Master of Business Administration

(Open and Distance Learning Mode)

Semester – I

Business Ethics and Management by Indian Values

Centre for Distance and Online Education (CDOE)

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Business Ethics

and

Management by Indian Values

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LESSON 1 - INTRODUCING BUSINESS ETHICS

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LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Define the term business ethics, morality and ethical theory
2. Explain Business Ethics and the law
3. Understand the Importance of Business Ethics
4. Describe Globalization-its relevance for business ethics
5. Explain the concept of Sustainability
6. Explain the triple bottom line, environmental perspectives, economic perspectives, Social perspectives
7. Analyze the Implications for business ethics
8. Explain ethics as a dimension of Social Responsibility

INTRODUCTION

Though the profit motive of business is understood and accepted, people do not accept it as an excuse for ignoring the basic norms, values and standards of being a good citizen. Businesses are the strategic centres of civil society obliged to contribute to capital of trust and fairness through ethical pursuits of business goals

The word 'ethics' has originated either from the Latin word "Ethicus" or the Greek word "Ethicos". Both these words originated from the word "ethos" which means character. Ethics is a system of moral principles, rules and conduct. As a science of moral principles, ethics gives guidelines such as "what is right?" and "what is wrong?".

Ethical problems are faced by people in all the countries and at all times. In all organisations, family business and religions, situations arise that demand right

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decisions. Centuries ago, Duryodhana said in the Mahabharata: "I know what is right but I am not able to act accordingly, I also know what is wrong but I am not able to restrain myself doing it".

The famous Indian philosopher Kautilya says, "We are shaped by our thoughts. We become what we think, when the mind is pure, joy follows like a shadow that never leaves".

Ethics can be described as philosophy in action. Business ethics is a branch of ethics dealing with application of ethical principles in business. The human beings have freedom of action to communicate good or bad to the world. While good acts are performed, people are happy and period of good activity is called the golden era.

Ethics encourages constructive actions. There are three types of constructive actions:

1. Certain obligatory actions to be performed by every individual, such as good quality products, fair price and customer care; the non-performance of these activities bring disgrace.
2. Certain activities are to be prohibited such as false weighing, inferior quality and high prices.
3. Certain other actions, called optional actions bring goodness and welfare to all.

For example, handling a grievance of a customer is an optional activity.

Tamil poet Tiruvalluvar says, "When prosperity comes to a good man from a good family, it is like village tank being filled with water, it helps everyone". Indian philosophers strongly believe that ethical action is the supreme governing force of the universe. The world survives because of ethical action. As for as ethical values and deeds are concerned, they are more or less instinctive in humans rather than acquired, but in modern days, ethical training has become a necessity due to various reasons.

The level of ethical action in a society depends on the goodwill and maturity of the society.

CAUTION Higher the level of ethical action, grater is the status of the society.

The purpose of ethical action is to welcome the good and the avoidance of bad,

"Service to man is the service to God" is a sound and wise principle, Indian tradition "Sarve Janaahaa Sukhino Bhavantu" (let all the people be happy) is very much relevant in these days of globalisation.

1.1 DEFINITION AND SCOPE OF BUSINESS ETHICS

The term ‘Ethics’ stands for ‘a set of principles of human conduct governing an individual or a group’. The discipline of ethics examines the moral standards of a person or a society. Ethics denotes the values used to interpret whether a particular action or behaviour is acceptable and appropriate.

Ethics is a branch of knowledge that examines good or bad practices within the context of a moral duty. Business ethics is the application of ethical principles in all the aspects of business.

> **Did you know?** Business ethics is both a positive and normative science. As a positive science, business ethics describes the situation as what is. As a normative science, it suggests what it ought to be.

It is important to make clear what business ethics is and what it is not.

1. Business ethics is not about morality but about the establishment of transparent norms of relationship in an organisation. Morality is an individual set of commitments and ethics brings the idea of introducing good practices.
2. Business ethics is not just philanthropy but promoting social awareness in the business world.
3. Business ethics is not just concerned with shareholders but more concerned with the various stakeholders.
4. Business ethics is not just a code of conduct but is concerned with a code of ethics. A code of ethics can easily bring about a defined and suitable code of conduct. Code of conduct should be internalised as a normative value. It cannot be an external instrument of control.
5. Business ethics is not just about establishing compliance but concerned with establishing employee morale. Employee morale depends upon the good cultural conditions of an organisation.
6. Business ethics aim to bring about commitment from all the stakeholders and this can be done only by mutual benefits.

Scope of Business Ethics

Business ethics is simply applying the basic principles of ethics to the field of business which is the major area of making profit. Business ethics demonstrates that profit can be made on a sustainable basic by following certain norms and respecting other. Country’s goals have to be combined to achieve mutual benefits. An effective team can be limit based on ethical practices.

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Short-cuts can bring benefits in the short-run bit only good values bring long-run and sustainable results. In short, a good enterprise can succeed if it takes care of all the stakeholders in terms of their interests.

Business ethics is not just compliance to law. One firm can observe the law but can be unmindful of fair practices. On many occasions, contract labour practices have been unfair and unethical. Exploitation takes place in one form or the other.

The business ethics programmes and policies should be top-driven. The success of ethical programme in an organisation depends on the degree of commitment by the top management.

Business ethics is not just related to an individual but to the whole organisation. It is concerned with a group that involves in all activities of businesses line production, purchase, selling, finance and managing.

Business ethics is shifting the focus from shareholders to stockholders. In this sense; it is holistic and benefits all. Business ethics is concerned with a code of ethics and not merely a code of conduct. In course of time, a right code of ethics gets internalised as a normative value.

Self Assessment

Fill in the blanks:

1. The word ‘ethics’ has originated either from the Latin word “Ethicus” or the Greek word “__________”.
2. Ethics can be described as __________in action.
3. ___________is a branch of ethics dealing with application of ethical principles in business.
4. Business ethics is concerned with a ____________and not merely a code of conduct.
5. Business ethics is shifting the focus _________________.

1.2 MORALITY

Morality refers to rules of moral conduct that people use to decide what is right or wrong. Morality is concerned with the social practices defining right and wrong. Ethics provides guidelines for right actions.

The rules of prudence promote self-interest. But the rules of morality promote the interests of other people. A good combination of morality and prudence can make a business as a successful one.

The moral standards have been absorbed from facility, religion, friends, education and society. Application of moral standards and concepts to issues and situations is the real challenge. The holistic growth of a person is the development of physical, emotional, cognitive and moral abilities.

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1.2.1 Morals and Ethics

Morals deal with the right behaviour of individuals. Ethics deals with right character in a given situation. Both are closely related to each other. Some of the basic morals like helping others, treating all equally and not cheating others are converted in terms of good business practices.

Morals form the foundation of ethics which can be applied to business. The following agreements reveal the relationship between morals and ethics.

1. All moral standards aim at the development of positive standards. Ethical standards also aim at the betterment of the ethical practices in organizations.
2. If the moral standards are not followed, there will be serious and disastrous consequences like crimes, corruption and fraud. If ethical standards are not adopted, there will be fall in the values and decline in the efficiency of business enterprises.
3. Both morals and ethical standards can be established only with the active and sincere participation of the people.
4. Both morals and ethics give more priority to public welfare rather than private welfare. Both strongly hold the view that society should over-ride self-interest. A balance has to strike between ethical demands and strategic interests.
5. Both morals and ethics are not only positive sciences but also normative sciences. A positive science explains "what it is" but a normative science explains "what it ought to be".
6. Both morals and ethical standards are based on impartial considerations bringing long-term benefits. Both discourage short-term gains and partial benefits.

1.2.2 Moral Reasoning

Moral reasoning refers to the reasoning process by which human behaviour, institutions and policies are judged in accordance with the moral standards. Adhering to the moral standards is appreciated and the violation of moral standards is criticised.

There are two components of moral reasoning, namely, an understanding of moral standards and the application of these moral standards.

The following is an illustration to show the unjust situation in a country.

Box 1.1: Rural Poverty in a Country

Poverty is a social phenomenon in which a section of the society is unable to fulfill the basic necessities of life. The rural society is plagued with mass poverty. The World Bank has prescribed a poverty line based on the nutritional norm of per capita daily intake of 2400 calories in rural areas and 2100 calories in urban areas.

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> At least, 30 percent of the country X population is below the poverty line. The benefits of economic planning have not reached these people. Lack of literacy, lack of skill and lack of capital affect these people in different ways. Due to the lack of participation, many of the anti-poverty programmes have failed miserably.

We can say that the country X society is unjust because the anti-poverty programmes are not effectively implemented, partly by the government machinery and partly by the lack of involvement of the poor people.

There are three criteria to evaluate the adequacy of moral reasoning. First of all, moral reasoning must be logical. It should be based on facts and figures. Secondly, the facts should be accurate, relevant and complete. Thirdly, the moral standards must be consistent.

