independent. It does not favour a general relaxation for similar companies, but recommend shareholder to show flexibility in considering cases of difficulty on their merits.

- It does not recommend any additional requirements on auditors to report on governance issues, not the removal of any existing prescribed requirements.
- It suggests that the bodies concerned should consider reducing from 10 % the limit on the proportion of total income which an audit firm may earn from one audit report.
- It suggests that the audit committee should keep under review the overall financial relationship between the company and its auditors to ensure a balance between the maintenance of objectivity and value for money.
- It recommends that the directors should report on the company's system of internal control. It also recommends that the auditors should report on internal control privately to the directors, which allows for an effective dialogue to take place and for best practice to evolve.
- Directors should maintain and review controls relating to all relevant control objectives, and not merely financial controls.
- Companies which do not already have a separate internal audit function should form time to time review the need for one.
- The requirement on directors to include a "going concern" statement in annual report should be retained.
- Auditors are inhibited from going beyond their present functions by concerns about the law on liability. Account should be taken of these concerns by those responsible for professional standards and in taking decisions on changes in the law.

Similar principles have been incorporated by combined code of good corporate governance and code of best practices as adopted by London Stock Exchange.

3. Need for Audit Committees

a) The corporate accounting malaise is spreading world over. The reasons for accounting failure could be varied, but are certainly worrisome. The examples of Enron Corporation's financial scandal, Worldcom's accounting absurdity and myriad of complex financial interrelationships between widely dispersed subsidiaries; Xerox's overstating revenues, Merck, Quest Communications, etc. These suggest the clue that audit committee function can come to rescue to solve this problem. In India too, there are reasons that demand necessity for strengthening of accounting and audit function-siphoning of funds, capital erosion, non-repayment of deposits and debentures, etc.-all have something to do with financial reporting. It is now seen everywhere that it is the accounting issues that are becoming major issues of corporate governance.

b) An effective audit committee should not function as a policing agent, to assess risk or to guess or judge audit performance. A good audit committee should satisfy themselves that auditors are to watch the interests of stakeholders if something foul and fishy is observed. Audit committee should instill confidence and trust amongst readers and uses of financial statements. Infact, more valuable than the qualified report one gets from the auditors, might be an assurance from the audit committee that the figures and reporting ought to be correct and reliable.

c) Corporate scandals are the good reasons for having effective audit committee.
d) Recently, KPMG in UK has launched a UK Audit Committee Institute (ACI) help members of audit committee meet their increasing governance demands placed upon them.
e) Audit Committee as a Committee of Board: The audit committee should ideally comprise of at least 3-4 non-executive directors (wholetime directors to be invitees). The Audit Committee is established to give additional assurance regarding the quality and reliability of the financial information used by the board and financial information issued by the company. Its activities would normally include reviewing financial statements and inspection reports, ensuring the sound functioning and compliance with various relevant statutes; monitoring: (a) control of corporate risks, (b) establishment of an appropriate internal control framework, (c) activities of the internal audit department; and liaison with external auditors. The audit committee should ensure that adequate mechanism for prevention and detection of frauds, is in place. The Audit Committee should conform to the board to the once a year that the internal controls of the company are adequate. The Committee should meet at least four times a year.
f) Audit Committee: Statutory Provisions in India: The Sarbanes — Oxley Act, 2002, a recent enactment in US which deals with corporate governance and corporate social responsibilities has also emphasized on the audit function and financial disclosures. It strengthens the power, importance and independence of audit committee. It provides constitute of Public Company Accounting Oversight Board to oversee the audit of public companies that are subject to securities laws, establish audit report standards and rules and inspect, investigate and enforce compliance on the part of registered public accounting firms, their associates and accountants. It also lays emphasis on audit independence and prohibits an auditor from performing specified non-audit services along with an audit. Audit firms will be appointed by and will report directly to the audit committee and subjected to rotation of partner and firm. In India, the office of Controller and Audition General (CAG) functions as an oversight audit body for audit of public sector companies.
g) Audit Committee: Statutory Provisions in India Section 291 A of the Companies Act, 1956 (inserted w.e.f. 13.12.2000)contains a provision relating to establishment of audit committee by every public company having paid up capital of Rs. Five crores or more. Clause 49 of the uniform listing agreement prescribed by the Securities and Exchange Board of India is applicable to all companies. Clause 49 of listing agreement deals with corporate governance and prescribes for setting up of a qualified and independent audit committee.
h) As per section 292 A of Companies Act, 1956, audit committee should have discussions with the auditors periodically about internal control systems, scope of audit including the observations of auditors and review of the half yearly and annual financial statements before submission to the board and also ensure compliance of internal control systems. It shall have full access to information contained in records of the company.
i) As per clause 49 of the listing agreement, audit committee is empowerment to investigate any activity within terms of reference, seek information from any employee and recommend appoint and removal of external auditor, fixation of audit fees, approval for payment for other services, review with the management the annual financial statements before submission to

board, review adequacy of internal control system, oversight of company's financial reporting process and disclosure of its financial information to ensure that financial statements are correct, sufficient and credible, reviewing adequacy of internal audit function, reviewing company's financial and risk management policies, etc.

4. Recommendations of Naresh Chandra Committee

Naresh Chandra Committee on corporate audit and governance has suggested that the audit committees should consists entirely of independent directors. An audit committee charter would have to be prepared which would lay down the role and functions of the audit committee. It has suggested that audit committee of listed companies and unlisted public company with paid up share capital and reserves of Rs. 10 Crore or more or turnover of Rs. 50 crore or more should be made up entirely of independent directors.

Naresh Chandra Committee on corporate audit and governance which submitted its report in last week of December 2002, has not also recommended statutory rotation of audit firms but favored compulsory audit partner rotation on the lines of recently enacted US Sarbanes Oxley Act. Going by global practices and the fact that there is no conclusive proof of the gains before deciding the audit firm rotation, it has observed that rotation of audit firms would not result in any better governance. Rotation of auditors is likely to cause a major dislocation when a new auditor firm is appointed. It takes time to understand the complexities of a business and more mistakes tend to happen in the first two years.

It has suggested that the partners and at least fifty percent of the engagement team ()excluding article clerks and trainees) responsible for the audit of either a listed company or companies whose paid up capital and free reserves exceed Rs. 10 crore or companies whose turnover exceed Rs. 50 crore should be rotated every five years. It has also held that persons who are compulsorily rotated could, need be, allowed to return after a break of three years, as prevail in European Union and IFAC. It has, however, recommended setting up of Corporate Serious Fraud Office/Quality Review Boards for punishing erring professionals.

10 (A) Cadbury Schweppes Marketing Code of Practice

We are proud of our brands. They provide fun and enjoyment as treats or refreshment, and are valued for the4ir functional benefits. They can be enjoyed as part of a balanced diet and lifestyle.

We provide choice by offering variety and through innovation.

We encourage responsible consumption, as this is central to consumers continuing to enjoy our brands.

Our consumers are at the heart of our business. We are committed to listening to them and acting responsibly in their interests and have done this successfully for generations.

This marketing code of practice ensures we continue to meet our responsibilities to our consumers.

1.3 Supporting Sensible Consumption and Balanced Life Style

1. Copy, sound and visual presentation will accurately represent all material dimensions of products advertised, including taste, size, content and nutrition and health benefits.
2. All our advertising will be truthful, accurate and well substantiated. Health benefit claims will have a sound nutritional basis and comply with applicable government regulations.
3. Our advertising will reflect moderation in consumption and portion sizes appropriate to the social and cultural setting portrayed.
4. Our advertising will never portray or endorse inappropriate or over consumption.
5. Unless a food product has been nutritionally designed as a meal replacement, it will not be portrayed as such.
6. In every country where we advertising we will be attentive to local, cultural, political and religious sensitivities and always market within the highest common denominator of any existing regulatory, advertiser, agency and broadcaster guidelines.
7. We will apply these guidelines to all forms of media including print, broadcast and cable television, radio, video, telephone, point-for-sale, online advertising, other interne activities and packaging.
8. This code is reviewed annually by the group's President of Commercial Strategy and put before the company's Food Issues Strategy Group for policy approval. With particular reference to marketing to children
9. We will always take into account the level of knowledge, sophistication and maturity of the people we are advertising to. Younger children have a limited capacity for evaluation the credibility of information they receive. They also may lack the ability to understand the natural of the personal information they disclose on the Internet. We recognize and will act on the special responsibility we have to protect children from their own vulnerabilities. Therefore, we will not advertise where children under the age of eight are likely to be the majority of the audience. Eight years is generally accepted as the age at which children are viewed as being able to comprehend what an advertisement is seeking to achieve and to make judgments accordingly. (Also see CS position statement 2 — Advertising to children.)
10. We will not advertise during or adjacent to a programme if the content of our
11. Advertisement is derived from or associated with that programme. For example, we will not use broadcast or associated or print media personalities (live or animated) to sell products, premiums or services in a way that obscures the distinction between programme or editorial content and commercial promotion. Commercials and advertisements featuring characters from programmes or publications primarily directed to children should not be adjacent to programmers or articles in which the same personality or character appears.
12. We will not show children under eight year's in advertisements and promotions aimed at children.
13. We will not have any visual reference of children under eight years on company-owned vending equipment.
14. Our advertising will not misrepresent the potential benefits from the consumption of a product such as status or popularity with peers, sporting success or intelligence.

15. Out advertising to children will not create a sense of urgency or price minimisation.
16. We will use language and visuals that are clearly understandable in advertising and promotions, especially where it relates to the likelihood of winning a prize or being included in a club of any kind.
17. Where we have websites with children's content, we will not knowingly link to pages of other sites that do not comply with our standards. We will not seek to gain the address or other personal details of the child, we will not e-mail children and we will comply with any higher or additional standards imposed by applicable local law. We will use this area of any website we have to remind and encourage parents to check and monitor their children's use of online activities regularly. Under limited circumstances of safety, security, liability and other purposes permitted under applicable law, when contacted by a child, we will use the personal information they provide to attempt to notify and obtain consent from the parent/guardian and will not further use such information for marketing to such children.
18. We will not use visuals, language or messages that encourage children to pester parents or others to buy products.
19. Our advertising will support the role of parents and other appropriate adult role models in guiding and deciding what children should eat and drink.
20. We will take grate care when using any from of fantasy, including animation not to exploit a child's imagination in a way that can encourage poor dietary habits or less than sensible consumption.
21. When using fictitious or real characters to promote our products, which are in the treat and occasional consumption range, will not use such characters to promote inappropriate consumption.
22. Our products will be represented in a way to encourage the sound use of the product, with a view towards proper nutritional development of the child and development of good nutritional practices.
23. We will, where appropriate, capitalize on the potential of advertising to influence behaviour by developing advertising that supports positive and beneficial social behaviour including sensible consumption, friendship, kindness justice, honesty, generosity and respect of others, and in so doing expose children to the benefits of constructive advertising approaches.
24. Prior to release, all advertisements and promotions to children be reviewed at an early stage for the appropriateness of the activity and then checked against this code before being signed off by business unit general managers. In addition, there will be a periodic review of business unit activity by.regional and global management to ensure that interpretation of the code is aligned locally, regionally and globally.

1.4 Sources/References

This code has been developed with reference to the following:

With particular reference to Marketing to Children:

Self-Regulatory Guidelines for Children's Advertising, Children's Advertising Review Unit (CARU)

http://www.caru.org/guidelines/index.asp (accessed July 2004).

Code for Advertising to Children, Australian Association of National Advertisers (AANA) recommendations.

http://www.aana.com.au/pdfs/A2CCode.pdf (accessed July 2004)

Report of the APA Task Force on Advertising and Children, American Psychological Association (APA) February 20th, 2014.

http://wwvv.apa.org/releases/childrenads.pdf (accessed July 2004)

General references:

International Chamber of Commerce Framework for Responsible Food and Beverage Communications, International Chamber of Commerce

http://vvww.aana.com.au/3self regulation/3 2 ICC. html (accessed July 2004)

Principles of Food and Beverage Product Advertising, Confederation des industries agro-alimentaires de I'UE — the confederation of EU food and drink industry (CIAA)

http://www.gwa.de/fileadmin/downlode/kommh r a nche/CIAA Principles. PDF (accessed July 2004)

Word federation of Advertisers (WFA): www.wfanet.org

European Advertising Standards Alliance (EASA): http://www.easa-alliance.org/about easa/en/about.html

The Combine Code

Principles of Good Governmence and Code of Best Practice

Derived by the committee on Corporate Governance from the Committee's Final Report and from the Cadbury and Greenbury Reports.

Preamble

1. In the Committee's final report we said that, in response to many requests, We intended to produce a set of principles and code which embraced Cadbury, Greenbury and the committee's own work. The Combined Code fulfils that undertaking.

2. The Combined Code is now issued in final from, and includes a number of changes made by the London Stock Exchange, with the Committee's agreement, following the consultation undertaken by the London Stock Exchange on the committee's original draft.
3. Te Combined Code contains both principles and detailed Code provisions. We understand that it is the intention of the London Stock Exchange to introduce a requirement on list ed companies to make a disclosure statement in two parts.
4. In the first part of the statement, the company will be required to report on how it applies the principles in th4e Combined Code. We make clear in our report that we do not prescribe the from or content of this part of the statement, the intention being that companies should have a free hand to explain their governance policies in the light of the principles , including any special circumstances applying to them which have led to a particular approach. It must be for shareholders and others to evaluate this part of the company's statement.
5. In the second part of the statement the company will be required either to confirm that it complies with the Code provisions or — where it does not — provide an explanation. Again, it must be for shareholders and others to evaluate such explanations'
6. In our report we make clear that companies should be ready to explain their governance policies, including any circumstances justifying departure from best practice; and that those concerned with the evaluation of governance should do so with common sense, and with due regard to companies' individual circumstances.
7. We also make clear in our report that it is still too soon to assess definitively the results of the Cadbury and more especially the Greenbury codes. We see this Combined Code as a consolidation of the work of the three committees, not as a new departure. We have therefore retained the substance of the two earlier codes except in those few cases where we take a different view from our predecessors. We should in particular like to make clear, in relation to the detailed provisions in the Listing Rules on directors' remuneration, that we envisage no change except where we take a different view from the Greenbury committee. With two exceptions, relating to the status of the remuneration committee, and the compensation payable to an executive director on loss of office, these changes are minor.
8. Section 1 of the Combined Code contains the corporate governance principles and code provisions applicable to all listed companies incorporated in the United Kingdom. These would be covered by the statement referred to in paragraphs 3-5 above, which will be required by the Listing Rules. Section 2 contains principles and code provisions applicable to institutional shareholders with regard to their voting, dialogue with companies and evaluation of a company's governance arrangements. These are not matters which are appropriate for the Listing Rules to include within the disclosure requirement. Nevertheless we regard Section 2 of this Combined Code as an integral part of our recommendations; we commend it to the organizations representing institutional shareholders and we hope that at least the major institutions will voluntarily disclose to their clients and the public the extent to which they are able to give effect to these provisions.
9. We have not included in the Combined Code principle D, IV in Chapter 2 of our final report, which reads as follows:

"External Auditors. The external auditors should independently report to shareholders in accordance with statutory and professional requirements and independently assure the board on the discharge of its responsibilities under D.1 and D.II above in accordance with professional guidance."

We say in paragraph 6.7 of the report that we recommend neither any additional prescribed requirements nor the removal of any existing requirements for auditors in relation to governance of publicly reported information, some of which derive from the Listing Rules. The London Stock Exchange accepts this recommendation. But the existing requirements for auditors will be kept under review, as matter of course, by the responsible organizations.

Committee on Corporate Governance

June 1998

Principle of Good Governance

Section 1 Companions

A. Directors

The Board

1. Every listed company should be headed by an effective board which should lead and control the company. Chairman and CEO
2. There are two key tasks at the top of every public company — the running of the board and the executive responsibility for the running of the company's business. There should be a clear division of responsibilities at the head of the company which will ensure a balance of power and authority. Such that no one individual has unfettered powers of decision.

Board Balance

3. The board should include a balance of executive and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision taking.

Supply of information

4. The board should be supplied in a timely manner with information in a form of a quality appropriate to enable it is discharge its duties.

Appointment to the board

5. The should be a formal and transparent procedure for the appointment of new directors to the board.

Re-election

6. All directors should be required to submit themselves for re-election at regular intervals and at least every three years.

B. Directors' Remuneration

The Level and Make-up of Remuneration

1. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. A proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. Procedure
2. Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involve in deciding his or her own remuneration.. Disclosure
3. The company's annual report should contain a statement of remuneration policy and details of the remuneration of each director.

C. Relations With Shareholders

Dialogue with institutional Shareholders

1. Companies should be ready, where practicable, to enter into a dialogue with institutional shareholders based on the mutual understanding of objectives.

Constructive use of the AUG

2. Boards should use the AGM to communicate with private investors and enclosure their participation.

D. Accountability And Audit

Financial Reporting

1. The board should present a balanced and understandable assessment of the company's position and prospects.

Internal Control

2. The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

Audit Committee and Auditors

3. The boar should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Section 2 Institutional Shareholders.

E. Institutional Investors

Shareholder Voting

1. Institutional shareholders have a responsibility to make considered use of their votes.

Dialogue with Companies

F. Institutional shareholders should be ready, where practicable, to enter into a dialogue with companies based on the mutual understanding of objectives.

Evaluation of Governance Disclosures

G. When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional investors should give due weight to all relevant factors drawn to their attention.

Code of Best Practice

Section 1 Companies

A. Directors

A.1 The Board Principle every company should be headed by an effective board which should lead and control the company.

Code provisions

A.1.1 The board should meat regularly.

A.1.2 The board should have a formal schedule of matters specifically reserved to it decision.

A.1.3 There should be a procedure agreed be board for directors in the furtherance of there duties to take independent professional advice if necessary, at the companies expense.

A.1.4 All directors should have access to advice and services of company secretary, who is responsible to the board of ensuring that board procedures are followed that applicable rules and regulations are complied with. Any question of the removal of the company secretary should be a matter for the board whole.

A.1.5 All directors should bring an independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

A.1.6 Every director should receive appropriate training on the first occasion that he or she is appointed to the board of a listed company, and subsequently as necessary.

A.2 Chairman and CEO

Principle There are two key tasks at the top of every public company — the running of the board and the executive responsibility for the running of the company's business. There should be a clear division of responsibilities at the head of the company which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

Code Provision

A.2.1 A decision to combine the posts of chairman and chief executive officer in one person should be publicly justified. Whether the posts are held by different people or by the same person, there should be a strong and independent non-executive element on the board, with a recognized senior member other than the chairman to whom concerns can be conveyed. The chairman, chief executive and senior independent director should be identified in the annual report.

A.3 Board Balance

Principle The board should include a balance of executive and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision taking.

Code Provisions

A.3.1 The board should include non-executive directors of sufficient caliber and number for their views to carry significant weight in the board's decisions. Non-executive directors should comprise not less than one third of the board.

A.3.2 The majority of non-executive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. Non-executive directors considered by the board to be independent in this sense should be identified in the annual report.

A.4 Supply of Information

Principle The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Code Provision

A.4.1 Management has an obligation to provide the board with appropriate and timely information, but information volunteered by management is unlikely to be enough in all circumstances and directors should make further enquiries where necessary. The chairman should ensure that all directors are properly briefed on issues s\arising at board meetings.

A.5 Appointments to the Board

Principle There should be a formal and transparent procedure for the appointment of new directors to the board.

Code Provision

A.5.1 Unless the board is small, a nomination committee shoulu be established to make recommendations to the board on all new board appointments. A majority of the members of this committee should be non-executive directors, and the chairman should be either the chairman of the board or a non-executive director. The chairman and members of the nomination committee should be identified in the annual report.

A.6 Re-election

Principle All directors should be required to submit themselves for ,re-election at regular intervals and at lest every three years.

Code Provisions

A.6.1 Non-executive directors should be appointed for specified terms subject to re-election and to Companies Act provisions relating to the removal of a director, and reappointment should not be automatic.

A.6.2 All directors should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details to enable shareholders to take an informed decision on their election.

B. Directors' remuneration

B.1 The Level and Make-up of Remuneration

Principle Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. A proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Code provisions

Remuneration policy

B.1.1 The remuneration committee should provide the packages needed to attract, retain and motivate executive directors of the quality required but should avoid paying more than is necessary for this purpose.

B.1.2 Remuneration comities should judge where to position their company relative to other companies. They should be aware that comparable companies are paying and should take account of relative performance. But they should used such comparisons with caution, in view of the risk that they can result in an upward ratchet of remunerations levels with no corresponding improvement in performance.

B.1.3 Remunerations committees should be sensitive to the wider scene, including pay and employment conditions elsewhere in the group, especially when determining annual salary increases.

B.1.4 The performance related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should designed to align their interests with those of shareholders and to give this directors keen incentives to perform at the highest levels.

B.1.5 Executive share options should not be offered a discount save as permitted by paragraphs 13.30 and 13.31 of the listing Rules.

B.1.6 In designing schemes of performance related remuneration, remuneration comities should follow the provisions in schedule A to this code. Service contacts and compensation

B.1.7 There is a strong case for setting notice or contract period at, or reducing them to, one year or loss. Boards should set this as an objective; but they should recognize that it may not be possible to achieve it immediately.

B.1.8 If it is necessary to offer to longer notice or contract periods to new directors recruited from outside, such periods should be reduce after the initial period.

B.1.9 Remuneration comities should consider what is compensation (including pension contribution) their directors' contracts of service, if any, would entail in the even t of early termination. They should in a particular consider the advantages of providing explicitly in the initial contract for such compensation commitments except in the case of removal of misconduct.

B.1.10 Where the initial contracts does not explicitly provide for compensations comities should, within legal constrains ,tailor their approach in individual early termination cases to the wide variety of circumstances. The board aim should be to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance and take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.

B.2 Procedure

Principle Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Code Provisions

B.2.1 To avoid potential conflicts of interest, boards of directors should set up remuneration committees of independent non-executive directors to make recommendations to the board, within agreed terms of reference, on the company's framework of executive remuneration and its cost, and to determine on their behalf specific remuneration packages for each of the executive directors, including pension rights and any compensation payments.

B.2.2 Remuneration committees should consist exclusively of non-executive directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment.

B.2.3 The members of the remuneration committee should be listed each year in the board's remuneration report to shareholders (B.3.1 below).

B.2.4 The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors, including members of the remuneration committee, within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a small sub-committee, which might include the chief executive officer.

B.2.5 Remuneration committees should the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice inside and outside the company.

B.2.6 The chairman of the board should ensure that the company maintains contact as required with its principal shareholders about remuneration in the same way as for other matters.

B.3 Disclosure

Principle The company's annual report should contain a statement of remuneration policy and details of the remuneration of each director.

Code Provisions

B.3.1 The board should report to the shareholders each year on remuneration. The report should form part of, or be annexed to, the company's annual report and accounts, it should be the main vehicle through which the company reports to shareholders on directors' remuneration.

B.3.2 The report should set out the company's policy on executive directors' remuneration. It should draw attention to factors specific to the company.

B.3.3 In preparing the remuneration report, the board should follow the provisions in Schedule B to this code.

B.3.4 Shareholders should be invited specifically to approve all new long term incentive schemes (as defined in the Listing Rules) save in the circumstances permitted by paragraph 13.13A of the Listing Rules.

B.3.5 The board's annual remuneration report to shareholders need not be a standard item of agenda for AGMs. But the board should consider each year whether the circumstances are such that the AGM should be invited to approve the policy set out in the report and should minute their conclusions.

C Relations with Shareholders

C.1 Dialogue with Institutional Shareholders

Principle Companies should be ready, where practicable, to enter into a dialogue with institutional shareholders based on the mutual understanding of objectives.

C.2 constructive use of AGM

Principle Boards should use the AGM to communicate with private investors and encourage their participation.

Code provision

C.2.1 Companies should count all proxy votes and, except where a poll is called, should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands.

C.2.2 Companies should propose a separate resolution at the AGM on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts.

C.2.3 The chairman of the board should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM

C.2.4 Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

D. Accountability and Audit

D.1 Financial Reporting

Principle The board should present a balanced and understandable assessment of the company's position and prospects.

Code provisions

D.1.1 The directors should explain their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities.

D.1.2 The board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports to regulators s well as to information required to be presented by statutory requirement.

D.1.3 The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

D.2 Internal Control

Principle The board should maintain a sound system of internal control to safeguard shareholders investment and the company's assets.

Code Provisions

D.2.1 The directors should, at least annually, conduct a review of the group's system of internal control and should report to shareholders that they have done so. The review should cover all controls. including financial, operational and compliance controls and risk management.

D.2.2 Companies which do not have an internal audit function should from time review the need for one.

D.3 Audit Committee and Auditors

Principle The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Code Provisions

D.3.1 The board should establish an audit committee of at least three directors, all non-executive, with written terms of reference which of reference which deal clearly wit hits authority and duties. The members of the committee, a majority of whom should be independent non-executive directors, should be named in the report and accounts.

D.3.2 The duties of the committee should include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the auditors. Where the auditors also supply a substantial volume of non-audit services to the company, the committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.

Section 2 Institutional Shareholders

E. Institutional Investors

E.1 Shareholder Voting

Principle institutional shareholders have.a responsibility to make considered use of their votes.

Code Provisions

E.1.1 Institutional shareholders should endeavor to eliminate unnecessary variations in the criteria which each applies to the corporate governance arrangements and performance of the companies in which they invest.

E.1.2 institutional shareholder should, on request, make available to their clients information on the proportion of resolutions on which votes were cast and non-discretionary proxies lodged.

E.1.3 institutional shareholders should take steps to ensure that their voting intentions are being translated into practice.

E.2 Dialogue with Companies

Principle institutional shareholders should be ready, where practicable, to enter into a dialogue with companies based on the mutual understanding of objectives.

E.3 Evaluation of Governance Disclosures

Principle When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional investors should give due weight to all relevant factors drown to their attention.

Schedule A: Provisions on the Design of Performance Related Remuneration.

1. Remuneration committees should consider whether the directors should be eligible for annual bonus. If so, performance conditions should be relevant, stretching and designed to enhance the business. Upper limits should always be considered. There may be a case for part payment in shares to be held for a significant period.
2. Remuneration committees should consider whether the directors should be eligible for benefits under long-term incentive schemes. Traditional share option schemes should be weighed against other kinds of long-term incentive schenie. In normal circumstances, shares granted or other forms of deferred remuneration should not vest, and options should not be exercisable, in under three years. Directors should be encouraged to hold their shares for a further period after vesting or exercise, subject to the need to finance any costs of acquisition and associated tax liability.
3. Any new long term incentive schemes which are proposed should be approved by shareholders and should preferably replace existing schemes or at least form part of a well considered overall plan, incorporating existing schemes. The total rewards potentially available should not be excessive.
4. Payouts or grants under all incentive schemes, including new grants under existing share option schemes, should be subject to challenging performance criteria reflecting the company's objectives. Consideration should be given to criteria which reflect the company's performance relative to a group of comparator companies in some key variables such as total shareholder return.
5. Grants under executive share option and other long-term incentive schemes should normally be phased rather than awarded in one large block.
6. Remuneration committees should consider the pension consequences and associated costs to the company of basic salary increases and other changes in remuneration, especially for directors close to retirement.
7. In general, neither annual bonuses not benefits in kind should be pension able.

Schedule B: Provisions on what should be included in the Remuneration Report.

1. The report should include full details of all elements in the remuneration package of each individual director by name, such as basic salary, benefits in kind, annual bonuses and long term incentive schemes including share options.
2. Information on share options, including SAYE options, should be given for each director in accordance with the recommendations of the Accounting Standards Board's Urgent issues Task Force Abstract 10 and its successors.
3. If grants under executive share option or other long-term incentive schemes are awarded in one large block rather than phased, the report should explain and justify.
4. Also including in the report should be pension entitlements earned by each individual directors during one year, disclosed on one the alternative bases recommended by the Faculty of Actuaries and the Institute of Actuaries and included in the UK Listing Authority's Listing Rules. Companies may wish to make clear that the transfer value represents a liability of the company, not a sum paid or due to the individual.
5. If annual bonuses or benefits in kind are pensionable the report should explain and justify.
6. The amounts received by, and commitments made to, each directors under 1,2 and 4 above should be subject to audit.
7. Any service contracts which provide for, or imply, notice periods in excess of one year (or any provisions for predetermined compensation on termination which exceed one year's salary and benefits) should be disclosed and the reasons for the longer notice periods explained.

Bibliography

1. Copies of the following Reports, can be obtained from Gee Publishing, 0345-573 113.

- Report of the Committee on the Financial Aspects of Corporate Governance: The Code of Best Practice (Cadbury Code) — 1 December 1992.
- Report of the Committee on the Financial Aspects of Corporate Governance: Compliance with the Code of Best Practice — 24 May 1995.
- Directors' Remuneration: Report of a Study Group chaired by Sir Richard Greenbury (Greenbury Committee report) — 17 July 1995.
- Committee on Corporate Governance: Final Report (Hampel Committee report) — 28 January 1998.

2. Copies of the following Guidance documents can be obtained from the institute of Chartered Accountants in English and Wales, tel: 020 7920 8100 xtn 8487.

- Going Concern and Financial Reporting: Guidance for Directors of Listed Companies registered in the UK — November 1994. • Internal Control and Financial Reporting: Guidance for Directors of Listed Companies registered in the UK — December 1994.

3. Copies of the following Guidance Note can be obtained from the Institute of Actuaries, tel: 020 7632 2100.

4. Copies of the following bulletins can be obtained from Accountancy Books, tel: 01908-248 000.

- APB bulletins (1995/1 and 1996/3): Disclosures Relating to Corporate Governance.

5 Copies of the following document can be obtained from the DTI, tel: 020 7215 1994

- Developing a Winning Partnership: How companies and institutional investors are working together (the Myners recommendations) —updated September 1996.

6 Copies of the following Statements can be obtained from the ABI, tel: 020 7600 3333

- Institutional Shareholders' Committee: The Role and Duties of Directors — A Statement of Best Practice
- Institutional Shareholders' Committee: The Responsibilities of Institutional Investors — A statement of Best Practice.

7. Association of British Insures produce a range of corporate governance related publications, tel: 020 7600 333

8. National Association of Pension Funds produce a range of corporate governance related publications, tel: 020 7730 0585

9. The Listing Rules — copies of these rules can be obtained from the Financial Services Authority (Sales and Distribution), tel: 020 7676 3298, fax: 020 7676 9728.

10 (B) Naresh Chandra Committee

The government of India, by order dated August 21,2002, constituted a high-level committee under the chairmanship of Mr. Naresh Chandra to examine the auditor company relationship and to regulate the role of auditors, The trigger was the happenings in the U.S. and certain instances in India involving auditors. In fact, the spontaneity with which the U.S. responded to high profile corporate scams by enacting Sarbanes-Oxley Act in very short time and taking strong measures to deter recurrences of such scams, has made the Indian regulators and authorities come out with similar recommendations. The Naresh Chandra Committee contains five chapters. Chapter 2,3 and 4 deals with auditor-company relationship, auditing the auditors' and independent directors' role, remuneration and training are relevant to use. Chapter 1 is an introductory section and chapter 5 relates to regulatory changes. We comply with this recommendations.

10 (C) Kumar mangalam Birla committee

The Security and control board of India (SBI) appointed the committee of corporate governance on May 7, 1999, under the chairmanship of Mr. Kumar mangalam Birla, member of SEBI board, to promote and rise the standard of corporate governance. SEBI Board considered and adapted the recommendations of the committee in its meeting held on January 25, 2000. In accordance with the guidelines provided by SEBI, the market regulator, the stock exchange had modified the listing requirements by incorporating in the listing agreement a new Clause 49, that proper disclosure for

corporate governance is made by companies in the following areas: Board of directors, Audit committee, Remuneration Committee, Board procedure, Management Discussion and Analysis, information to Shareholders, and Report on Corporate Governance in the annual report. We comply with these recommendations.

Revised Clause 49 of the listing agreement

SEBI, with a view to improve corporate governance standards in India, constituted the Committee on Corporate Governance under the chairmanship of Mr. N.R. Narayana Murthy. This move of SEBI signifies the regulator's anxiety to ensure that the governance practices are correcte and improved upon expeditiously. The terms of reference to the committee were to review the performance of corporate governance and to detenr4ne the role of companies in responding to rumors and other price-sensitive information circulating in the market, in order to enhance the transparency and integrity of the market.

The committee came out with two sets of recommendations, the mandatory recommendations and the non-mandatory recommendations.

The mandatory recommendations focus on strengthening the responsibilities of audit committees, improving the quality of financial disclosures, including those pertaining to related party transactions and proceeds from initial public offerings, requiring corporate executive boards to assess and disclose business risks in the annual reports of companies, calling upon the Board to adopt a formal code of conduct, the position of nominee directors and improved disclosures relating to compensation to non-executive directors and shareholders' approval of the same.

The non-mandatory recommendations pertain to moving to a regime providing for unqualified corporate financial statements, training of Board members and evaluation of non-executive directors' performance by a peer group comprising the entire Board of Directors, excluding the director being evaluated.

SEBI has incorporated the recommendations made by the Narayana Murthy Committee on Corporate Governance in Clause 49.

Clause 49 as revised was made effective from January 1, 2006. We fully comply with the revised Clause 49 of the listing agreement.

"Euro shareholders" is the confederation of European shareholders associations, constituted with the overall task of representing the interests of individual shareholders in the European Union. In April 1999, the Organization for Economic Cooperation and Development (OECD) published its general principles on corporate governance. The Euro shareholders guidelines are based on the same principles, but are more specific and detailed. Subject to the statutory regulations in force in India, we comply with these recommendations.

Compliance with findings and recommendation of The Conference Board Commission on Public. Trust and Private Enterprises in the U.S.