1.2.3 Management Morality

Three categories of managers stand out with regard to ethical and moral principles in business affairs:

1. ***Moral Manager:*** Moral managers are dedicated to high standards of ethical behavior, both in their own actions and in their expectations of how the company's business is to be conducted. They see themselves as stewards of ethical behavior and believe it is important to exercise ethical leadership. Moral managers may well be ambitious and have a powerful urge to succeed, but they pursue success in business within the confines of both the letter and the spirit of the law – they typically regard the law as an ethical minimum and have a habit of operating well above what the law requires.
2. ***Immoral manager:*** Immoral managers are actively opposed to ethical behavior in business and willfully ignore ethical principles in their decision making. They view legal standards as barriers that must be skirted or overcome. Prone to pursuing their own self-interest, immoral managers are living examples of capitalistic greed, caring only about their own or their organization's gains and successes. Their philosophy is that good business people cannot spend time watching out for the interests of others when what really matters is the bottom line and making one's numbers. In the minds of immoral managers, nice guys come in second and the competitive nature of business requires that you either trample on others or get trampled yourself. Immoral managers are thus the bad guys and relish wearing the black hats.
3. ***Amoral manager:*** Amoral managers appear in two forms: the intentionally amoral manager and the unintentionally amoral manager. Intentionally amoral managers consciously believe business and ethics are not to be mixed because different rules apply in business versus other realms of life. They think it is fine not to factor ethical considerations into their decisions and actions since business activity lies outside the sphere of moral judgement. Intentionally amoral managers view ethics as inappropriate and too Sunday-schoolish for the tough competitive world of business. Their concept of right and wrong tends to be lawyer-driven – how much can we

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get by with and still be in compliance? Unintentionally amoral managers do not pay much attention to the concept of business ethics either, but for different reasons. They are simply casual about, careless about, or inattentive to the fact that certain kinds of business decisions or company activities are unsavory or may have deleterious effects on others – in short, they are blind to the ethical dimension of decisions and business actions. Some may be so ethically unconscious that they have just never stopped to consider whether ethics applies to business decisions or company actions. Some unintentionally amoral managers may see themselves as well-intentioned and even personally ethical. Amoral managers of both types view it necessary to comply with the law, but they see little reason to do more because government provides the legal framework that says what society will put up with-business ought to be able to do whatever the law allows them to do.

By some accounts, the population of managers is said to be distributed among all three types in a bell-shaped curve, with immoral mangers and moral managers occupying the two tails of the curve, and the amoral managers (especially the intentionally amoral managers) occupying the broad middle ground. Furthermore, within the population of managers, there is experiential evidence to support that while the average manager may be amoral most of the time, he or she may slip into a moral or immoral mode on occasion, based on a variety of impinging factors and circumstances.

A landscape that is apparently so cluttered with amoral and immoral managers does not bode well for the frequency with which company managers ground their strategies on exemplary ethical principles of for the vigor with which they try to ingrain ethical behavior into company personnel. And, as many business school professors have noted, there are considerable numbers of amoral business students in our classrooms. So efforts to root out business corruption and implant high ethical principles into the managerial process of crafting and executing strategy is unlikely to produce an ethically strong global business climate anytime in the near future, barring major effort to address and correct the ethical amorality and immorality of company managers.

1.3 KEY ETHICAL CONCEPTS IN BUSINESS ETHICS

The following discussions of key concepts in business ethics were developed for the Committee for Education in Business Ethics of the American Philosophical Association and are useful in the analysis of ethical issues raised in the case studies. Professor Kurt Baier wrote the analysis of the following: obligation, autonomy-dependence-paternalism, freedom, justice, self-respect and dignity. Professor Norman Bowie wrote the analysis of rights.

1.3.1 Obligation

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For Smith, to have an obligation or to be obligated to do A means that there is home act, A, by Smith, which it would be wrong for him, if he does not. Obligations can come in to begin in various ways. They may be incurred, as when a person causes another harm, thus incurring the obligation to repair the harm done. They may be assumed as when someone promises or undertakes to do something; or they may be imposed on others as when someone with authority to do so, orders someone under his authority to do something within the scope of his authority. If the obligation is to someone. Jones, then that person may release Smith form the obligation, thus making it not wrong for him, if he does not perform A, or to set in motion some corrective machinery either punishing Smith of compensating Jones for Smith’s failure.

Obligations should be contrasted with permissions. If you are permitted to do A, your not doing A is not wrong. If you are obliged to do A, your not doing A is wrong. Moreover, note that if your are obligated to do so, you are still physically free not to do it even though morality requires that you do it. In other words, obligation must not be confused with compulsion or force. Finally, the content of obligations may vary; obligations may be arbitrarily delimited in time and person as when I promise not to look until you count to ten. I am not obligated not to look, after you have reached ten, nor need anyone else be obligated not to look. Hence, obligation do not necessarily depend on the nature of the conduct in question or on its consequences. In this way obligations can be distinguished from intrinsic wrongs like killing or lying.

1.3.2 Autonomy – Dependence – Paternalism

Autonomy is either a psychological condition, reached by all normal adults, of being able to make rational decisions about what to do or a right to make and act on such decisions. Dependence is the opposite of autonomy. It refers either to a psychological condition in which someone is in the habit of acting in accordance with the decisions made by someone else. Usually one person such as his father or teacher on whom he is said to be dependent, or else to a legal or conventional position of dependence, in which a person (say, a minor) is conventionally precluded from making legally effective decisions on certain matters, as when he needs the approval, consent, or permission of a parent or guardian.

Paternalism is the view that in certain conditions people’s autonomy should be disregarded, whether by the state (legal paternalism) or by other individuals, that they should not be asked or allowed to make decisions on certain matters. If it is clear to (specified) others that their decisions would gravely, perhaps irreversibly, affect their own good, as when a person decided to commit suicide, or to take up heroin, or to embark on an extremely hazardous enterprise. Mill, the most widely respected anti-paternalist, opposed only the strong form of paternalism which insists that a person should not be permitted to harm himself even when he acts of his own free will and in full knowledge

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of the harm involved in his act. He did not object to interference where the person is not acting voluntarily (as when he is delirious, under hypnosis, or in a state of uncontrollable excitement) or is not adequately informed (as when he does not know the gun is loaded, the bridge is unsafe, or the drug lethal). However, Mill himself would seem to have embraced the strong principle of paternalism when he argued that no one should be allowed to sell himself into slavery, on the grounds that 'the principle of freedom cannot require that he should be free not to be free'. It is not clear to me why the principle of freedom, i.e., autonomy – that every man has a right to determine the shape of his own life, whatever the effect on his own balance of goods – should not require this.

1.3.3 Freedom

Freedom, in the important sense, with which we are concerned here, is a certain sort of ideal condition or state of affairs, considered by some to be so central to human lives that they are willing to fight in its defense or promotion. This condition concerns the structure of and relation between political societies. It is either the freedom of or for such societies, that is, their independence or autonomy or self-government. Or it is the freedom in such societies, consisting in the freedom of religion, association, movement, economic enterprise, speech and communication, and so on, or the untrammeled functioning of the institutions promoting these activities: freedom of or for the press, the churches, the parties, the universities, the corporations. Societies can be less or more free in either or both of these two ways. A colony may be completely unfree, that is wholly governed by the mother country, but there may be complete freedom in that society. Conversely, after 'liberation,' the society may be wholly self-governing, but there may be little freedom in the newly sovereign society.

We think of freedom as tending towards a limit, complete freedom, beyond which it is impossible further to reform the society in respect of the extent of freedom. In such a completely free society, everyone is free to do what he ought to be free to do. And he ought to be free to do whatever he can do without thereby preventing others from doing what they ought to be free to do. Complete freedom thus prevails in a society if everyone has the greatest possible extent of freedom compatiable with a like extent of freedom for everyone.

That implies that the law forbids no one to do anything he ought to be free to do, that it forbids people including government officials to interfere with other people doing what they ought to be free to do.

That has institutions designed to ensure that the substantive principles determining what people ought to be free to do are continually clarified and properly applied to individual cases as social conditions change.

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Regarding the freedom of citizens in a society, some philosophers have distinguished between positive and negative freedom. Negative freedom is simply the absence of external constraints. For example, the freedom of speech is a negative freedom. We are to speak our mind because there are no laws prohibiting it. The concept of positive liberty is a little harder to capture. The British philosopher, Isaiah Berlin, defines it as self-mastery. One lacks positive freedom if one cannot reach some end for reasons such as indecisiveness, compulsive desires or perhaps ignorance. Consider an alcoholic trying to stop drinking. No one forces him to take that drink, so he is, in the negative sense, free to drink or not. But his compulsion to drink si so strong, that he cannot help himself. Berlin would say he lacked freedom in the positive sense. Other philosophers suggest that rather than distinguishing between types of freedom, we should define freedom simply as absence of constraints and distinguish between internal and external constraints.

1.3.4 Self-respect and Dignity

Self-respect is normally respect for oneself as a person. A person has respect or is shown respect when his or her interests are taken into account and when his or her rights are honoured. These claims and rights are contentious, but they include claims concerning life and health, claims to be dealt with honestly, and claims to be dealt with, in a manner be fitting the dignity of mankind.

To have self-respect means to take seriously the claims and rights one has, simply on the grounds that one is a person. Hence one lacks self-respect, if he or she is servile or craven, allows himself or herself to be humiliated or exploited without protest, fails to stand up for his or her rights, or submits to indignities, as if he or she did not deserve any better, and so on. Such behaviour suggests or implies that he or she does not think that he or she has the basic rights of a person.

To lack self-respect in this sense is not a matter of degree – one either has it or one lacks it. However, people can differ from one another in respect of how strong their self-respect is, how easily they lose it under pressure, how firmly their readiness to stand up for their rights is entrenched, and how sure they are of higher degree of self-respect.

Self-respect is a tendency to behave in certain ways, taking seriously the claims or rights one has as a person. It should perhaps, be distinguished from self-respect as a species of self-esteem, that is, respect for oneself by comparison with others. In this second sense, self-respect is a matter of degree. One may respect oneself more than one respects some other person, and more at one time than another. Self-respect in this sense is the opposite of self-contempt. It is not a tendency to behave in a right or claims- respecting way, but simply represents a favourable opinion of oneself, based on a comparison of one’s worth with that of others. But while in cases of self-esteem, the basis of the comparison may be any type of excellence, in cases of self-respect, the basis is always a suitable character trait. One respects oneself as a consequence of a

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favourable comparative judgement based on the sorts of character traits e.g., honesty, truthfulness, fidelity, trustworthiness, justice, rectitude, which one must have if one respects others as persons. Thus, self-respect in this second sense, is simply self-esteem, based on certain moral characteristics relevant to self-respect in the first sense.

Dignity is ordinarily a characteristic of a person, the self-assurance and poise, acquired when one has no doubt about one's own worth and its recognition by others. Dignity is closely related to self-respect. To be subjected to indignities is to be treated in ways, which tend to undermine one's self-respect and rob one of one's dignities. Such treatment is incompatible with the dignity of persons. Ordinarily, the rights and claims related to the dignity of persons are concerned primarily with the person's sense of his own worth. Insults, humiliations, degradations, ridicule, public mockery, are typical forms of such behaviour. However, some philosophers have used 'self-respect' in a much wider sense, involving all those rights and claims which a person respects, and who respects another as a person, e.g., the right to honesty, fidelity, or fairness.

1.3.5 Utilitarian

The utilitarian approach to ethical decision-making focuses on taking the action that will result in the greatest good for the greatest number of people. Considering our example of employing low-wage workers, under the utilitarian approach, you would try to determine whether using low-wage foreign workers would result in the greatest good.

1.3.6 Universalism

The universalist approach to ethical decision making is similar to the golden rule. This approach has two steps. First, you determine whether a particular action would apply to all people under all circumstances. Next, you determine whether you would be willing to have someone else apply the rule to you. Under this approach, for example, you would ask yourself whether paying extremely low wages in response to competition would be right for you and everyone else. If so, then you would ask yourself whether someone would be justified in paying you those low wages if you, as a worker, had no alternative except starvation.

1.4 ETHICAL THEORY

Ethical theories are the rules and principles that determine right and wrong for any given Situation. Ethics theory refers to the various kinds of approaches to moral evaluation that constitute some of the most important types of ethical standards studied by moral philosophers. Each approach to moral evaluation employs distinct moral concepts, and each emphasizes aspects of moral behaviour that are neglected or at least not emphasized by the others.

Ethical theories are based on ethical responsibilities of corporations towards society. Included in this category are modern CSR paradigms (Hancock, 2005),

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the Normative approach (Smith 2003) and the Stewardship approach (Donaldson 1990).

1.5 BUSINESS ETHICS AND THE LAW

Many of the most important ethical values form the basis for legislation which governs business activity in general. However, while ethics deals with personal moral principles and values, laws express the standards of a society that can actually be enforced in court. Often, there is fine judgment to be made. If behaviour is not subject to legal penalties and seems reasonably ethical, it is still acceptable.

Using the framework of ethics and the law, a business may be strictly operated on principles which strive to be:

- Illegal and Unethical
- Legal but Unethical
- Legal and Ethical
- Illegal and Ethical actions

All the above are acceptable within the legal framework and societal norms. For example, any company with a moral and legal conduct falls into this category. This category involves private firms that are licensed in a country which are equally into legal business e.g. legal chambers, auditing firms.

Laws and regulations are promulgated especially in business to right the wrongs and unwholesome practices by businessmen. Therefore, laws and regulations exist to achieve the following:

- Protect consumers
- Regulate competition
- Protect organisations from each other
- Protect the society

Three Laws of Business Ethics

The following are the abiding laws of ethics:

1. ***Standardization:*** All the rules should be allocable to all standardisation is the secret of success for the implementation of ethical practices, in other words, favoritism and partiality should be discouraged. Double standards have to be given up. Standardisation promotes a uniform standard for all and, hence, everybody will be happy with the administration. There is no place for ill-will or frustration.

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2. ***Workable:*** The rules of business ethics should be practical and workable so that tangible benefits can be experienced. The benefits of business ethics should be made available to all the stockholders. The rules of the business should not suffer from a theoretical bias and work for practical purposes. Ethics is for everybody and should be a concern of primary importance.
3. ***Driven form the top:*** Business ethics should be always driven from the top. Business ethics can work only of the top management is seriously committed to it. Unless and until, the top management is committed to ethical considerations, the implementation of ethical programmes would be difficult to be implemented.

1.6 IMPORTANCE OF BUSINESS ETHICS

The importance of business ethics can be discussed as follows:

The importance of business ethics can be discussed as follows:

1. ***Social Concern:*** Any business operating in a society has a moral responsibility of giving back to society in terms of welfare schemes and projects. No society can afford to be greedy. No business can be called an island. Business is always a part and parcel of any society.
2. ***Social Responsibility:*** Social responsibility refers to a firm's obligation to maximise its positive impact on stakeholders and to minimize its negative impact. There are four areas of social responsibility, namely, economic, legal, ethical and philanthropic. At the basic level, business firms have an economic responsibility to be viable and profitable so that all the stakeholders are rewarded. Adherence to the legal practices promotes welfare to all. Ethical principles provide a foundation for the best practices of business. Above all, philanthropic responsibility refers to activities that promote human welfare.

Box 1.2: Herman Miller, Inc

It is a multinational providing office, residential and healthcare furniture and services. It says:

What we believe in:

(a) Meaningful contribution to customers

(b) Development of participation and people

(c) Creating an economic value for shareholders and employees

(d) Responding to change through innovation

(e) Respecting environment.

(***Source:*** Herman Miller, www.hermanmiller.com accessed on January 10th 2009)

3. ***Avoidance of whistle-blowing:*** Whistle-blowing refers to the act of employees who go to public with complaints of corruption or

mismanagement in business organisations. Every employee has certain expectations to be fulfilled by the organisation. When an employee feels that something is unfair in the organisation, he nurses a grievance.

A grievance refers to any form of discontent. It arises out of employment conditions. Sometimes, grievances may be factual or imaginary or disguised.

Effective handling of grievance is an ethical act. The management should feel the pulse of the employees.

4. ***Value in business:*** Business ethics promotes good business by generating support both within and outside the organisation. All the stakeholders develop a legitimate interest in the growth and development of business.

   Business ethics adds value because its effects are experienced by all the stakeholders. It promotes sustainable creativity among the employees and management. Following ethical principles, a firm is better related to the employees, customers, shareholders and public. It is a well-known fact that by adopting unethical practices, a firm can do well in the short-run, but only ethical firms can continue to sustain in the long-run.

5. ***Improves organisational effectiveness:*** During the process of growth, the organisations experience different challenges and problems. Every problem should not be considered as a challenge and every challenge should add a learning curve to the organisation. Ethical organisations promote standard training for the staff including time management, stress management and effective communication. Role clarity, supportive climate and empathy are the inputs provided by an ethical administration. Ethics offers a holistic approach to business development.

6. ***Healthy competition:*** Business ethics offers competitive guidelines so that all the firms can follow good business practices. There is lesser room for exploitation of either the customers or the employees. The core values are formulated and these core values promote better competitive conditions. Impartiality, technical excellence and professional respect among the colleagues are some of the examples of core values. The core values have to be clearly operationalised in terms of general business practice.

   In short, business is a cooperative activity and ethical behaviour alone can promote an ideal co-operative behaviour.

7. ***Benefit for stakeholders:*** Originally, business was meant to bring good returns only to investors. In modern times, the importance of all the stakeholders has been recognised from the ethical angle. Apart from shareholders, employees, customers, suppliers and the members of community should be benefitted.

   The stakeholders enjoy benefits like good reputation, records and recognition due to the ethical practices of business. An increasing number

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of transactions can bring benefits both to the stakeholders and business organisations.

Self Assessment

State whether the following statements are true or false:

6. Morality refers to rules of moral conduct that people use to decide what is right or wrong.
7. Morality is concerned with the social practices defining right and wrong. Ethics provides guidelines for right actions.
8. The holistic growth of a person is the development of physical, emotional, cognitive and moral abilities.
9. Amoral reasoning refers to the reasoning process by which human behaviour, institutions and policies are judged in accordance with the moral standards.
10. Moral managers appear in two forms: the intentionally amoral manager and the unintentionally amoral manager.