The Conference Board Commission on Public Trust and Private Enterprise was convened to address the circumstances which led to corporate scandals and the subsequent decline of confidence in American capital markets. The Commission has suggested ways in which appropriate governance practices can work to rebuild confidence in the integrity, reliability, and transparency of these markets by addressing three key, and much debated, areas-executive compensation, corporate governance, and audit and accounting issues-as they relate to publicly-held corporations. The Commission issued its first set of findings and recommendations — Part 1:Executive Compensation, on September 17, 2002. Part 2:Corporate Governance and Part 3:Audit and Accounting were released on January 9, 2003. We substantially comply with these recommendations.

OECD Principles of Corporate Governance

The governments of the 30 Organization for Economic Cooperation and Development (OECD) countries have recently approved a revised version of the OECD's Principles of Corporate Governance adding new recommendations for good practice incorporate behavior with a view to rebuilding and maintaining public trust in companies and stock markets.

The revised Principles respond to a number of issues that have undermined the confidence of investors in Company management in recent years. They call on governments to ensure genuinely effective regulatory frameworks and on companies themselves to be truly accountable. They advocate increased awareness among institutional investors and an effective role for shareholders in executive compensation. They also urge strengthened transparency and disclosure to counter conflicts of interest.

We substantially comply with these principles of corporate governance. A detailed compliance report with the recommendations of various committees listed above is available in the investors section of our website.

United Nations Global Compact Programmed

Announced by the United Nations SecretaryGeneral, Mr.Kofi Annan, at the World Econimic Forum in Davos, Switzerland, in January 1999, and formally launched at the UN Headquarters in July 2000, the Global Compact Programme calls on companies to embrace nine principles in the areas of human rights, labor standards and environment. The Programme is a value based platform designed to promote institutional learning. It utilizes the power of transparency and dialogue to identify and disseminate good practices based on universal principles. The nine principles are drawn from the Universal Declaration of Human Rights, the international Labor Organization's Fundamental Principles on Rights at Work, and the Rio Principles on Environment and Development.

According to these principles, business should

• Support and respect the protection of internationally proclaimed human rights:

Corporate leadership in human rights is good for the community and for business. The benefits of responsible engagement for business include a greater chance of a stable and harmonious atmosphere in which to do business, and a better understanding of the opportunities and problems of the social context. Further, the benefits of corporate social responsibility for society include less adverse impacts from ill-thought-through business initiatives.

• Ensure that they are not complicit inhuman rights abuses:

An effective human rights policy will help companies avoid being implicated in human rights violations.

• Uphold the freedom of association and the effective recognition of the right to collective bargaining:

Freedom of association and the exercise of collective bargaining provide opportunities for constructive rather than confrontational dialogue, which harness energy to focus on solutions that result in benefits to the enterprise, its stakeholders, and the society at large.

• Support the elimination of all forms of forced and compulsory labor:

Forced labor robs societies of the opportunities to apply and develop human resources for the labor markets of today, and develop the skills in education of children for the labor markets of tomorrow.

• Support the effective abolition of child labor:

Child labor results in scores of under — skilled unqualified workers and jeopardizes future skills improvements in the workforce. Children who do not complete their primiary education are likely to remain illiterate and will not acquire the skills needed to get a job and contribute to the development of a modern economy.

1.5 Self Assessment Test

1. The government is monitoring data online. Why?

2. The government agencies are now allowed to monitor online activity. Do you think the government has to invite the privacy of citizens? Give reasons to support your answer.

3. What is the need of Audit Committees?

4. Write note on the following's:

- Committees On Corporate Governance: Global Perspective
- Code of Best Practice to Incorporate
- The Need For Audit Committees
- Recommendations Of Naresh Chandra Committee
- Principle Of Good Governance
- Directors' Remuneration

- Accountability And Audit

1.6 Further Reading

- Business Ethics: Ethical Decission makingand Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leavning classroom Edition: Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Joseph R. Desjardirs
- Managing Business Ethics: Straight talk about how to do it Right.
- Business Ethics by Joseph W. Weiss

Assignment

The aim of business is to satisfy customes in ways that create long term customer relationships so as to profit from the life time value of a customer. Do you think IT will help companies long term customer relationship and attract more customers? Justify your answer.

UNIT 2 LEGAL ASPECTS OF CORPORATE GOVERNANCE

Learning Objectives

- To understand Wrong Assumptions about Empowerment
- To understand an Empowerment Board
- To understand an Effective Empowerment
- To understand Issues to be addressed to Empower Boards

Structure

2.1 Introduction

The recent moves constitute a good step towards improving company law. However, a few grey areas remain which need immediate attention. The changes introduced through the 1999 Amendment Bill have significantly tightened the penal provision and increased corporate responsibility towards investors. The confusion over the division of power between the SEBI (Securities and Exchange Board of India) and Department of Company Affairs has also been cleared. A landmark change for investors has been the introduction of postal ballots. Unfortunately, the provision relating to the representation of small investors has been diluted. Though the recent changes are a good step towards improving company law, there have to be appropriate improvements in the administration and attitude of the officials.

As the companies Act,1956, had become obsolete, the government in 1996 had appointed a Working Group to review it and suggest changes to make the law investor-friendly and fall in line with international developments in Company Law, having regard to the liberalized economic polices all over the world. The working Group submitted it s report in early 1997 and a comprehensive Company Law (Amendment) Bill, 1997, was introduced in the Rajya Sabha in August 1997. The Bill sought to make substantial changes in the administration of company law and, in the process, sought to usher in better corporate governance in the country.

Unfortunately, the comprehensive amendment could not be enacted. First, because the than Government did not survive (though the Bill did not lapse having been introduced in the Rajya Sabha). And, second, it was referred to the Standing C6mmittee of Parliament, whose report is still awaited. This Bill did not receive the priority after the new House was constituted. In the meantime, taking note of the inordinate delay in the enactment of this comprehensive amendment, the Government has promulgated certain urgent amendments by an ordinance in 1998, which were replaced by an Act in 1999, bringing about important changes, providing for liberalised inter-corporate investment/loan regime, introduction of buy-back of shares, sweat-equity,• nomination facility for shareholders, debenture holders and depositiors and compliance with accounting standards. This amendment Act also provided for setting up an Investor Education and Protection Fund with the objective of utilizing the unclaimed and unpaid funds of investors for seven years for the benefit of investor education and protection. It is indeed a strange story that though a committee was set up to oversee the use of funds a year ago and started functioning, precious little has been done to obtain these funds by notifying necessary rules. It is learnt that there is some debate and discussion regarding the accounting modalities of the fund between the Ministry of Finance and Department of Companies Affairs.

The changes introduced through the 1999. Amendment Bill (since enacted) constituted an important landmark in the history of Company Law Administration as it had significantly tightened penal provisions and increased corporate responsibilities towards investors. This amendment, in effect intends to remove infirmities in the enforcement of the procedural compliance and to send a loud and clear message that corporate governance standards are hereafter required to be observed strictly. First, it seeks to check proliferation of small companies, often known as post-box

companies by the introduction of minimum paid-up capital requirement for commencement of joint stock companies in India. Joint stock companies was a device adopted during the days of Industrial Revolution to muster additional resources for starting large industrial ventures, which provided a big push to economic growth in Britain and, later, in other countries as well.

The recent amendment also introduced provisions for enhancing penalties for offences, considering the fact that the provisions in the Companies Act, 1956, contained penalties which had no deterrent effect and which, on the other hand, in effect, made a mockery of company law provisions relating to good corporate governance. The Department of Company Affairs, which had a large network of registrars of companies all over the country, could not take quick and immediate action in prosecuting the companmies for lack of adequate administrative infrastructure, including lack of adequate and trained manpower and, to some extent, due to inefficient and corrupt elements in the field offices.

This was aggravated by substantial delays in the court and mandatory penalties. Which were too soft to create any serious impact on the companies and their directors. The present amendment has, by a stroke of pen, increased the mandatory penalties 10 times for various offences and has also enhanced the scale of imprisonment.

There are certain other changes which should deter the corporates and to heir directors from indulging in reckless malpractices and non-compliance and, therefore, conduct themselves more responsibly. The concept of "deemed public company" has been abolished as this was creating obstacle in the growth of well-run privates limited companies, especially those coming with foreign direct investments. Besides, the purpose of declaring the public limited companies "deemed public companies" no longer holds good in the light of the liberalized economic regime followed by the government as such restrictions are not known to operate in other countries.

In order to protect the depositors from the vagaries of manipulative promoters of private limited companies, amendments have been made to the Companies Act that prevent private limited companies from accepting deposits from the public other than the directors of these companies and t heir close relatives.

There was always a grey area between the role and functions of the Department of Company Affairs, and SEBI, contributing to confusion both in the minds of the public and the entrepreneur. SEBI has also been maintaining that inadequate powers tb its SEBI officials was inhibiting them in the discharge of their regulatory responsibilities. The amendment ensures that in all matters of listed public companies and those intending to be such companies relating to the issue of transfer of securities and non-payment of dividend, SEBI will have complete jurisdiction. This is again expected to bring some clarity in the powers of SEBI, though it may not be fully satisfied in this regard. It is, however, to be noted that the final amendment is not happily worded, particularly in case of those public companies which intend to get their securities listed. There can be grey areas in relation to such companies and legal disputes are bound to come up. Besides, the Explanation to Section 55A seeks to retain with the Department of Company Affairs. Another important change sought to be introduced relates to protection of smaller depositors through Section 55AA, where

additional powers are sought to be given to the Company Law Board to deal with the defaulting companies. These provisions made, on the basis of suggestions made by the Law Commission, are no doubt welcome. But it may still be desirable to consider an amendment which will enable the Company Law Board to impose monetary penalties in respect of non-compliance of the various provisions under the Companies Act.

This will enhance the status and effectiveness of the Company Law Board, which has been functioning very well within its limited powers. Such a measure should be considered in the next amendment as and when considered. It is learnt that the Department intends bringing a separate amendment to modify the powers of the Company Law Board. Hoard, Hopefully, these are framed after a public debate as they are to be very carefully drafted.

The provision relating to representation for small investors (also known as minority shareholders) on the boards of various companies has unfortunately been diluted. While the earlier provision on the Bill at the introduction stage had made it mandatory for companies to represent minority shareholders under certain conditions, this has been made optional in the enactment. This is unfortunate. In fact, the proposed change does not serve any purpose, except it will only be a decorative provision with no impact on corporate governance. In fact, it would have been better if the amendment had been made mandatory at least in respect of companies which did not declare any dividend for two years consecutively, so that small investors would have had some opportunity to express grievance at board meetings of companies not performing well.

Other salutary provisions in the Amendment Act to improve the quality of corporate governance in the country are: New issues of share capital with differential voting rights, constitution of Audit Committees in public limited companies with paid up capital of Rs. 5 corer and above, changes relating- to dividend/interim dividend, appointment of debenture trustees and their duties, which arc bound to have a positive effect in the capital market and which would bring in significant relief to investors in the matter of investment in shares/debentures.

The provision enabling the passing of resolution by postal ballot, including the electronic mode, is again a landmark change in the interest of investors. This proposed section enables the Centre to notify the use of postal ballot in respect of certain resolutions in view of the fact that many companies try to avoid participation of their share-holders at general body meetings.

The provision to prominently display audit qualifications in the annual accounts and as also disqualifications of directors in the light of the amendments would also help investors/financial institutions in better appreciation of the company's state of affairs so that these could be questioned/debated at annual general meetings. The reduction of the number of companies in which a person can be director from 20 to 15 will also improve the quality of director participation at board meetings and reduce the craze of becoming directors in a number of companies. In fact, even here, the number could be further reduced to 10 after some time. The argument that competent people are not available to become directors is a farce, having regard to the fact that a large number of qualified business graduates and eminent technical persons are entering the Indian business arena in recent years.

The amendment relating to disqualification of directors who fail to comply with the statutory requirements is unique and is a right measure to get over the present delays in getting convictions in court for poor corporate governance in Indian companies. This is expected to create a lasting impact in the standards of corporate governance in this country. This change ought to send a strong message to existing and aspiring directors that indifference to certain basic corporate statutory responsibilities will have serious adverse consequences.

In conclusion, the recent amendments constitute a good step towards improving corporate governance in this country. If another amendment, incorporating further changes relating to insolvency and the Company Law Board and few other suggested amendments are brought about, the pending comprehensive Bill can easily be withdrawn. Coupled with these changes, if appropriate improvements in administration, especially in the attitude of officials and computerization of records are brought about, India can really boast of having conducive conditions for good and sound corporate governance, which will no doubt attract large investments both from within the country and abroad.

Corporate Governance: Corporate governance is the system by which business corporations are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the corporation (the board, managers, shareholders and other stakeholders) and spells out the rules and procedures for corporate decision-making.

Joint stock companies: Now called limited company. A limited company is a legal entity, i.e., it can enter independently into contracts as a individual. Most large companies, public or private, are limited by shares, the number of which is stated in the memorandum of association. A public limited company needs a certificate of incorporation from the Registrar of Companies.

Paid-up capital: Capital required by selling shares to investors is called paid-up capital. It is distinguished from capital accumulated from earnings or from secured or unsecured loans.

Swear equity: It is defined as an increase in equity created by the labor of the owner.

Establishing Effective Boards

Dysfunctional boards are much like dysfunctional families — once they are in a downward spiral, they require some form of intervention to turn things around. And because of the great demands for strong corporate governance already placed on today's boards, devoting the amount of time and energy necessary to revamp the boards operations and culture can be daunting. Still, such a revamping is absolutely essential for board functionality and effectiveness, and for shareholder value protection and growth.

What are the most common board practice pitfalls? And what intervention tactics are effective for dysfunctional boards? Based on information garnered from global research conducted by Price water house Coopers for the institute of Internal Auditors Research Foundations new study, Corporate Governance ad the board — What Works Best, the II A has developed guidance for assessing corporate governance effectiveness and evaluating board operations and performance.

The research including literature in Australia, Canada, France, Hong Kong, The Netherlands, New Zealand, Singapore, The United Kingdom, and The U. S., as well as interviews with directors and corporate governance thought leaders form all over the world.

Many boards make the mistake of following "the way it's always been done." If the CEO has always minimized the boards influence, ruled the board with an iron hand or kept the board with an iron hand or kept the board in the dark, maintaining the status quo can be disastrous. And if the board meetings do not present an opportunity for healthy discussion and exchange of ideas, or include insightful analysis of situations, board members are impotent to ward off impending trouble.

Independence

What can hoards of directors do to avoid these common pitfalls, and how can a bad board become better? The first step to board effectiveness is independence of management. The board must not be beholden or subservient to the chief executive, even when the board members were hand picked by that same executive. It is helpful if a majority of the directors have no ties to the organisation or its leader. In addition both the nominating committee for new members and the corporate governance committee should comprise strong, independent directors.

"Executive" sessions with only the outside directors provide an opportunity to assess what is working and what isn't. And the clirectors should standardized this process, and assign one director responsibility for reporting on these sessions to the CEO, rather than wait for a crisis to dictate the necessity of such a meeting. In addition, the board should become comfortable challenging the CEO and suggesting the alterations and alternatives to CEO proposed actions, when appropriate.

Foundation

Although a board charter provides a foundation and focal point for board activities, it should be reference point, not a blueprint for board operations. Just as each organization has its own corporate culture, the dynamics of each board of directors are unique. They shift as the composition of the board changes, and directors should always be open to new opportunities and ready to confront new challenges bought about by change.

The boards charter should provide an overview of board responsibilities, information on board composition and criteria for member selection. In addition to clarifying the boards relationships with the CEO, investors, media, suppliers, customers and employees, the charter should also include information on board leadership, director compensation, meeting procedures, board performance and committees.

Form and Function

Among the list of admirable characteristics for board members are integrity, accountability, credibility, creditworthiness intuition, vision, good judgment, knowledge of the industry, active

participation, and strong ethics, skills in human relations, decision making, and communication; and an ability to handle conflict, analyze accurately and strategically.

Also important is keeping the size of the board to a reasonable level. Boards that are too large (more than 7 to 12 directors) can significantly limit the level of individual participation, involvement and effectiveness. An individual's area of expertise is important as well as, and many of today's boards of targeting new members who are particularly technology or industry oriented.

Basically, highly effective boards operate in an environment of openness and trust, where roles are understood and respected, and thought and thoroughness are balanced with speed and decisiveness. Effective board meetings cover carefully chosen and sequenced topics and balance reports with in depth discussion. As important as these operations are, experienced directors suggests that activity outside the bathroom might be even more critical to effective boards. Several recommendations include:

- Gather information from a variety of sources, not just the CEO, and tap the collective wisdom of the board.
- Rein in overly ambitious CEOs who might not allow time necessary for the board to adequately process information and make good decisions.
- Monitor committee activities, bringing major issues to the full board, and reconstitute the committee structure as appropriate.
- Focus more on strategic planning for the future than looking at the past.
- Consider the role of the board a process — a work in progress.

Evaluation

Because even boards that comprise proficient and experienced directors can be dysfunctional as a whole, every board should be evaluate from time to time. Asking the right question in periodic self-assessments can produce valuable insight and identify opportunities for improvement for the board itself, and its individual directors.

Whether the board follows a predetermined assessment or tailors its own, there are, several essential questions that should be asked in regard to board effectiveness and performance:

- Have key responsibilities noted n the charter been carried out?
- Does the board receive adequate information on a timely basis?
- Are the meetings time and agenda appropriate?
- Do directors work well together, and is consensus achieved on key areas?
- What is the overall level of board effectiveness?
- How are board committee responsibilities aligned with the goals of the organized and of the board as a whole?
- What is each directors level of commitment and record of attendance, preparation, participation, contribution and cooperation?
- How strong are each directors level of knowledge of the organisation and the industry?

- What skill and knowledge areas are nr,t, covered by existing board members?

What Works Best

Directors owe it to shareholders to take their job seriously. They must be vigilant in their quest for the truth, demanding in regard to ethics and unyielding when it comes to protecting investor value. And when they ask hard questions, they should not be satisfied with pat answer — from the CEO, from other executive management or from each other. They should always be on the lookout for examples of best board practices and ways to improve their knowledge, skill and expertise in corporate governance.

Today's boards, more than ever before, have an opportunity to make a difference in the organizations they serve. When armed with knowledge of what works best, they can fulfill their corporate governance responsibilities with confidence.

2.2 Balancing Money and Morals- The Infosys Way

Corporate Governance is the latest buzzword. From US regulators to the European corporates, from South-East Asia to the emerging markets, improving the State of corporate governance is being debated with increasing urgency. Back home, India Inc. too is getting sensitized to governance issues. Globalization, increased competition, institutionalization of markets etc. are the driving forces. Infosys rightly deserves the credit for setting the role model for the rest of corporate India. It has not only embraced governance, but also bench market with it the best global practices. From ensuring the healthy mix of independent and executive directors to appraising performance of its directors, from adoption of the US GAAP to a high degree of transparency, corporate governance is ingrained into its managerial culture.

Corporate Governance, not withstanding the rhetoric, still remains a remains a bitter pill a majority of Indian corporates. While corporate governance become the talk of the town, to a large extent it is confined to debates and deliberations. Markets are yet to see corporate India embracing corporate governance wholeheartedly. Amidst hordes of such corporates that indulge in endless empty rhetoric about corporate governance, there is one company that has not only embraced corporate governance, but also bench market its policies is best in the world. The company is Bangalore based software major, Infosys Technologies Ltd. From a startup company eighteen years ago to becoming the first Indian company to have its equity listed in the US bourse, Infosys has indeed come a long way. It has also pioneered adoption of the US GAAP, disclosure of EVA, value of its human resources, value of its brand, risk management policies as also the corporate governance practices.

As regards the status of corporate governance in India Inc. the less said the better. The domain of statutory frameworks is confined to spelling out the taboos the punitive measures for transgression of the law. Long used to doing businesses in the license raj this succeeded on the strength connections rather than business savvy, corporate governance became a pain in the neck. Yet the changing competitive dynamics will make it necessary precondition for survival. The global

markets have reached a stage where capital flows just as quickly as information. Companies that do not promote a culture of strong, independent supervision do so at their own peril.

Adopting the best global practices is the only way to become a global players in todays competitive business environment. The case of Infosys represents an exception rather than the rule, for corporate India is heterogeneous mix of family managed business houses, professionally run companies and the fledgling new age technology savvy companies that want to become global players. Clearly Infosys belongs to the latter category.

This is not say that there is all doom among the rest of corporate India on the corporate governance front. The reform process played a catalytic role in bringing structural changes and unleashed competition on a scale never seen before. Post-liberalization, the Indian market saw a greater institutionalization of finance markets. A whole new breed of foreign institutional investors became active participants in the Indian stock market. Mutual funds and financial institutions have emerged to become dominant players. Increased integration with global markets exposed the traditionally protected business turf to greater risks of globalization. The market began to discriminate between wealth destroyers, if the market caps of HLL, Wipro, lnfosys etal are any indication. So seen, corporate governance appears to be a critical product of market discipline.

Another factor that led to greater focus on corporate governance both globally and domestically is the increased role being played by the private sector. Companies are getting awakened to the harsh reality that shareholders love to stay with those corporates that create value for their shareholders. To this end, companies the world over are realizing that adopting fair, honest and transparent corporate practices is the only way to achieve this. If the case of ranbaxy is any indication, family managed businesses are giving way to professional management.

Having burnt crores of investors funds, the mutual fund behemoth UTI has awakened to the reality of lack of corporate governance among the corporates. It began to emphasize with greater urgency the need to improve corporate governance among the corporates. The CII (Confederation of Indian Industry) did its bit by developing a code of corporate governance for Indian corporates. Even after two years it has not found its way into the corporate houses of India. The CII has-also suggested that the stock exchanges can make adherence to the corporate governance code a prerequisite for listing. It is not without reason. A similar requirement is in vogue in the US bourses. The London Stock Exchange made adherence to the Cadbury code a perquisite for listing of corporates. In Indian the situation is different: the Indian stock exchanges tend to look at regulators the government to set the ball roling. SEBI recently initiated efforts towards a regulatory framework from an unlikely entity, the ministry of finance. According to Kelkar, better corporate governance will eventually reduce the coast of equity capital. D R Mehta of SEBI opines that the health of the capital market is absolutely dependant on corporate governance. N R Narayana Murthy, CEO of Infosys reportedly said that "Inadequate corporate governance in India has been mainly due to the view that the entrepreneur is essentially a financier and that diluting his stake in the company is a sign of weakness."

A) Governance, Infosys way

Thus while corporate India's compulsive romance with corporate governance began as a result of massive changes brought about by the reforms process, Infosys move to adhere to the best global practices has been driven by its vision to become a global player. It began with the voluntary adoption of the stringent US GAAP years ago while many others indulged in window dressing. Its corporate governance practices are in tandem with that of the CII code and the Cadbury code with a few exceptions.

Says, Nadan M Nilekani, Managing Director and Chief Operating Officer, Infosys, "Infosys as a company has always believed in commitment to values, ethical conduct of business and making a clear distinction between personal and corporate funds. When we founded the company we took a decision that we keep this line very clear. We will have a Chinese wall between the two. The founders only took salaries and dividends and they had no other benefits from the company. So we have an ideological belief that we must run a company in a fair and honest way. We must have a level playing field for all shareholders. We must focus on enhancing the shareholder value. That has been our belief. We have been practicing this for the last eighteen years. We think that if we want to be a global company, if we want to attract the worlds best companies to be our clients, worlds best employees to work for us, attract the best investors we must also set a global standard in corporate governance. And it all began from an ethical value system.'

B) Corporate governance at HDFC

HDFC believes that corporate governance is voluntary self disciplining code. There are no uniform global standards of corporate governance. Governance, however, does not mean replacing or following codes prevalent worldwide. The strongest impetus for change must come from the directors and management themselves.

HDFC has been practicing the principles of good corporate governance over the years. corporate governance at HDFC has evolved by not only ensuring compliances with regulatory requirements but also by being responsive to customer needs.

HDFC ethos evolved with the customer as the focal point. The board of directors supports the broad principles of corporate governance in addition to the basic governance issues. Its board lays strong emphasis on transparency accountability and integrity.

Composition of the Board

The board of directors has fifteen members. It has a mix executive and non executive directors. A majority of the directors on the board are non executive directors. The board comprises three wholetime directors namely an Executive Chairman, a Managing Director and an Executive Director and twelve non executive directors who bring a wide range of skills and experience to the board. All the non executive directors are also the independent directors.

Boards Responsibilities

The boards focus is on strategy formulation, policy and control, delegation of powers and specifying those issues which are the boards preserve. The responsibility if the management is to implement the strategy to the organisation that is designed to deliver increasing value to the shareholders.

Role of independent directors

The independent directors play an important role in deliberations at the board meetings and bring to the corporation their wide experience in the fields of finance, housing, accountancy, law, public policy, engineering and industry. The audit committee and the compensation committee consists entirely of independent directors.

Board Committees

To enable better and more focused attention on the affairs of the corporation, the board delegates particular matters to committees of the boards set up for the purpose. The specialist committees prepare the groundwork. for decision making and report at the subsequent board meeting.

Audit committee

The audit committee consists entirely of independent directors who have knowledge of financial accounts and company .law. The terms of the reference of the audit company include approving and implementing the audit procedures and techniques, reviewing the financial reporting systems, internal control systems and control procedures and ensuring compliances with the regulatory guidelines.

Compensation committee

The compensation committee comprises of three independent directors. This committee ensures that a proper system of compensation is in the place to provide performance oriented incentives to the management. It also considers and appro\ es salaries and other terms of the compensation package for the executive directors.

C) Manage the Risks

How a company manages the risks it is exposed to, goes on to determine how safe the shareholders funds are in the hands of the management. Risk management is becoming a crucial aspects on account of increasing integration of world markets. In today's competitive milieu corporates have to not only employ the shareholders funds productively, but also ensure that they do not expose their businesses to unwarranted risk levels in doing so. P S Subhramanyam, Chairman, UTI was absolutely right when he said in a recent forum on corporate governance that, Shareholders are willing to take reasonable risk control mechanisms in place to protect their wealth."

Thus generating higher returns on capital shall go hand in hand with efficient risk management strategies. Infosys has led the way in this aspect too. Infosys has an integrated approach to risk management. While the board of directors is responsible for monitering risk levels, its management

council carries out risk mitigation measures when required. Infosys formal reporting and control mechanism are designed to ensure timely and comprehensive information availability and facilitate proactive risk assessment. Its risk management system tracks every conceivable form of risk. They include business portfolio risks that emanate from client concentration, technology concentration, geographical concentration etc. financial risks, statutory risks, internal process risks and political risks. The prudent of such practices can be appreciated from the fact that while many software companies are thriving on the strength of Y2K, Infosys proactive risk assessment ensured that the company is not unduly exposed to any such risks.

D) Wealth and Welfare

While creation of shareholder wealth is at the core of corporate governance, concern for the interests of all stake holders and society at large are also given due prominence in corporate governance worldwide. Infosys balances wealth and welfare strategically. Adds Nilekani, "We believe that as managers and leaders of the corporation we have to run the company with full commitment and in the most efficient way to deliver best value for shareholders. At the same time we also believe that once we are part of the society we have a commitment to society. On the business side we must also elmark some of our resources for social benefit. We do that in several ways. On the other side put part of our profits into social activities, make sure our employees are very happy. We don't see wealth and welfare as being incompatible."

Infosys foundation, a trust founded to further the company's commitment to social causes aids the destitutes and the disadvantaged people. Last year Infosys initiated three social programs that improve computer literacy of rural people as well as the teachers in rural areas. Along with Microsoft, Infosys launched a program, computers @ classrooms, as part of which old computers were given away to educational institutions.

Assessing the strengths and weaknesses of Infosys corporate governance framework is, Nilekani, says, "The strengths are that we have been very successful in creating a value based system with a very strong focus on ethics, and strong division between personal and professional funds etc. That has translated into brand equity and shareholder value etc. Obviously, we will keep looking at global best practices, what the world is saying on this front. We keep trying to improve the way we manage to be on par with it."

2.3 Empowering the Board

In the 1990s, there was a growing trend towards empowering of directors. Empowerment lends authority and independence to outside directors and allows them to moniter the performance of top management and the company. It permits board members to change the strategic direction of the company when it is necessary.

In most organizations, Chief Executive Officers (CEOs) head the boards. And they are used to treating a powerful and active board an obstacle. They are used to directors who are content to offer counsel and support management in times of corporate crisis. Now, there is a clear shift towards

board empowerment. This de;',1opment is definitely disturbing to CEOs, who prefer puppet boards. It appears that this trend of board empowerment is going to continue for the time to come. Hence, it is appropriate for the CEOs to change their perceptions regarding the board and its role. If the CEOs prefer to resist this empowerment of boards, they might well be forced to reconcile with it grudgingly.

Board empowerment is not always an unhealthy developed as seen by some cynical CEOs. Over and above, empowered directors can help CEos and their companies, with their with valuable experience, benefiting shareholders and the economy. But synergistic relationship between directors and CEOs is not that easy to achieve. This needs that outside directors recognize and respect the difference between monitoring management and managing the company. They should let the CEO to retain power necessary to lead the company while taking the guidance of well informed directors as the corporate performance demands.

The need of the hour is teamwork that involves directors and top-level managers who appreciate one another's roles and responsibilities. This relationship, if expooited sensibly, can enhance the board's ability to advise management and ensure corporate success.

What is Board Empowerment?

Several factors are behind the movement towards the empowerment of outside directors. Some of them are:

- Reluctance on the part of most institutional investors to sit on boards and play a direct role in governing companies. These investors are increasingly using indirect methods to influence management. For example, they are using media to pressurize the management to cater to their interests. Representatives of union pension funds joining the ranks of shareholder activists in countries such as the US is an illustration of this fact.
- Increasing public interest in boards owning to sidling performance of organizations and subsequent firing of CEOs.
- The perception that CEOs are overpaid compared to the performance they are generating is also fueling the empowerment of directors. Richard C Breeden, the chairman of the US Securities and Exchange Commission (SEC) fro 1989 to 1993, believes that one way to tackle the CEO compensation problem is to make outside directors more accountable for top managers pay. As the Chairman, Breedon took steps to ensure that companies provided more details in their proxies about executive compensation, regarding how it was determined and how it was related to the companies performance etc.

There are some organizations such as Campbell Soup Company, Mallinckodt, and stanhome which empowered their boards without any outside stimulus. They took this measure with the belief that it was the right thing to do. However, there are still many CEOs who view board empowerment with suspicion.

What are the Wrong Assumptions about Empowerment?

Obstacle to empowerment arise from the misconceptions many CEOs. They hold wrong assumptions about power and the boardroom. Some of these assumptions are:

Power is zero-sum: This is a dangerous but widely accepted misconception. As can be seen in factories and offices, one party (labor or employees) can gain power only when other party (management) loses it. Bears of this misconception apply the same logic to the boardroom as well. But the evidence points out that there is no such win-loose game. In Dayton Hudson Corporation and Medtronic, organizations long known for their empowerment of directors, there is no evidence that the CEO and other top level managers have foregone the power to lead the company. In these organizations one finds that directors are better informed, communicate their ideas more effectively, and generally provide better advice. For example, at Lukens, a steel company, the Chairman and CEO requested many outside directors to serve on a committee of board members to consider a major acquisition carefully. Each director reviewed all the data used by management critically and recommended the acquisition to the full board, which was too happy to accept the recommendation. As a result of this exercise, the board became more active, involved, and communicative and finally led to significant improvement of the organisation.

Advising and monitoring are in conflict: Majority of CEOs worry that as the directors become more involved in monitoring, directors effectiveness as advisors might diminish. This concern does not have a sound basis. In reality, both monitoring and advising need the same ingredients: Access to useful information, and the time to discuss that with each other and with management. Truly speaking, directors on empowered boards have more exposure to the business realities and can therefore be better advisors. There is no need to act unless a crisis strikes: The assumption is misguided because directors who passively wait for a crisis will not have either the information or decision-making and communication mechanism that are necessary to resolve the crisis quickly. As the events at GM and IBM indicate, crises occur gradually, and if boards do not monitor organizational performance even in seemingly good times they might suddenly face great difficulties in understanding and addressing crises in a controllable fashion.

One size fits all companies: Most of the managers wrongly assume that empowerment needs same procedures and possesses in all boards. It is only partially correct. There are certain essential activities any any board should involve in. But as advisers and monitors their activities must be dictated by the company's particular circumstances. In general, three factors determine what process and procedures an outside directors use. First, the confidence the directors have in the CEO and the nature of the relationship between them; second, the company's performance and; third, the complexity of the decisions facing managers and directors.

What Makes an Empowerment Board?

A lot has been written recently about the characteristic of an empowered board. These characteristic, though not an exact reflection of every board, can be observed in varying degrees in different boardrooms:

- A majority of directors are not from the company and have no relationship with it.

- Board members understand their common objectives and are ready to spend the time needed to accomplish the objectives. They understand and accept willingly that their primary responsibility is to monitor the companies management and performance not to manage the company.
- Members epitomize a diverse set of business and leadership experiences, which are clearly relevantly to understand the issues the company faces.
- Opinions flow freely among board board members in committee meetings and board meeting and outside such settings which involve or do not involve management.
- In case CEO is the board, the outside directors choose a leader to represent them. This person coordinates their deliberations when they meet in the absence of management and works closely with the CEO and plans board activities.
- Committees exclusively consists of outside directors. Though committees inform the management what they discussed in their meetings, they also meet occasionally without managements knowledge.
- Members receive information on company's financial and product market performance relative to the competitions. Such characteristics act as the basis for the board empowerment.

What is an Effective Empowerment?

Empowered directors are increasingly focusing more attention on CEO performance evaluation and corporate strategy. By doing so they want to avoid the problems that troubled many major companies in the past decade, when both directors and managers were hardly successful in recognize changes in technology and markets that adversely affected their companies.