1.7 GLOBALIZATION-ITS RELEVANCE FOR BUSINESS ETHICS

Globalization is a new paradigm of fresh beliefs, new working methods and understanding socio-cultural realities. Globalization has become the order of the day and no country can escape globalization. Profit motive, the concept of global village, over production, availability of natural resources and labour, growth of technology, improvement of management skills, cost reduction, better research and development and worldwide employment are the causes of globalization.

1.7.1 Conditions of Globalization

1. There should be a reasonable amount of business freedom.
2. Adequate amount of facilities like infrastructure and information to be available.
3. The active support of the government is essential for the progress of globalization. That is why, many countries have become members of W.T.O.
4. The flow of material, financial and human resources is necessary for the sustained development of globalization.
5. The spirit of competition is the basis of globalization. The economies should have a global-orientation.

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1.7.2 Changes in Business Ethics Due to Globalization

1. There is better understanding between employees and management. Fair wages and safe working practices have been introduced.
2. There is an expanding scope for private sector initiatives.
3. After globalisation, the consumers are aware of their rights and question many business practices. The emerging situation encourages an ethical climate.
4. Trade unions have become weak and an average employee is able to understand his or her responsibilities.
5. The level of transparency has increased after globalisation. Ethical audit is undertaken by many business organisations. Hence, the business values are introduced into action programmes.
6. After the onward march of globalisation, environmental ethics is given importance and most of the companies are concerned about global warming.
7. Unfortunately, following globalisation, the unethical practices of cyber crimes and IT related crimes have increased.
8. Some new concepts like corporate social responsibility, health care ethics and work life balance have become popular after globalization.

1.7.3 The CAUX Principles

A group of international executives based in CAUX (Switzerland) developed some principles. The CAUX round table strongly believed that the world business community should play an important role in promoting global economic and social conditions. It provides a worldwide vision for ethical and responsible corporate behaviour.

These principles have two basic ethical ideas KYOSET and human dignity. KYOSET is a Japanese concept of living and working together for the common good. Co-operation and mutual prosperity co-exist with healthy and fair competition. Human dignity refers to the value of each person as an end and not simply as a means to satisfy the wants of others.

Preamble of CAUX principles

1. Due to the mobility of factors of production, business is becoming increasingly global.
2. Laws and market forces are necessary but not sufficient for guiding the conduct.
3. Responsibility for policies and actions are fundamentals.
4. Shared values are important both for smaller communities and global community.

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5. Business is a powerful agent of positive social change. Hence, moral values have to be incorporated in business decision-making.

General Principles

Principle1: The responsibilities of business should go beyond shareholders towards stakeholders.

Principle 2: Business should promote innovation, justice and world community.

Principle 3: Business behaviour should be beyond the Letter of law and towards a spirit of trust.

Principle 4: Business should respect international and domestic rules.

Principle 5: Business should support the multilateral trade.

Principle 6: A good business should protect the environment, promote sustainable development and prevent the wastage of natural resources.

Principle 7: A good business should not participate in bribery, money laundering and other corrupt practices.

Principle 8: All the customers have to be treated with dignity.

Principle 9: The dignity and interests of the employees are to be taken into account. There should be a fair compensation to lead a decent living.

Principle 10: Investors should be given a decent return. There should be a professional and diligent management.

Principle 11: Suppliers have to be treated with mutual respect. There should be a long-term stability in the supplier relationship. Prompt payments have to be made to suppliers in accordance with the terms of agreement.

Principle 12: There should be mutual respect for competitors. Industrial espionage to be discouraged.

1.8 SUSTAINABILITY

As a term, sustainability has come into widespread use as a result of increased environmental awareness. However, sustainability is broader than just this one issue.

Within business practices, sustainability is closely related to corporate social responsibility. In the future, the two terms might become completely synonymous and some might argue that they already are the same.

1.8.1 Definitions

- Sustainability is a business strategy that drives long-term corporate growth and profitability by mandating the inclusion of environmental and social issues in the business model.

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- Sustainability is ‘an enduring and balanced approach to economic activity, environmental responsibility and societal benefit’.
- Sustainability is about meeting the challenges of ensuring that future generations can enjoy the same kind of lifestyles people enjoy today. This naturally involves taking a long-term perspective on balancing economic, environmental and social impacts of business.

Unlike corporate social responsibility, which retroactively addresses issues, sustainability implies a forward trajectory. In other words, CSR looks to the past actions of a company while sustainability looks forward by changing the nature of the company.

1.8.2 Purpose

To generate a maximum increase in company, consumer, and employee value by embracing opportunities and managing risks derived from environmental and social developments.

1.8.3 Attributes

According to a recent study in the Ivey Business Journal, a business model must combine and continually maintain four elements to achieve sustainability3:

- ***Sustainable development:*** This concept balances the corporate need for economic growth with environmental activism/protection and societal progress. With regards to sustainability, sustainable development sets the boundaries of the societal and environmental issues and defines the company’s goal(s).
- ***Corporate social responsibility:*** Corporations use CSR as tool to address societal and environmental issues. Sustainability incorporates societal and environmental issues as building blocks within a business model. Therefore, a sustainable business will use some CSR practices.
- ***Stakeholders:*** While CSR primarily focuses on shareholders, sustainability focuses on stakeholders.
- ***Corporate Accountability:*** This contributes to a sustainable business practice in that corporate accountability provides a legal and ethical basis for a company to report on its impact on society and the environment, in addition to their financial performance.

Sustainability ethics have grown out of environmental ethics. Sustainability has emerged as an integral framework, in which economic development, social equity, and environmental protection are seen as inseparably related goals are perceived. Finance has a key role to play in sustainability, by providing business intelligence to support strategy and long-term decision making.

Sustainability has now become a concern of virtually every sector of human society. It enjoys more popular support than environmental resource

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conservation because it focuses on human needs, but also because it provides a positive vision for the future of the human family. From a motivational perspective, few people are inspired by the notion of "being less bad" in their environmental impact. In contrast, sustainability provides a framework and markers for making positive change.

1.9 TRIPLE BOTTOM LINE, ENVIRONMENTAL PERSPECTIVES, ECONOMIC PERSPECTIVES, SOCIAL PERSPECTIVES

Triple bottom line (abbreviated as TBL or 3BL) is a framework with three parts: environmental (or ecological), economic and social perspectives. These three divisions are also called the three Ps or the "three pillars of sustainability". Many organizations have adopted the TBL framework to evaluate their performance in a broader context

1.9.1 Environmental Perspectives

Business ethics is divided by the type of environment in which a business organisation is situated. There are two aspects of environment, namely external and internal. Internal environment refers to all aspects like vision, mission, power structure and other related matters. External environment refers to elements which are outside the organisation like government policy, monetary policy, fiscal policy, general economic conditions and labour standards. These factors influence business ethical practices.

1.9.2 Economic Perspective

The name of the best is economics, macroeconomics, to be precise. Economics as has been called the 'dismal science,' not because it has put so many students to sleep but because of its key inventors, Like Thomas Malthus, who spoke far more of tragedy than he did of good fortune and happiness. But it is economics, whether we like it or not, that defines the life of the Western world today. People may praise religion, but they work and pray for money. They argue politics, but they 'vote their pocektbook.' And in a society, whose primary value is money, economics, inevitably, turns out to be ethics.

Ethics is always more than economics, but it would be mistake for us to understand the impression that economics is a science-dismal or otherwise that is wholly detached from ethics. The language of the market and the balance sheet may sometimes sound more like physics than like a discourse on justice and happiness, but nevertheless there is more ethics to economics than we are usually led to believe. Economics without ethics is blind; ethics devoid of economics is empty.

What Adam Smith presumed between the lines, what 'science' minded economics have rejected, is the essential role of ethics in the 'dismal science.' Economic language consists of advice concerning what ought to be done as

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well as predictions about what will happen. Disagreements between economists are just as often about who would be hurt or helped as they are concerned about what the market in fact will do. The key to our economic thinking is fair exchange. Supply and demand is not just quantitative categories; they are measures of value. Monetary theory is not just numbers, it is a measure of trust and what people think their time, effort, goods and money are worth. We teach our students about the free market as if it were a piece of machinery rather than an ethical commitment, and a daring experiment. We analyze international exchange rates and leave out dissatisfaction with the local dictator. Then we go annoyed when 'politics' (popular revolution or a consumer revolt, for example) interferes with our fraudulently neat mathematical curves.

Science tells us how the world is. Economics, on the other hand, tells us how the world ought to be, in the opinion of one or another economist. The free market isn't a datum for economics as the existence of a planet is a datum for astronomers; it is an ethical viewpoint of a vision of how the world ought to be and how people ought to behave. Lester Thurow has pointed out that it is only in economics that a theorist will suggest the elimination of one or another 'market imperfection' when there is a disagreement between the model and reality. "If wages do not fall with higher unemployment, it is due to the market imperfection of monopolistic unions, in contrast, no astrophysicist recommends the elimination of a planet he has observed because it doesn't fit his grand scheme of the universe". In economics, we change or bend reality to fit our conception of how the world ought to be.

1.9.3 Social Perspectives

Religion

All the religions of the world insist on ethical conduct and behaviour. Business people get guidance and inspirations from their respective religions. In modern days, religion is interpreted in terms of modern socio-economic problems. Prominent religious texts are the Bible, Bhagawad Gita and Quran.