Annual evaluation of CEO by the board is crucial for several reasons. This delivers an unambiguous message to both the CEO and the board that the former is accountable to the board. This evaluation also lends an opportunity to the board members to have an open and frank discussion on CEOs and company's performances at least once in a year. This discussion helps them in understanding the company, its leader in a better way and enables them to become better monitors. Moreover, during these review sessions directors can discuss about issues they may not be interested in discussing before a CEO. This evaluation is not just an awareness raising event; it benefits CEOs immensely sometimes. CEOs get to know directors concern and suggestions for improvement. If taken in right spirit, it allows CEOs to convey their reactions to the directors.

The roles and responsibilities are quite clear once once a board and its CEO have responded appropriately to such reviews. CEOs will be quite clear about their objectives and the directors monitor and gives feedback to the CEOs about their performance. . Once CEO and board are convinced about the desirability of such a process, there will be little disagreement on the division of responsibility between CEOs and directors. (Refer Table 1 to find find the steps taken by some companies to ensure board empowerment.)

What are the Issues to be addressed to Empower Boards?

All major public corporations now acknowledge that they have no choice but to make their managements more accountable to their shareholders and that, in general, strengthening the hand of outside directors is the logical way to do so. There remains some ticklish questions which need to be addressed carefully. They include:

- To what extent should a board a board dominated by outside directors influence formulating and reviewing the company's strategy?
- To what extent should outside directors be allowed to obtain information on their own, bypassing the CEO?
- On what basis can boards evaluate management, especially the CEO?
- How can a board make itself competent enough to judge managements performance?
- What are the benefits or problems that arise due to splitting the boards chair and the CEOs jobs between two people?

What do the experts say?

John G Smale, Non-Executive Chairman of the board of General Motors Corporation.

Smale says that there should be a clear majority of outside dorectors. This is necessary because a board can function as an effective auditor of management actions if useful for governance purposes; they cannot afford to express independent insight about the company's or the management's activities. A retired CEO is one such inside about the company's or the management activities. A retired CEO is one such inside director. Because of this close association with the company he cannot be expected to express independent opinion. Some other suggestions are:

Table 2.1: The Progress of Board Empowerment

Company	Innovation
Dayton Hudson Corporation	Expects outside directors to evaluate the CEO on annual basis.
Medtronic	Collects the opinions of all directors by providing a questionnaire on matters such as procedures to be followed by the board. Then board discusses the results at annual meeting and tries to make improvements.
Monsanto	Allotted more of board's time for strategic direction and took steps to ensure that specific capital proposals within that framework are discussed.
General Motors	Formulated a clear set of guidelines to outline how the board will function and be structured.

- Independent directors must meet without management representatives on a regular basis. In this type of meetings, directors can discuss frankly about the performance of the business and management. This discussion helps in coalescing the boards interest the concentrating on specific areas or problems.
- The board itself should determine all the board procedures. It should determine its policies, procedures and practices. It must also have the authority to set its size, its committee structure, and members retirement age. General Motors has the tradition of rotating

committee assignment and chairmanships at fixed intervals. Its board consists of 14 members. This size is big enough to bring required people with wide experience.

- The responsibility to choose new directors should lie with the board only. The CEO should, however, be involved in the process to make sure that management's concerns are addressed. GM conducts an annual review to identify the skills and characteristics it desires and act according to the situational needs.
- The board must review its performance. Performance review must take into consideration how well the board has monitored management and provided effective counsel. This review should also identify where the board can enhance its contribution. GMs board conducts such review on an annual basis.
- The board should invest adequate time and energy in selecting the right CEO. The GM board gets an annual report from the CEO on succession planning. This report includes recommendations for successors. At GM, CEO also submits a management development report.

Some managements treat strong boards that consists of directors who take their obligations to owners seriously and work responsibly as a threat. In reality this is not so. Strong boards can actually be a source of strength of management. They also can be a source of competitive advantage to the organizations.

Alan J Patricof, Chairman and founder of Patricof & Co., the US member of Apax Partners.

Patricof suggests the following guidelines to ensure the independence of the boards:

- To introduce truly independent attitudes to the boards of public companies, there is need for change in the laws, regulations, and/or voluntary guidelines. Stock exchanges, the SEC, NASDAQ, the Business Roundtable, or the Business Law Section of the Bar, must understand this need and act decisively.
- Outside directors should not dictate strategy or run the business; but they must influence management decisions.
- Most of the directors enter into personal relationship with the EO. For example. when compensation committee of the board is deliberating on CEOs salary, most of the CEOs lobby with each hoard member individually. This might hinder a directors freedom of choice. Guidelines similar to insider trading rules can be framed to minimize this type of personal favors. Rules could also be framed on sensitive issues handled by the boards audit and nominating committees.
- SEC can specify some ground rules on the composition of independent committees and the resources that are at their discretion.
- Tenure of the board of directors should be fixed. Limits on the minimum and the maximum time a director should serve a board can encourage directors to act independently. A minimum period of three years and a maximum period of ten tears would ensure continuity as well as turnover and would bring fresh perspectives into the board.

- There should also be some guidelines that encourage interaction between senior managers below the CEO and outside directors. Though the CEO remains the major source of directors knowledge about the company, a dialog with other managers would certainly give directors greater insights into the company's operations. This interaction need not be detrimental to the CEOs relationship with his or her management team.
- To attain the interests of owners and directors, organizations can reduce directors cash compensation and increase the amount paid through stock opinions. This can make directors serious about the ultimate performance of a company's shares.

Legal modifications of corporate board system are essential. At the same time all stakeholders must be ready to change themselves in the way relate themselves to the company.

Denys Henderson, Formerly Chairman and the CEO of Imperial Chemical Industries, non-executive chairman of ICI and of Zeneca.

Henderson says that success of an organization depends on having right people in board and management.

• The success of the non-executive chairman arrangement depends to a great extent on the relationship between the chairmanand the CEO. And if the relationship is not healthy, the board and the company are headed for a serious trouble. This is the reason why the CEO must be a part of selection of a new non-executive chairman.

• The non-executive chairman and the CEO must give prime consideration to increasing the shareholder value.. To ensure this, they should meet the managers running the businesses often to address corporate matters (include improving earnings per share, return on capital employed, and cash flow).

Bernard Marcus, Chairman of the home Depot.

Marcus shares some of the practices followed at Home Depot.

- At Home Depot, management requests the board members to obtain first hand information by visiting the company's stores and conversing with association and customers. Each director at home Depot is expected to visit eight stores every quarter. They spend at least one hour interacting with associates and customers at the time of their visit. Thus, outside directors serve as another channel of feedback. The management gets to know where it is going wrong.
- Home Depot never selects directors for social reasons. It ensures that every member on its boards provides unique value to its current businesses or future businesses. Home depot recently bought Don Keough of Coca-Cola onto its board because, Home Depot has plans to go global, and he possesses extensive knowledge about different places and has contacts all over the world. And the company also plans to capitalize on his marketing genius.
- To ensure that outside directors are committed, organizations should encourage them to make meaningful investments.

Outside directors should he made to realize that they have plenty to gain financial if the company succeeds and equally enough to lose if it fails.

Conclusion

Board empowerment is generally seen as a welcome change by most of the experts except some paranoid CEOs. Board empowerment, taken in right spirit, benefits the management and the shareholders alike. But there still remain some obstacles to make this empowerment a universally accepted practice. The question that to what extent board should involved in the strategy remains to be answered. Somewhat unclear is the distinction between directors and senior mangers. A senior executive sums up this as, "As each side moves closer to the dividing line needs to be drawn in such a way to ensure that managers manage and the board approves. You cannot have the whole group managing and approving together."

2.4 Self Assessment Test

1. Corporate governance gradually affecting companies everywhere and continually improving their effectiveness. Explain the relevance of Corporate Governance in the present Indian corporate environment.
2. Certain changes were made in the Companies Act to deter corporate and directors from indulging in malpractices. What are the major steps that have been taken in order to protect the investors from the vagaries of manipulative promoters?
3. The company law has made amendments to make India an attractive destination for foreign investors. Enumerate these amendments.
4. What are the Wrong Assumptions About Empowerment?
5. What Makes an Empowerment Board?
6. What is an Effective Empowerment?
7. What are the Issues to be addressed to Empower Boards?
8. Write note on the following's:
    - Wrong Assumptions about Empowerment
    - An Empowerment Board
    - An Effective Empowerment
    - Issues to be addressed to Empower Boards

2.5 Further Reading

- Business Ethics: Ethical Decission makingand Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leavning classroom Edition: Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Jospeph R. Desjardirs
- Managing Business Ethics: Straight talk about how to do it Right.
- Business Ethics by Joseph W. Weiss

Assignment

Independence, commitment and active participation of the board of directors helps the effective functioning of the board. Is mere independence of the Board sufficient to ensure effectiveness? Do you think it is difficult for the board members to be completely immune to any influence? Discuss with examples.

CORPORATE GOVERNANCE AND BUSINESS ETHICS

BBA - 603

BLOCK 3:

WESTERN CONCEPTS OF BUSINESS, CORPORATE ETHICS AND INTERNATIONAL BUSINESS

Dr. Babasaheb Ambedkar Open University
Ahmedabad

Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

BBA-603

CORPORATE GOVERNANCE AND BUSINESS ETHICS

BLOCK 3 : WESTERN CONCEPTS OF BUSINESS, CORPORATE ETHICS AND INTERNATIONAL BUSINESS

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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 students' 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 may 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!

BBA-603 CORPORATE GOVERNANCE AND BUSINESS ETHICS

Contents

UNIT-1 EVOLUTION OF WESTERN CONCEPT OF BUSINESS

Learning Objectives

This unit will provide the students' knowledge about the following aspects:-

- Ground Rules Of Ethics-Pillars of Character
- Myths About Business Ethics
- Myth Busting About Office Ethics
- Ambiguity of Business Ethics-Lighter Side Making
- Thinking Ethically: A Framework For Moral Decision
- What Happened to Japanese Business Ethics?

Structure

1.1 Introduction

As compared to US business Japanese businesses have different ethical practices. The Japanese companies violate ethical norms and suggests measures that can help Japanese firms to establish strong ethics in their business. It highlights this with examples from Japanese and US corporations and the role of ethics in these businesses.

The framework for dealing with the ethical dilemmas that people often face in the business world. It describes five different approaches in dealing with moral issues, laying emphasis on the fact, that while dealing with such issues, it is always important to get the fact right, in order to avoid controversies.

More and more business managers are increasingly becoming conscious about the ethical issues involved in today's business. But the question that still remains debatable is that, to what extent do organizations needs to be ethical, or for that matter, does an organization need to be ethical at all?

We reproduce here interesting and analytical suggestions from Prahlad K. Basu for tightening corporate governance in India.

From Adam Smith to Alfred Marshall, the underlying thrust in the working of markets had been that whatever deficiencies surface on the demand and supply side of the market, they would be cleared through competitive price mechanism. Although Marx raised his voice of dissent-which centered round the markets of the factors of production, notably capital-the economic history of the growth of capitalism proved him to be wrong.

Today, the voices of concern are once again being raised. Not only about `market failures' but also failures, sometimes deliberate, of those who manage corporate empires and the auditors who are supposed to be independent and on whom the shareholders ultimately depend. To ensure smooth functioning, corporate governance needs both checks and balances.

In India, the 'market failure' syndrome after the country's Independence was tackled through the mixed economy 'models' of Nehruvian socialism-by creating public enterprises in power, steel, fertilizers, chemicals, mines and other sectors of the economy-who could provide the 'supplies' in the market instead of importing them at prohibitive price. To ensure smooth functioning, corporate governance needs both checks and balances.

In terms of value added, India's private enterprises continue to have a dominant share of the market.

Following the practices adopted in the developed countries, we also setup the Company Law Board, the Monopolies and Restrictive Trade Practices Commission, the Securities and Exchange Board of India, the Institute of Chartered Accountants, the Institute of Costs Accountants, the Institute of Company Secretaries, etc. It is time we look into these institutions so that they can be suitably restructured before they prove to be helpless and redundant.

The initiative taken by the government to introduce a bill on setting up the National Competition Commission is timely and welcome, provided it is efficient not only in controlling monopolies but

also in providing effective competition in the market. In this context, it is necessary to provide a word of caution about the disinvestment initiative taken by the present government hopefully it will not 'undo' these proposed reforms by creating new monopolies and oligopolies.

What are the new initiatives needed to provide checks and balances in India's market capitalism? The answer to this question should be sought not only to check the 'scams' of Harshad Mehta, Ketan Parekh and UTI, and a whole host of non-performance companies protected behind BIFR's fig leaf, who are responsible for the 'loot' of the non-performing assets of the Indian banking system. We also have to check the new 'scams' of the kind the US and UK markets are facing today with WorldCom, Enron, Tyco, Vivedi, Marconi, Quest, Mere, Xerox, etc.

For someone like me teaches 'management' to young minds and sees the working of companies as non-executive director on the boards-India's `preparedness' in this direction has so far been inadequate. It is common knowledge that any company can 'fudge' their accounts in a number of ways.

Getting the revenue figures right is the first step in assuring fair and accurate financial reporting. Fictitious of amounts receivable, capitalized revenue expenses, provisions for deferred tax, special purpose vehicle loans outside the balance sheet are common methods whereby accounts and auditors can hoodwink any company's share olds. Thus, auditing the auditors is an extremely important area of reform-on which India has yet to take even the first step. The system of dual audit for the much maligned Indian public enterprises has its internal checks and balances which does apply to private companies.

The US initiative in enacting a comprehensive legislation which was passed by the US Congress in the last week of July under the leadership of Paul Sarbanes, the Democrat Senator, and Senator Oxley, should be studied in India so that we can also take similar steps taken by the US Government in this direction. Indian companies with US 'listing' should be deeply concerned about the possible consequences of this legislation in the days to come.

There are four foundations of recent US legislation.

- A strong, independent public oversight board will set professional standards for the accountants and audito 3 to make sure that they adhere to their standards such that A board vith investigative authority to oversee the inside of chartered accountan s in India would be A step in the right direction.
- The US act would safe guard the indeperilence of US auditors by prohibiting accounting firms from non-auc t management consulting services, which, in a company like Andersoz compromise the integrity of the audit for Enron. Anderson earned mol ; in consulting fees than it did in performing audit. Pries water house ci opers and KPMG in India should be encouraged to divest their management consultancy wings-as already done Ernst and young and dolomite groups.
- New standards introduced under the US act for corporate accountability requiring executive certification for financial statement, expanding rules governing conflicts of interest and

instituting serve punishment for corporate fraud and other wrong doing should also be instituted in India.

- Finally, new 'act will give the oversight bodies the resource they need. Both the new oversight board and the Federal accounting standards board in the US would be independently founded by public companies.

The aim of the US reforms in that with tougher accounting rules and corporate bodies get back to serving customers, investors and employees. In India our reform must also ensure that the corporate bodies must serve the government by paying taxes on their profits-to remove the blot from India's scandal sheet of less than 1 Oper sent of GDP currently raised in tax by central governments in eastern and Western Europe and North America.

In India, we should also aim at a new model of public-private competition-following the example of China-to achieve the desired results of an efficient market economy. The entire disinvestment strategy should be remodeled accordingly with an eye on both 'efficiency' and 'welfare'.

The Sarbanes Oxley Act, 2002, in the US, compliments the AI Gore initiative taken to enact the Government Performances and Results Act (GIPRA), 1994, whereby every functionary in the US government has to deliver performance through targets and results which is an essential feature of any modern feature of any modern state-of-art bureaucracy. The urgency for enacting the GIPRA for India can hardly be overstated.

The Indian bureaucracy will be modernized when every member of the bureaucracy-from top to bottom-will be under tremendous pressure to set measurable performance targets and fulfill them, as they are in US under GIPRA. This would also provide an effective remedy to the Indian malady of corruption in the bureaucracy.

It will be of interest to mention that Former Enron chief executive Jeffrey Skilling turned him into the FBI Thursday and was shown on national television being led in handcuffs to face reported fraud charges. Skilling, who wore a white shirt, dark suit and no tie, was escorted into a car with his hands cuffed behind his back for a trip to court in Houston, Texas, major net-works showed.

The 50-year-old Harvard graduate, who resigned from Enron four months before its December 2001 implosion in a welter of accounting scandals, defiantly denied wrong-doing to Congress two years ago,

Fastow was the architect of complex financial transactions that Enron used to disguise the true state of its accounts until it filed for a bankruptcy that was unprecedented in scale, another senior company official, David Delainey, who admitted insider trading in October, also was cooperating, the press said. The probe into Enron, once the seventh-largest US Company, led to criminal charges against at least 20 people and put Enron's former accounting firm, Arthur Andersen LLP, out of business.

The Enron bankruptcy-the biggest at the time but later eclipsed by the failure of telecoms groups World corn-left approximately 20,000 creditors owed about 67 billion dollars. Skilling would be the highest-ranking Enron official to be charged in the scandal.

Former Enron chairman Ken Lay is reportedly under investigation. Schilling's lawyer Bruce Hiler last week issued a statement saying his client had acted on advice from dozen's of lawyers, accountants, and subordinate who approved Enron's business deals and accounting maneuvers.

The justice Department's Enron Task and regulators at the Securities and Exchange Commission focused on schilling's statement to Congress that Enron was financially sound when he quit, the Washington post said.

No one is totally in just one stage of development. Again, like cognitive development, moral development is in a continual process of evaluation.

Kohlberg's Six-Stage Category System of Understanding Moral Development

Stages	Focus of Concern	Characterized by	Motivation	Sounds like
Stage 1:	Self	Obedience to powerful authority	Fear punishment	"I must do what my supervisor tells me to do, or he'll fire me."
Stage 2:	What another person can do for me	"Looking out for number one"	Satisfaction of my own needs	"You my back scratch (but come bit whenever exchange favors)," "It's steal, if you with scratch and I'll yours I want to out a little ahead we and all right to especially get away it."
Stage 3:	Meeting the expectations of groups of people, performing "good" and "the right" roles and conformity to group norms	"Going along to get along"	Acceptance as "a nice guy/gal." Affection plays a strong role	"Let's be good to each other so we look good as a group."
Stage 4:	Preserving the social order	"Doing what is expected"	Desire to follow the social rules	"On my honors I will do my duty

				to uphold the rules."
Stage 5:	Free arguments and social contracts	"What is right is what the whole society decides. Society can change the standards	Desire to achieve the greatest good for the greatest number of people there are no legal absolutes	"Where the law is not affected, what is right is a matter of personal opinion and agreement between persons."
Stage 6:	Universal ethical principles	Principles that are general ("All persons are created Equal") instead of rules that are specific (Thou shall not kill")	What is right is a decision of one's conscience, based on ideas about rightness that apply to everyone (all nations, people, etc.) These are general ethical principles, not specific rules.	"The most important ethical principles deal with justice, equality, and the dignity of all people." These principles are higher than any given law.

6. Difference between Corporate Social Responsibility and Business ethics

Michael JD Hopkins makes the following distinction in his book "Corporate Social Responsibility Come of Age."

Corporate social responsibility goes much further than business ethics. Social responsibility encompasses good business ethics. This is the reason, one normally thinks of business ethics applying to what business does within its walls, that is to four of its stakeholders-(i) managers, (ii) consumers, (iii) investors/owners, and (iv) employees.

Less concern is placed on other three stakeholders, e.g. (a) the natural environment, (b) the community, and (c) its supplies and their conditions of work.

Thus, social responsibility encompasses good ethics, both within the walls of the company and outside. It encourages enterprises to be involved in social issue. such as community improvement, improving under-developed working conditions and so on: that are outside the walls of the enterprise.

It is argued that corporations are so powerful; they have an obligation to assume social responsibility. Corporations should be managed for the benefit of their stakeholders, i.e. the customers, suppliers, managers, employees, and local communities, as well as their owners. Corporate leaders bear fiduciary responsibility to all stakeholders.

7. Difference between Office and Business Ethics

The author in her monumental book, "You Want Me to do What", has given the difference between office and business ethics, we quote her views, "Broadly speaking, discussions of business ethics refer to the "big picture decision" affecting the management of our organizations. Discussions of office ethics, on the other hand, focus on the "small picture choices" that comprise our personal and interpersonal conduct at work. I believe it is the day-to-day exercise of person's office ethics that make business ethics possible and meaningful thought an organization. Here are some of the ways these two views of ethics are inter-related.

	Office Ethics	Business Ethics
(i) Chief characteristis	• Focus is on personal conduct (office ethics guide our individual behavior and interpersonal relationships at work) • Based on long-held personal beliefs and values, which are not likely to change	• Focus is on corporate conduct (business ethics guide corporate strategies, decisions, policies and culture) • Based on the organization's customs and culture that have been successful in the past; these are easy to describe, but difficult to change
(ii) Time reference	• Short-terms decisions; office ethics guide personal choices on a case-by-case, tactical basis ("Do I or don't IT' and "What am I going to do about this?")	• Substantial mid-and long-term efforts; business ethics build corporate culture and guide strategic decisions ("What is the company going to do about our environmental problems?" and "How can we improve our customer service?")
(iii) Typical application	• Generally reactive	• Generally proactive
(iv) Who can influence these ethics?	• Each and every one of employees	• The leaders and decision-makers in the organization who: (a) Establish the expectations for performance (e.g. How much will the company tolerate in order to achieve its goals? (b) Write the rules for others to follow Lead by their example, thereby creating the climate

		for the company's ethical conduct.
(v) Who is affected by these ethics?	• Every person we have personal contact with e.g., co-workers, costumers, vendors	• Employees, customers, vendors, competitors, other organizations, community leaders, media, shareholders and others within the sphere of influence of the organization.
(vi) Questions asked of ethical dilemmas	• How am I going to handle this? • How, do I feel about this? • What's the right thing to do?	• How should the company handle this? • What's our policy? • What have we done in the past? • What's the right thing to do?
(vii) Examples of dilemmas where these ethics can helps guide conduct	• Harassment • Lying to supervisor or co-worker • Challenges tampering with files of documents • Use and misuse of company resources • Knowledge of schemes or practices that take advantage of the company • Request for confidential information • Sharing and withholding information • Rumors and gossip • Contributing or withholding support to the office team • Time card reports • Gifts, gratuities, entertainment • Security, theft • Outside interests • Expense- reports • Quality, testing, financial reports • Failure to follow through • Selling, marketing practices • Conflicts of interest • Substance abuse	• Goals that create pressure leading to misconduct • Downsizing • Recruitment • Community relations, public safety • Compliance with the spirit and letter of environmental, employment, and safety laws • Responses to whistle-blowing • Customer relations • Vendor relations • Gifts, gratuities, entertainment • Political contributions • Pricing • Substance abuse • Selling, marketing practices • Immigration • Food, drug laws • Fraud, deceit • Tax laws • Racketeering Corruption of public officials antitrust

	• Inside information	
(viii) How do I know when Uwe have an ethical office and/or an ethical business?	• "My co-workers an I am real team. We support each other without whining, and we trust each other to be fair and honest". • 'I'm proud of my company." • "I'm proud of what I accomplish." • "I respect my boss's integrity." • "I know my manager values my work and my input." • "I can talk to my supervisor about any ethical concerns I have, and I have confidence they will be taken seriously and addressed."	• The company has earned a reputation for honest communication with all its constituencies. • Sales growth is above average • Customer and employee retention is above average • Subordinates trust their manager, and vice-versa • Concerns about ethics are listened to seriously. • We back up the company's statements of values with meaningful action. • People who leave the company, for whatever reasons, are treated fairly. • We listen to our neighbours in the community. We give something back. • "We have learned to manage our business profitability while complying with the spirit and the letter of relevant laws, we strive to be a responsible corporate citizen"

1.2 Ground Rules of Ethics-Pillars of Character

Ethical Values

Ethical principles are the rules of conduct that are derived from ethical values, which are known as six pillars of character, viz. trustworthiness, respect, responsibility, fairness, caring and citizenship. These values are inseparable from one another and are closely interwoven and interlinked with each other. A number of scientific and research studies have amply proved that the aforesaid ethical values enhance one's own judgment to take right and good decisions to benefit all sections of civil society.

Anywhere and everywhere a person of character and integrity is immensely loved, respected, admired and emulated by others because he is always accessible, straight forward in his dealings, humble and simple. Naturally Vedanta lays great emphasis on humanity. Admirably Sri Ramakrishna says, "To become grate, one must be humble.

Professional Ethics

There is no difference between the tenets of ethics applicable to an individual and that of a professional, the only difference being a professional, is having higher responsibility and accountability to his action or inaction to all segments of society on account of his status and position. Every professional has to discharge his responsibility with a reasonable degree of care and skill to benefit the entity or person using his professional service. Naturally, any violation or abdication or abandonment of his prime responsibility or misuse of his power and position to the determent of the community is taken seriously.

Ground Rules of Ethics

Let us, therefore, make a brief study of these ground rules of ethics, which can be identified as universal virtues which every human being should imbibe, develop and practice. In fact, it is of immense relevance and importance to a good professional who is required to serve the society well and he must, therefore, try to acquire or develop such virtues.

Trustworthiness

The tirst ground rules says when others trust us to the core and hold us in high esteem, they believe we have the competence, knowledge, skills and ability to guide them suitably and the capacity to take care of their rights and interests properly by our ethical action. Naturally, every professional should constantly live up to the expectation of others by good performance and refrain from doing anything remotely that will harm or affect that trust. Incidentally, trustworthiness involves possessing a number of sterling qualities such as honesty (in communication and conduct), integrity (acting on firm belief and not according to expediency), reliability (promise keeping) and loyalty (allegiance, fidelity and devotion).

Respect

The second rule provides that while dealing with others one should show proper civility, courtesy, decency, dignity, tolerance, freedom to express their viewpoints and agree or disagree with our view points. A good professional always gives a patient hearing to his client to express his/her views frankly and freely to understand the intensity of a problem. A heart to heart talk on a vexed problem provides a lot of emotional relief to a person who is affected by it.

Responsibility

The third rule which is more relevant to all professionals makes it clear that if we get involved in handling any professional work or rendering any professional advice or opinion to others on any matters, we are accountable for all our action and resulting consequences. An accountable person when something goes wrong with his advice or opinion does not shift the blame on other's shoulders or claim credit for the work done by others. Needless to say every professional has a moral duty carry out the assigned tasks entrusted to him by his clients to the best of his ability based on information obtained, collected, gathered, collated, studied, searched and verified with

adequate preparation and involvement in a most efficient and cost effective manner with due diligence, reliability and carefulness.

Fairness

The fourth rule emphasizes that every professional must pay close and proper attention on every issue or problem presented to him by his client for solution with equality, openness, impartiality without any sort of bias, favoritism or prejudice and adherence of a balanced standard.

Caring

The fifth rule is the heart of ethics as every human being is expected to take care of the interest and well-being of others in society by his attitude and approach and it is the basis for establishing in the course of his professional people who matter in every organization at a personal level. Needless to say a satisfied client will always take the initiative to recommend a good professional for others' engagement.

Citizenship

The sixth and final rule touches upon civil virtues and duties that we all owe as a responsible socially committed member of the community to make the world we live in as a happy place now and for future generations. It covers among other things conservation of ecological environment, preservation of natural resources, taking care of public hygiene, health care, education, housing, sanitation, and providing physical and financial assistance to less fortunate, infirm and aged citizens to make the world as a better place to live in. Society expects every knowledgeable professional not only to share his knowledge and expertise for the benefit of making but allocates his precious time for any sort of social work to improve the lot of under-privileged sections of society.

1.3 Myths about Business Ethics

Carter McNamara has emphasized that "Business ethics at work place is about prioritizing moral values for the work place and ensuring that behaviors are aligned with those values-its values management." He has highlighted certain myths which arise from notion of ethics as well as views of ethical dilemmas as under:

1. **Myth 1:** Business ethics is a more matter of religion than management. This is not true. Diane Kirrane asserts that "Altering people's values or souls are not the aim of an organization ethics programme" -managing values and conflict among them is...."
2. **Myth 2:** Our employees are ethical so we don't need attention to business ethics-most managers face complex ethical dilemmas at work place and most people realize there's a wide "Grey area" when trying to apply ethical principles."
3. **Myth 3:** Business ethics is a discipline best led by philosophers, academics and theologians who treat it at philosophical debate or a Business Ethics and Corporate Governance religion. However, business ethics is a management discipline with practical approach in all areas of management."

4. **Myth 4:** Business ethics (i.e., code of ethics and ethical values) are superfluous-they only assert the obvious: "Do God." However, the value of a codes of ethics to an organization is its priority and focus regarding certain ethical values in that work place. For example, if an organization is struggling around continuing occasions of deceit in the work place, a priority on honesty is very timely-and honesty should be listed in that organization's code of ethics.
5. **Myth 5:** Business ethics is a matter of the good persons preaching to bad persons. However, top management's realize that good people can take bad actions. Managerial ethics requires us to help each other manager to remain ethical while handling, stressful ethical dilemmas."
6. **Myth 6:** "Business ethics is the new police-person in organizations and it is recent phenomenon. However, business ethics was written about 2000 years ago. Business ethics has gotten more attention recently because of social responsibility movement started in the 1960s."
7. **Myth 7:** Ethics cannot be managed. Actually, ethics is always managed-But, too often, indirectly-for example, behavior of the organization's founder is a strong influence on behavior of employees. Laws, regulations and rules directly influence behaviors to be more ethical to minimize harm to the community. Similarly, <Codes of Ethics< have great influence in molding manager's value system.
8. **Myth 8:** "Business ethics had social-responsibility are same thing. No-the social responsibility is one aspect of overall discipline of business ethics. Madsen and Shafritz refine the definition ethics to be
   (i) An application of ethics to be corporate community,
   (ii) A way to determine responsibility in business dealings,
   (iii) The identification of important business and social issues, and
   (iv) A critique of business.

Items (iii) and (iv) are often matter of social responsibility writings. About social responsibility often do not address practical matter of managing ethics in the work place, e.g. developing codes, updating policies and procedures approaches to resolving ethical dilemmas, etc.

9. **Myth 9:** Our organization is not in trouble with the law, so we are ethyl. One can often be unethical, yet operate within the limits of the law, e.g. withhold information from supervisors, fudge on budgets, etc. However, breaking the law often starts with unethical behavior that has gone unnoticed.
10. **Myth 10:** Managing ethics in the work place has little practical relevance. Managing ethics in the work place involves identifying and prioritizing values to guide behaviors in the organization, and establishing associated policies and procedures to ensure those behaviors are conducted. One might call this "values management." Values management is also highly important in other management practices, e.g. managing diversity, total quality management and strategic planning.

1.4 Myth Busting about Office Ethics

Another Renowned Author Nan Dcmars in her monumental book, "You Want Me To Do What", has highlighted some common beliefs/myths about office ethics as untrue:

Myth 1: "I can trust my boss to always be fair." Wrong, your supervisor is a human being capable of mistakes in judgment.

Myth 2: "I can trust my company to always be fair." Wrong: The company has no feelings or conscience. However, the decision-makers who direct the company can go wrong. They try to stay out of court, stay out of media's limelight and consider it is good practice to cover up things.

Myth 3: "I have to do what I am told to do my job." As an illustration-Boss: I want you to do this thing and do it like this. Employee: I disagree or I have a better idea or I object to doing this thing. Boss: Look, I am the boss. Do what I say, or I will replace you with someone who will do. The coercion is not that blunt, but many of us have gotten the same message. This is a reality. People take this defense in scandles that boss wanted me to do this. It is better to spear up/initiate with your best ideas and alternative approaches.

Myth 4: "What others do is none my concerns." Yes, it is! Leaking confidential salary information, slipping office by a colleague.

Myth 5: "An action is either right or wrong." There is no middle ground. No, "It depends" incase of ethical dilemmas.

Myth 6: "It is not my job to police my boss." Yes, it is. It is your job to tactfully keep your boss from getting careless and taking shortcuts.

Myth 7: "I cannot change this place." Yes, you can.

Myth 8: "You are borne with your morality-you believe what you believe and you will cling to it throughout your life. Wrong again. People grow up. They mature because of their experiences and opportunity to reflect an example in their decisions.

Myth 9: Women have a more developed sense of ethics; they are more moral and more principled. Wrong. Moral development is similar in both sexes.

Myth 10: People just naturally "Do the right thing" when presented with a moral di lemma.

Coleman sees three types of people:

Type I: Ethical people who strive to always "Do the right thing."

Type 2: Unethical people who are willing to intentionally do the wrong thing, because it serves their interests sometimes at the expense of others and the risk of their reputation.

Type 3: Non-ethical people who may not ever think about the ethical implications of a decision or action these people are completely unfamiliar with an environment that builds personal character and/or challenges principles and values.

Myth 11: Good employees do not do bad things. People act unethical because are selfish or bad. Most reasons for unethical performance are:

(a) Pressure to meet deadlines, slipping dates, schedules.
- To financial target,
- As a response to peer pressure,
- To accomplish a task within time and money constraints,
- To accomplish unrealistic goals,
- To alter data so that it looks good to boss, and
- To meet perceived expectations of supervisors.

(b) Ambition-personal gain.
(c) Doing it for the company- A misplaced sense the anything is O.K. as long company gets ahead.
(d) This is what is rewarded-This is the "Go along to get along" justification.
(e) Path of least resistance.
(f) Office politics-Image issues must win attitude.
(g) No one will notice.
(h) No body cares.
(i) Everybody does it. I deserve it too. He did it. Why should not II did it for the good of the company. I did not know it was wrong.

Myth 12: Ethical management means ethical organizations. Codes of conduct do not guarantee ethical behavior as lower employees hold negative views about ethics.

We should encourage employees to have discussions among them about ethical dilemmas. The more employees discuss what is to be done in specific situations the better prepared are employees to meet such dilemmas.

1.5 Ambiguity of Business Ethics-Lighter Side

Personal Ethics-Lighter Side

1. Joke. It is OK, Son, Everybody does it-Jack Griffin

When Johnny was 6 years old, he was with his father when they were. caught speeding. His father then handed the officer a twenty dollar bill with his driver's license. "It is OK, son", his father said as they drove-off, "everybody does it."

When he was 8, he was present at a family council presided over by Uncle George on the surest means to shave points-off the income tax return. "It is OK, kid", his uncle said, "Everybody does it."

When he was 9, his mother took him to his first theatre production. The box office man couldn't find any seats until his mother discovered an extra $ 5 in her purse. "It is OK, son", she said, "Everybody does it."

When he was 12, he broke his glass on the way to school. His aunt Francine persuaded the insurance company that they had been stolen and they collected $ 75. "It is OK, kid", she said, "everybody does it."

When he was 15, he was made right guard on the high school football team. His coach showed him how to block and at the same time, grab the opposing end by the shirt so that the official couldn't see it. "It is OK, kid", the coach said, "everybody does it."

When he was 16, he took his first summer job at a supermarket. His assignment was to put the overripe strawberries in the bottom of the boxes and the good ones on the top where they would show. "It's OK, kid", the manager said, "Everybody does it."

When he was 18, Johnny and a neighbour app .'ed for a college scholarship, Johnny was a marginal student. His neighbour was in the upper three percent of his class, but could not pay right guard. Johnny got the scholarship. "It's OK, son", his parent said, "Everybody does it."

When he was 19, he was approached by upperclassman who offered test answer for $ 50, "It's OK, kid", he said, "Everybody does it."

Johnny was caught and sent home in disgrace. "How could you do this to your mother and me?" His father said, "You never learned anything like this at whom." His Aunt and Uncle were also shocked.

If there is one thing that the adult world can't stand, it's kid who cheats...

2. The book from Thomas Donaldson ("Ethics in Business: A New Look") narrates jokes on Business Ethics

“To begin the article in a lighter vein, the author would begin it with a couple of jokes that reflect on "ethics" in business."

"Two people, one a Catholic Pope and the other businessman, die and go to the Christian Heaven and they are met by St. Peter. St. Peter meets the Pope very warmly and says, "I am so glad to have you here. We would like you to stay about three streets down. Please take your things and go there; you will find modest bungalow on the right; that is where you are to stay." He then turns to the businessman and says, "I am so happy to have you here. You see the large mansion upon the hill with 24 columns that is where we want you to stay." "What do you means", asks the businessman, "You want the Pope to stay in the modest bungalow and me to stay in this incredibly lavish house? I don't understand." St. Peter says: "It is all very simple. We have had 422 Popes here already, but you are the first businessman to show up."

The second joke is a definition of a Corporate Ethics Committee. "A Corporate Ethics Committee is a committee consisting of 12 people who, for some reason, didn't get picked to serve on any important committee."

These jokes are an expression of the ambiguity that we fee, both in the United States and in India, when we talk about subjects such as Business Ethics. The aim of this discussion is to relieve some of that ambiguity by answering two questions.

The first question has to do with whether of not business has an ethical responsibility. The answer to that is in the affirmative and there are a number of reasons for the affirmative answer. The second question has to do with identifying the areas of special importance in this matter the we call business ethics.

1.6 Thinking Ethically: A Framework for Moral Decision Making

Moral issues greet us each morning in the newspaper, confront us in the memos on our desks, nag us from our children's soccer fields, and bid us about the justice of our foreign policy, the morality of medical technologies that can prolong our lives, the rights of the homeless, the fairness of our children's teachers to the diverse students in their classrooms.

Dealing with these moral issues is often perplexing. How, exactly, should we think through an ethical issues? What questions should we ask? What factors should we consider?

The first step in analyzing moral issues is obvious but not always easy: Get the facts. Some moral issues create controversies simply because we do not bother to check the facts. This first step, although obvious, is also among the most important and the most frequently overlooked.

But having the facts is not enough. Facts by themselves only tell us what is; they do not tell us what ought to be. In addition to getting the facts, resolving an ethical issue also requires an appeal to values. Philosophers have developed five different approaches to deal with moral issues.

The Utilitarian Approach

Utilitarianism was conceived in the 19th century by Jeremy Bentham and John Stuart Mill to help legislators determine which laws were morally best. Both Bentham and Mill suggested that ethical actions are those that provide the greatest balance of good over evil.

To analyze an issue using the utilitarian approach, we first identify the various courses of action available to us. Second, we ask who will be affected by each action and what benefits and harms will be derived from each. And third, we choose the action that will produce the greatest benefits and the least harm. The ethical action is the one that provides the greatest good for the greatest number.

The Rights Approach

The second important approach to ethics has its roots in the philosophy of the 18th century thinker Immanuel Kant and others like him, who focused on the individuals right to choose for herself or himself. According to these philosophers, what makes human beings different from mere things is that people have dignity based on their ability to choose freely what they will do with their lives,

and they have a fundamental moral right to have these choices respected. People are not objects o be manipulated; it is a violation of human dignity to use people in ways they do not freely choose.

Of course, many different, but related, rights exists besides this basic one. These other rights (an incomplete list below) can be thought of as different aspects of the basic right to be treated as we choose.

- **The right to the truth:** We have a right to be told the truth and to be informed about matters that significantly affect our choices.
- **The right of privacy:** We have the right to do, believe, and say whatever we choose in our personal lives so long as we do not violate the rights of others.
- **The right not to be injured:** We have the right not to be harmed or injured unless we freely and knowingly do something to deserve punishment or we freely and knowingly choose to risk such injuries.
- **The right to what is agreed:** We have the right to what has been promised by those with whom we have freely entered into a contract or agreement.

In deciding whether an action is moral or immoral using this second approach, then, we must ask, Does the action respect the moral rights of everyone? Actions are wrong to the extent that they violate the rights of individuals; the more serious the violation, the more wrongful the action.

The Fairness of Justice Approach

The fairness of justice approach to ethics has its roots in the teachings of the ancient Greek philosopher Aristotle, who said that 'equals should be treated equally and unequals unequally." The basic moral question in this approach is: How fair is an action? Does it treat everyone in the same way, or does it show favoritism and discrimination? Favoritism gives benefits to some people without a justifiable reason for singling them out; discrimination imposes burdens on people who are no different from those on whom burdens are not imposed. Both favoritism and discrimination are unjust and wrong.

The Common-Good Approach

This approach to ethics assumes a society comprising individuals whose own good is inextricably linked to the good of the community. Community members are bound by the pursuit of common values and goals.

The common good is a notion that originated more than 2,000 years ago in the writings of Plato, Aristotle, and Cicero. More recently, contemporary ethicist John Rawls defined the common good as "certain general conditions that are... equally to everyone's advantage."

In this approach, we focus on ensuring that the social policies, social systems. institutions, and environments on which we depend are beneficial to all. Examples of goods common to all include affordable health care, effective public safety. peace among nations, a just legal system, and an unpolluted environment.

Appeals to the common good urge us. to view ourselves as members of the same community, reflecting on broad questions concerning the kind of society we want to become and how we are to achieve that society. While respecting and valuing the freedom of individuals to pursue their own goals, the common-good approach challengers us also to recognize and further those goals we share in common.

The Virtue Approach

The virtue approach to ethics assumes that there are certain ideals towards which we should strive, which provide for the full development of our humanity. These ideals are discovered through thoughtful reflection on what kind of people we have the potential to become.

Virtues are attitudes or character traits that enable us to be and to act in ways that develop our highest potential. They enable us to pursue the ideals we have adopted. Honesty, courage, compassion, generosity, fidelity, integrity, fairness, self-control, and prudence are examples of virtues.

Virtues are like habits; that are, once acquired, they become characteristic of person. Moreover, a person who has developed virtues will be naturally disposed to act in ways consistent with moral principles. The virtuous person is the ethical person.

In dealing with an ethical problem using the virtue approach, we might ask, what kind of person should I be? What will promote the development of character within my self and my community?

Ethical Problem Solving

These five approaches suggest that once we have ascertained the facts, we should ask ourselves five questions when trying to resolve a moral issue:

- What benefits and what harms will each course of action produce, and which alternative will lead to the best overall consequences?
- What moral rights do the affected the parties have, and which course of action best respects those rights?
- Which course of action advances the common good?
- Which course of action develops moral virtues?

This method, of course, does not provide an automatic solution to moral problems. It is not meant to. The method is merely meant to help identify most of the important ethical considerations. In the end, we must deliberate on moral issues for ourselves, keeping a careful eye on both the facts and on the ethical considerations involved.

1.7 What Happened to Japanese Business Ethics?

Cases of Japanese corporations violating business ethics show up in the news one after another. To name but a few, there are the payoffs to "sokaiya" (corporate racketeers) by Ajinomoto,

Takashimaya, and Nomura Securities; huge loans to sokaiya without adequate collateral by Daiichi Kangyo Bank; and the disclosure of unfair trade in copper by Sumitomo Corporation.

We can compare all this to the example of U.S. businesses, which have a firm code of business ethics and a system for closely checking compliance with this code of conduct. It is often said that U.S. corporations tend to engage voluntarily in ethical practices because Americans in general are imbued with the Puritan spirit and have deeply held religious beliefs. On the other hand, it is said that the Japanese are not particularly religious and many Japanese are unconcerned with ethics. But is this really valid? We will not pursue the question of the religiosity or morality of the American people here. The important question for us whether the Japanese are irreligious, and thus, unconcerned with ethics and morals.

The answer is no. Naturally, there are people in Japan who engage in unethical behavior without qualms, but individual examples mean nothing. Are the Japanese people overall ethical?

Unity of Morality and Economy

Shibusawa Eiichi (1841-1931), an important businessmen and business leader at the dawn of capitalism in Japan during the Meiji period (1868-1912), called for the "urging businessmen to hold" the Analects of Confucius in one hand, an abacus in the other." Although allowing that businessmen must earn money, Shibusawa cautioned against the use of unethical practices to do so.

Shibusawa said, founders by holding to morals is not failure. Prospers without holding to morals is not a success."

He also said, "Seeks fame and fortune through immorality, misconduct, and deception will never achieve it. Even if he achieves temporary fame and fortune through some stroke of luck, it will be only as a floating cloud in the heavens, soon to be dispersed by a gust of wind."

Shibusawa's words apply just as well to today's world of business management. Author Shiromaya Saburo, who deeply sympathizes with Shibusawa's life philosophy, titled his biographical novel about the man "Brave and Fearless."

Shibusawa worked to foster and strengthen industry through the establishment of the Daiichi National Bank and Oji Paper Company. He influenced many people in the course of his work.

Looking back to one of Shibusawa's predecessors, Ishida Baigan (1685-1744) preached a correct business path for merchants during the middle of the Edo period (1601-1868). Ishida emphasized the importance of ethics in business. His teachings were gathered in a single book, which merchants throughout the Edo period kept close at hand.

The book takes the form of a dialogue

Questioner: The merchants work is to always greedily crave after greater profits. Is not to tell this person to be altruistic the same as telling a cat to guard the dried bonito?

Ishida: No. Merchants who don't know the correct path work earnestly only to satisfy their greed, eventually resulting in the downfall of their families. If they learn and come to know the correct path of the merchants, they will naturally loose their greedy hearts; devote themselves to their work with benevolent hearts. Thus will they prosper?"

Spelling Things Out

Thus, Japan has long held to the traditions of Confucianism. Over the centuries the Analects of Confucius, the book of Confucius teachings, has become a central pillar in the Japanese psyche and come to form the core of what the Japanese consider the correct path of business. To argue the relative importance of Confucian ethics and Christian ethics is pointless. Essentially every mature society in the world stresses the importance of ethics.

So, what is wrong with current Japanese corporations?

In short, an ethical viewpoint must be established as an institution, and a means for ensuring the observance of ethics must be erected within the corporation. The greatest difference between Japanese and U.S. corporations is that U.S. corporations do not depend entirely on personal ethics, but use institutionalized methods of preserving ethical standards.

Let's compare the business concepts and systems for ethical compliance at two Japanese and U.S. companies. The Japanese company is the major department store Takashimaya, whose president resigned last year after the discovery of sokaiya connections; the U. S. Company is the global semiconductor corporation Texas Instruments (TI).

The stated mission of Takashimaya is "We value love and creativity and we work to create a reach and expensive lifestyle through providing the best possible service."

The everyday business stance to realize this mission is described as follows:

"We conduct just and fair business activities while trusting, loving, and wishing to serve all people. We conduct our business in a way that treasurers our customers, our stockholders, our clients, members of the local community, and all the people with whom we come in contact."

Fine words indeed. But can Takashimaya employees get a clear image of what their role should be and how to fulfill it from reading these words? The mission statement is so abstract that it can be no help in the everyday pursuit of business affairs.

What about TI's mission statement? It is a 20-page long pamphlet entitled "Ethics in the Business of TI." The first page contains a statement by the company president. In it, he writes, "If it comes down to a choice between making a desired profit and doing it right, we don't have a choice. We'll do it right."

Turning the pages, one finds heading such as "Donations and receptions," Political contributions," and "Dealings with government institutions." Each section explain clearly and concisely what employees should do in various situations. For example, "Tiers may not give or accept any gift the value of which might indicate an intent to influence improperly the normal business relationship between TI and any supplier, customer or competitor. If a Tier receives any substantial gift or favor, it must be returned and the Tiers supervisor notified."

Another example is: "No company funds may be used for making political contributions of any kind to any political candidate or holder of any office or any government — national, state or local. This is so even where permitted by local law.

Any employee reading this document immediately understands what they should and should not do. Instead of the high — minded words in the Takashimaya's statement, TI's statement is extremely clear and to the point.

This is not simply a matter of two different companies. Many Japanese companies present abstract business concepts like those of Takashimaya. On the other hand, most U.S. companies present their employees with the business concepts that are concrete and easy to comprehend. Many explanations of how this came about are possible, but I think that the differences between a homogeneous society like Japan and a heterogeneous society like the United States are reflected in the companies of the two nations.

In a homogeneous society, tacit understanding is possible without detailed explanations. In a heterogeneous society made up of a whole range of people with different ethnic backgrounds and different sets of values, the concept of "tacit understanding" does not work. Everything must be explained clearly enough and in enough detail so that even very different people will understand. This difference in cultural environments is reflected in the business culture of Japan and the United States.

The reason that the mechanism for ensuring ethical behavior in American Corporations is so markedly developed compared to Japanese corporations is that U.S. corporations have been slapped with lawsuits for unethical behaviour by consumers and competitors and have been force to pay huge damage fees. According to American Business ethics researcher Richard T. Degeorge, U.S. corporations had little ethical awareness prior to the 1960's. Concern with business ethics only began to grow with the rise of consumer activism in the 1970s. Part of the reason that it took Japanese companies longer to wake up to business ethics was that they are not scrutinized as closely by Japanese consumers as U.S. companies are by U.S. consumers.

In the wake of the latest series of scandals in Japan, however, some companies and local administrative bodies have cut off their dealings with companies such as Normal Securities and Daiichi Kangyo Bank. If this trend of not forgiving unethical behavior would spread to the average consumer, it would have a major effect correcting corporate behavior.

How to establish Strong Business Ethics

What will Japanese corporations have to do in order to establish strong business ethics? I would propose the following three points:

1) First, create a code of ethical business conduct and clarify ideas on the position of ethics in business management. Then show in concrete terms what actions are expected based on this code. Most of the recent unethical activities of Japanese companies have been conducted with the consent and tacit approval of high-level management. In this kind of environment, nothing will change. The top company officers must be the first to open their eyes to consideration of ethics and recognize their importance, and then put this understanding down in clear writing to transmit to all employees.

2) Second, a system must be erected for ensuring that the business code of ethics is being followed. The ethics Officer in some U.S. companies is probably an effective means for doing this. Another method is conducting regular surveys of employees (like the company Johnson & Johnson) to learn exactly what is going on in the workplace.
3) Ensuring everyday compliance with business ethics is a matter of the accumulation of many small innovations. TI, for instance, passes out an "ethics card" to each of its employees worldwide so that each employee can check their own actions against the standards written on the card. The standards are as follows: Is the action legal? Does it comply with our values? If you do it, will you fill bad? How will it look in the newspaper? If you know its wrong, don't do it. If you do it, will you fill bad ? How will it look in the newspaper? If you know its wrong, don't do it. If you're not sure, ask. Keep asking until you get an answer.

If employees are still unsure of what to do, the card gives the name and telephone number of the person they should contact to discuss the matter with. It cannot be denied that the "tacit understanding" in Japanese companies produces a sense of camaraderie and belonging within the company, increasing the sense of the company as a single unit and contributing to the overall strength of the business. However, considering the important role in society played by corporations, Japanese corporations must establish a code of business ethics in response to public criticism. To do so, they must put forth standards for everyday corporate behavior that are straightforward and easy for anybody to understand.

1.8 Self Assessment Test

1. Which course of action treats everyone the same, except where there is a morally justifiable reason not to, and does not show favoritism or discrimination?

2. What according to the author should Japanese Companies do to make sure they conform to ethical standards?

3. Write short notes on the following :-

(a) Ethical Values
(b) Professional Ethics
(c) Ground Rules of Ethics
(d) Ethical Problem Solving
(e) Unity of Morality and Economy

1.9 Further Reading

- Business Ethics: Ethical Decission makingand Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leavning classroom Edition : Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Jospeph R. Desjardirs
- Managing Business Ethics : Straight talk about how to do it Right.

- Business Ethics by Joseph W. Weiss

Assignment

"The mechanism for ensuring ethical behaviors in American Corporations is compared to the Japanese Corporations." Comment.

UNIT 2 CONCEPTS OF CORPORATE ETHICS AND INTERNATIONAL BUSINESS

Learning Objectives

The students will acquire knowledge about the following:

- Good ethics are good business
- Business ethics and corporate governance
- Professional's ethical role
- The purpose of ethics in professional
- Principles of professional ethics
- Factors influencing ethical environment
- Focus on professional ethics

Structure

2.1 Introduction

Why should a company consider ethics in directing its behaviour — on top of law, self- interest, and convention? The worst conceivable result of high moral standards would be competitive or other tangible detriment because the special efforts and costs a company attaches to ethical consideration result in net disadvantages for it. There are a number of indications that the short-term profit from ethical conduct does not exactly burst into the limelight or even show clearly measurable financial disadvantage. It would be dishonest to exclude these effects as an option in action on corporate ethics.

2.2 Good Ethics are Good Business

On the other hand, there are many empirical examples in which unethical corporate behaviour caused a great social outcry and intervention from the authorities, and presented no favorable options even in the short-term. 'In these cases it is easy to show that unethical conduct can he a burden on a corporation and that high ethical standards can be seen as an asset.

A second conceivable possibility is that financial disadvantages due to investments over and above those required by law (for instance in environmental, social, or safety areas) or withdrawing from sale for ethical reasons could be compensated and balanced out by non-financial advantages (e.g. the company's reputation). The problem here is that investments and falling sales are easier to measure than increased opportunities from an enhanced reputation.

At least for enlightened corporations, commercial success now means more than just how big the year's profit is, Profits to companies are like food to people; an absolute necessity, without which they die. But only a few — sick —people would consider eat;ng to be the central or only purpose of life. The reputation of a company is one of its most valuable assets, even if it does not appear directly in the balance sheet (Swanda therefore suggests that "goodwill" should become a balance-sheet item). The verdict of the public depends significantly on the company's perceived contribution to socially valued ends. Meeting customer requirements in the extended sense, i.e. acting in a socially and environmentally responsible way and using energy and non-renewable resources wisely, are important blocks in the mosaic of commercial success.

A third possibility is that ethical dealing might be worthwhile from both the financial and non-financial points of view, I personally tend to see this as the most probable, at least in t he mid- and long-term, for the following reasons.

Reduction in the cost of friction with the social environment

First and foremost, ethical conduct brings reductions in the cost of friction with the social environment (for private individuals and institutions). For corporations, social friction costs arise where behaviour which is legal but seen as illegitimate or unethical leads to calls for boycotts from church or other organizations. Whether a critically committed public demonstrates in front of the works gates, charitable organization set up wailing walls, or the media "put on pressure" through critical reporting-for the corporate ion concerned, this means loss in social recognition. Whether this leads to a fall in the share price or physically measurable sales losses occur or not are of secondary importance. Criticism" from outside" generally means that management capacity is taken up with defensive activity and is therefore not free for the shaping of the future.. Intelligent corporations forbid dealings that could provoke negative social reactions.

On the other hand, there is growing evidence that a corporation's "image" can become a competitive advantage because a "positive coefficient" arises. This can become a decisive market advantage where a corporation offers products and services that are comparable in quality and usefulness with those of other companies. In the USA, there are a number of indications that so-called "green consumers" represent an increasingly important niche in various sales markets, and companies that are environmentally exemplary and go beyond the minimum legal requirements can gain market advantages.

Employees' motivation

Other costs can arise through friction with one's own employees. The fact that a company is the focus of public criticism (but also in a situation where employees see that colleagues are promoting their careers in an unethical way) can have disastrous results for morale and job satisfaction in a corporation. In the mid- and long-term, this can lead to valuable employees looking for other work and leaving the corporation. As employees are a corporation's most valuable "capital", this alone is reason enough why unethical conduct cannot lie in a corporation's interests.

Various empirical studies 4 reveal; a positive correlation between ethical conduct in a corporation and job satisfaction. Where top management is seen as giving strong support for ethical conduct, job satisiaction increases together with the degree of employee identification with the corporation. Everything points to the conclusion that a positive reciprocal relationship exists between "job satisfaction" and "ethical conduct". Applied business ethics become a component of "corporate identity", the totality of value systems, thought and decision patterns, modes of behaviour, and structure within a corporation that transmits a positive "us-feeling" to employees and thus boosts motivation to work.

The fact that corporate behaviour which is at least frictionless but wherever possible goes beyond marginal ethics also prompts customers to buy and motivates serious investors to purchase shares, and that the direct neighbors (residents, communities) look to the corporation with pleasure and pride reinforces employees' positive identification. What Jacob Burckhardt formulated for individuals also applies to whole corporations; they are not just what they are, but also what they have set themselves as ideals. Even if they do not emulate these one hundred per cent, a part of their being is marked by the mere fact of wanting to 5.

2.3 Business Ethics and Corporate Governance

There are a number of indications that corporations whose ethical conduct is considered above reproach are seen as more attractive employers than those which have been publicly criticized due to failure to recognize their responsibilities or even due to willful damage to the welfare of community or the employment. A poll of business studies students carried out in 1990 by the Basel company Prognos AG reveled than 88% regards "work satisfaction", 67% a "good working atmosphere", and 66%a"jobes makes sense" as an important criteria in choosing an employer. These are all factors which are hardly true of companies where Greenpeace demonstrates in front of factory gates or churches call for a boycott.

Corporations are no longer measured on what they produce, but on what they present. The strength of such trends can of course change again, especially when the labour market develops unfavorably for those seeking employment. But an increasing number of citizens, whether an employee or consumers, are taking ethical viewpoint seriously-more seriously than 10 or 20 years ago.

Protection of commercial freedom

Many of those with responsibility in corporations are complaining about an increasing and already too dense jungle of laws, stipulations, and directives. Commercial freedom, the complaint goes on,

can no longer exist within the ever narrower straitjacket of state-regulations — too many rule endanger the industrial success. There is a good deal of evidence that such complaints have a grounding in reality in many respects, and that "less state" can have an enlivening effect on corporate commitment.

Freedom is however, always freedom an ethical duty and may thus be demanded only as a correlate of responsibility. Anyone who wishes to help avoid further reglementation of the economy and correct inappropriate legal developments must offer plausible proof of ethically responsible conduct.

Ethically responsible corporate dealings mean dealings beyond the status quo, active shaping, and forward-looking ethical equilibration. Whoever maintains a running battle on the basis of current law to defend positions that might have been based on a consensus many years ago but which are now regarded as illegitimate and will be even more so tin the future, is not being businesslike but negligent. Such companies support those social forces that demand more controls, narrower legislative chains, and thus more state bureaucracy.

Business ethics as comprehensive competitive advantage

Innovation, efficiency, effectiveness, the ability to utilize market potential optimally, recognize the signs of the times, and the art of saving costs and expense in the right place at the right time will continue to be of greatest importance alongside all the other corporate virtues. However, an additional element will gain in significance; applied business ethics. It will become more and more a new, solid basis for competitive ability, breaching the limits of classical markets. The more affluent a society is, the more significant non-material values become, Corporations that act in a visibly ethical way will be preferred by informed consti,ners more and more. This fact will become a problem for those corporations that ignore moral aspects, and for others it will be an opportunity to get to the very top.

2.4 Professional's Ethical Role

In today's deteriorating value system, ethics assume far greater importance in each dimension of life, as never before-be it private, professional or public life. The public life of a professional begins when he represents his fellow professionals on its governing body. In fact, ethical values cast upon the members of a profession, a duty to judiciously evaluate the candidates and cast their franchise in favour of a visionary, dedicated and committed contestant.

Meaning of Profession

Every profession has its own special knowledge and developing and recognizing, that knowledge is key to any strategy for moving towards professionalism. In fact, a distinguishing characteristic of a professional is its ability to combine ethical standards with performance of technical skills. Webster's New Collegiate Dictionary describes a professional as characterized by or confirming the technical or ethical standards of a profession. Ethics indeed are principles of conduct governing an

individual or group. Therefore, in order to achieve the stature of a profession, it has to adhere to a set of ethical standards to guide individual or group decisions and actions.

The concept of professionalism itself provides an inspiration for service to fulfil a social function. The typical characteristic of a profession includes the primacy of service to the client over profit to the , :actitioner and the acquisition of special knowledge and skill beyond the ordinarily possessed by the non-professionals. These factors suggest the development of a code of conduct and a system of internal controls to enforce these professional standards, including requirements for admission to and maintenance in the profession.

Sachar Committee Observations

The task of identifying a professional was undertaken, for the first time, by the High Powered Expert Committee on simplification of the Companies Act, 1956 and the MRTP Act, 1969. This Committee headed by Justice Rajendra Sachar and popularly known as Sachar Committee was appointed by the Government of India in June 1997 to focus on professionalisation of corporate management.

Looking to the wide gap between the control and ownership on one had view that for professionalisation of management is not a mere concept but is, in fact, an inevitable necessity for the well-being of the company itself. In suggesting a definition of "Professional Manager", the Committee in its Report (Published in the year 1980) observed that-"A Professional Manager is an individual who:

a) belongs to the profession of law, accountancy, medicine, engineering or architecture; or
b) is a matter of a recognized professional body or institution, exercising supervisory jurisdiction over its members; or
c) is a holder of a degree or diploma or diploma in management from any recognized institute of management or from any recognized university, or
d) is a holder of a post-graduate degree from any recognized university:

(i) and possesses not less the five years' experience in an executive ..apacity in a company, corporation or a body corporate or in the Government, or
(ii) possesses minimum of ten years' experience in an executive capacity in a company, corporation, or a body corporate or in the Government."

In suggesting a definition of a business manager, the Committee accorded equal weightage to qualification and experience.

Characteristic of A Professional

Let us find what the characteristics of a professional as propounded by social historians, sociologists and affirmed by two epoch making judgments delivered by Scrutton L.J. (in the case of Commissioners of Inland Revenue vs Maxse) and Du. Pareq L.J. (in the case of Carr v, Inland

Revenue Commissioners) in UK . Firstly, the nature of work done by a member of a profession must be skilled and specialized and a substantial part of the work to be undertaken is mental rather than manual. Secondly, every professional body prescribes a period of theoretical and practical training before an individual is admitted to become a member of that profession. Thirdly, an individual entering a profession is required to possess a strong sense of social responsibility and an exceptional commitment to safeguard and protect the interest of his clients in all possible ways, which transcends all other commitments. Fourthly, a professional is committed or expected to be committed to certain moral principles with a high degree of detachment and integrity, which go beyond the general duty of honesty. Fifthly, a professional is expected to provide a high standard of service all seeking his services without consideration of class, creed, caste, colour or religion. Sixthly, a professional must maintain total confidentiality of the work entrusted to him and more than anything have a wider duty of ethical responsibility which may on occasions transcend the duty to a particular client. Seventhly, every professional normally belong to an organized professional body or association constituted by a statue, royal charter or time tested rules and regulations and it has the power to admit an individual as a member and also the power to enforce an ethical code of conduct on such member while he is continuing as a member of that profession whether in employment or in practice.

2.5 The Purpose of Ethics in Professional

The purpose of ethics in profession is to direct the professional to abide by a code of conduct that facilitates, if not encourages, public confidence in their services. Now the question is can ethics be taught and the answer is 'yes'. Infact at some point in life, ethics must be taught. People are not born with innate desires to be ethical or to be concerned with the welfare of others. The role of family includes teaching children a code of ethical behaviour that includes respect for parents, siblings, and others. The is family bears chief responsibility for ensuring that children will receive necessary education and moral guidance to become productive members of society. The basic values such as honesty, self-control, concern for others, respect for legitimate authority, fidelity, and civility must be passed from one generation to the next, a fundamental process of the family.

Several managers belong to strong professions such as those of accountants, company secretaries and lawyers. There are others, which are fledgling to become true professionals like those of human resources, advertising, and marketing. These functions must recognize that a profession has an intimate connection with welfare, and is strongly based on aspects of ethics, and values. The standards, principles, codes and best practices evolved in these professions are founded on assumptions of human welfare. The professional is thus expected to owe an allegiance to his calling, which expects him to put his personal interests or that of the company behind those of the professional standards. A professional is expected to have five distinctive attributes: [Dr. YRK Reddy, Strategic Approach to Human Resource Management (1991)]:

i. A commitment to a calling which has a set of normative and behavioural expectations.
ii. A specialized education and training of substantial duration.

iii. Membership of an association comprising of similarity trained and practicing individuals for the purpose of protecting and enhancing the interest of the calling.
iv. A service orientation keeping in vies the requirements of the client and the society.
v. A relative degree of autonomy in the use of his/her knowledge and skills.

It is obvious that training and sensitization may not be insulation against fraud. Yet, an integration of ethics into corporate governance frame makes the proposition more robust, than a stultified view of corporate governance as a box-ticking process. Ethics as a professional compulsion will help progress on this integration. Despite the fact that there are no templates for such integration, Lacznaikk's ethical propositions could be of some help.

1. Ethical conflicts and choices are inherent in business decision-making.
2. Proper ethical behaviour exists on a plane above the law. The law merely specifies the lowest common denominator of acceptable behaviour.
3. There is no single satisfactory standard of ethical action agreeable to everyone that a manager can use to make specific operational decisions.
4. Managers should be familiar with a wide variety of ethical standards.
5. The discussion of business cases or of situations having ethical implications can make managers more ethically sensitive.
6. There are diverse and sometimes conflicting determinants of ethical action. These stem primarily from the individual, from the organization, from professional norms, and from the values of the society.
7. Individual values are the final standard, although not necessarily the determining reason for ethical behaviour.
8. Consensus regarding what constitutes proper ethical behaviour in a decision-making situation diminishes as the level of analysis proceeds from abstract to specific.
9. The moral tone of an organization is set by top management.
10. The lower the organizational levels of a manager, the greater the perceived pressure to act unethically.
11. Individual managers perceive themselves as more ethical than their colleagues.
12. Effective codes of ethics should contain meaningful and clearly stated provisions, along with enforced sanctions for non-compliance.
13. Employee must have a non-punitive feel-safe mechanism for reporting ethical abuses in the organization.
14. Every organization should appoint a top-level manager of director to be responsible for acting as an ethical advocate in the organization.

2.6 Principles of Professional Ethics

"The framework for ethical behaviour is more comprehensive and goes beyond just being legal. Acting ethically, thus involves making moral decision.. Professionals have to set a procedure for developing a code of ethics for corporates with provision to scrutinize policies and practices by a process of self-evaluation."

Ethics

Oxford Advanced Learner's Dictionary defines the word 'ethics' as "moral principal that govern or influence a person's behaviour." Ethics formulization is benchmarking of human behaviour. The conduct is mankind is influenced either by the emotions of life or the action people perform in specific situation. The coordination of such action, emotion, religion and logic generate ethics and the man is bound to follow.

Basic Ethical Principles

The ethical process involves two steps. First, one must know what is right and what is wrong, and second, one must have the personal discipline, integrity and motivation to do what they know is right. Society puts in place punishments and penalties to protect the innocent and to motivate those with weak self-discipline, low personal integrity or poor judgment to act in accordance with accepted practices.

Ethics and Values

Values are strong held beliefs. Thus values denote a sense of right or wrong, good or bad, and another judgmental criteria based on our strong sense of what the ideal ought to be. Values shape attitudes, perception, interests and finally personality.

Value is an acquired trust on certain philosophy, which activate human mind to determine the course of action a person is to render in his life. Value only leads the mental course and is nothing to directly with the performance of action. The business is not unethical. It is the individual action influences the business activities and the business in unethical situation.

Values at the individual level include faith, self-respected competitiveness, creativity, devotion towards work, tolerance sacrifice, courtesy, good just, civil sense, honesty, humility, simplicity reason, truth, forgiveness, fortitude, cleanliness, absence of egoism, detachment, poise, equanimity, etc. Values that can be imparted to the members of organization collectively include harmony, resourcefulness, discipline, dharma, equity, brotherhood, unity, peace, social conscience, cooperation, live and let live, concern, care, mutual trust, love team-spiritedness, efficiency, effectiveness, excellence, morale, productivity, responsibility, risk-bearing, accountability, sharing, sacrifice, etc.

Ethical Crises

According to Dr. V Balchandran and Dr. V Chandrasekaran, "The thinking on ethical values in business was started in the decade of sixties but in India we started bothering about this since last one decade. It is not that the managers are not the believers of ethics in business but the fact is that the management thinkers and professional gave very less attention over the ethics in business." In this situation the question is "Are we really having an ethical crises in corporate sector for which

we should start bothering." The answer may vary from individual thinker and the worker. Let us try to recognize the concept of ethical crises.