Religion strongly believes that God has created the world. Naturally, God gives the world, a final purpose or goal. The beings on earth have a goal or purpose ordained by God. Since the world has come from God and aiming towards God, the world has been good with positive values.

Religion says that evil is a part of life and we have to avoid it.

Religion stresses on harmony, beauty, peace of mind, wealth, health and success. Religious morality guides an individual back into a state of harmony with all that surrounds the individual. Religion stresses on the important harmonies, namely, natural, human, and supernatural harmony and suggests ecological balances and reduction of pollution rates. It also encourages sustainable practices in business and production. Human harmony refers to better understanding among the business firms rather than domination of one

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over the others. If harmony is achieved at the natural and human levels, naturally supernatural harmony can take place with the blessing of God.

Religion advocates the maintenance of orderliness and the avoidance of excessiveness. Too much of production leads to glut and too much of consumption creates imbalances in the society.

Rituals are intended to establish harmony with God. These rituals promote better relationship and make us understand the spiritual significance also.

Islam suggests three canonical elements, namely, faith (Imam), practice (Islam) and virtue (Ihsan).

Religion covers all the areas of human behaviour like what is required, permitted, discouraged and forbidden.

In modern days, religion shows compassion to other religions and considers the welfare of humanity.

Buddhism discourages too much desire and its natural results of unlimited suffering. It states that suffering arises from a discrepancy between desire and actuality. Buddhism has suggested an Eight-fold path which can be incorporated in any scheme of business operations. These are right views, right intention, right speech, right action, right livelihood, right effort, right mindfulness and right concentration. Mahayana Buddhism stresses on ethics of comparison for all living things, which forms two bases of social society, measures and social responsibility of business.

Cultural Experience

Culture refers to a system of learnt values and norms shared among a group of people. Culture constitutes a design for living.

Values refer to abstract ideas about the good, the right and desirable.

Norms indicate the social rules and guidelines which determine appropriate behavior in specific situations.

Mores are the norms central to functioning of social life. Mores brings serious retribution like theft and corruption.

There are various determinants of culture namely, economic philosophy, political philosophy, social structure, religion, language and education.

If the social structure is well-organised, the cultural standards are high. High mobility can promote better culture. If language promotes communication, the culture is bound to be progressive.

Basic values are developed only from culture. The cultural norms and values promote ethical business practices. Morals are extended to business too. Fair practices such as fairprice, consumer care and after sales service are the results of positive cultural experience.

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In the context of globalisation, business firms are interested in the basic values of human enrichment to protect the interest of various stockholders.

1.10 IMPLICATIONS FOR BUSINESS ETHICS

Business is emerging as a powerful force in modern times. Corporate collapses, business frauds and white collar crimes have made business ethics in modern times. Studying business ethics can help to identify ethical issues to the stakeholders.

1. ***Holistic approach****:* In the last two centuries, importance was given to the production of goods and services and strengthening the market forces. In the modern century, a lot significance is attached to the growth of values and ethical ideas. Customer care and satisfaction of all stakeholders are given equal importance like productivity and profit maximisation.

2. ***Leadership:*** Business ethics in organisations requires value-based leadership from the top management. Openness and continuous effort to improve the ethical performance of organization are to be directed from the leadership of the organisation. Ethical leadership is given a good consideration in modern times like other forms of leadership like marketing and strategic leadership.

3. ***Employee commitment:*** Ethics clearly contributes to the growth of employee commitment. Since the employees spend a considerable amount of time at work, an ethical commitment to the organisation improves the employees' loyalty to the organisation.

   In this context, it is worth examining the Japanese approach to management called Matsushita values.

   The spiritual values of Matsushita are as follows:

   (a) National service through industry

   (b) Fairness

   (c) Harmony and co-operation

   (d) Struggle for betterment

   (e) Courtesy and humility

   (f) Adjustment and assimilation

   (g) Gratitude.

   In short, Matsushita is the practice of balancing the materialism of the West with the spiritualism of the East.

   The performance of the employees is bound to improve under ethical conditions because of the positive environment. A trustworthy atmosphere increases efficiency and enterprise. According to National Business Ethics Survey (U.S.A), when employees see good values like honesty, respect and

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trust in workplace, they will not compromise in work. The ethical climate is bound to increase the efficiency of work.

4. ***Investor loyalty:*** Apart from good returns on investment, modern investors are concerned with ethical considerations like social responsibilities and reputation of companies. An ethical climate provides a foundation for efficiency, productivity and profits. Negative factors like law suits, fines, cases and bad practices lower stock prices. When the value of the stock is declining, the investors divert their stocks and bonds.

   The relationship with investors should be based on dependability, trust and commitment. Apart from profit, the performance standards of the company also matter from the angel of investment. The investors are constantly informed about the company's performance and reputation.

Box 1.3: Mencer Company

Mencer Company enjoyed a prominent position for many years. Its shareholders were receiving a good return for their investments. A pointed criticism was that the Board lacks adequate independent directors.

A few years later, there was a fall in sales and profits of the company. The investors were not happy and vented their grievances with force. In response to this, the company inducted a few independent directors. This measure improved corporate governance and the company performed better in terms of better strategy, better business performance and more resources.

5. ***Customer satisfaction:*** A long-term good relationship is a basic necessary condition between business organisations and customers. In developed countries, 60 percent of the people focus on social responsibility ahead of brand reputation. In developing countries, the social reputation related activities are encouraged by the consumers. People do not encourage products made by child labour, exploited labour and violation of good working conditions.

6. ***Business is a co-operative effort:*** Since business is a co-operative activity, it requires ethics and good practices. In a co-operative process of business, some ethical standards are necessary for maintaining the solidarity of business and its success. Many stakeholders can be unified through ethical values and practices. That is why, the mission of the company is broadly circulated to all in frequent intervals.

7. ***Higher profits:*** Comprehensive ethical practices provide a good scope for increasing profits, Johnson and Johnson, Xerox, MTR (Bangalore) and TVS are a few examples to prove that good practices pave the way for more profits. Many studies have proved that a history of good ethics can bring a history of good business. The mere pursuit of profit cannot be the strategy in the long-run.

8. ***Changing mindset of stakeholders:*** The various stakeholders apply their values and standards such as ideal working conditions, consumers' rights, environmental issues, greater benefits, better ways and customer care.

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Stakeholders want the growth of business organization on ideal and effective set patterns. They share their experiences and offer good suggestions for the growth of better business practices.

9. ***Necessity of minimum ethics:*** Business in modern times has become a co-operative activity, which naturally requires minimum standards of ethics. All the stakeholders should be united and support the cause and growth of business. Otherwise, there is every possibility of the collapse of the business. Agreements have to be honoured and mutual support has to be provided. Since no business can exist without ethics, a minimum adherence of ethics is expected from any form of business. Moreover, business requires a stable society to carry on the various business operations like production, marketing and transactions. A stable society can be created and maintained only by following the minimal ethical practices. The great philosopher, Hobbes, has rightly pointed out that distrust and excessive pursuit of self-interest would create "a war of every man against every man" and such a situation would make life nasty, brutish and short".

   A society infected with lying, theft, cheating, distrust and too much of self-interest cannot do even normal business. There will be conflicts, strife, strikes, retrenchment, lockouts and cold war. Since business cannot survive without ethics, ethical behaviour has become one of the fundamentals of business.

10. ***Long-term implications:*** Business, like any other good institution should take care of long-term complications like good revenues, higher profits and better customer satisfaction. If any business exploits the stakeholders like employees, customers, suppliers and others, they, in course of time, will retaliate in a different way. For example, employees will not be good in their work, customers may not buy and supplier will be irregular in their supplies. Sometimes, the retaliation may be more complex such as sabotage, conflicts and strikes. This type of situation will lead to a chain of unethical events.

In short, even if people are motivated by self-interest, they have a good reason to be ethical in business.

Albert Schweitzer says:

"The first step in the evolution of ethics is a sense of solidarity with other human beings".

Bertrad Russel warned that,

"Without civic morality communities perish; without personal morality their survival has no value".

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1.11 ETHICS AS A DIMENSION OF SOCIAL RESPONSIBILITY

Social responsibility is a good idea of giving back to the society in different forms. Many corporations contribute to different acts of social responsibility.

1.11.1 Areas of Social Responsibility of Business

Consumers

1. The quality of the goods or services should be good and customers should obtain a real worth for the price.
2. The price should be fair and reasonable.
3. The type of advertisement should be relevant and meaningful.
4. There should be fair treatment to the consumers. No discrimination should be made among the customers.
5. All the relevant and recent information should be provided to the customers. On any account, the customers should not be kept in darkness.
6. There should be an excellent customer service available to the customers at all times.

Employees

1. Fair wages to be offered to maintain a decent standard of living.
2. The work environment should be safe and conducive.
3. HR policies to be formulated and executed to increase the efficiency.
4. Special training and educational opportunities have to be provided to the employees. Sometimes the employees are not able to understand the need for training.
5. Employees need the support of their employers in dealing with the physical, mental and emotional problems.
6. The labour welfare programmes have to be effective.
7. There should be an empowerment of labour so that it feels happy to work in the organisation.