Ethical Crises= i — p

Where i stands for professional ideas (benchmarking) and p stands for professional practices (realities).

Thus, the professional practices that are nor matching the professional benchmarking are deciding the volume of unethical crises in the corporations.

A study by Monappa in the Mid-seventies found that 72 % of the executives surveyed tended to ignore ethics when they come to daily practice. Most managers do believe in good ethics and they do consider the ethical implication on their decision; but various factors like unethical competition, company policy, and a plethora of rules and regulations often prevent them from putting their values into practice.

Individuals acting in a professional capacity take on an additional burden of ethics responsibility. For example, professional associations have code of ethics that prescribe required behaviour within the context of a professional practice such as medicine, law, accounting, or engineering. These written codes provide rules of conduct and standards of behaviour based on the principles of professional ethics, which include:

- Impartiality, objectivity,
- Openness; full disclosure.
- Confidentially,
- Due diligence/duty of care,
- Fidelity to professional responsibilities, and
- Avoiding potential of apparent conflict of interest.

Even when not written into a code, principles of professional ethics are usually expected of people in business, employees, volunteers, elected representatives and so on.

2.7 Factors Influencing Ethical Environment

People may claim several ways to manage the ethical crises in their organization but the success is questionable in many cases. Following may be the factors influencing the ethical environment in an organization.

- The ethical vision of the management which may need a review.
- The holistic human values the organization has developed.
- The ethical code acquired within the organization.
- The individual inspiration source.
- The managerial character and ethical dedication.
- The work place environment and compulsion to follow norms.

Corporate Ethics

The framework for ethical behaviour is more comprehensive and goes beyond just being legal. The dictionary defines 'ethical behaviour' as behaviour confirming to accepted principles of right and wrong that govern the conduct of a professional. Thus, acting ethically involves making, moral decisions, i.e., distinguishing between right and wrong, and not just being legal rather than illegal. Regulations rightfully monitor our behaviour, but individuals of integrity exhibit ethical behaviour for a much more important reason; because it is the right thing to do.

Ethical Approach in Corporates

An ethical corporation is characterized by an ethical culture. This means that an ethical nature of the core business remains paramount and at the forefront of concerns embedded in the corporation's everybody activities. Furthermore, these ethical stances, by necessity, need to be explicit, accepted and openly acknowledged. In order to be considered 'ethical' then, first and foremost of all considerations, an ethical corporation will be characterized by ethical awareness. Secondly, with that corporation there need be an acceptance by corporate personnel of responsibilities for their actions, both individually and as a collective.

Ethics and Ethical Standards

Ethics is a set of standards or a code, or value system, worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If an action agrees with these standards, it is ethical-if it does not agree, it is unethical. If we are to get back to the root source, or principle, of ethics, we must talk about human goals. Ethical standards are no different from any other kind of standards in this regard.

In organizational life, one faces several dilemmas for instance attending to his job, attending the work he likes, attending the work that satisfies the boss, appeasing a colleague, doing something for the sake of subordinates, helping out of way due to several reasons like corruption, favouritism and frustration. It is because the values create conviction, and will-power, for the rationale decision even in critical situations. A value of an individual is what a compass to a navigator both in personal and organizational life.

When ordinarily well behaved people behave unethically, they have usually talked themselves into a serene belief that they are doing nothing wrong. They have fallen for their own rationalization. A rationalization is a handy excuse. We use it to persuade ourselves that a rule which we know perfectly well, does not apply to our particular case. The most common rationalization are that a rule doesn't "really" apply in this instance, or that you are "expected" to do something "slightly" unethical because it will help the company or that it is "safe" because no one will ever know what you did. Any of these excuses can be quite convincing to someone with a strong incentive to break the rule.

Many organizations develop a code of conduct for their employees. Such codes of ethics prescriptive and set out specific (but minimal) guidelines for their employees' conduct. There also

exists another form of document called code of ethics. These, unlike codes of conduct, are predominantally aspirational. They usually contain a smaller number of general or fundamental principles which will be of particular importance in instances where a code of conduct is silent or unclear. A code of conduct may help to make staff sensitive to their own behaviour and its ethical implications. Consequently, such code may be a form of ethics education.

Ethics Education

Ethics education is essential groundwork if employees are to develop into ethical decision-makers. Ethics education involves the imparting of knowledge, understanding and skills that will enable an employee to autonomously and authentically develop and maintain an ethical framework that is their own but is meshed in harmoniously with that of the corporation. Most significantly then, ethics education is directed towards developing moral autonomy.

Conclusion

Professionals have to balance their obligations to the undertaking which employ them, with the society at large, with other employees, suppliers, consumers and also of course with their own conscience. Their tasks at times are often invidious in that they are called upon to serve conflicting interests, which as professional, they must attempt to reconcile. Indeed, the present changed environment has thrown open many challenging tasks and opportunities to the professionals. Today, professionals are required to maintain and enhance the quality of service by adopting a professional approach. Corporate Professionals can best contribute to an ethical corporate culture by 'leading by example'. This can best achieved in their relations with the other members of the corporate community. Such relationships should be characterized by respect, trust and consideration. Additionally, the corporate administer has a more formal leadership role. Among other things, they should encourage ethical discourse by encouraging the discussion of ethical questions by staff members. Professionals can set a procedure for developing a corporate-based code of ethics along the lines suggested above and should include the ethical scrutiny of corporate policies and practices within the regular processes of whole corporate self-evaluation.

2.8 Focus on Professional Ethics

We present here views of experts emphasizing the vital areas of professional ethics.

1. Professional ethics involves making Moral Decisions-Dr. V. Balchandran and Dr.V. Chandrasekaran

Ethics is a set of standards of a code, or value system worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If an act confirms with these standards, it is ethical-if it does not agree, it is unethical. The framework for the ethical behaviour defines 'ethical behaviour' as behaviour confirming to accepted principles of right and wrong that govern the conduct of profession. Thus, acting ethically involves making moral decisions, i.e. distinguishing between right and wrong, and not just being legal rather than illegal.

2. Professional Ethics is to Serve Public Good-R. Ramchandran

The society respects and honours persons who subjugate their personal gains to public good. The professional by their rigorous education and training are expected to safeguard and serve public interest. Such a professional is able to distinguish the righteous act/conduct from those of deviant and undesirable. Professional to adopt a righteous path and uphold all that is good. They are to act right all that is in the interest of the society. The client expects the professional to be a person of great character and integrity. This is assured by the administration of the code of conduct by the professional body on its members. Professional ethics covers the professional's conduct towards his peers his clients, his employer, his fellow professionals and the various segments of the society.

3. Professional Ethics is Based on Code of Conduct and Law-P T Rangamani

A professional worth the name shall have faith and commitment to the basic ethics of hi calling. Those who are members of an organized body with a statutory backing are wedded to a code of conduct, which emphasizes the imperatives of independence and integrity. The corporate professional such as Chartered and Cost Accountant, Company Secretaries, besides Engineers, Doctors, Architect and Lawyers belong to this category. The government by enacting special laws gives them a pride of place in the society and expects them to perform their role with honesty and dignity. They are the creatures of law and owe their position to law. The legislature has placed faith in them to re.- ler reliable, quality service. The result of their service Is reflected in their reports and certifications, which are relied upon by the various segments of the community and members of the public.

4. Professional Ethics is Based on Self-Regulation and Self-Discipline-Om Prakash Dani

In the liberalized regime, the accent is on self-regulation self-discipline and the concept of management by exception is gaining wider acceptance. The professional is also becoming more and more competitive, which is putting much stress, strain and temptations to outdo others. At this juncture professional have to continue to prove their integrity and excellence without resorting to unethical behaviour.. They have to give the highest priority to the professional and ethical standards and due adherence to the code of conduct, as accorded by learned professions throughout the world in times of stress and strain.

5. Professional Ethics Represents Cultural and Spiritual Values of Social Commitment-S Krishnamoorthy

`Ethics' is essentially a branch of spiritualism which is a banyan tree covering the entire gamut of human behaviour on righteous path for the well-being of human race. Ethics is relevant and useful to all individuals in a civil society but its importance and significance is much more for a professional because he is expected to play a more meaningful and useful role for the benefit of the society discharging his social responsibility and accountability at a higher level compared to other sections of society. However, recent global events have conclusively proved that a quite number of people at the top level of corporate world who are all senior professional do not attach much

importance to ethical values and principles. Compassion and true love towards other fellow being because they are swayed by lavish life styles and material comforts in life. A p[professional should behave and play his role well drawing inspiration from the basic principles of our spiritualism, culture and rich heritage. This is all the more as a viable economic power with a strong professional cadre of people and we should be in the forefront to follow ethical principles and practices in letter and spirit.

6. Corporate justice is based on Corporate Education-Satya Narai Agrawal

The concept of Corporate justice emanates from the goal of justice, social, economic and political enshrined in the Preamble of the Constitution of India. In reality, Corporate justice is a pre-condition of good Corporate-Governance, which cannot be achieved without realizing the goal of Corporate Justice. There is a need for an integrated Course of Corporate Education, which should aim at Corporate perfection through Corporate Justice. Corporate Education should provide an efficient Corporate Management Service and for the establishment of Corporate Accounting Service with cost analysis at national level for Corporate bodies to serve a variety of purpose. It would be necessary to concentrate on the quality of Corporate Management and to dispense with superfluous and superficial forms, ritual and ceremonies enjoined upon Corporate bodies under Corporate laws. The Government and the Professional Institutes should adopt the right approach to corporate Education to cater to the requirements of the Corporate bodies, most of which are now reeling under a variety of pulls and pressures and many are nearing closure for want of right approach to development of the Corporate sector. Corporate bodies should serve as instrumentalities of Corporate Justice.

7. Company Secretary has Special Role as Professional-D.K. Prahlad Rai

Company Secretary renders a host of services to the corporate sector and other clients. The practicing side of the Profession is fast expanding and the Company Secretary is being called upon to shoulder higher responsibilities. This call for extensive training and an ability to distinguish between righteous conduct from those deviant and unedifying. The authorities and powers conferred on the Company Secretary by the Companies Act and other regulations are proof of confidence reposed in the Company Secretaries by the Central Government and other regulatdy authorities like SEBI, Stock Exchanges and others.. The Corporate Sector and other clientele also repose certain measure of confidence in the ability and capacity of Com.pany Secretaries to perform the task entrusted to them in an objective manner. There is also a need to build clean image of the Company Secretary Profession.

Some Basic Issues of Corporate Ethics and International Business

Since the mid-seventies and increasingly since the beginning of the ninties, the ethical perspective has been moving more and more to the forefront of social thought. Every significant profession and every institution that thinks anything of itself has its "something ethics" to proclaim — environmental ethics, media ethics, research ethics, and even corporate ethics are the consequence. The latter has recently, along with environmental ethics, gained most in significance. There are now

a great number of national and international books, seminars, symposia, professorships, ethics networks, and journals exclusively devoted to business ethics. There can be no doubt that not only "ethics" is "in" — business ethics is too.

Why should this be so? Has there been a fundamental shift in social value systems and has the "worth" of ethical argument increased as a result? That would be an explanation, for when traditional ways of life and institutions are no longer taken for granted, philosophical ethics, guided by the idea of sensible human life, seeks generally valid arguments about good and just behavior in a methodical way. There is no need to point out that we are living in a time of great social change. If social change were to move in the direction of higher morals, then all social groups and institutions — including business enterprises — would be faced with new legitimating demands. Economic performance alone is no longer enough to give business legitimacy. Non-economic demands, e.g. the sustainable fulfillment of social and environmental responsibility in industrialized and developing countries, have been increasing their significance for legitimating for many years.

Does the new interest in ethical debate stem from a publicly perceived violation of old "outspoken grounds for legitimation"? is ethical thought so vehemently in demand because existing morals are in such die straits? There is at least the suspicion that those were talk a lot about ethics may be on a rather shaky moral footing themselves and are using ethical alibis to appease a critical public. Looking over what has passed for "market economy" in many Eastern European countries following the demise of communism, one almost finds oneself agreeing with this argument.

Philosophical reflection is without doubt a fulfilling and intellectually challenging matter also for those that bear responsibility in corporations. But if one wishes to do more than just get traditional moral philosophical knowledge over to people or preach romantic idealism, then ethics, including corporate ethics, must come down from its lofty realm of "ideas" and establish itself in day-to-day reality. Acting responsibly would then not mean swearing allegiance to higher notions of approvable behavior, but would emerge from a very worldly setting in which a corporation's or individual's activity has to be justified in the light of different values in pluralistic societies. Such a debate will have to be based on real people with all their strengths and weakenss, not on ideal people that we would all like to have but seldom meet.

Acting responsibly and primarily means acting intelligently, i.e. carefully weighing up the benefits and harm that one's own actions can bring. All moral activity occurs on the basis of a balance between the realization of interests and the avoidance of physical, social or even state sanctions — not to mention those in any afterlife. Here a sharing of the view of the German philosopher and business consultant Rupert Lay that people privately, in corporations or other institutions —usually tend to act according to the principle of "marginal ethics". In other words, they are prepared (consciously or unconsciously) to pay a mental, social, emotional, and financial price only in so far as they can expect a marginally higher mental, social, emotional, and financial return at least in the long-term. He also share his conviction that an institution's efforts to go beyond the level of marginal ethics lead to a higher common good, and that, in the final analysis, this has positive efforts for the institutions concerned.

From this perspective, much of what is called "unethical conduct" is primarily unintelligent, occasionally even stupid behavior that focuses on supposed short-term advantages without considering mid and long-term consequences. The impotence of ethics is shown in the fact that most people choose to maximize their own benefits when economic and political decisions have to be made, and are only prevented from acting against the common interest by governments branching out into many walks of life. A reflection on corporate ethics must always bear this in mind, and precisely because of it must always aim higher and dig deeper than merely avoiding unintelligent behavior. Intelligent action is acting in one's enlightened self-interest and thus compatible with the selfish tendencies in our societies. To assume that altruism and a holistic world-view are predominant human characteristics would be unrealistic.

The view of the German philosopher Vittorio Hosle that it is impossible to eradicate egoism; and one should not try to achieve the impossible, because it detracts from attaining really important things; and one should be sparing with one's energies, for they are limited." The figure of Don Quixote might be ridiculous, but it still has something noble, for it reminds us that ideals constantly transcend reality without losing their validity as regulatory ideas. But if such a "Don Quixote" had management responsibility in a corporation, this nobility would quickly pale and give way to the ridiculous.

There are two reasons that make it worthwhile to reflect on business ethics. One is that social change in the direction of a higher social and moral order is not only urgently necessary but also possible. The other is that moral enthusiasts who run the risk of foundering when faced by institutional resistance are — at least in my value judgement — the more attractive and lesser evil than thoughtless administrators of the status quo. The latter alternative reminds Hannah Arendt, who spoke of the "banality of evil" during the Eichrnann trial in Jerusalem: She found that not demoniac evil, not unconscious hatred, gnawing envy, or destructive greed were the motives of the mass murderer — no, there were no decker motives at all — just thoughtlessness, a failure to think, and dull observance of routine behavioral rules.

So as not to be misunderstood just comparing those in responsible positions in corporations and authorities with a national socialist mass murderer. But if there is a lack of thought in situations deciding the life and death of millions of people, how much more probable is it in situations which are not of such vital significance? It is presumed that also today, the analysis of a situation in which an individual's action turned out to be "evil" will probably more often point to thoughtlessness, taking things for granted that should not be taken for granted at all, to self-justifications and clichés, than to circumstances where someone who really knew better was acting in an evil and destructive way.

Executives' Self-perception

But evident problems emerge too when management circles themselves are asked directly in 1977, Brenner and Molander published a study where 43% of the executives interviewed felt compelled to resort to practices they considered shady, but apparently found necessary for the survival of their companies and hence their own careers. One of the reasons underlying the sad state of

schizophrenia in this US study was a performance appraisal system that concentrated almost exclusively on short-term financial resultws appraisal system that concentrated almost exclusively on short-term financial results criteria.

Furthermore, Brenner and Molander report that most of the incentive schemes in operation primarily rewarded short-term cost-cutting, sales-boosting, profit-raising action irrespective of its long-term social and therefore also economic effects.

Various more recent studies of executives' moral perceptions of themselves confirm the existence of conflicts. Executives often feel their decisions to be a choice between commercial necessity within the time limits of the profit and loss account and the demands of their conscience. A study by the Dusseldort Institute fur angewandte Marketing-Wissenschaften (Institute for Applied Marketing Science, IFAM) revealed an interesting distinction: lower level executives or middle management often seem to feel more under pressure and to experience greater moral difficulties than upper level executives, who showed great interest in ethical questions.

An attitude familiar from the psychology of repression and projection is interesting in this connection: problem tend to be seen as having external causes (e.g. low moral standards in society), but positive solutions are sdught internally here from executives.

Corporate ethics as a matter of leadership

Presumably, no one would argue that there should be an "either/or" relationship between ethical corporate conduct and the persuit of profit. What the former Federal Chancellor of Germany, Helmut Schmidt, had to say from a politician's point of view is also of great significance for executive: "We must all ask outselves how we get from the state we are to the state we ought to be. Whoever tries to solve this question by proposing the shortest possible route from a purely ethical point of view runs a high risk of ending in practical catastrophe. Or, the other way round, who ever attempts the shortest possible route from a purely practical point of view can end in ethical disaster."

How can a business enterprise respond successfully to the day-to-day challenge of corporate ethics? In my view, with various instruments on three levels: firstly, common sense or "moral reason", secondly "corporate codes of conduct," and thirdly, comprehensive personnel policies and holistic management development.

Moral Common Sense

The following rules of thumb, which Goodpaster (1984) referred to as "moral common sense," are significant here.

2.9 Self Assessment Test

1. "Various empirical studies reveal a positive correlation between ethical conduct in a corporation and job satisfaction". How can the ethical conduct of an organization enhance employee satisfaction?

2. Indian companies like Infosys, Wipro, Tata & Birla, have undertaken philanthropic activities like building old-age homes or setting up schools for children. Why are companies spending more on philanthropic activities?

3. Write note on the following's:

- Good ethics are good business
- 3.3.business ethics and corporate governance
- Professional's ethical role
- The purpose of ethics in professional
- Principles of professional ethics
- Factors influencing ethical environment
- Focus on professional ethics

2.10 Further Reading

- Business Ethics: Ethical Decission makingand Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leavning classroom Edition : Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Jospeph R. Desjardirs
- Managing Business Ethics : Straight talk about how to do it Right.
- Business Ethics by Joseph W. Weiss

Assignment

Why should a company consider ethics in directing its behaviour — on top of law, self- interest, and convention?

CORPORATE GOVERNANCE AND BUSINESS ETHICS

BBA - 603

BLOCK 4:

BUSINESS ETHICS & REALITY

Dr. Babasaheb Ambedkar Open University
Ahmedabad

Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

BBA-603

CORPORATE GOVERNANCE AND BUSINESS ETHICS

BLOCK 4 : BUSINESS ETHICS & REALITY

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The content is developed by taking reference of online and print publications that are mentioned in Bibliography. The content developed represents the breadth of research excellence in this multidisciplinary academic field. Some of the information, illustrations and examples are taken "as is" and as available in the references mentioned in Bibliography for academic purpose and better understanding by learner.'

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 students' 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 may 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!

BBA-603 CORPORATE GOVERNANCE AND BUSINESS ETHICS

Contents

UNIT 1 EVOLUTION OF BUSINESS ETHICS

Learning Objectives

After going through this unit student will able to:-

- To understand Ethical Behavior
- To understand the Ethics in Business
- To understand what is to be ethical
- To understand what shapes our view of ethics
- To understand the Happiness and Ethics
- To know Work Ethics

Structure

1.1 Introduction

In a recent front-page article in the wall street journal, Jacob Schlesinger wounded: "Why has the '80s?" The '90s so far eluded the 'Decade of Greed' label that hung over the '80s?" The news was certainly full of stories of young millionaires bursting forth in record numbers due to the boon in technology stock prices. And you couldn't turn a page without seeing any number of CEO compensation packages tip in at millions of dollars in salaries and perks.

1.2 How Business Can Be Good

There were no cries of moral outrage, Schlesinger suggests, because in this new economy everybody's income is rising. Not only those at the top are sharing n the spoils of business, whether in the form of better returns on a 401 (k) plan invested in aggressive mutual funds, or just more cash in each paycheck. But the point that people are missing, he wrote, is that even when almost everyone's income is rising, a "growing disparity in lOple the national average because young Silicon Valley millionaires have bid up the prices of homes, it's only a matter of time before someone cries foul. I was taken aback not so much by the article's sentiment as by its source. Here was The Wall Street Journal- the archconservative voice of capitalism-drawing attention to the problems endemic to outrageous income disparities at a time when that particular cause hadn't the news cachet it held during the geed-drenched '80s. "Business ethics," a topic that for years has been relegated to the deep interior of business publications or the fringes of business school curriculum, suddenly has status. Where the word "ethics" might once have been anathema to any corporate devotee, discussion of it is increasingly seen as not only important but also as critical to a company's success.

1.3 A Shift in Thinking

The standard argument made among business people used to be that a business's responsibility was first and foremost to its shareholders. Economists Milton Friend man and Alfred Can were chief among those propagating that once-prevailing wisdom. In a 1970 New York Times Magazine article, Friedman wrote his now well-known argument that a business's social responsibility is to its stockholders; therefore, the main objective is to increase profits. In 1967, Can argued that business is a game in which there are certain rules. He held that a person would set aside personal ethics and value in order to meet the needs of the corporation. However, Proponents of "virtue ethics" believe that it's wrong-headed to think that we can, or ever could, park our personal beliefs at the door when we enter the corporate world. John Morse, in the Journal of Applied Philosophy, observed that "the virtue theorist insists that any ethical decision we make is based on a set of dispositions we have acquired throughout our life. When someone acts unethically in a business transaction, this is bound to break down

the good character habit that be or she has developed up to this point. The virtue theorist denies that there is an ability to separate the 'business' self from the `private' self, because the actions in each realm form dispositions which apply to a person's general manner of acting." Morse concludes that

"Friedman and Carr are wrong, for they try to separate the moral ramifications of actions within a business environment from their effects on the individuals with whom business comes into contact. Business has to be seemed as a moral entity which is an integral part of the community, and it must therefore be concerned about the welfare of the community within which it is situated, as well as the welfare of the individuals whom it influences."

1.4 What's Ethical Behavior?

Johnson & Johnson is often heralded as a company whose ethical behavior is exemplary, looking at how this company's core beliefs affects the way it handles critical ethical decisions can help demonstrate how a clear commitment to ethical behavior in business can define how a business operates, both inside and outside its walls.

The company clearly prioritizes its responsibilities in its corporate credo; first to its customers, second to its employees, third to its management, fourth to the communities in which it operates, and fifth to its stockholders. "Business must make a sound profit," reads the credo in describing this fifth responsibility, but at Johnson & Johnson that concern comes after the rest.

In 1982 the company decided to recall 31 million bottles of Tylenol from store shelves after eight people died from cyanide —laced capsules. That recall cost Johnson & Jonson $240 million and cut its profit on $5 billion in revenues that year by almost 50 percent. The tampering was not the company's fault, but it decided to act even before it had complete information on what had happened. The product containers were redesigned and new tamper-proof packaging was introduced, Johnson & Johnson's immediate response saved the Tylenol brand and won the company rave reviews. Ironically, the move turned out to be a huge marketing coup that resulted in significant goodwill from customers.

When a class of business students was asked to comment on the ethics of the case, more than out student responded by saying that the case wasn't an example of ethical decision-making at all: The company benefited from the whole affair, Since it turned out to be a great marketing move, where was the ethical problem?

What the students failed to recognize was that we all make ethical decisions on a daily basis. Sometimes it's as simple as deciding whether or not to credit a coworker with an idea of hers that you bring up in a meeting. Other times it may be deciding just how much information you disclose to colleagues about an office rumor making the rounds.

The results of such decisions rarely have the magnitude of a Tylenol case, but they are ethical decisions nonetheless. Based on what you know of the acceptable behavior of the group you belong to, you're trying to decide on the right thing to do.

Ethics the word "ethics" derives from the Greek term ethos; one of the modern definitions of ethos is "accustomed place." In the New Testament, ethos was used in the more or less classic sense of a "home place"-the place of safety, where humans and animals alike could gather at the end of the

day and be protected. By extension, it came to be used as a description of the norms of behavior that provided a comparable protection to the coherence of a society.

So ethical decisions can be said to be decisions that ensure the safety of a society's sense of order and justice. But trying to determine what falls into that sense of order and justice can be difficult. The range between right and wrong can be vast.

We generally recognize-or at least we hope we do-when we're operating at the margins. We can tell when we're going well beyond what's expected in the way of right behavior. And we also know when something falls squarely into the category of questionable or wrong behavior.

What we struggle with every day is operating between the extremes. How completely right do we really need to be in our behavior?

In business, the pressures are magnified, because business owners and managers are faced with competing demands to keep a company going. Does the need to make a profit outweigh the need to reward our employees fairly? Does making payroll count more than paying vendors? Do we cut corners on manufacturing processes to keep costs down when our shortcuts might result in unsafe or polluting outcomes? Does our commitment to an employee in trouble outweigh the financial burden he places on the company?

A story told by the CEO of a $14-million computer consulting company points out how grueling and complex such decisions can be. A high-level employee failed to show up at a client's location one morning for a software installation. The employee was an alcoholic who apparently had had a relapse. In the end it cost his company half of its $200,000 fee.

The CEO received conflicting recommendations about whether to fire the employee. Some suggested giving the employee another chance and enrolling him in a rehabilitation program. Others said the only way the employee would get help would be if he were allowed to hit rock bottom. After much agonizing, the CEO decided to offer the rehabilitation program.

Everything seemed fine for about eight months after the employee finished the program. Then he failed to show up for work again. This time he cost the company about $5,000. Again, the CEO had to decide what to do. Advice he received skewed toward letting the employee go, but-after some agonizing-the CEO decided to help him again.

While the CEO may have been prolonging the alcoholic's resistance to getting sober, his decision brings to life how good people in business try to do good by the people in their world, in this case a troubled employee. "Business is easy compared to life, "the CEO said when retelling the story. "We're just laymen with good hearts and crossed fingers."

Invariably people who run or manage businesses find themselves facing decisions that will clearly affect their employees' lives. Navigating through these relentless dilemmas is a day-to-day, moment-to-moment process.

1.5 First, the Lawyers

When we talk about ethical behavior in business, too frequently we're really talking about the kind of behavior people need to avoid litigation. We put behavior policies in place so we don't get sued for sexual harassment, penalizing minority workers, or slandering poor-performing employees.

With workplace litigation exploding over the past several years-more than 24,000 wrongful termination suits were filed in 1997 alone, up from 10,000 in 1990-the actions of business people too often are driven by what will keep a cap on legal costs rather than by what we really believe is right.

When this happens, we relegate many ethical decisions to the human resources or legal departments and stop thinking about it for ourselves.

The fear of discrimination suits may be legitimate. A 1997 survey by the Society for Human Resource Management found that of 616 personal executives who responded, 53 percent said their organizations had been sued at least once by former employees in the last five years; nearly half the 611 suits they reported involved claims of discrimination.

Fears of litigation make even the most self-enlightened manager question his or her own judgment about employees, how to manage them, and how to be fair in the workplace.. The solution is to go back to making decisions based on the merit of a candidate rather than the fear of what might happen should this candidate not work out or not like the way we manage. It may seem perilous to take such a stand, but it's the only way to break free of the management gridlock that has overtaken so many businesses.

Finding a Place

The deeper challenge is not merely to get businesses or corporations to change, but to get the people who are making decisions within these organizations to change the way they think-to realize that the same care they take to behave ethically in their personal lives should drive the decisions they make in their professional lives. One of the good things about the blurring lines between our personal and professional lives is that it makes who we are and how we behave seem more connected to our beliefs and the way we interact with other people and the community at large-whether we're at work or not.

The whole concept of "business ethics" is brought more sharply into focus when we recognize that such a notion is inextricably tied to the individuals who make up that business. It is ridiculous to think that we can fob off onto others ethical decisions that must be made without having to take responsibility for our own inaction.

"Ethics is how we behave when we decide we belong together," writes Margaret Wheatley and Myron Kellner-Rogers in their book, A Simpler Way. "Daily we see this interplay of ethics and belonging in our own lives. We want to be part of an organization. We observe what is accepted or

reward and we adapt. But these ethics are not always good. We may agree to behaviors that go against personal or societal values. Months or years later, we dislike the person we have become, did we sacrifice some essential aspect of ourselves in order to stay with an organization? What was the price of belonging?" At the end of the day, that's the true question: In our effort to belong, have we become the people we swore we never wanted to be?

1.6 Defining and Communicating Ethics in Your Business

Through this article, the author intends to begin a conversation about the ever-so-critical issue of communicating ethics in business. The author provides real-world examples to help companies communicate their organizational code of ethics to their employees. The article is divided into three sections: meaning of ethics, the ethical foundation of an organization and examples and tips for communicating organizational codes of ethics.

1.7 What is to be Ethical?

To us at IVC, ethics goes beyond the act of throwing money at a deserving charity if the primary intention is to reap the public relations perks, particularly if t he 'PR spin' masks questionable organizational practices and behaviors. Using a broad definition from Webster's Dictionary as a starting point, let's assume for the moment that this is what we mean by ethics:

1. A system of moral principles.

2. The branch or philosophy dealing with right and wrong and the morality of motives and ends.

From this definition alone, we can see how ethics is not a point set in time on the continuum of human life, which all people use as the same reference. What do we mean? Look at the words independent of the definition, and consider how each person creates his or her own ethical boundaries:

- "Moral principles" — Clearly, these differ from person to person; wars are predicated on these notions.
- "Philosophy" — a belief system or theory.
- "Right and wrong" — anyone with an opinion can attest to the disparities between two or more people in this arena!
- "Motives" — based on a specific situation, one person might differ from circumstance to circumstance.
- "consequences" — a concept we at IVC add to this mix of ethics-related words, perceived consequences are often based on a fear of negative ramifications established through one's religious or philosophical beliefs and/or the norms, mores and rules of one's community.

So, what is ethics'? What is ethical behavior? From where we stand, it's a very personal definition — knowledge of which helps define the choices we make, the goals we achieve and the path our lives take.

1.8 What Shapes our View of Ethics?

The short answer: Everything. Our experiences (or lack of); peers; religious beliefs; edicts from a power we deem higher than ourselves, i.e., international law or a Supreme Consciousness; people to whom we are exposed, for better or worse; and our decision to seek out models of ethical behavior are all examples of how we shape our ethical portfolios.

From the briefest glimpse at four perceptions of ethics, try to discern what factors helped shape these persons' ethics:

"In civilized life, law floats in a sea of ethics." Earl Warren, Chief Justice, US Supreme Court.

Science cannot stop while ethics catches up ... and nobody should expect scientists to do all the thinking for the country." Elvin Stockman, President, American Association for the Advancement of Science.

"Our consciences are littered like an old attic with the junk of sheer conviction." Wilford 0. Cross, author, Prologue to Ethics.

"If a man is good in his heart, then he is an ethical member of any group in society. If he is bad in his heart, he is an unethical member. To me, the ethics of medical practice is as simple as that." Dr Elmer Hess, President, American Medical Association.

What do you believe formed your ethical foundation? You can't determine that without a personal or organizational definition of what it means to you (or the firm) to behave ethically. For example, one person might believe t hat egregious acts, such as murder, cross an ethical line but all else is 'fair game'. Another person might believe that to lie to someone or to gain personal profit at the expense of another is unethical, while yet another individual might fervently believe that any means are appropriate to reach an end goal that is personally satisfying.

Consider these real-world examples

A colleague shared with us a story of a person who contacted her about how to best avoid the negative implications of bankruptcy, which he was going to pursue to relieve him self of the burden of personal debts he had accumulated. His question was not, "Is it ethical to claim bankruptcy just to make it easier for me?", but rat her "I know there are negative consequences of doing this; how do I avoid them?" Our colleague, not the person pondering bankruptcy-for-convenience, considered this an ethical violation, and others consider such behavior both unethical and an abdication of one's personal responsibility.

At another company, which had been celebrated as a "good corporate citizen" and voted one of the "best places to work," senior executives conspired with others to falsely manipulate California energy markets, to achieve short-term profits for themselves and their organizations. This same group of executive reported positive earnings to their employees and other shareholders, all while

"cashing our" their own stocks before the company's distasteful activities became public, the stock tanked, and the company went bankrupt.

In another real-world example, a person solicited and accepted a job with a small company for the sole purpose of qualifying for a mortgage, all the while communicating his interest in staying with the firm for a long period of time. Once the mortgage was approved, within a few months of joining the firm, he gave notice of his resignation while covertly negotiating with one of the firm's clients to hire him as n independent consultant after he left the firm. The ink was still drying on his new contract while he told his soon-to-be-former colleagues he wasn't sure what he is doing next.

And in yet another recent example, a government leader actively marketed an initiative using words such as freedom and security, while championing legislation behind the scenes that actively reduced freedom without any real improvements in security. The marketing campaign was designed to achieve public support, while the "fine print" pursued a vastly different reality.

In a similar vein, a congressional representative used a public outcry for his own political purposes, while at the same time criticizing a group for creating the outcry.

And in yet another example, a frozen dessert company rode a wave of pro-war sentiment by launching a line of ice creams with names such as "Iraqi Road" and "I Hate the French Vanilla", all while soldiers and civilians were being killed in the battles of the same war.

What are the ethics involving these situations? Can you think of other real-world scenarios, either from your own organization or the news headlines?

Communicating ethics in a way that informs and affects behavior

Use these tips as a stating point for your organizational ethics into the day-to-day activity of you're your business or department.