Environment

1. All forms of pollution should be reduced and controlled.
2. There should be a provision for recycling of wastes.
3. The management should provide for an efficient management programme.

The concepts of ethics and social responsibility are most of the times used in an interchangeable way. The concept of doing business only to make profits is

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no longer appreciated by modern thinking. Paul Samuelson strongly advocated the idea of social responsibility of business. Peter Drucker felt that the first responsibility of any business is to make profit.

The free market is not really free. The majority of population endures hardships while a minority gains a lot. The global economy is threatened by a growing marginalised lower class and a privileged minority. Market fundamentalists believe that everything will become alright in a market economy.

In reality, things are worsening leading to more and more of problems. There is a great extent of human suffering in the world due to the growing economic disparities.

Adam Smith advocated capitalism as a complimentary system for a democratic society. It promotes freedom, independence and rewards initiative. Naturally, it encourages creativity, enterprise, innovation and responsibility. In reality, the marketplace is plagued by manipulation, advertisement and vanity. People are made to buy things they do not want. Lobbying and clever manipulation have resulted in more and more of complications. Market fundamentalism has put financial capital into the driver's seat. Some go to the extent of ending globalisation itself. For example, Professor John Gray of the London School of Economics makes a case for ending globalisation. The intention of Adam Smith was not to empower a new ruling elite but to promote economic benefits for all. He even suggested that some restrictions were necessary in the marketplace.

There are four levels of social responsibility, namely economic, legal, ethical and philanthropic. At the economic level, there is maximisation of stakeholder wealth or value. Abiding by all laws and regulations come under legal level. Following the acceptable standards of behaviour covers ethical level. At the philanthropic level, it is giving back to society.

Humanising capitalism is the need of the hour. The economic system should be people- friendly. People have to change the system they have created. Social responsibility of business is a wonderful tool for the promotion of business ethics.

Government

1. Regular payment of taxes in order to strengthen the hands of the government.
2. Implementing the policies related to business formulated by the government.

Community

1. To participate in the local development programmes and maintenance.
2. To find out measures to rehabilitate the displaced population.

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3. To improve the business standards to meet the changing needs of the society.
4. Development of backward areas in order to achieve balanced regional development.
5. Promotion of research and development activities in all the areas of business.
6. Promotion of ancillary units and small scale industries can generate employment opportunities and promote the growth of entrepreneurs.
7. CRS should the promotion of social causes like adult education, health awareness, population control and sustainable development.
8. To build a better society in terms of values and mutual help.

CRS has an ethical dimension. To quote Henry Ford, “The management must provide those goods and services which the society needs at a price which the society can afford to pay”.

Task

Conduct a survey on “Should ethics be taught in business schools?” among thirty people—ten students, ten faculty and ten public. Analyse the results and offer suggestions.

Self Assessment

Fill in the blanks:

11. As a term, ___________has come into widespread use as a result of increased environmental awareness.
12. Within business practices, sustainability is closely related to _______________
13. Sustainability is a _____________that drives long-term corporate growth and profitability by mandating the inclusion of environmental and social issues in the business model.
14. __________use CSR as tool to address societal and environmental issues.
15. ___________ (abbreviated as TBL or 3BL) is a framework with three parts: environmental (or ecological),economic and social perspectives.

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Meenakshi's Question

Meenakshi, a fresh MBA got a sales job in a leading software company. A training programme was arranged for all the sales staff. Many sales people did not attend the programme by offering different excuses; even those attending were not attentive. The company was spending a huge amount of money on training.

Meenakshi went to the Sales Director, Shyam, and suggested him that all people in the sales department should attend these programmes. She even said that some top achievers in sales and a few poor performers in sales should share their experiences.

Questions

1. What are the ethical issues in this case?
2. Suggest the alternatives available for the Sales Director Shyam.

SUMMARY

- In this unit, we have seen a definition of business ethics as a branch of ethics dealing with the application of ethical principles in business.
- The word 'ethics' has originated either from the Latin word "Ethicus" or the Greek word "Ethicos". Both these words originated from the word "ethos" which means character.
- Ethics is a system of moral principles, rules and conduct.
- As a science of moral principles, ethics gives guidelines such as "what is right?" and "what is wrong?".
- The level of ethical action in a society depends on the goodwill and maturity of the society.
- Higher the level of ethical action, grater is the status of the society.
- The purpose of ethical action is to welcome the good and the avoidance of bad,
- Ethics encourages the right type of actions and discourages the wrong type of actions.
- Business ethics demonstrates that profit can be made on a sustainable basis by following good norms and practices.
- Short-cuts cannot help in the long-run. There are three principles of business ethics namely, standardization, workable rules and ethics driven from top.

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KEYWORDS

Amoral manager: Amoral managers appear in two forms: the intentionally amoral manager and the unintentionally amoral manager.

Business Ethics: Principles of right and wrong concerning the conduct of business.

Ethical Principle: A concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Ethical theories: Ethical theories are the rules and principles that determine right and wrong for any given Situation

Ethics: Principles of right and wrong concerning the conduct of a person.

Immoral manager: Immoral managers are actively opposed to ethical behavior in business and willfully ignore ethical principles in their decision making.

Moral manager: Moral managers are dedicated to high standards of ethical behavior, both in their own actions and in their expectations of how the company's business is to be conducted

Moral reasoning: It refers to the reasoning process by which human behaviour, institutions and policies are judged in accordance with the moral standards.

Morality: It refers to rules of moral conduct that people use to decide what is right or wrong.

Self-respect: Self-respect is normally respect for oneself as a person

Social responsibility: Social responsibility refers to a firm's obligation to maximise its positive impact on stakeholders and to minimize its negative impact.

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Sustainability: Sustainability is a business strategy that drives long-term corporate growth and profitability by mandating the inclusion of environmental and social issues in the business model.

Utilitarian approach: The utilitarian approach to ethical decision-making focuses on taking the action that will result in the greatest good for the greatest number of people.

REVIEW QUESTIONS

1. Define the term ethics.
2. Define business ethics.

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3. Distinguish between ethics and business ethics.
4. What are the three principles of business ethics?
5. Discuss the relation between morals and ethics.
6. Define the term morality in concern to business ethics.
7. What is ethical theory/
8. How will you relate business ethics and law?
9. Discuss the term globalization and relate its relevance with business ethics.
10. Define the term sustainability.
11. Explain different implications of business ethics.
12. How will you account for the ethics as the dimension of social responsibility?
13. Analyze the nature and scope of business ethics. Discuss the importance of business ethics in modern times.
14. Describe the areas of social responsibility of business.
15. How far can the teaching of business ethics as a subject improve the business standards in modern times?

Answers to Self Assessments

1. Ethicos
2. Philosophy
3. Business ethics
4. code of ethics
5. from shareholders to stockholders
6. True
7. True
8. True
9. False
10. False
11. sustainability
12. corporate social responsibility
13. business strategy
14. Corporations
15. Triple bottom line

Notes

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LESSON 2 - FRAMING BUSINESS ETHICS

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Contd...

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LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Explain the term corporation and understand its key features and responsibilities
2. Explain corporate social responsibility (CSR)- relevance, nature, international context
3. Describe Strategic CSR and its outcomes
4. Stakeholders: Relevance and Stakeholder theory of the firm
5. Explain corporate citizenship- definition, different perspectives, relevance for business ethics

INTRODUCTION

Corporation is by far the dominant form of business entity in the modern global economy. The defining legal rights and obligations of the corporation are:

(i) the ability to sue and be sued

(ii) the ability to hold assets (economical resources) in its own name

(iii) the ability to hire agents

(iv) the ability to sign contracts

(v) the ability to make by-laws, which govern its internal affairs

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2.1 CORPORATION-KEY FEATURES AND RESPONSIBILITIES

A corporation is organised as a privately-owned entity, whose activities require bureaucratic supervision. More specifically, the ownership of a company confers upon the shareholders, the right to elect directors to run the business affairs of the enterprise. The directors are accountable to the shareholders for their stewardship of the business.

The shareholders can question directors' reports and depute auditors to examine as to whether the accounting statements fairly and truly reflect the state of affairs of the company. The functioning of a corporation takes place in accordance with the principles of representative democracy.

Over a period of time, the joint stock companies have emerged as the most pervasive and successful system of business organisation and management. It is one of the most significantsocial inventions which has added immensely to the economic development of mankind.

The corporate form of business has enabled vast amounts of capital to be tapped to create more wealth. The basic attributes of a corporation may be similar but there may be a number of differences in their composition and functioning. On one extreme stand the closely-held private limited family concerns, and on the other, the widely scattered entities with diffused shareholdings. Some of the companies may have significant government holdings, whereas in the others, the general public or investment institutions may hold the major part of shares. On account of such differences in the corporate makeup, a uniform system of corporate governance may fail to cater to every eventuality. Herein lies the dynamism in the concept of corporation and its governance

2.1.1 Key Features and Nature of Corporations

A corporation represents a kind of private government. It is an ingenious device for obtaining profits without incurring unlimited liability. The corporate mechanism allows different parties to contribute capital, expertise and labour for maximum benefit of all of them. But certain aspects of a corporation are quite unique. For instance, the shareholders provide capital but have a limited participation in the management of its affairs. On the contrary, the management runs the company without any financial stake in the company. Since shareholders elect the directors, it is the obligation of directors and management to protect the interests of shareholders and to work for the maximisation of shareholders' benefits. The journey of corporate evolution has been quite gruelling. The corporate structure has evolved through a Darwinian process enabling corporate bodies to emerge stronger, resilient and impervious to control by outsiders. The attributes of corporation that have made it the cynosure of modern business enterprises have been enunciated below.

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Separate Legal Personality

By virtue of its legal personality, a company can be a party to contracts and be the subject of rights and liabilities. The existence of separate legal personality of the corporation may continue indefinitely until it gets liquidated. A company has an individuality of its own and the shareholders are not liable for wrongful action of the company.

Separation of Ownership and Management

The shareholders are regarded as the owners of the company. They share company's profits, and are collectively entitled to appoint and remove directors from the board. Because of the divorce between ownership and management, both of these functions are performed more efficiently by the specialists. The directors and managers neither need to own capital nor the shareholders need to possess managerial control. It enables the management task to be entrusted to a cohesive group of people while leaving the risk of equity investments onto a large number of assorted shareholders.

Limited Liability

Risk shifting gives the managers too much of an incentive to take risks leading to inefficient use of resources.

> **CAUTION** The concept of limited liability shifts the risk of business failure from the company shareholders to its creditors.

The privilege of limited liability is available to shareholders in exchange of surrender of their authority to run the corporation in favour of the board of directors. It helps attract investments because investors are not liable beyond the amount invested by them.

Transferability of Shares

Share transfer facility may be regarded as a risk mitigation mechanism whereby those having a negative perspective about the prospects of the company may transfer the shares along with associated rights and liabilities to those holding just the opposite opinion about the company.

Centralised Management

The power to determine the overall direction of the company is vested in the board of directors, whereas the conduct of day-to-day operations is entrusted to professional managers. The interests of the board of directors and that of the shareholders need not be aligned, particularly in the case of large corporations.

Ubiquity and Flexibility

Corporations have no boundaries in space and time. They can reallocate investments, set up branch offices, undergo restructuring and revise their legal format. Companies have lives of their own and have legal personalities albeit artificial. They can be fined but unlike individuals they cannot be imprisoned.

Multifaceted

Different persons associated with companies can pursue their respective goals. It helps the ambitious people to fructify their ambitions, the enterprising to excel and the ingenious to attain riches beyond their wildest imaginations. Corporations are the vehicles to transform an idea into a product, savings into growth stock, and human ingenuity into "technology" and thereby to promote the welfare of a mass of people.

2.1.2 Corporation as a Person

The term, 'person' is derived from the Latin word 'persona,' meaning a mask in a dramatic representation. The term 'person', therefore, refers to the mask worn by an actor, i.e. the actor in the mask. A corporate person represents a group of human beings behind a collective mask. What is behind the mask of a legal identity is really a complete entity. The concept of 'person' with reference to a corporation provides it coherence and stability. The law treats the corporation to be a legal person possessing the rights and obligations of a natural person.

Its identity is distinct from its constituents. The constituents contract not with each other but with the company itself. On account of its distinct legal personality, the business assets of the company are separated from the personal assets of its shareholders and other constituents.

On account of company's control on its assets, the creditors of the company are assured of the safety of their claims. The partitioning of corporate assets from those of the shareholders reduces the risk of creditors and because of the availability of the safety network, the firm is enabled to raise capital resources at a lower cost.

The critics of corporate personality consider the concept to be inadequate. Obviously, a corporation lacks many of the attributes of a person. Baron Thurlow has therefore asked: "Did you ever expect a corporation to have a conscience when it has no soul to be damned and no body to be kicked?" A corporation is in reality a legal fiction possessing certain legally recognised attributes such as separation of ownership and control, freely alienable ownership interests, indefinite duration and limited liability. The corporation as a person legally owns the corporate assets. But the shareholders own the corporation as a thing. 'To hold a share of a corporation is like holding or owning the fraction of the corporation as a thing'.

In contrast to a sole proprietorship or a partnership firm, an incorporated company is composed of not one but two ownership relations. Accordingly, the shareholders own the corporation, and the corporation in turn owns the corporate assets. Naturally, a corporation is neither a person nor a thing.

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Legally, however it is endowed with both personality and attribute of a thing. What is sold in the stock market are not corporate assets but the "share of the corporation as a valuable thing", that is a commodity separate and distinct from the underlying corporate assets. No matter how rapidly the corporate shares are changing hands in the stock market, the productive assets always remain in the hands of the corporation as a legal person. The dual ownership structure thus accomplishes a dual task: it simultaneously "liquidifies" the shareholders' ownership of the productive assets and permits the company to carry on its business. The former serves to attract a large amount of investments while the latter works to maintain the stability of business operations.

2.1.3 Entity Theory of Corporation

The entity theory of corporation states that a corporation is a being with attributes not found among humans who are its components. The corporate being is a real thing. The theory has rejected the notion of corporation being an artificial entity dependent on state authority for its existence and privileges. The entity is not imaginary or fictitious but real, not artificial but natural. The law does not create corporations but merely recognises their independent existence. A corporation arises from initiatives of individual incorporators and shareholders. The unprecedented growth of corporations is attributable not merely to state creation but private entrepreneurship. Hence, a corporation is a living organism and a real person with body and members besides a will of its own. It is a group of persons endowed with a group will. To put it differently, a corporation is a legally authorised physically embodied structure of human and non-human asset constituents which serve as its scattered body (corpus). This entity is unconscious and impersonal but serves as a protective legal mask collectively worn by its agents, controllers and shareholders in the business world. The entity theory serves the following important purposes:

1. It provides the basis for regulating corporations.
2. The theory justifies greater central power for corporation.
3. By postulating an independent entity, the theory has made entity's liability different from the personal liability of shareholders. This feature makes corporations attractive for investment.
4. Corporate entities have lives of their own. They grow, develop and change. Such flexibility promotes responsiveness to markets.
5. It encourages mobility of corporations to do business in other states.

Another version of the entity theory is the social entity theory which considers a company not as an isolated entity existing solely for its benefits but as a corporation imbued with social purpose. While shareholders are entitled to a fair rate of return on their investments, the corporation has an obligation to several other constituencies such as the production of products that satisfy consumer needs, creation of employment opportunities and tending to community welfare. Based on these grounds, many of the American States had

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passed legislations mandating directors not to give precedence to any particular constituency.

2.1.4 Fiction Theory of Corporation

The fiction theory by FC Von Savigny holds that a corporation is simply a legal fiction created and sustained by an Act of the State.

On incorporation, a company gets endowed with corporate personality. By virtue of such fiction of personality, the natural persons behind the corporation may conduct their businesses and the corporation itself is vested with various legal rights such as property rights. By "person", Savigny doesn't mean an empirical human being but a legal entity described as a legal person. But the character of legal person cannot be asserted by the mere arbitrary association of several members or by the will of an individual founder, but by the sanction of the sovereign power.

Chief Justice John Marshall (USA) stated in 1819 that a corporation is an artificial being, invisible, intangible and existing only in the contemplation of law. A corporation derives its being by virtue of the grant of a concession by the state. From such a grant stems the separate legal personality of the corporation. Being the creature of positive law, a company can have only the rights and privileges which the state has conferred on it. The chartered companies of yore emerged from the exercise of its prerogative by the crown. A company born of the crown grant can don only a fictional mantle and the state can legitimately regulate its functioning.

On the enactment of incorporation legislations, the concessionary theory paradigm has ceased to appear to provide an accurate description of the nature of corporation since every artificial thing need not be invisible, intangible and fictional. For instance, currency notes are artificial but visible and tangible. To that extent there is a fallacy in the fictional argument.

In its place has occurred the aggregate or contractual paradigm outlined hereafter. Thus, the now defunct fiction theory has tried to locate the concept of corporate personality strictly within the system of laws.

2.1.5 Corporation as a Nexus of Contracts

The theory of contractualism maintains that the company stems from the agreements among individuals and not from state patronage. The theory analyses a company's origin as being the product of choices, decisions and agreements of private actors. A company essentially consists of a bundle or nexus of contracts among managers, investors, employees and creditors. Easterbook and Fischel (1985) regarded a company as no more than a complex set of contracts among managers, workers and contributors of capital. It has no existence independent of these relations4. The theories of contractualism are divisible broadly into two categories, namely the agency theory and transaction cost economics.

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A corporation is a legal fiction which serves as the central focus of a complex process in which conflicting objectives of various individuals are brought in equilibrium within the framework of contractual relationship. All conflicts between shareholders and other stakeholders can be solved ex ante by means of contracts. The contracts theory, therefore, rejects reification of corporation except as semantic shorthand. Theorists view the corporation as an aggregate of various inputs acting together to produce goods and services. Private contracts bring forth the corporation, and the role of state lies only in enforcing these contracts. The corporate laws are enabling statutes in the sense that they reflect the philosophy of freedom of contract. The articles of association which define the private rights perform a function analogous to that of a private constitution.

> Did you know? In the nexus of contracts model, shareholders are the owners of residual claims which are not the same as ownership of the corporation.