Examine the intention

As with any project, examine the underlying intentions for establishing company ethics. Are your ethical issues really a symptom of a greater ill, such as extremely low morale? Is the company following a new business fad, like developing a publicity friendly ethics statement, but has no real interest in making its ethical 'statement' a behavioral reality? How ethical is the intention to spin a partially-true or untrue perception, and by whose ethical standard? The rationale will help determine how and why to communicate the messages to employees.

Highlight the company's 'legends' that personify its ethics

Every company has stories that leadership likes to share to demonstrate the way they want to operate. For example, who hasn't heard the story about the man who returned his car tires to Nordstrom's, which didn't even sell tires, and got a full refund? Get your ethics into mainstream organizational discourse by identifying and communicating ethical behavior and its positive results.

One of the best ways to learn is by modeling another person's rewarded behavior — give your employees plenty of models by celebrating true stories.

Make it a company norm-in-action

Ever hear the expression, "Your actions speak so loudly, I can't hear what you're saying"? This is the effect you want with your ethics. You can't tell someone how to be ethical, but you can demonstrate ethical behavior. Do it, and do it consistently. Employees are watching.

Provide parameters and examples

While we don't believe you can teach ethical behavior (and trying to might get you into legal trouble), you can ask employees to follow guidelines and tactics that support the organization's standard of ethics. Whittle your ethics into easy-to-comprehend (and carry out) actions, and communicate those expectations to employees in a consistent and varied manner. This is similar to (and should be connected to) your employee handbook, among other communications. What does the organization expect from employees? What are the cultural codes of conduct? What actions are not allowed? There's a great deal of benefit in refining an organizational code of ethics, with examples, as a group. Discuss any questions about legal limits of requirements regarding personal behavior with your attorney.

Incorporate news ways of understanding ethics

Communication approaches such as Dialogue allow participants to share ideas and beliefs in a safe environment free of judgment and assumptions. When discussing a topic as sensitive as ethics, use these methods that respect participants' differences and insecurities around the subject matter and, perhaps more importantly, the source of their beliefs around ethics. This is one discussion where you might be best served by engaging a skilled, objective facilitator.

Meld ethics with business

Instead of creating a separate ethics department or officer, ensure your organization is using ethics as one of its metrics in all of its activity, including hiring new employees, pricing products, providing service and choosing clients. Again, you may wish to get input from your attorney to establish parameters before making the decision that makes the most sense for you and your organization.

The ethics to individual and departmental goals

Without a ling to something that employees care about, little behavioral change will take place. Make the association for your audience, rather than assuming they'll do it for you. Why should someone take the time out of his or her day to do this? How will their participation in supporting the organization's ethical standards be incorporated into performance reviews? How will they be held accountable if they don't behave ethically? How are the firm's ethical standards supportive of the way clients experience the organization as distinguished from its peers?

Develop safe feedback mechanisms

Will an employee tell you or her supervisor about activities that seem to go against the grain of the company's ethics (a communication avenue that can help you walk your ethical talk.)?They will be more likely to do so if they perceive there's safe way do it. Whether through anonymous hotlines, suggestion boxes or one-on-one meetings, put mechanisms in place that allow employees to provide input and feedback without feeling as if they are jeopardizing their jobs or business relationships. Provide examples of how communication approaches can help overcome an individual's concerns about sharing such information or getting a colleague into trouble.

Use an advisor

As with any communication approach, yours must be tailored to your culture and desired goals to be effective. Getting an outside perspective and third-party facilitation can help defuse some of the anxiety around this topic, and help you highlight roadblocks between t he reality in your organization and the ideal.

Remember, this information is food-for-thought, not customized counsel. The most effective interpersonal and organizational communication program is one that's been tailored to meet the unique needs of your group.

1.9 Cess, Happiness and Ethics

1. Success

Life is competition and we have to compete to face challenges of twenty-first century. The object is to succeed by achieving objectives to goals or attaining effectiveness or achieving excellence or surpassing the competitor's record or own self-record if that is highest. It is to bowl out the opposite. It is a passionate thread of enthusiasm and aggression. To be winner is doing exceptionally, superbly and fantastically well. To be winner is to put an effort of energy not hundred percent, even beyond oneself, which ultimately brings fulfillment through success. The only difference between successful person and unsuccessful person is that successful person surpasses his goal and unsuccessful falls short of his goal.

Ethics in Success

It is to succeed fairly, decently and by rules. Being a winner is a spirit. The winners keep success in perspective base on value system and applying some basic principles. For example, a racer may succeed by pushing the competitor and he may be declared successful. But is he the winner? No. To mention another example, recently in a Cricket World Cup 2003 match, a player was declared not out by both the empires, but he turned to pavilion of his own, as he did not consider worth while. Is he winner? Yes. Most of us associate success in life with the moral character of a person. Moral values are such as telling the truth, obligation not to harm others, justice, fairness, faithfulness and respect of an individual's dignity are binding on every individual irrespective of his religion or

place of living. Being morally true is inherently valuable, Plato said, 'human-beings would continue to follow morals'.

Keys to success

There are certain basic individual traits keys to success. These are:

- Ambition (dream)
- Commitment / fire to win / imagination / to be unstoppable.
    - Responsibility (to take charge and to handle pressure).
    - Hard efforts (fortitude) stay tough and have a belief in it. Performance at the peak.
    - Integrity (drama)
    - Positive mindset. If you think you can, you are right. Develop positive self- image.
    - Persistence-never give up, hold your nerve and win mental toughness. Fighting back with amazing resilience.
    - Sense of pride in excellence or achievements.
    - Continuing to be learner.
    - Keep integrity high.

A successful person has self-belief, sustained enthusiasm, the courage to say no. innovative and looking for new opportunities, forgiveness, ability to face criticism, peace of mind, cheerfulness and ability to delegate and supervise.

If you can Dream, you can do it. Failure is step towards Success

Success and happiness go hand in hand. Success is getting what you want and happiness is waiting what you get. Success is not measured by how high we .go up in life, but rather by how many times we fall back, and then fight back that determines success. For illustration-Thomas Edison failed numerous times before he could make light bulb. Beethovan was told he had no talent for music, but he struggled to give best music to the world. Thus, if you dream, think and you can do it. Men who win are those who think they can. Napoleon hill stated, "Whatever the mind can conceive and believe, the mind can achieve." Only losers quit and give up. Always try to struggle with your weakness. Nothing good comes in your life without struggle.

Attitude is Core of any Success

To some people success might mean wealth, to others it is recognition, position, to some it may be good family, peace of mind, and success means different things for different people. Success has three parts-attitude, skill and knowledge.

There are people with skills, knowledge and lot of talents but lack of attitude. "People know what they are but do not know what they can become." Success is not an accident. Success is matter of attitude. It is a result of what you think you are capable of It is a matter of careful thinking and planning to be successful person. You must have a clear goal in your vision.

Some Obstacle to Success

- Ego
- Fear of failure
- No plan
- Lack of formalized goals
- Lack of commitment
- Lack of priorities
- Overcoming obstacles

People who have overcome obstacles are better than those who have never faced them. Problems sometime discourage and disappoint us, but winners don't get disheartened. We can not run away from our problems. Only losers quit and give up. Always try to struggle with your weakness. Set clear cut goal in your life. Nothing good comes in your life without struggle.

Action Plan for Success

It is necessary to have an action plan to translate our aspirations and dreams. Such a plan must contain goals to achieve. We share some steps towards this process of success.

Step 1: Dream a vision and be Winner

Every one can succeed and be winner. Success is a matter of choice and not chance or an accident. Our attitude determines a choice. All we need is self-improvement to gain a winning edge. Success is the progressive realization of a worthy goal. Dream, ambition, inspiration are ingredients of success. Everyone can make a difference and the difference begins with dreaming. So visualize one's vision of one's future, we need to dream beyond what is possible within our ethical standards. We can succeed unless our primary concern is keeping hold on our integrity. Ethics can be an integral part of our ambition. There is no worthy success that is not ethically founded. Ethical ambition requires critical compassion and honesty towards ourselves and others.

Even one can re-cycle or transform one's personality. To be genius is to acquire ability to spark one's own fire. What one wants to be, it is his own choice. One has to choose an attitude which frees one from rut. The key to transformation and improvement is recognition of a need. To achieve this, it is important to redefine one's expectations from his side with determination one has to eradicate traps which are holding back self-development process.

Step 2: Set Goals and Achieve

One great secret of success and achievement is creative visualization of goals. Some say it is hard to acquire. On the contrary, it is quite easy. The first requisite is an open and respective mind so that one is clear for further action. Goals are putting one's dream into practice. This is possible only when one changes one's beliefs and thought pattern. One has to dissolve one's self-made limitation. Positive and creative visualization refers to accept the best and nothing short of it. There is second

dimension to it, i.e. setting and pursuing goals for realization. Another important factor is taking one's responsibility with a disciplined mind and inner energy. One has to plan one's goal which are challenging enough but realistic to achieve with due care and determination. Goals should be meaningful and consistent with our values. One must follow "SMART" rule while setting goals:

- S = Specific
- M = Measurable
- A = Achievable
- R = Rational
- T = Time-bound

Step 3: Persistence and perseverance is Vital

Success is an automatic result of hard work. Success is essentially a matter of concentration and perseverance. Its secret is a determination not to fail.

Nothing is impossible, problems and difficulties continue coming at all times. It is, therefore, essential to develop the right attitude towards them. Even failure enables one to a develop creative problem-solving approach for new possibilities. It strengthens one's resolve and confidence and drives one to face the future more optimistically. The right amount of effort in the right direction will surely produce that glorious thing called success. Success is result of consistent and regular work towards your goals.

Some setbacks and failures will strengthen one's resolve. Do not give up. The great failure is when on gives up trying, when he is just on the verge of success.

- Keep on-keep on-keep on.
- Never, never, never give up
- Success comes to persistent person

Step IV: Determination to Succeed

Success comes from within by control of one's mind. It is getting to think of ourselves as successful. Positive thinking is the key to success. One has to train one's mind for achievement of success. Develop a passion for success and achievement. Acquire the habit of being an optimist. Sincere efforts and performance pay in long-run. Excellence in performance brings feeling of achievement, pleasure and pride with humility in doing the best. Henry Thoreau has rightly said "Men are born to succeed not to fail." Thus, faith in yourself and .what you do is essential. For success, supreme secret is `faith-"can do" attitude. Strengthening self-confidential is essential.

It is relevant to express this process as the ASAP model (see figure below)

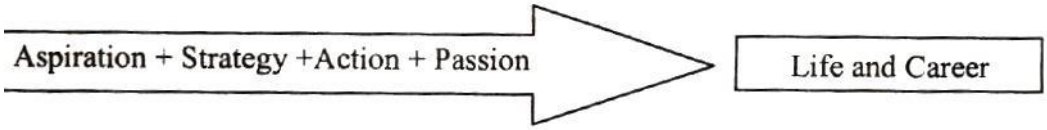

Fig. 1.1

Step V: Have faith in Actions and Results

May Lord's Grace help you, in thousand of ways, to attain success and prosperity in life. So have faith in Him and confidence in yourself. Think positive, talk positive, act positive. In fact, every thing depends on individual-to be successful and to be winner. With you good lick in your endeavors for meaningful career. Winner's mindset will bring you health, happiness and peace.

II. Happiness

What is Happiness?

Is it?

- Rich and material comforts,
- Success in your endeavour,
- Love affection, respect and reputation,
- More relationships and friends,
- Mental control, peace,
- Satisfaction, self-actualization, self-fulfilment,
- Absence of sorrow, and
- Happiness wherever you get it, seeks it.

According to Sabine Beecher, 'The key to happiness is in the way you think. One style of thinking leads to doubt and misery while another leads to self-acceptance and happiness." Happiness is not a commodity that can be bought from the market. It is not enjoyment in a pub or a pleasure trip to Singapore. These do give happiness, but are transitory. Happiness is rather a state of mind and a feeling of well-being. It is something that has to be earned.

Happiness is individual. It comes from within which is called internal upliftment or fulfilment. You are at peace-living. A life of peace and happiness is the goal of everyone.

Noble ideals and values are important for peace of individual's mind. Controlling of thoughts i.e. mind control brings peace and contentment. More we imbibe noble ideas and thoughts in our minds, we can purge out worldly objects and material thoughts. Thus, through self-control and self-discipline, we control the mind through noble ideals.

Anagram of Happiness

- H : Humanity, Health and Humour,

- A : Appreciation and Acceptance,
- P : Patience and Peace,
- P : Persistence and Perseverance,
- I : Initiative and Intuition,
- N : Naturalness,
- E : Empathy,
- S : Simplicity and Satisfaction, and
- S: Selflessness.

In order to get a complete understanding of the word Happiness, let us elaborate on each of the above words as explained by Z.V Bhomisa.

Humanity, Health and Humour

Humanity means not only bestowing love on human beings but on everything that is created by God. Every small or big thing, like a bird, and insect or an animal is beautiful, having its own charm, intelligence, grace and uniqueness. Health is something that each and every individual desires to possess and maintain. Humour is another important factor which keeps a person bubbly and cheerful.

Appreciation and Acceptance

Majority of the people lack in this quality. They focus more on things which are not with them than those which are easily available like the abundance of sunlight and flowers. For example, parents with two daughters would strive to get a son rather appreciate their two healthy and normal daughters. This leads to unhappiness for they are not contented with the things they have but are rather running after those they do not possess. People do not accept themselves the way they are. They constantly compare themselves with others and make thethselves miserable. The way to happiness is to look constantly at the good about them.

Peace and Patience

These tow words are extremely powerful in life. Very rarely do we find people who emanate peace and are patient. With industrialization, people behave like machines working constantly either to make ends meet or to make more dough than is needed. As a consequence they neither have peace of mind nor are they able to enjoy life. Why does one work hard? If the answer is to provide all the basic necessities for his loved ones, then the next question is 'where does it stop? When the desire of a person is endless, he is stuck in web where he has neither time for himself nor for his family which is needed for a happy and peaceful life.

Persistence and Perseverance

If happiness lies in achieving something in life, one should reach for it irrespective of the impediments or hardships but in one's way. One should be concerned with the end result, no matter

what one undergoes. Few have fighting spirit within them. Many get disillusioned and leave the job halfway through. If one can develop the attitude to achieve one's target, one will feel happy and become strong and confident.

Initiative and Intuition

The belief that life is full of hardship depends on how one views life. It also depends on one's requirements. For some, it is easy going and happy while of others it may be tough and a constant struggle.

Naturalness

To be natural is not a single thing. If one has to live in the society, one is to constantly put on false smile and try to please others in order to be in their good books. As a result, one loses one's won identity and tends to live an unauthentic life.

Empathy

Empathy is the power of entering into another personality and imaginatively experiencing his experience', it is one's willingness of putting oneself in the other person's shoes and understanding his problems just as he does. In other words, it understands the person you love which helps to build stronger relationship and greater appreciation for each other. This extremely important in maintaining a long-term and happy relationship not only with your partner but also with all. If we are able to develop the quality of empathy within us, we are more likely to be satisfied and happy.

Simplicity and Satisfaction

There is an excellent phases which is known to may of us. It is plain living and high thinking.' Most of us forgotten its impact on life and have turned the entire phrase the other way round. Someone has mentioned a very brilliant phrases that states, " It is so simple to be happy but so difficult to be simple.

Selflessness

If out of every 100 people, even 10 people wee to do selfless service like Mother Teresa, there would be more peace and happiness in the lives of our people.

To Conclude

Life is short, so live each day in a happy way and to the fullest, making use of each and every moment purposefully. It is very well mentioned, "Happiness lies in sowing and not in reaping."

1.10 Decline in Ethics-should we Compromise with our Ethics and Value?

Did A Business Ethics set in sometime in the late 1970's? The issue is debatable. Nevertheless, a lot of people think so.

For decline in ethical standards, we should look to our four stage model of values for explanation.

Managers report that actions of their bosses are most important factor influencing ethical and unethical behaviour of their organizations. Given this face, the values of these in middle and upper management should have a significant bearing on the entire ethical climate within an organization.

Four stages of Values

(i) Through mid-1970's, the managerial ranks dominated by protestant work ethic type (Stage I) whose loyalties were to their employer. When faced with dilemmas, their decisions were made what made was best for the organization.

(ii) In late 1970s, individuals with existential values (Stage II) begin to rise into upper levels of management.

(iii) They were soon followed by pragmatic type (Stage III). By late 1980s a large portion of middle and top management positions in business organization were held by people from Stages II and III.

The loyalty of existential and pragmatic are to self and careers respectively. Their focus is inward and their primary concern is with "looking out fro number 1." Such self-centred values would be consistent with a decline in ethical standards. This is the explanation.

(iv) The potential good news in this analysis is that recent entrants to the work force, and tomorrow's managers, appear to be less self-centred. Since their loyalty is to relationships, they are more likely to consider the ethical implications of their actions on others around them. Stage (IV) the result? We may look forward to an uplifting of ethical standards in business over the next decades of two merely as a result of changing values within the managerial ranks.

Well young managers, we trust, you will clear up the mess we have created. You are custodian of the country.

Dominant Values in Today's Workforce

(Societal values in the period in which they grew-up can be valuable aid in explaining and predicting behaviour)

Stage'	Period entered the workforce	Approximate current age	Dominant work values
1. Protestant work Ethic	Mid-1940s to late 1950s during World War II, Berlin blockade	60-80 More conservative	Hard work, conservative, loyalty to organization.
II. Hippie Ethics (Existential) Civil Rights Movement	1960s to Mid-1970s • Influenced by John Kennedy • Civil rights movements	45-60	More concerned by quality of their lives, non-conforming, seek autonomy, loyalty to self-rather than

	• Beatles • Vietnam War • Baby Boom		organization.
III. Pragmatic (Conservatism)	Mid-1970s to late 1980s • Influenced by Regan conservatism, defence build-up, dual career, households.	35-45 Conservative	Ends can justify the means. Success. Achievement. Ambition. Hard Work. Loyalty to career. Social recognition. (Rank High)
IV. Generation X	1990s to present Lives shaped by globalization, economic stagnation, fall of communism, aids, and computes	Under 35	Value-flexibility Achievement of job satisfaction. Loyalty to family and relationships. Leisure time more important. Pleasure. Less willing to make personal sacrifices for sake of employer.

Should we Compromise with our Ethics and Value?

We all feel the erosion of our spirits: the degeneration of our values, a slow, but steady loss of character. While it seems that most individuals cannot even identify the cause, society as a whole already has-a lack of ethics.

There is an increased awareness about a lack of ethics. These words in spires talk about a certain kind of moral degradation. An increased lack of principles in our society an almost non-existence of integrity in the corporate.

There is a lack of integrity in some management these days. This could be because of the difference in the way things are and the way things we were taught were meant to be.

A general conception is that character is evaluated only on the personal front. Cheating with your spouse, lying to your friends and family, duping them are the main parameters where a man's integrity is tested. What we fail to see of integrate into this mental mapping exercise is the character is tested on the professional front not just by refusing bribes or indulging in illegal activities but also by the decisions taken on any regular day. We may cover up our ethical dilemmas by diplomacy, thinking about what's best for the organization of renaming retrenchment policies by calling it relocation of employees.

The fact is we do things that we personally do not like. The fact that we do it is a professional requirement. This is conflict zone. However, an increasingly large number of corporate houses have now begun to realize the need to create a more relaxed, honest, fulfilling environment.

J Patel observes that conflict is a part of life. The key lies in making the right choice. One lie gives birth to hundred others. Doing things the right ensures mental peace and happiness in the longer-rum

The answer lies with us

In fact, the evidence suggests that the world at large is not full of crooks. It's just litter overcrowded with petty souls. We, too, have been such a character. Blame it on the system, but most of us survive by toeing the line. By doing the petty act that slowly steals away our soul. It's just that we've all collectively quit thinking about issues of integrity and honesty. We just don't seem to give it much thought. We continue to work in a human system that doesn't provide a support structure for simpler, more honest existence. We continue to survive in organizations that passively or actively encourage us to compromise.

The ways of the World are being questioned. When the Dali Lama won the Nobel Prize, as exclusive dinner partly was hosted in Newport Beach where a group of high-level American business leaders met Dalai Lama. The most often asked question that night by these true moguls of industry was, "How can we introduce more ethics and spiritually into our business and everyday lives?" the answer from His Holiness was gentle and interesting, "does it from the heart, within your own culture."

The quest-Look Inward

And the answer to this question has almost become a quest with many corporate leaders. There seems to be a new kind of enlightenment with managers all over the world. Various new management theories seem to be addressing a vast numbers of issues under the guise of Ethical Management, Dharmic Management. All designed to go beyond the regular concerns to task and structure. These seem to be addressing the more poignant questions relating to the human spirit. The world seems to be walking up, albeit slowly, to the fusion of spirit, character, human values and decency in the work place and in life.

The usual issues of productivity, organization, costs, profits and so forth will remain as critical as ever. Except, the concern about the humanness and health of the organization including things such as culture, communication, relationships and morals are beginning to get equal importance.

R.K. Chakraborty states that we do not need to compromise. If we are right, no one can take advantage of us. The fear of ding something wrong results in making compromises with one's ethics and values.

Radhika Sandev states that as article carried in January 2000 issue of Harvard Business Review in "The making of Corporate Athlete" by Loehr and Schwarz, the two authors attempted to identify factors that make some managers flourish under pressure, while others wilt. Eventually, they concluded that the former have a strong spiritual fibre that enables them to move from the physical to the emotional and mental and finally the spiritual plane.

Spiritualism does not prohibit acquisition or enjoyment of material comforts of modem life but at the same time it puts a break on unhealthy, undesirable desires and wants. In simple terms it allows people to shape the life styles in conformity with our inherent value system based on certain moral and ethical values and principles.

"Material life and spiritually are not two different things. They are not contradictory. In fact, they are two sides of the same coin. One air-conditions the outside world and the other air-conditions the inside world-mind: keeping it cool and balanced in all situations, where they are easy or difficult, pleasant or painful. Spiritually teaches you how to live in this world."

1.11 Work Ethics

"Ethics" means a set of moral principles-A code of conduct. In any social set-up, the members of a group tend to adopt a set of rules of behaviour for the establishment of good order.

Such rules may be or may not be codified, but so long as they have the acceptance of the members of the group, they tend to be observed.

Work ethics refers to certain accepted norms of behaviour governing the conduct of a group of persons involved in work-situation to achieve certain desired objectives.

In some business organization, such rules are codified and represent the "Do's and Don'ts", meant to be observed by the staff. For example:

Do's-Requiring members to do things that are morally good or right, e.g. punctuality, courtesy, efficiency, hard-work, sincerity, devotion to duty, regularity, discipline, promptness, enterprise, initiative, etc.

Don'ts-Seek to restrain the employees from doing things that are morally had or wrong, e.g. insubordination, lethargy and indolence, corruption, dishonesty, etc.

Work ethics is thus a part of moral philosophy.

Defination of Work Ethics

A work ethics can be defined at different levels:

(i) At the basic level it is about discipline, namely, coming to work on time, behaving with respect and dignity in relation to subordinates, colleagues and superiors, staying at

workplace during working hours, not wasting time by roaming and chattering, etc. there is strong work orientation.

(ii) At the highest level, work ethics is about commitment and accountability. Does manager feel responsible for the task assigned to his and does he complete in time and in satisfactory way.

(iii) Another aspect of work ethics is protecting the interests of the organization by employees. Avoiding negative comments in public.

(iv) To perform one's job with devotion and perfection (Gita).

(v) Simply put work ethics refers to the strength of one's commitment and dedication to hard work. It is employee's attitude. Americans work hard. Japanese work harder or too hard.

A professional manager describes work ethics as under

"Work ethics embraces work responsibility, work conscience, ethical work conduct. If one has the satisfaction that he is contributing his very best to his organization and is not just earning the bread, and then this would be the truth feeling of work ethics. Work ethics demands that one works for attaining organizational objectives in its fullest measure."

Four P's Work Ethics and Individual Attitude to Work

To explain it more explicitly, a person joining any work organization does so under a "Contract"- that he will be entitled to receive or take from organization, a package of compensation against what he gives to the organization by way of physical and mental efforts to concrete tangible results.

Compliance with this Contractual obligation and fulfilling this commitment which he ahs made to his employer-organization by entering into "work contract" is the crux of work ethics that must honour.

In order to fulfil his obligations and commitment, he has to exhibit certain attitudes, apply certain skills to the desired levels of excellence. He has to translate certain desirable habits, such as, regularity, punctuality, discipline, promptness, initiative and so on. All those together, contribute an ethical-value system, which every employee follows.

However, organization atmosphere presents a picture of anti-work ethics or absence of work ethics.

People seem to be obsessed with only 3 P's, viz. Pay, prospects and Promotion and forgetting the 4th viz. Performance-which is so fundamental to the concept of work ethics.

Thus, Central to Theme of Work Ethics is the Individual and his Attitude to Work.

We give examples of poor work ethics. Few illustrations: We are faced with numerous problems like-sub-standard performance, wasteful and restrictive practices by trade unions, apathy towards punctuality, quality of work, passing the buck, etc.

A Japanese visitor to India was impressed by widespread use of wrist watches by our people and remarked to his Indian friend that every one here sported a watch, but no one is punctual and watch appears to be status symbol than useful instrument of punctuality.

We have aped western life style and habits. One common being calling our seniors by their first names. Fostering so intimate relationship with Boss has affected our work ethics adversely. Employee refuses to accomplish task and take advantage of intimacy. They show undisciplined behaviour, arrogance and irregular habits. All leading to bad work ethics. This does not happen in western culture calling first name is quite natural in their society.

Improving Work Ethics

1. Solution to the problem of work ethics does not lie merely in spelling out in impressive codes of conduct. Let us not forget Swami Vivekananda's warning that man cannot be made moral by an act of parliament. The only way to change a man for the better character is through imparting, man-making education, i.e. education by which character is formed, strength of mind is increased and by which one can stand on one's own feet and not merely collect some degrees.

2. Other Indian approaches for improving work ethics are:

(a) Employer should love his employees. Loving does not mean refraining from punishing the guilty, inefficient and corrupt employees.

(b) To cultivate the attitude of sport or "Lila" towards work.

(c) Inculcating among employees shifting mindset from "taking" to "giving modes." We always look at what I am getting benefit from the organization. We forget what we have to contribute. Change our attitude from "Beggar's mode" to Achiever's mode."

(d) "To work like a master and not like a slave." Swami Vivekananda further emphasizes that 99 % of us work like slave and this results in misery. It is all selfish work. We should work through freedom, work through love. To view work as an act of love and freedom, this can bring about a revolution in one's attitude towards work ethics. It is a case of trigger cubs believing themselves as to be lambs. Hoe we can contribute as leader in work if we degenerate as slave.

(e) Renunciation and service are twin ideals rest will take care of itself (Gita).

3. Organization can create strong work culture through appropriate systems, as well as rewards and penalties. For example, in same building there are offices of private companies, government offices and public sector undertaking. Government work culture is highly undisciplined-people come to work at will, stay away from work. Productivity is poor. Parks around building are full with employees' playing cards. On the other hand, if same person joins private employer, he puts in greater effort. It is ethos of government that is at fault. Numbers of holydays in government offices are numerous.

If work discipline in terms of time and staying at work place becomes mandatory and subject of penalties for non-compliance, we will quickly change culture. Top persons in organization have to set examples

4. Further, commitment, accountability and taking responsibility can be included through various practices such as role clarity, performance evaluations to be objective, etc. for creating organization discipline.

5. Protecting the organization from loose talk comes as a result of pride in the organization. This pride can be inculcated through good internal communications, such as to fully inform employees about company programmes. Work ethics can be created and nurtured among employees. Managerial action is required to achieve it.

6. Involvement of employees so that work is kept challenging, more satisfying and rewarding for individuals. It is productive. 7. Developing an attitude in work. It is relevant here to quote SK Chakraborty ("Human Values in Organizations-an Attitudinal Exploration of Values", in human values for managers, wheeler publishing) that broadly, it is possible to develop an attitude in work situations on the following lines:

- I am blessed in this situation because, compared to millions of unemployed, I have opportunity of working in this position and enjoying relatively greater benefits and better working environment.
- For whatever the organization the given me and done for me, I am grateful, and whatever I do in return can never adequately compensate for them.
- While it is my duty to help my subordinates and peers in enabling them to do their best for overall welfare of the organization it is not my business to sit in judgment over their actions, nor is to take on the responsibility of reforming them to confirm to what I think right.
- The law of Karma ensures a perfect balance between what I give to others and what I receive from them, no matter whether it is a mere thought/action/attitude, favourable or unfavourable , material or non-material. So, there is no reason for me either to feel depressed when PTE do not respond favorably to what I have done, or feel elated when my expectations come true.
- All those who work with me are essentially different forms of my own true self and, therefore, I cannot injure others without in effect injuring my own self, nor can I help them without in effect helping myself.
- If another person shows a negative attitude towards me, the real cause for that lies in myself and not in that person. It is infinitely more fruitful to undergo introspection to fine and root out the negative attitude in my conduct.
- If I discharge my duties properly, my rights will automatically by fulfilled, sooner or later. It is the divine law. It is the law of Karma. It is the time-tested and confirmed theory of retribution and reward.

Functions of work, why is work important to individuals?

What Functions does Work Serve?

Some advantages from work are:

(i) First, work serves economic function in exchange for work we receive income to support self and family. It provides economic self-sufficiency.

(ii) Second, work serves several social functions. The work place provides opportunities for meeting new people and develops friends and source of social interchange.

(iii) Third, we provide a source of social status in community. One's occupation gives importance to an individual in society. It serves as a source of social differentiation and also a source of social integration.

(iv) Fourth, work is an important source of identify and self-esteem and it is a means for self-actualisation. It provides a sense of purpose and clarify their contribution to society. Work shows employees mastery to competence in their job. It is also reassures that they are of value to others.

(v) It will be relevant to quote Sorab Sadri (Business Ethics, MsGraw Hill) what he class as new work ethics.

- "Man is the author of his work
- It is work the man elects to identify and nurture his talents.
- Work can neither be goalless nor motiveless.
- It is the integrity and honesty with which a man execute a role that distinguishes him from others.
- In work, the mind of man should merge knowledge, faith, contemplation and action.
- Fundamentally, work is manifestation of man himself.
- It is the nature of man to work, as it is the nature of the sun to radiate.
- To deny man of work unjustly, therefore, is to deny him of the opportunity to manifest himself. • Ultimately, when work ethics are redefined, it is really man who is being redefined: for both work and ethics relate to man.

Different Views on Work

- Max-Weber's-Protestant ethics, i.e. hard work, conservative loyalty to organization.
- Argyaris, McGregor and Brown feel that work is basically a pleasant activity-it is driving force which gives direction and meaning to one's life.
- Another view is that work is an escape from hunger, boredom and illness.
- Like the Greeks, the Hebrews too regard work as drudgery.
- According to Freud, "work is an unpleasant activity".
- Bhagwat Gita advocates an entirely new philosophy to work. While Vedas preached the ethics of desires.

The Upanihsads advocated an ethics based on pure knowledge, but Gita based itself not only on the elements of "desires" and "knowledge" in human nature, but also on third element in it, "activity".

Here the call is to act, "Act in the living present"-Karma Yoga. Karma means action, duty or work done not with selfish motive, but with the object of serving humanity. A man's primary duty is to perform the job allocated to him with devotion and perfection. Only then he can hope to achieve salvation.

Thus, Gita gives new dignity to work. Work is not unpleasant activity or some sort of punishment, but a way of life ordained by the Lord.

Work is something inherent in the nature of people. McGregor says the same thing. The Gita preaches the mantra of Karma Yogi. It preaches devotion to duty, to one's calling regardless of its consequences.

Work is not only necessary to keep the body and mind occupied, it is necessary for perfection.

No work is inferior. All men who work have to be treated with dignity. Work is an end in itself according to Gita. Work is worship.

Human relations is a passion with Gita. The Lord sets a unique example in human relations by acting as the charioteer of Arjuna. He wanted to emphasize that no job was low or high. Besides he wanted to establish that a leader has to serve the masses. A leader is not the master but servant of the people.

1.12 Summary

Introduction

In a recent front-page article in the wall street journal, Jacob Schlesinger wounded: "Why has the `80s?" The '90s so far eluded the 'Decade of Greed' label that hung over the `80s?" The news was certainly full of stories of young millionaires bursting forth in record numbers due to the boon in technology stock prices. And you couldn't turn a page without seeing any number of CEO compensation packages tip in at millions of dollars in salaries and perks.

How Business Can Be Good

I was taken aback not so much by the article's sentiment as by its source. Here was The Wall Street Journal- the archconservative voice of capitalism-drawing attention to the problems endemic to outrageous income disparities at a time when that particular cause hadn't the news cachet it held during the greed-drenched '80s. "Business ethics," a topic that for years has been relegated to the deep interior of business publications or the fringes of business school curriculum, suddenly has status.

A Shift in Thinking

The standard argument made among business people used to be that a business's responsibility was first and foremost to its shareholders. Economists Milton Friend man and Alfred Carr were chief among those propagating that once-prevailing wisdom.

What's Ethical Behavior?

Johnson & Johnson is often heralded as a company whose ethical behavior is exemplary, looking at how this company's core beliefs affects the way it handles critical ethical decisions can help demonstrate how a clear commitment to ethical behavior in business can define how a business operates, both inside and outside its walls.

First, the Lawyers

When we talk about ethical behavior in business, too frequently we're really talking about the kind of behavior people need to avoid litigation. We put behavior policies in place so we don't get sued for sexual harassment, penalizing minority workers, or slandering poor-performing employees.

Finding a Place

The deeper challenge is not merely to get businesses or corporations to change, but to get the people who are making decisions within these organizations to change the way they think-to realize that the same care they take to behave ethically in their personal lives should drive the decisions they make in their professional lives.

Defining and Communicating Ethics in Your Business

Through this article, the author intends to begin a conversation about the ever-so-critical issue of communicating ethics in business. The author provides real-world examples to help companies communicate their organizational code of ethics to their employees.

What is to be Ethical?

To us at IVC, ethics goes beyond the act of throwing money at a deserving charity if the primary intention is to reap the public relations perks, particularly if t he 'PR spin' masks questionable organizational practices and behaviors.

What Shapes Our View Of Ethics?

The short answer: Everything. Our experiences (or lack of); peers; religious beliefs; edicts from a power we deem higher than ourselves, i.e., international law or a Supreme Consciousness; people to whom we are exposed, for better or worse; and our decision to seek out models of ethical behavior are all examples of how we shape our ethical portfolios.

Consider these real-world examples

A colleague shared with us a story of a person who contacted her about how to best avoid the negative implications of bankruptcy, which he was going to pursue to relieve him self of the burden of personal debts he had accumulated.

Communicating ethics in a way that informs and affects behavior

Use these tips as a stating point for your organizational ethics into the day-to-day activity of you're your business or department.

Examine the intention

As with any project, examine the underlying intentions for establishing company ethics. Are your ethical issues really a symptom of a greater ill, such as extremely low morale? Is the company following a new business fad, like developing a publicity friendly ethics statement, but has no real interest in making its ethical 'statement' a behavioral reality?

Highlight the company's 'legends' that personify its ethics

Every company has stories that leadership likes to share to demonstrate the way they want to operate.

Some Obstacle to Success

- Ego
- Fear of failure
- No plan
- Lack of formalized goals
- Lack of commitment
- Lack of priorities
- Overcoming obstacles

Action Plan for Success

It is necessary to have an action plan to translate our aspirations and dreams. Such a plan must contain goals to achieve. We share some steps towards this process of success

What is Happiness?

Is it?

- Rich and material comforts,
- Success in your endeavour, Love affection, respect and reputation, More relationships and friends,
- Mental control, peace.
- Satisfaction, self-actualization, self-fulfilment,
- Absence of sorrow, and
- Happiness wherever you get it, seek it.

Anagram of Happiness

- H : Humanity, Health and Humour,
- A : Appreciation and Acceptance,

- P : Patience and Peace,
- P : Persistence and Perseverance,
- I : Initiative and Intuition,
- N : Naturalness,
- E : Empathy,
- S : Simplicity and Satisfaction, and
- S : Selflessness.

What is to be ethical?

- Moral principles
- Philosophy
- Right and wrong
- Motives
- Consequences

Keys to success

- Responsibility (to take charge and to handle pressure).
- Hard efforts (fortitude) stay tough and have a belief in it. Performance at the peak.
- Integrity (drama)
- Positive mindset. If you think you can, you are right. Develop positive self- image.
- Persistence-never give up, hold your nerve and win mental toughness. Fighting
- Back with amazing resilience.
- Sense of pride in excellence or achievements.
- Continuing to be learner.
- Keep integrity high.

Action Plan for Success

Step I: Dream a vision and be Winner

Step II: Set Goals and Achieve

Step III: Persistence and perseverance is Vital

Step IV: Determination to Succeed

Step V: Have faith in Actions and Results

1.13 Self Assessment Test

1. Developing an effective communication program on ethics related beliefs offers a number of advantages to companies and also helps in shaping the perceptions of ethics in the business. What are the steps in developing an effective communication system?
2. The concept of ethics considerably varies according to the fields of application Critically examine the relationship between the theoretical and practical aspects of ethics, the philosophical foundation of ethics and the moral status of ethical organizations.
3. Companies' commitment to ethical behavior can help define how a business may operate both inside and outside. What are the ethical issues companies faces today?
4. Write note on the following's:
   - How Business Can Be Good
   - A Shift in Thinking
   - What's Ethical Behavior?
   - Ethics in Your Business
   - What is to be ethical?
   - What shapes our view of ethics?

1.14 Further Reading

- Business Ethics: Ethical Decision making and Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leavening classroom Edition: Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Jospeph R. Desjardirs
- Managing Business Ethics: Straight talk about how to do it Right.
- Business Ethics by Joseph W. Weiss

Assignment

In today's business environment, do organizations need to incorporate among its managers a sense of ethical consciousness? Why?

_____

_____

_____

_____

UNIT 2 REALITY OF BUSINESS ETHICS

Learning Objectives

After going through this unit student will able to:-

• To understand how organization culture promotes ethical corporate behaviour.

• To understand Meaning of culture;

• To understand Components of culture;

• To understand Characteristics of culture;

• To understand Precursors of culture: and

• To understand Effects of culture on individuals and organizations

• To understand organization culture-building and maintaining

• To understand managing cultural diversity in organization

Structure

2.1 Introduction

For today's environmental leaders, the big question may be whether a positive environmental record pays or not. Although environmental awards have positive effects on firm's valuation. At the corporate level, without top level commitment and encouragement, managers and employees have little motivation to devote their time and energy to environmental issues. Until employees understand the relative importance of considering environmental issues — in terms of company performance, management priorities, and their own private towards-little progress will be made in an area vital to the firm's success. The article discusses environmental management and its role in the business decision making process.

2.2 Culture

In an earlier we had discussed how organization culture promotes ethical corporate behaviour. We have devoted more chapters for explaining the various facets of organization culture particularly in building and maintaining value-based culture.

Ircon International Ltd., a leading public sector company-Indian Railway Project construction Corporation adopts a policy of appointing top personnel from India and other staff from host country in case of foreign assignments. Why is it so? Anil Jain, a senior executive gives the reasons as-greater understanding of the country by the local personnel. This understanding relates to the understanding of the people, their customs, norms and systems of the country. But here comes one more problem-the top management personnel from the home country have to supervise the host country staff. This is a major problem because the living and working patterns of both the countries are different. The only solution to this problem according to Anil Jain is making the Indian personnel at the top aware of the culture of the host country. This is because of it that is the culture of the country has bearing on the conduct of business in every functional are.

Internationalisation of business has posed new challenges for the organizations. The major challenge that is faced by any global business house today is that of handling diversity in the cultures as explained in the example aboy,e. At the root of this diversity are the cultural aspects of the nations. To begin with,'-we shall understand:

1. Meaning of culture;
2. Components of culture;
3. Characteristics of culture;
4. Precursors of culture: and
5. Effects of culture on individuals and organizations.

Meaning of Culture

Culture, today, is being defined as an intellectual or moral discipline and training, a state of intellectual and artistic development or a historically transmitted pattern of meanings. Culture has

also been described as a set of rules, values and beliefs-good or bad-which community adopts as its norms.

Culture: Characteristic

Component of Culture

1. Communication

Some cultures are polite and gracious, others are demanding. Japanese are more non-verbal and we have to understand their total communication.

2. Language

Language can become confusion or convey meaning.

3. Dress and Appearance

Dress and appearance identity culture. Arabs were particular type of dress.

4. Food Habits

Food habits typify a culture, for example, Pizza is cherished in Italy, Dosa in India.

5. Time

Time consciousness from punctuality of Japanese or Americans to flexible attitude towards time of Arabs and Indians.

6. Rewards and Recognition

Rewards and recognition differ from country, for example, giving 15 % of fare tip to taxi driver in USA is customary, in India it is optional.

7. Values and Norms

Values and norms, e.g. attitude towards corruption very in Germany and Italy.

Characteristics of Culture

The culture is associated with following characteristics:

1. Culture is Learnt

Culture is acquired through experience and learning. People learn culture of a group when they become members. Children are borne into a family and are taught the values and norms of that family and society.

2. Culture is shared

People who are members of particular groups, organizations, and societies share a particular culture; it is not specific to a single individuals. These groups include family groups, occupational groups, regional groups_ and national groups.

3. Culture is Transgenerational

Culture is passed on in the cumulative process from generation to the next, from parents to children, from teachers to pupils and similarly in organizations. This process is called socialisation.

4. Culture is Symbolic.

Culture depends upon individual's capacity to symbolize or to use one thing to represent another.

5. Culture is Patterned

Culture process structure and is integrated. Change in one aspect of culture causes changes in another.

6. Culture is Adoptive

Culture depends on human capacity to adapt to change.

7. Culture is Descriptive

Culture defines the boundaries of different groups. These boundaries act as demarcations for characterising those groups.

8. Culture has Historical Dimension

A particular nation's culture develops over-time due to history, economic development, etc. a warm climate, for example, limits inhabitants to a completely different life style than a cold climate. The societal norms that develop over-time lead to the development of institutions such as family patterns, religious, political and legal systems reflects these shared ways of acting and thinking. For example, social inequality is more generally accepted in France than in Netherland.

9. Finally, Culture has different Layers

Hofstede (1991) mentions four levels of culture:

(a) First level consist of symbol,, e.g. words, gestures and objects that carry a particular meaning for the members of a society such as country's flag, its national anthem.

(b) Heroes constitute the second level of culture. This refers to persons that are highly prized in society and who may serve as role models.

(c) The third level of culture consists of rituals. These are social norms that need to be followed. For example, how we greet friends, etc. which may differ from one nation to other nation.

(d) The deepest level of culture distinguished by Hofstede consists of shared values which represent collective beliefs and feelings what is good, rational and valuable. We normally take values fro granted. We become aware of own values when we meet people from other cultures with different set of values. We normally consider our values as most appropriate. In international collaboration such a belief increases the potential for conflict.

Precursors of Culture

The constituents or rather the precursors of culture are the interrelated concepts of beliefs, values, attitude and behaviour.

Here, one factor leads to another in sequence but the feedback loop is multifaceted, indicating that consequences of a given behaviour will have implications for each of the precursors, which in turn define culture. Each of these factors can be understood as under:

1. Beliefs

One's beliefs are the results of direct observations as well as from inferences that are drawn from previously learnt relationships. One's beliefs system is the cognitive representation of one's relevant environment, complete with right-or-wrong, good-or-bad, and cause-and effect relationships. The Principle of Belief Congruence holds that we tend to value a given belief or a belief system in direct promotion to the degree of congruence with our own belief system, and we tend to value individuals with respect to the degree to which they exhibit beliefs and belief systems congruent with our own.

2. Values

A value is "an enduring belief that a specific mode of conduct or endstate of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence." A value system is "an enduring organization of beliefs concerning preferable modes of conduct or end-states of existence along a continuum of relative importance." Thus, a value is comprised of one or more centrally-important and enduring beliefs.

Values have a considerable influence on the identity and role of individual rights and duties as opposed to collective ones. For example, inmost Western European countries and North America children are raised to be self-sufficient as adults. Children are taught to take their own decisions and solve their own problems. This reflects individualism. In contrast, in other societies children are taught that they belong to extended family and they owe their loyalty. Similarly, property in western society belongs to individuals while in others it is shared with other members of the group.

3. Attitudes

An attitude is "a learned predisposition to respond in a consistently favour, tble or unfavourable manner with respect to a given object." Attitudes are based in central beliefs and value systems.

4. Behaviour

Beliefs lead to values that, in turn, are predispositions to behave in a certain prescribed manners. Therefore, beliefs and value system are maintained by the consistency of behaviour that is predisposed by the person's strongest values. If the behaviour results in positive consequences, that feedback will reinforce and strengthen the person's related beliefs, values, and attitudes; and the person will acquire even greater predisposition to behave in that manner again. If, however, the behaviour results in negative consequences, the person's related beliefs, values and attitudes will be weakened; and the person will be less disposed to behave in that manner again.

Hence, the combined relationship between beliefs, values, attitudes and behaviour may be seen as components of culture.

Culture: Its Effects in Organizations

The culture of the society comprises the shared values, understanding, assumptions, and goals that are learned from earlier generations, imposed by present members of the society, and passed on to succeeding generations. This shared outlook results, in the large part, in common attitudes, codes of conduct, and expectations that sub-consciously guide and control certain norms of behaviour. One is born into a given culture and then gradually internalizes its subtle effects through the socialisation process. Culture results in the basis for living grounded in shared communication, standards, codes of conduct, and expectations. These differences results from societal, or socio-cultural variables of culture, such as religion and language, in addition to prevailing national variables, such as economic, legal, and political factors.

Cultural Diversity and the Work Organization

Initially, national culture shapes the organization through values, attitudes which a leader brings into the organization. They will shape organization according to dominant preferences, norms and values of that environment. For examples, a society characterised by distinct inequalities of the son-parent, pupil-teacher, it is anticipated the work organizations will also reflect this tendency. In most Asian countries, it is common to accept the authority of one's elders. So superior-subordinate relationship in the organization are also characterised by larger power distance and by centralisation of authority.

In a second way, national culture shapes the organization through institutions in that country. For example, participative legislation which grants employee a say in organizational decision-making may be reflection of shaping of power and influence in that country.

2.3 Organization Culture-Building and Maintaining

Organization culture is a common perception held by the organization's members. Organization culture is the shared understandings of norms, values, attitudes and beliefs-of an organization, which can foster of impede change.

It is a system of shared meaning. An understanding to employees of "the way things are done here." Organization culture conveys the ways in which "people work and think."

Organization culture may be referred to pattern of beliefs, values and learned ways of coping within an organization. These are visible in structures and process of the organization and the ways its employees behave.

"An organization's culture consists of the shared values and common assumptions held by the people within the organization." In dynamic organizations, these values and assumptions drive behaviours that create value for the organization's major stakeholders, be it customers, employees or other groups such as suppliers, etc. As opposed to developing individuals' resources, building a `Cultural Identity' for the organization is what Cultural Competency is all about.

People are crucial for gaining organizational advantage. The environment and culture will stimulate individuals to perform in the desired manner.

The strong, widely recognised corporate culture is frequently cited as a reason for the success of such companies as IBM and Procter and Gamble. A company's predominant culture may change quite rapidly or be forced by competition into change. Vijay Sathe has shown that culture's durability and efficiency represent both an asset and a liability for an organization, and a smart manger must learn when to stop perpetuating a culture that is unresponsive to the need of business. In such circumstances Chief Executive may institute a change in overall organizational culture, which involves not merely structural and technological change, but also change in shared symbols, rituals and beliefs.

In this chapter, we have attempted to share some vital aspects of the organization culture.

1. Importance of organization culture as a technique in OD.
2. Characteristics of organization culture.
3. Elements of organization culture transmitted to employees.
4. How organization culture starts in an organization.
5. Socialisation process-familiarisation with organization culture.
6. Maintaining organization's culture.
7. Can organization culture be altered or realigned?
8. Is corporate culture now in crisis?
9. Steps for rebuilding organization culture in highly turbulent competitive environment.

Importance of Organization Culture as a Technique in OD

1. Background

In UAS, during 1980s, CEOs were successful in taking over a firm that had problems, by cutting the work force and rebuild organization to•be effective. However, during 1991s, much different approach has followed for survival a growth of an organization:

a) Create pride and enthusiasm in the firm;
b) CEOs worked as role models to direct and work long hours to attain goals;
c) Encouraging positive way how things can be done efficiently and differently;
d) CEOs shared in meeting with managers to turn out best programmes; and
e) To look after the best people and place them best suited jobs, so as to encourage team work and creative ideas, etc.

Thus, various aspects which influenced culture were initiative, trust, support and innovation. One culture is usually typified by equality of excellence, high quality, openness in communication, participation in decision-making, high standards of safety, good corporate citizen, emphasis on new technology, modern management trends.

The other extreme type culture can be devoid of initiative and flexibility, lack of discipline, chalta hai mentality, and mere conformity to rules rather than ends.

Thus, it came to realized that corporate culture is important to corporate growth, success, excellence and survival. It has motivating effect on employees. Culture influence as organization's competitiveness over time. It can make organization more effective. If developed to be a strategy for organization effectiveness, which OD aims at. It has various advantages for the organization such as:

i. Organization culture is necessary to adopt for changes arising due to competition.
ii. Values and beliefs provide a sense to common direction, energy and guidelines for day-to-day behaviour. Common bond promotes emotional and social cohesion and establishes sense of identity. Values provide a spirit and drive for achievement. Values also provide guidelines for employees for taking decisions.
iii. It influences every one's perceptions of business and accepted ways of behaving.
iv. Strong and positive culture give many benefits to companies. It leads to high morals, sense of commitment and organization pride. Strong cultures are core values (shared by majority) are intensely held and widely shared.
v. Variations in cultural values have significant impact on employee turnover and job performance.

Any organization that wants a lead over its competitors, therefore, needs to have a clearly defined, commonly shared set of values which guide the stakeholders in all their actions and decisions. If these are not in place, the decentralized organization may well become the disintegrated organization.

2. Characteristics of Organization Culture

Stephen P Robbins has stated that the following seven primary characteristics capture the essence of an organization culture:

i. The degree to which employees are encouraged to be innovative and risk-taking.

ii. Degree of expected precision and attention to detail.
iii. Degree to which management focuses on result orientation rather than techniques and processes.
iv. Degree to which management has people orientation-its decisions effect of outcomes on employees.
v. Degree to which activities are organized on team work rather than individuals.
vi. Degree to which people are competitive and aggressive rather than people are easy going.
vii. Degree to which organization activities emphasize on stability (maintaining status quo) in contrast to growth.

This characterization exists on a continuum from low to high. How things are done in organization and the way members are supposed to behave.

How organization cultures effect the performance and satisfaction of employees? We have observed that seven characteristics highlighted by Stephen P Robbins (Organization Behaviour) are the essence of organization culture. This characteristic exists on a continuum from low to high. If those characteristics are appraised as high by the employees then they perceive the organization's culture as favourable. Their common perceptions then affect employee's performance and satisfaction as high. This is adapted in figure.

How Organization Culture affects Performance and Satisfaction Factors:

• Innovation and Risk-taking

• Attention to detail

• Result-orientation Perceived as

• People-orientation

• Team-orientation

• Aggressiveness

• Stability vs. growth(status quo)

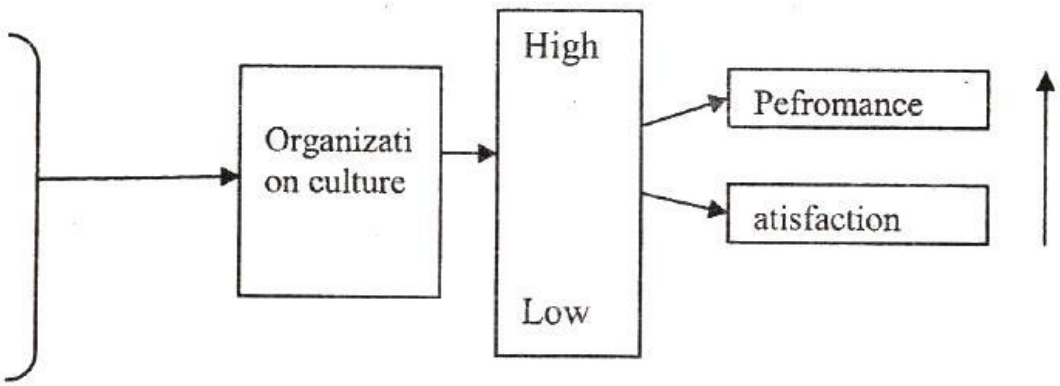

Fig. 2.1

3. Elements of Organization Culture Transmitted to Employees

Employees learn organization culture in number of forms, the most potent being, value, rites and rituals, stories, heroes, etc.

a) Values

Values are core of the culture. Both values and beliefs provide guidelines for employees to follow in their work. Values provided sense of direction and shape behaviour. They indicate what matters are to be attended carefully.

b) Heroes

Heroes personify these values. Managers provide as role-models for employees. They set the standards of performance and dress norms as formal code of behaviour.

c) Rites and Rituals

If culture and values are to thrive (and not die) these must be ritualised and celebrated repeatedly. These rituals may be of different types such as social rituals, work rituals, management rituals, recognition rituals, etc. For example, some companies celebrate their annual day function on regular basis and publically recognize outstanding performers at these functions which serve as motivator.

d) Setting-up of Cultural Network for communication

These are story tellers, priests, gossips. This network reinforces the values of the organization. Some jargon and jokes are only understood by insiders. These elements are manifestations of organization culture and new people have to learn them. When employees interpret the meanings of these, their beliefs, perceptions, experiences constitute culture. During the days of Henry Ford II when he was Chairman of the Ford Motors Company, it was famous story reminding his

executives. When one got too arrogant with the chairman, he would point that "It is my name that is on the building." The message was clear: Henry Ford ran the company!

4. How Organization Culture Starts in an Organization

Some steps commonly adopted by organization in starting and maintaining their cultures are indicated in figure

Starting Formation and Maintaining of Organization Culture

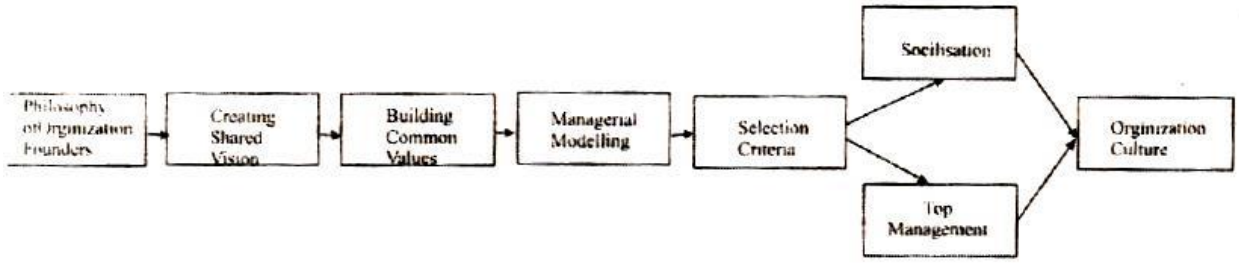

Fig. 2.2

These steps are elaborated as under:

(i) Schein has emphasised the role of the founder in creating organization value (culture) in his book Organization Dynamics, 1983. Founder has an idea for new enterprise. Leadership behaviour sets the culture tone. They formulated a statement of organizational philosophy and communicate to employees. A particularly deep intervention is E.H. Schein's "Cultural analysis." It probes deeply into the organization:

(a) Artifacts (such as Symbol, models, modes of dress, office layout),
(b) Values behind artefacts, and
(c) Cultural assumptions in group meetings.

Some contemporary examples of founders who had an immeasurable impact on their organizational culture would include Bill Gates at Microsoft, Akio Moritra at Sony, and Azim Prcmji at WIPOR.

(ii) Creation of a Vision: Transformation leadership creates a vision. He provides mission and mobilises commitment and support.
(iii) Takes key people and creates a core group that share a common vision, mission, values, goals and strategies so that it is institutionalised and become reality.
(iv) Foundation group acts in concert to create an organization culture. They adhere faithfully to the values.
(v) Involving of others' employees and common values begin to be built and solidify. Organization's values are in various areas such as-relationships to customers, social responsibility, and managerial style are focused.
(vi) Managerial modeling behaviour strongly influences the employees.

4. Socialization Process-Familiarization with Organization Culture

New employees are unfamiliar with the organization culture. The new employees are thus potential who may disturb the beliefs and customs of a new place. The organizations, therefore, want to help new employees to adapt to its culture. This adaptation process is called socialization.

The most critical socialization stage is at the time of entry into the organization. This is when organization seeks to mold the outsider into an employee, i.e. its standards and norms. Socialization can be conceptualized as a process made of 3 stages-pre-arrival, encounter, metamorphosis. (Maanen and Schein). See figure

A Socialisation Model

Process (Stages)

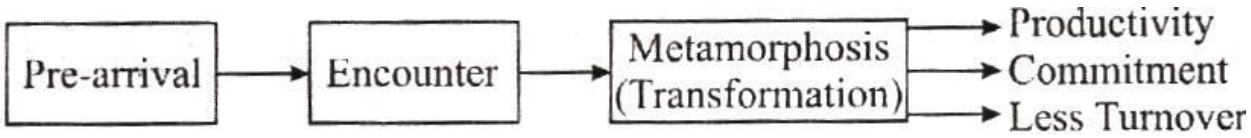

Fig. 2.3

i. Pre-arrival Stage: It is process that occurs before a new employee joins the organization. The success depends on the degree new candidate has correctly anticipated the expectations and desire of selection members. The type of people should be selected, who will fit into organization culture.

One major purpose of a business school is to socialise business students to the attitudes and behaviours that business firms want. Management students should value the will to work, loyalty, desire to achieve and willingness to accept directions fro superiors, then finns can hire executive from business schools, who have been pre-moulded in this pattern.

ii. Encounter Stage: This is a stage in socialisation process in which new employee sees what the organization is really like and detaches his previous assumptions and replaces them with another set that the organization deems desirable.

iii. Metamorphosis: This is a process in which a new employee adjusts to his work group values and norms. He has become comfortable with organization and his job. He is now committed to the organization and productivity increase.

6. Maintaining Organization's Culture: Once organization culture is build, various steps of socialization are given below. These steps are also explained in the figure given below.

Steps in Socialisation of Organization Culture

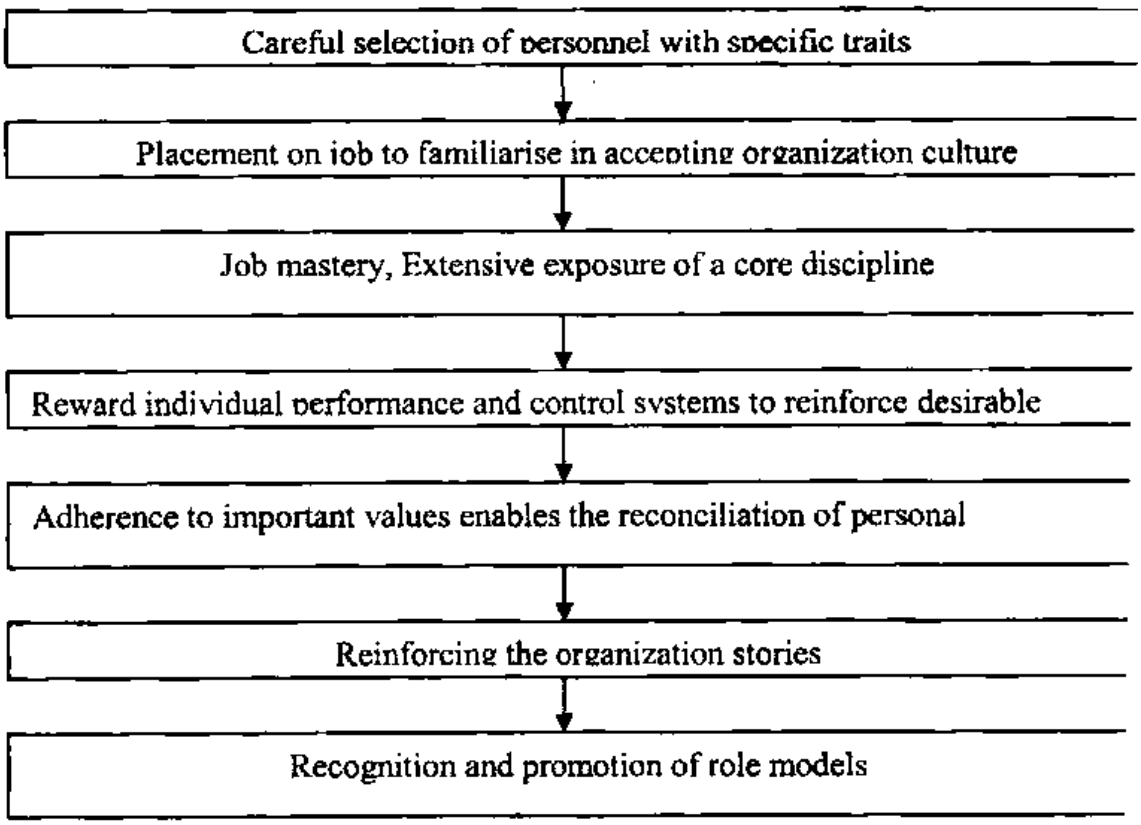

Fig. 2.4

a) Selection Criteria: Selection criteria of entry-level personnel. Using standardised procedures and seeking specific traits that lead to effective performance and candidate will fit into the organization's stem-oriented culture.
b) Socialisation-the process that adapts employees to the organization's culture. Placement on the job itself. Exposure to different experiences whose purpose is to cause them to question the organization's norms and values and to decide whether or not they can accept them.
c) Job Mastery: Once the initial "cultural shock" is over, the next step is mastery of one's values to those of the organization. This is done via extensive and carefully reinforced field experience.
d) Measuring and rewarding individual performance and matching employee's values to those of the organization. The actions of top management have a major impact on the organization culture as to what actions will pay-off in terms of pay raises, promotions and other rewards.

7. Can Organization Culture be Altered or Realigned?

Organization culture can be altered. It can be managed and realised to the strategic direction an organization wishes to take. Bate (1995) argues that, within organization, culture is a dynamic, continuously developing phenomenon. If managers can manage organization' cultures they can change culture and also prevent its change as well as abandon of destroy it (Ogbonna, 1993). We

explore possible frameworks for managing both gradual or developmental change and more radical or transformational change to a new culture.

Framework for Managing the Change: Lewis (1996) reviews a range of frameworks for managing cultural change. One of the most widely quoted of these is Lewin's (1952) three steps of unfreezing, moving and refreezing. Lewin's framework emphasises that before an organization can be transformed to a completely new culture, the embedded culture must be unfrozen and made more susceptible to change. Subsequent to the change his framework highlights the importance of stabilising and institutionalising the new culture, in Lewin's words freezing.

Cultural change can occur from and within an existing organizational culture and be influenced by wider societal and national cultures. Strategies for culture change can be either top-down or bottom-up approach. Change in organization culture may take a form explained in figure.

The New and Old Organisational Cultures (developed from Hastings, 1993)

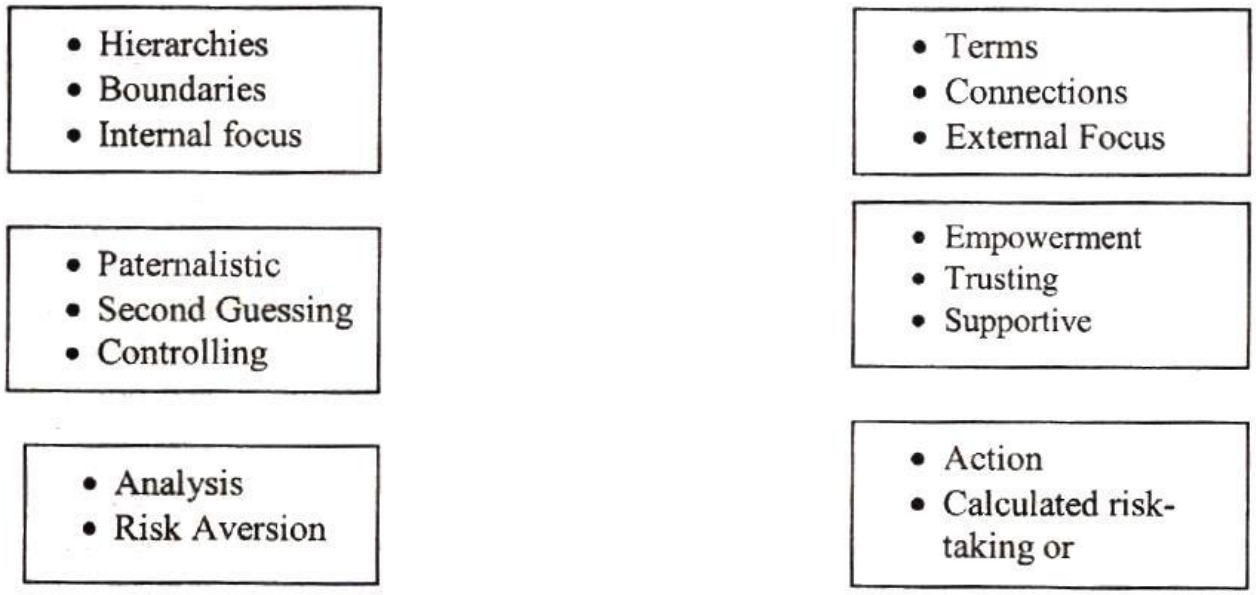

Fig. 2.5

8. Is Corporate Culture now in Crisis?

Even in the beginning of new millennium the "corporate culture" had become widely accepted term in business.

Commonly shared values and assumption are important, but are of no use, it they are just a set of phrases and sayings that are written down, but not actually practised, by each and every person in the organization. In fact, when an organization pays only lip service to its values, the management of organization loses credibility and faith not only within, but also outside the organization.

Terrence E. Deal and Alian A. Kennedy have now focussed that the corporate culture landscape has shifted. In some corporations traditional cultural pattern have seriously eroded, e.g. GM, GE, Kodak, Woolmark. It is not easy to maintain a cohesive culture in the face of external flux and economic ups and downs. It is difficult to balance the conflicting demands of customers, shareholders and employees. So managers are bereft of ideas for where to turn.

Factors Causing Crisis in Corporate Culture: According to them the corporate cultures are in crisis-due to following factors:

(i) Shareholder' value movement and the impact it has had on corporate decision-making.
(ii) Focus on downsizing, which has cut the soul of many corporations.
(iii) Outsourcing has emerged as new tool of cost-cutting when conventional cost-reduction approaches have begun to run out of steam.
(iv) Floe corporate merger-mania has forced the most-unlikely combinations on the work-forces which are still dealing from waves of cost-cutting of early 1991 s.
(v) How computerisation (potentially a tool for relieving employees from drudgery), has instead violated employees from one another and made them servants to machines.
(vi) How narrowing boundaries of the world have thrown peoples together in global work place.

Combinations of these factors have thrown traditional corporate culture, replacing joy, commitment and loyalty with fear, alienation and self-interest.

Need for Building New Corporate Culture: So they have stressed the need for rebuilding new corporate culture. So task is to rebuild cohesive cultures.

(i) Importance of leadership. In an effort to rebuild the cultural cohesion of business leadership role is vital. They can add momentum to a culture re-building.

(ii) It is essential to rebuild the social context of work, if people are to be motivated to give their best efforts to their employees. This is the challenge of decade.

- Manager can begin the process of redefining the work place as a meaningful human environment with high potential for top productivity.
- They can help to make work an attractive place to be.
- Managers can recapture the spirit of employees and channel this energy into furthering the goals of the business. But they can do so only if they recognise the mutual dependencies of employees and employers and need to create a cultural milieu that benefit all. Managers who accept this challenge will become the business leaders of tomorrow.

9. Steps for Rebuilding Organization Culture in Highly Turbulent Competitive Environment.

Terrence and Kennedy have suggested following steps:

(i) Making people want to go work, by providing good favourable compensation and remove pay as demotivating factor.

(ii) Reasonable level of job security. Employers have created the problem of rampant job insecurity by their own actions. Although the promise of a job security for two years is hardly enough to allow workers to feel secure, even such a limited guarantee can make a much difference. Al it takes on the part an employer is a little foresight and a willingness to be fair to employees.

(iii) Focus on job content and job satisfaction. Decentralisation of work can help in this aspect.

(iv) A socially rewarding environment:
- The first crucial element is respect for employee and feeling that he is valued.
- Building happy and productive employees through fun and adventure (full of challenge) at work, and
- Fellowship at work. Teamwork with similar values.

(v) Physically comfortable work environment:
- Cleanliness, and
- Informal place for interaction and socially friendly working environment.

(vi) Preparing to live in globalised world, such as cross cultural differences and preparing to learn from others:
- Develop potential synergies to be gained from understanding and using other's values, knowledge and experience.
- Not to undermine foreign cultures and team members to work together.

(vii) building a learning environment at work, e.g.
- Creating a knowledge-based environment,
- Steps for individual learning and organization learning, and
- Knowledge people as the basis of future business.

Terrence and Kennedy have concluded with the observations that business inevitably moves in cycles. Americans are optimistic enough to balance and shake-off some of the recent excesses. The rebalance of business interests is needed to help restore some semblance the competing interest (of the stakeholders) is of vital importance. The need of any one particular stakeholder is best met by serving the need of all the stakeholders. A study spanning 172 companies in 19 industries, conducted over 11 years by Kotter and Heskett shows that multi-stakeholders culture companies are far more focus successful than those with a narrow focus. For sustaing the culture, it is imperative that the movement is oriented to a higher good.

Long-term higher goals, by their very nature are unselfish. They focus on the good of many rather than advantage to few. If we take a look at Japanese companies which have been storming the world with high quality, low price products, we will find that these organizations never have selfish or limited motives such as mere generation of profits as their long-term higher goal.

An example of such a company would be Sony. Co-funded by Akio Morita, the company was able to produce high quality products only because of the desire to promo good products to the people. It could have as well, made a quick buck by producing cheap products, but the higher goal guided it towards an unselfish, and in the long-run, a phenomenally successfully objective.

2.4 Managing Cultural Diversity in Organization

There have been considerable changes, in almost all societies, brought about by technological advances, social alterations, economic influences and political and environmental pressures. The existing and future trends will throw new challenges in managing cultural diversity in organizations.

a) Some major forces for change currently happening are:

(i) Technological

• Artificial organs and transplants

• The space shuttle

• It and interne resolutions

• Biotechnological revolution

(ii) Social

• Women's movement

• Human rights movement

• Growth in higher education

• Stress and tensions

(iii) Economic

• Rise in living standards

• Rapid expansion of the check less society (i.e., credit cards)

• Fluctuating interest rates and inflation rate

• Global competition

• Tax rates

(iv) Environment

• Pollution wild-life protection

• Customers and employee protection

(a) Further societal trends will vitally influence peoples' cultural norms and values. Some trends and practices are seen in organization are:

- Creation of bio-model workforce of the future: With distribution in two large groups with very different earnings and professional backgrounds the tensions between two groups, i.e. workforce and professionals will grow. There is need for more employee participation and non-financial rewards by the organizations.
- Management's move to make their organization 'learn and mean': Employees are getting less secure in their jobs. There will be "corporate divorce" in the decades to come, when they early retire their employees to improve productivity and at the same time out-sourcing young employees.

• Dual career couples as the one-bread-winner household is rapidly disappearing. This will decrease employees mobility and focus will be on the local job market. To attract and retain female employees, the organizations will provide more day care services. Works-related health problems, especially back strain, eye strain may have to be reduced by having ergonomically designed furniture in offices.

• Working at home by IT savvy workforce: more people will be employed in this manner and through part-time service.

• Though there will be fewer people unionised, the rift between unions and management will continue.

The environment in which managers work today is more dynamic than in the past. The individuals with whom they work in future will be diverse in intents, abilities, values and motivations. Thus, there will be challenges in managing its people and culture diversity in organizations.

In the remaining part of this chapter we shall attempt to summarise our thinking on managing cultural diversity under following headings:

(i) Meaning of culture diversity,
(ii) Importance of cultural diversity,
(iii) Two aspects of cultural diversity:
    (a) Global business operations, and
    (b) Work place diversity in organization.
(iv) Managing cultural diversity,
(v) Advantages of managing cultural diversity,
(vi) To conclude.

(I) Meaning of Cultural Diversity

Culture is "software of the mind", the way people think, act and perceive others and it is shared by societies. Three primary components of culture, relevant to international business are language, religion and attitudes.

Cultural diversity (CD) indicates the characteristics that may make an individual cultural different from another. These differences may be:

(a) Cultural differences involving patterns of life styles, values, beliefs, ideals, practices.
(b) Differences may include race, national origin, language, religion, age, etc.
(c) Differences in views held about the world, codes of social behaviour, communication styles.

(H) Importance of Cultural Diversity

1. Cultural diversity is one of the major challenges facing global business organizations, as it is important for success and vitality of the organization.

2. Management process is increasingly becoming cross-cultural with opening of Indian economy and globalization. It becomes necessary to have an understanding of various cultures, and the ways to manage the cultural diversity for achieving competitive advantage. This brings one of the major challenges for the MNCs, exporters, tourists, sportsmen, entrepreneurs , artists, diplomats of foreign service, financial experts, researchers, etc. who operate in diverse cultures.

3. It has importance in all activities of life and more so in international business operations, such as:

• Cross-cultural differences in communication can be source of problem due to different people. So awareness of certain characteristics of other culture reduces misinterpretation rid thus in improving communication in business introductions, telephonic conversations and meetings is important.

4. It has implications in all fields of management, such as:

- In international marketing practices
- In international advertising
- In international business negotiations
- In international human resource management
- In international practices in industrial relations
- In international management function (PODCC)
- In international developing strategies in global
- In international organization structure
- In international manager's role (MNCc) in global market.

(III) Two Aspects of Cultural Diversity

(a) First Aspect Relates to Global Cultural Diversity

People of one country have common characteristics that differentiate them from people of other countries. This is called international diversity.

Understanding of common characteristics within a particular country is important if we are going to successfully manage in an international business environment.

For example

• A manager with awareness of national differences knows that British project their privacy, so Indians would avoid asking British personal questions. In contrasts, asking personal questions in India is acceptable. It is sign of showing interest.

• Communication is often difficult with.Japanese, American value distinctness. Japanese are more subtle and view directness as not proper.

• Further, Japanese believe in group consensus in decision-making which does not fit well with Americans who are used to making fast decisions.

• In greetings Americans are smiling, firm handshake and eye contact, while Japanese bowing exchange business cards.

• In USA women in business have equal rights, opportunities and treated seriously, while in Japan women are not considered for higher management positions. In middle-east women stand to disadvantage.

So MNCs have to develop global strategies to take advantage world-wide by properly managing cultural diversity. This calls for the need to design country specific management practices for each country in which the organization wants to operate.

(b) Second Aspect Refers to Workforce Diversity in an Organization

• This aspect looks at differences between people inside the work organization. The composition of employees is changing to show heterogeneity of whole population. Thus, employee mix is undergoing change and no exclusive population in organization.

• Workforce is now multi-lingual, multi-racial which have different life-style, values, beliefs, ideals Ad practices.

• Even, language, religion, code of social behaviour, custom, festivals and diverse.

• Workforce includes more women now, older persons. Women require protection against gender discrimination, flexible work schedules, and child care programmes.

• In additfo'n, there are minority workers and disabled individuals.

• Diverse workforce is ore educated.

• So the aim is not to remove the differences in cultures, but managers to respond to indi :dual expectations and valuing differences to learn the details of different cultural norms which will help employees to bring out best in them

(IV) Managing Cultural Diversity

1. Thus, there is need for preparing managers for foreign assignments through cross-cultural training such as in history, culture, religions, values, political, legal, economy of that country to overcome cultural shock.

2. To develop international business negotiations strategies such as positive overtures, dealing problems and not personalities, emphasis on win-win solutions, create an open and trusting climate, build lasting relationships.

3. To develop second generation organization structures which (in addition to strategy and structure) take two other aspects:

(i) Strategic flexibility, and
(ii) Management process.

4. Train transitional managers with competencies in understanding of :

(a) Global perspective of world market business environment.
(b) Knowledge for cultural responsiveness.
(c) Cross-cultural interaction skills with foreign clients.
(d) Global strategies to identify unique business opportunities, technologies, etc.

5. Avoiding discrimination in policies, to make a harmonious work place so that all employees benefit from wider range of experiences and ideas. Discrimination can be identified in practices of the organization, such as racial discrimination in recruitment, employee training and career development opportunities. For example, wearing of turban by Sikhs in UK was discriminated. Differences in job prospects among England's euthenics minorities are now almost as big as differences between them and the majority. White community, according to a Cabinet Office strategy unit study published in March 2003. The Report emphasises that employers still discriminate on basis of ethnicity.

6. To develop policies on sexual harassment, grievance systems and for equal opportunities.

7. Barrier in this change is mind-set. It has to be recognised that such as prejudice against other cultural and racial groups, unknown fear of their dominance, avoidance of contact, lack of integration, etc. to be eliminated.

8 In managing diversity, ethics programmes area useful in acknowledging different values and perspectives.

9. To develop organization culture for valuing differences.

10. HR management systems to be (bias free).

11. Some other steps such as: Involvement of women, cultural differences knowledge to be imparted and accepting for higher career assignments.

12. Education of employees for mind-set about diversity.

(V) Advantages of Managing Cultural Diversity Are That It Can Improve Organizational Performance

• Groups of people from diverse backgrounds can be more creative and better at problem-solving.

• Companies which manage cultural diversity can develop favourable reputation of good prospective employers of minorities such as Tata, HLL and many more.

• Cultural diversity can get better customers which has a diversity of people.

• Organizations which handle diversity increase the adaptability and flexibility of management to react to environment changes.

• Ability to manage cultural diversity increases the adaptability and flexibility of management to react to environment changes.

• Belief that people of many different backgrounds can work together and lead to coexistence is now university accepted. In nut shell managers must take positive steps to manage issues of cultural diversity.

Infact, successfully managing cultural diversity can lead to global business advantages. Indian IT sector, which have successful in their global operations, have to be careful in developing cultural sensitivity and preemptive in understanding political and economic environment of the host country.

Environmental issues are moving from the engineering and law departments of corporate America to the boardroom.

This movement is a dramatic departure from, the 1970s when the environment was often considered to be a marginal business concern not worthy of top management attention.

Today, many corporate executives recognize the increased legal ▪ liability facing firms that do not comply with environmental regulation and react by elevating environmental concerns to the top of their company priorities. Executives in growing numbers have moved beyond the view that environmental compliance is a necessary evil; they see the "greening of America" as an exciting opportunity for their companies to embrace and ultimately profit from, Polls show eighty percent of the American public now claim to be "environmentalists." Seventy-one percent believe the government does not do enough to enforce environmental laws, and fifty-nine percent say firms don't do enough to make environmentally sound products. With environmental issues gaining importance in the public's mind, corporations have their work cut out for then as they strive to be financially profitable and "environmentally correct" with their operations and in the eyes of the public.

Leadership Trends

A growing body of research is documenting the positive relationships between proactive leadership on environmental issues and bottom-line business success. Also emerging is a better understanding of the specific environmental strategies that characterize successful actions of leaders who believe environmental issues can translate into great opportunity. At the same time, many attempts to capitalize on environmental trends have failed or even backfired. The succeed in this new arena, top management must take a sophisticated and informed approach towards environmental management issues. Innovative companies are going beyond compliance for a new perspective on environmental issues by building environmental considerations into all functional areas of the company's operations-from marketing and manufacturing to R & D. Environmental concerns is no longer the sole purview of one designated department. Environmental leaders deal with these concerns at every operating level . Public demand for environmentally sound products continues to, grow. Consumers expect companies to factor the environment into their operations. Companies that ignore the environmental implications of their product decisions will eventually lose market share and consumer loyalty. This trend is also increasingly true in intermediate markets, where large purchasers are beginning to demand environmentally sound products from their suppliers. Companies once reticent about environmental policies are now actively participating in public debates over these policies and working with environmental groups to implement innovations in their businesses. The Environmental Defense Fund's work with McDonald's led to that firm's banning of polystyrene packaging. McDonald's now has the most stringent supplier policies regarding packaging of anyone in the fast-food industry. Consequently, purchase decisions are highly dependent upon the "green" qualities of their suppliers. Demand for environmentally sound products is growing in other countries as well. Several European countries are implementing "take back" laws- requiring companies to take back the packaging used in the distribution of their products and, in some instances, requiring firms to take back their products once they have outlived their usefulness. Environmental leadership is also evident in Japan, where the government and a number of companies are engaged in long-range "100 year plans" to reduce CO2 emissions to pre-industrial revolution days. These trends are prompting firms to study a product's entire "life cycle" for ways to minimize its environmental impact. The environmental stewardship challenge for directors and executives is to identify the right steps for their firms and then act on them, whether required by law or not. Companies are adding environmentalists to boards of directors and establishing environmental board committees. Ashland Oil Inc. recently added Patrick Noonan, president of The Conservation Fund, to its board and DuPont Co. added William Riley, former administrator of the U.S., EPA.

Does it pay to be a Leader?

Despite the fact that an overwhelming majority of U.S. consumers claim to be environmentally concerned and willing to purchase "green products," they do not appear willing to pay extra for these products. Thus, the challenge for environmental leaders is to find green alternatives that do not require higher consumer prices. More importantly, recent research on green marketing reaffirms our basic understanding of consumer behavior. Successful, green marketing generally requires that the consumer see a direct benefit to himself or herself. For example, an effective ad campaign

might tie in the environmental benefits of using only natural ingredients in a product that also is healthier for the user. Aside from marketing, a company can "do many things to be both environmentally sound and more profitable. One way is to find cleaner methods of production that are also less expensive. Pollution prevention programs are paying off for many companies with immediate savings and reduced long-term liability. Companies that have incorporated environmental objectives into their present operations are realizing long-term cost savings due to the reduced need for expensive raw materials.

They are also reducing the threat of law suits. Companies won't wholeheartedly pursue environmental strategies until they are confident of a payoff The bottom-line impact of environmental strategies must be empirically tested before most firms will jump on this bandwagon.

Are Today's Leaders Tomorrow's Losers?

Companies with environmentally driven strategic planning are clearly in a leadership position. Whether this strategy will be judged as it of U.S. consumers claim to be environment foresight or folly depends on whether environmentalism is a fade or a long-lasting trend. Although nobody hs perk set foresight, all signs point to increasing-not decreasing-interest in environmentalism. As global competition increases, the importance of being an environmental leader takes on an added dimension. Several European countries have enacted more stringent environmental regulations than the U.S., and they have developed strong environmental political forces. This suggests that to be competitive, American companies need a long-term, environmentally friendly perspective. Perhaps more significant in the long run is a dramatic increase in demand by emerging nations for environmentally sound manufacturing practices and consumer products. Environmental protection is a luxury good; thus, emerging countries develop and their incomes, grow, their demand for environmentally sound products should increase proportionally Countries such as Mexico and Thailand are already taking actions to reduce their enormous pollution problems. Closer to home, the actions of the current generation of children and teens are another sign that the demand for environmentally sound products will continue to grow. Children today are taught to be friendly to the earth. They sing songs and learn about recycling in Kindergarten; teens show "green" purchasing habits. A new generation is being raised for whom environmental protection is not a "fringe" idea, but a mainstream one. Given what we now know about the influence of early purchase habits on long-term brand loyalty, these trends suggest that being an environmental leader will have long-term company payoffs well into the next century.

Commitment Equals Leadership

The environment is a classic leadership issue for today's CEO. The environmental culture fostered by this individual will ultimately determine the course of the entire organization. Perhaps the most important factor a company needs to thrive in today's environmental arena is a commitment at the top of the organization. This commitment must be demonstrated and followed-up with actionable directives that are continuously monitored- perhaps by building environmental performance criteria

into the job performance evaluation process and compensation structure. Many companies are implementing training programs to create an environmentally literate staff. For example, cost accountants need to understand the nature of environmental risks and legal trends in liability to create appropriate internal cost accounting rules that allow them to account for risk in product prices.

Management education that addresses environmental issues is becoming available through leading business schools, either through regular courses or tailored executive seminar programs. At Vanderbilt, the Owen School has instituted a new emphasis in environmental management that offers MBA students an opportunity to take courses related to environmental. and risk management. Several new courses have been developed, and faculty members are beginning to integrate environment-related cases into t he core curriculum. At Owen, the commitment to develop this new area of expertise came from the top. Dean Geisel encouraged us to bring environmental issues into the MBA program. Owen now offers two courses in environmental management issues, and many other courses are offered in the engineering school, economics department, and law school for MBA students wanting an emphasis in environmental management. As of now, only a handful of top business schools offer even one course in this area.

The Right Image

Firms committed to environmental leadership naturally want to portray such an image to the public, but traditional public relations efforts are seldom effective. Companies must understand that public perceptions of risk are real to those who perceive them. Whether viewed by marketing executives as truthful or deceptive, a "green marketing" campaign that is perceived to be falsely touting environmental benefits is more likely to backfire than benefit the firm.

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Public trust must built slowly. A good way for companies to build that trust is to work directly with government, environmental, and community groups and with academia in establishing an ongoing and meaningful dialogue. Vanderbilt University recently launched the Vanderbilt Center for Environmental Management Studies (VCEMS) to develop partnerships among industry, government, and academia and to promote informed environmental management decisions. This is being accomplished through the joint efforts of the Owen Graduate School of Management, the School of Engineering, and the Vanderbilt Institute of Public Policy Studies via curriculum development, executive courses, research, conferences, and publications.

The Future

Environment issue has spawned new considerations affecting business management and operations. They are affecting entire corporate cultures and the fundamental manner in which business decisions are being made. Corporate executive must commit to protecting the environment. They must lead the way, take a stand, and turn environmental concerns into competitive advantages. Environmental efforts must be addressed throughout the corporation to be effective and efficient Companies should institute policies that affirm their dedication to environmental excellence. This commitment will lead to environmental initiatives that enhance bottom-line performance. The decision corporate executives must make is whether to lead or look on-as others take the lead. Environmental issues are here to stay. Those facing these issues head-on will ultimately reap the rewards.

In the present business scenario, the concept of `eco-efficiency' becomes the pivotal in cutting material and energy costs. In this paper, the author outlines the global trends will be a winning business strategy in the next century. He also develops a risk-reward framework for evaluating the potential benefits for sustainability-driven investments. Further the article describes the market positioning benefits for innovative firms to develop a strong position in the marketplace.

Eco-efficiency excellence will be necessary, but not sufficient, for doing business in the next millennium. This statement files in the face of most of today's thinking on business and sustainable development. The World Business Council for Sustainable Development (WBCSD) and others have convincingly demonstrated the potential for cutting material and energy costs through "eco-efficiency." By now, managers of most companies have heard the message that there are "twenty-dollar bills, lying on the factory floor," just waiting to be picked up in the form of efficiency gains. These efforts are usually tied to society's need for sustainable development, or "development that meets the needs of the current generation without undermining future generations' ability to meet their own needs." In imprecise, but perhaps more comprehensible, terms this really means ensuring that we do not overly damage our planet, society, or economy so that our grandchildren can have lives as good as—or better than – our own. The productivity of their land base, meeting demand that would otherwise be met by clearing natural forests. Forest certification of sustainable practices is rapidly rising from its small beginnings, so that now major players such as Weyerhaeuser and Store are considering third-party certification. And around the world, forestry companies are increasingly being held to responsible practices by the standards of their own industries.

Finally, on the social development side, tremendous wealth is being created by the private sector and invested around the world. World trade has quadrupled since the mid-1960, emerging markets are strengthening overall (despite the recent setbacks among the "Asian tigers"), and t he 1997 United Nations Human Development Report concluded that the percentage of the populace in developing countries living in poverty is stable if not declining.

Signs of Decline: We're running fast but losing ground

Unfortunately, underlying these clearly positive signs are signals that progress is not happening fast enough to overcome our global sustainable development challenges — that the gap between where

we are and where we need to be is widening. In Resource Flows, for instance, the evidence shows that the total use of materials in Japan, Germany and the United States rose by an average of 27.7% over the past 20 years, even in the face of the efficiency gains described above. In emerging economies with more rapid growth the trend is most likely even worse.

Energy efficiency gains are also being overwhelmed by growth in consumption . In the U.S., energy consumption is projected to increase by at least 20% over the next twenty years, and energy use in non-OECD Asia is projected to more than double over that same two decades. Most of that growth will be fossil-fuel based. In the U.S., the Energy Information Administration predicts that renewable energy sources will only account for 7% of total energy consumption by 2010. The central Intergovernmental Panel on Climate Change (IPCC) project has suggested that global atmospheric concentrations of carbon dioxide under a "business-as-usual" scenario would be almost ripple pre-industrial levels in 2100, with frighteningly unpredictable impacts on global climate.

Eco-efficiency alone will never achieve sustainable development

If the efficiency gains over the past few decades have not been sufficient to overcome growth in consumption, can increased emphasis on eco-efficiency within the private sector sufficiently accelerate our progress toward sustainable development? Not as long as the emphasis is on incremental process efficiency instead of innovation.

Eco-efficiency — as articulated by the WBCSD and others — is a robust concept. It encompasses two important ideas: One, that cost savings can be captured by firms that minimize their material, energy, and toxics throughput; and two, that changes in products to extend their durability and increase their service intensity can create more value for firms and their customers. Unpackaging these Organization for Economic Cooperation and Development (OECD) and others have asserted that in order to achieve this goal. We must become ten times more efficient in what we do over the next thirty to fifty years. A Herculean but conceivable task, especially in light of the efficiency gains seen over similar periods in industries like telecommunications. Eco-efficiency therefore often portrayed as the solution to our sustainable development needs. Current trends suggest, however, that the solution to our challenges will not be so simple. Eco-efficiency is a valuable concept both for society and business in particular, because it is in everyone's interest to drive waste out of our economic systems. Nevertheless, an honest look at global trends indicates that we are not even coming close to achieving the efficiency gains necessary for sustainable development. In fact, the goal of sustainability is slipping further from our grasp. The gap between current and sustainable business practices is growing, not shrinking.

In this Perspective, we briefly examine some of the most important environmental and social trends which illustrate the need for more direct involvement of business in sustainable development. Can be a powerful engine for business growth.

The Widening Gap between Current and Sustainable Patterns

The world has enjoyed phenomenal economic growth over the past fifty years. So how can the gap between where we are and where we need to be have widened?

False signs of improvement

On four indicative sustainable development issues — material efficiency, climate change, forest health, and social equity — it is clear the private sector has driven considerable improvement. On each of these issues, however, it is also clear that conditions continue to deteriorate.

The economies of the industrialized countries have made great strides over the past few decades in material efficiency. For example, the United States, Japan, and Germany have all reduced their material intensity as a measure of GDP by approximately twenty to thirty percent over the past 20 years, according to a WRI co-sponsored report, Resource Flows. The dawning of the Information Age has contributed to these gains, as computers are used to replace material-intensive processes and to identify areas for efficiency improvements.

Of course, much of the material used by industrialized economies is in the form of fossil fuel for energy. Carbon emissions from these fuels contribute to the Greenhouse Effect, raising t he specter of global climate change. On this front, efficiency gains can be seen in energy usage as well. Based upon historical trends, the OECD projects that member countries' energy efficiency per unit of GDP will increase by a factor of 1.5 to 2.1 over the next thirty years.

In another indicative issue, forest health, the private sector is also moving slowly toward more sustainable practices. The explosive growth of plantation forestry around the world shows how firms are finding it profitable to invest in the two ideas—process efficiency and product enhancement – from the general concept clarifies the role of eco-efficiency in sustainable development.

"More efficient "business as usual" will not suffice."

Process efficiency has clear short-term benefits for the firm, primarily in the form of waste reduction. By reducing costs, process efficiency gains mean that firms can lower their immediate impact on the environment and establish a cost advantage. Process efficiency also has hidden, negative effects, however, that make it an ineffective tool by itself for achieving sustainable development.

While the firm's immediate environmental impacts are reduced, the financial savings from process efficiency are eventually steered toward additional consumption, either by the firm or its customers. This effect is not inherently negative, because consumption drives economic growth, but in the absence of major shifts toward sustainable technologies this additional consumption exacerbates our global challenges.

These perverse effects can be seen in the U.S. transportation sector. New highways, built to reduce congestion and thereby eliminate fuel waste, attract new drivers so that the congestion levels

remain the same but with more cars – thus more wasted fuel. Lower fuel costs from more efficient oil extraction and refining encourage consumers to buy less efficient cars and trucks, so that more gas is used overall. Process efficiency simply gets us where we are going faster: When the technology is being or beneficial, this is a positive effect, but most of today's technologies are destructive, so in the end waste reduction from process efficiency is not the clear-cut victory it appears to be at first glance.

Business-Led Innovation

At the World Resources Institute, we feel that the global trends described above demonstrate a largely un-captured potential in the marketplace for innovative firms to develop entirely new processes and products based on sustainable development principles and make a fortune doing so. These trends simply point to one inescapable fact: Radical transformation of our technologies and economic patterns (such as total substitution of renewable energy for fossil fuels, or agricultural practices that restore instead of degrade eco-systems) are necessary; more efficient "business as usual" will not suffice. Because society will increasingly need these innovative new processes ands products in order to meet its growing needs without exacerbating conditions, there are promising business opportunities for companies seeking solutions to the challenges of sustainability,

Firms that wish to capture this potential will require a new outlook. Historically, business in the U.S. has concerned itself primarily with the preservation and growth of financial capital. In order to fully embrace sustainability, companies today must also look to preserve—if not contribute to – natural, social, and human capital as well. That is, companies should not only eliminate their negative impacts, they should look for financial success through t he creation of net value for employees, nature, and society. This is not to be confused with the concept of the "stakeholder corporation" that considers itself obligated to external stakeholders. We are suggesting that it is entirely appropriate for a business to be primarily concerned with maximizing returns to its financial shareholders, but that the pursuit of sustainability can be an important way to achieve this goal.

A Theoretical Framework for Evaluating Business-Sustainability Benefits

The link between sustainability and financial performance will not be easy to prove. At WRI we are working with leading companies to develop the business case for sustainable development. The key is innovation: Not only does society need radical innovation, as described above, but innovation is also a key driver of financial success for the firm.

Working directly with a few key companies, WRI's Strategic Partnerships Learning about Sustainability Horizons (SPLASH) project has identified three "tiers" of potential business value from a firm's pursuit of sustainability beyond regulatory requirements: Process Efficiency, Product Enhancement, and MARKET Positioning/Development. According to this framework, each progressive tier holds greater profit potential than the one before, but also greater risk.

Process Efficiency benefits

The Process Efficiency value of integrating sustainability into the overall business strategy is the ability to make the same products in a more effective manner, through investments such as waste reduction projects. Pursuing sustainability in this way helps a company reduce its regulatory and other risks. There is also compelling evidence that environmentally driven process efficiency can have significant cost benefits for the firm. In the recent book Eco-Efficiency, DeSimone and Popoff of the WBCSD provide many examples of coast and resource savings a projects within major multinational corporations.

Process efficiency investments are generally low-risk and high-yield. As the U.S. Environmental Protection Agency's Green Lights program has shown, even so simple an investment as switching to energy efficient light bulbs can save millions of kilowatts and hundreds of thousands of dollars annually for participating firms. As an example of the financial potential of these investments, note that the Green Lights program's required minimum rate of return on any investment is 20%, a much higher return on capital than most companies can normally achieve with their standard investments. Making the pursuit of sustainability an integral part of the business helps companies identifying opportunities for such cost reduction investments.

Product Enhancement benefits

Potential gains are much greater for Product Enhancement growth, which refers to additional returns gained with the introduction of new processes or products. If innovation is the key to long-term superior growth, sustainability thinking can be a powerful tool \for fostering and harnessing the innovation potential of the firm. Fully embracing the concepts of sustainable development requires an acknowledgement that business as usual is unacceptable, that new technologies and business models are needed. Ray Anderson, CEO of U.S. carpet manufacturer Interface, is quickly becoming famous for his commitment to sustainability, which has led Interface to invest in the development of new technologies and business systems. One result is the company's new Evergreen Lease flooring system, in which customers do not make a one-time purchase of a carpet, but instead continuously lease carpet tiles from Interface. Eventually, old carpet tiles will be broken down and remanufactured Interface is now focusing on its reverse distribution network and on the development of new remanufacturing technologies.

Market Positioning/Development benefits

The final tier of business value from sustainability is Market Positioning and Development for a world of increasingly stringent constraints. The trends described above suggest that at some point ' additional constraints to doing business — imposed in the form of regulations, market shifts, or limited resources — will be imposed upon the private sector. Companies will be forced to meet higher standards of environmental and social performance in order to maintain their right to operate. Accordingly, forward-looking companies may try to anticipate these constraints and strategically position themselves beforehand, thus gaining "first-mover" advantages.

The advantages are three-fold. First, by positioning themselves for future constraints, companies have the advantage of making the transition at their own pace, acting upon their new strategic focus when it is financially opportune. Competitors who wait until the new constraints are in effect before reacting must act under compliance deadlines and tight schedules, which raises the cost of the transition. Second, proactive companies are able to explore a variety of technologies, management systems, and processes before settling on a combination that hopefully provides them with the maximum benefit. Reactive companies, in contrast, must select a new "activity system" — as Harvard Business School's Michael Porter refers to t hem — without the benefit of prior experimentation and testing. Indeed, often the new technologies to be used under new constraints are mandated for these companies (by governments or customers, for instance), giving them no choice at all. Third, proactive companies take a leadership position that allows them some influence over the form of future constraints. A good example is BMW's leadership on the issue of product take back in Germany, described in a WRI case study. By taking a visible leadership position on the issue, BMW anticipated, and even promoted, new regulatory take back requirements which, because it held a strong market position in automobile disassembly, not only helped reduce waste but also provided it with a market advantage.

The Path Forward

"With greater risk comes the potential for greater rewards. Enterprising companies will find ways to capture this potential by finding innovative solutions to society's challenges."

The Three Tiers framework explains why, if business sustainability is a winning strategy, few companies are adopting it with strategic intent — because of the inherent risks involved.

Nevertheless, at the World Resources Institute we remain optimistic that the private sector can lead the necessary, inevitable economic transformation. With greater risk comes the potential for greater rewards. Enterprising companies will find ways to capture this potential by finding innovative solutions to society's challenges. A few firms have already recognized this and have taken the first few significant steps in the right direction.

2.5 Summary

Culture has also been described as a set of rules, values and beliefs-good or bad-which community adopts as its norms.

Component of Culture

1. Communication	2. Language	3. Dress and Appearance
4. Food Habits	5. Time	6. Rewards and Recognition
7. Values and Norms		

Characteristics of Culture

1. Culture is Learnt 2. Culture is shared

3. Culture is Trans generational 4. Culture is Symbolic

5. Culture is Patterned 6. Culture is Adoptive

7. Culture is Descriptive 8. Culture has Historical Dimension

9. Finally, Culture has different Layers

Elements of Organization Culture Transmitted to Employees

(a) Values (b) Heroes (c) Rites and Rituals

(d) Setting-up of Cultural Network for communication

Managing cultural diversity in organizations

(i) Technological (ii) Social (iii) Economic (iv) Environment

Three primary components of culture, relevant to international business are language, religion and attitudes.

Cultural diversity is one of the major challenges facing global business organizations, as it is important for success and vitality of the organization.

Two Aspects of Cultural Diversity

(a) First Aspect Relates to Global Cultural Diversity

(b) Second Aspect Refers to Workforce Diversity in an Organization

False signs of improvement

On four indicative sustainable development issues — material efficiency, climate change, forest health, and social equity — it is clear the private sector has driven considerable improvement. On each of these issues, however, it is also clear that conditions continue to deteriorate.

2.6 Self Assessment Test

1. Companies that have incorporated environmental objectives into their present operations are realizing long-term advantages. What are the long-terms advantages?

2. "Eco-efficiency excellence will be necessary, but sufficient, for doing business in the next millennium." Discuss the concept of `eco-efficiency'.

3. Strategic positioning and sustainable development may find business opportunity in development of new markets and help firms to redefine and capture the entire market. Discuss the overall strategy of market positioning and development.

4. Write note on the following's:

- Meaning of culture
- Components of culture
- Characteristics of culture
- Precursors of culture
- Effects of culture on individuals and organizations
- Organization culture-building and maintaining
- Managing cultural diversity in organization

2.7 Further Reading

- Business Ethics: Ethical Decision making and Case — 0. C Ferrell, John Eaedrich, and Ferrell
- Business Ethics — William H Shaw
- Business Ethics, A Teaching and Leaving classroom Edition: Manuel G. Velasquez
- Business Ethics — Laura Pincus Hartman & Joseph R. Desjardirs
- Managing Business Ethics: Straight talk about how to do it Right.
- Business Ethics by Joseph W. Weiss

Assignment

Environmental leadership is still in its infancy. Very few companies are able to deal with environmental issues and motivate their employees to consider the environmental implications of their business decisions. What initiatives should companies take to motivate their employees to pursue environmental excellence?