Each of the corporate constituents owns some of the factors of production hired by the corporation but no one owns the totality. Instead, corporation is an aggregation of people bound together by a complex web of contractual relationships5. It needs to be noted that contractual rights are personam rights applying to person on whom they imposeprescribed obligations. In contrast, property rights are in rem and tend to impose generalised duties on a large and indefinite number of persons. As with other corporate constituents, the rights of shareholders are established through bargaining albeit a typical standard form contract of take-it-or-leave-it type. But then where is the nexus? The nexus lies on the board on which the corporate law has conferred almost all the powers of a corporation.

Accordingly, the utility of 'nexus of contracts theory' is that it allows the conceptualisation of corporation as a vehicle by which the board hires various factors of production. Hence, the board is not merely an agent of the shareholders, but a sui generis body serving as the nexus for the various contracts making up the corporation.

Hence, nexus of contracts is an essential component of any model of corporate governance. If there were no nexus, various contracts would look like a standard hierarchical organisation. For instance, in employment contract, each employee would contract with his superior and thereby form a cascade of contracts.

The critics of the 'contracts theory' allege that it is difficult and costly to write ex ante complete contracts. Despite that people intend to act rationally, they are simply not able to foresee and describe all future contingencies in a contract. Even if contingencies can be dealt with, information asymmetries and strategic bargaining often prevent an efficient and complete contract from emerging. Contracting remains incomplete due to various difficulties such as the difficulty of foreseeing some contingencies at the outset of relationship, specifying all contingencies in the contract, monitoring performance of other participants and enforcing relational contracts.

Rights of corporation

A corporation is a legal entity with the following rights:

1. The ability to sue and be sued.
2. The ability to hold assets in its own name.
3. The ability to hire agents.
4. The ability to sign contracts.
5. The ability to make by-laws to govern its internal affairs.

Self Assessment

Fill in the blanks:

1. A __________is organized as a privately-owned entity, whose activities require bureaucratic supervision
2. Over a period of time, the ____________have emerged as the most pervasive and successful system of business organization and management
3. The _____________has evolved through a Darwinian process enabling corporate bodies to emerge stronger, resilient and impervious to control by outsiders.
4. The ___________are regarded as the owners of the company
5. ____________facility may be regarded as a risk mitigation mechanism

2.2 CORPORATE SOCIAL RESPONSIBILITY (CSR) – RELEVANCE, NATURE, INTERNATIONAL CONTEXT

Business has realized a number of advantages from the society through customers, suppliers and employees.

2.2.1 Relevance

- Corporate social responsibility emphasizes the obligation and accountability to society.
- Corporate social responsiveness emphasizes action and activity.
- Corporate social performance emphasizes on the results and outcomes.

CSR has become an important indicator for the performance of a company. It requires business leaders to take actions that protect and improve the welfare of

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society as a whole along with their own interests. The business corporation has not only economic and legal obligations but also certain other social responsibilities like education, healthcare and developmental activities.

The philanthropic responsibilities make a corporation as a good corporate citizen; corporate citizenship covers all the factors of corporate social responsibility, responsiveness and performance. Individuals and groups with a multitude of interests, expectations and demands as to what business should provide to society are called stakeholders.

An interest or a share in an undertaking can be called a stake. An individual who possesses a stake is called a stakeholder. In any business, the stakeholders, consumers, employees, suppliers, community and the government can be called stakeholders.

1. Changing social values: Social values like customer care, empowerment of the weak and sharing benefits are created in modern days.
2. Long-run benefits: Making profit may be a short-term gain but making CSR related activities give long run benefits.
3. Image of company: CSR can promote the public image of the company by its various activities.
4. Benefit for society: The available managerial and financial resources of the corporations can be well-utilised for the overall benefit of the society.
5. Welfare state: In modern times, the concept of a welfare state is popular. Hence, CSR can supplement the activities of the government in the promotion of welfare.
6. Giving back to society: A business has grown by the support of society in different forms like consumers, suppliers and employees. Hence, there is a personal responsibility for the company to be involved in socially responsible activities.
7. Stockholders' delight: Well-informed stockholders are happy that their companies are involved in CSR activities.
8. Stakeholders' happiness: The different stakeholders like employees, customers and suppliers are also glad that their companies are associated with CSR activities. In fact, many young people prefer to join those corporations where CSR is active and dynamic.
9. Solution to social problems: The mounting social problems can be solved by the active involvement of the business corporations in CSR activities. Poverty, unemployment and illiteracy can be solved to some extent in the neighbouring areas of operations.
10. Overall growth: In modern times, there are scores of corporate failures due to moral failures, lack of good governance and erosion of values. The Due Care Theory strongly suggests that it is the responsibility of the producers

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to ensure that users' interests are not injured by their products. This approach prevents negligence.

2.2.2 Various Dimensions of CSR

There are various dimensions to CSR like economic issues, competitive issues, legal issues, protection of consumers and promotion of ethical conduct.

An economy is affected by the way companies relate to shareholders and other stakeholders like employees, suppliers and the community. The customers should get the expected level of service. The quality of the product, customer service, rights of employees and environment have to be maintained in any good business. The market forces, i.e. demand and supply should operate freely. The economic responsibility of business is significant for employees because it raises issues related to wages, working conditions and employee welfare.

Bigger companies should compete by following the rules of the game and not by destroying the smaller companies. Anti-competitive strategies such as price units, price wars and discriminatory pricing should not be followed.

The government can pass a number of laws and regulations but the business firms should accept and adhere to these laws and regulations. Corporate espionage and hacking have to be avoided.

The Competition Act, 2002 prohibits anti-competitive agreements. This Act has prohibited the following anti-competitive measures:

1. Limiting production or supply
2. Price collusion
3. Tie-in arrangements
4. Abuse of dominant position
5. Forced mergers and acquisitions.

Laws have been passed in many countries to encourage ethical conduct. The Sarbanes-Oxley Act was passed in the US in 2002 to establish stakeholder confidence in business. This Act has made the business corporations take greater responsibility for their decisions and to offer ethical leadership. The benefits of this Act are greater accountability of boards of directors to employees, investors and community, building investor confidence, protection of employees and accountability of senior managers and auditors.

Business has a responsibility of providing a high quality of life. People want recreation, entertainment and relaxation. The quality of life can be increased by leisure time, clean air and water. Business has a responsibility to reduce pollution and wastages.

Another area of corporate social responsibility is strategic philanthropy, which is the synergistic and mutually beneficial use of an organisation's resources to

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bring about benefits both for the organisation and society. Providing educational facilities to people helps both the companies and societies. Along with earning profits, the business organizations do a good deal benefits to the society. There is a positive relationship between profitability and social responsibility. In short, ethics serves as a force in social responsibility.

2.2.3 Nature of CSR

Despite its crucial significance, CSR still remains an embryonic and widely contested concept. The problem with CSR is that it means different things to different people. One study by Dahlsrud in 2006 has counted 37 definitions while others consider this number to be a wild underestimation. The World Business Council for Sustainable Development (1998) has defined CSR as a firm's commitment to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

The European Commission (2001) Green Paper on CSR argues that CSR entails going beyond fulfilling legal expectations and investing more into human resources, environment and stakeholder relations.

Many business firms have defined the concept in their unique way to refer to activities that promote local community, employee support, continuous improvement and mitigation of business impact.

CSR is viewed as an initiative which promotes self regulation of business as a substitute for state regulation. In a comprehensive way, CSR refers to 'continuing commitment by business to undertake actions beyond philanthropy to mitigate the externalities of their operations and ensure production or provision of qualitative and safe products or services.'

It may be noted that CSR is not a solution for all social problems but it motivates firms to follow those lines of actions which are desirable in terms of objectives and values of the society. CSR may be divided into (i) normative, i.e. focussing on doing good, and (ii) business case, i.e. motivated by corporate self-interest.

Normative CSR

It highlights the voluntary nature of CSR. Accordingly, CSR should rest on a firm's discretionary will to regulate its activities. Such focus has arisen from four reasons. Firstly, deregulation of market has come to be regarded as the best way to economic growth and social prosperity. Secondly, the globalisation has pressed the states to free corporations from unnecessary regulation except the one required for operation of the market. Thirdly, to address the challenges created by the retreat of the state, non-governmental organisations along with corporations have started handling tasks that were once the domain of the government. An example of such collaborations is International Organisation for Standardisation (ISO). Fourthly, a series of corporate accidents and

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revelations of corporate misconduct have led to increased societal demands for more responsible business operations.

Within the domain of CSR, the self-regulatory tools may take the form of management standards, labelling schemes, best practices guides and reporting systems. Their development involves a large number of domestic and international organisations such as UN Global Compact, Global Reporting Initiative, ISO-14001, etc.

The normative thinking about CSR is based on the following:

1. ***Moral Argument***: CSR represents the relationship between a company and the principles espoused by the society. Business firms do not exist in a vacuum and a large part of their success comes from actions that are congruent with societal values as well as from factors internal to the company. Peter Drucker rightly stated that profit for a company is like oxygen. If you do not have enough of it, you are out of the game. But if you think your life is about breathing, you are really missing something. Society makes business people. Business must also reciprocate by operating in ways that are socially responsible. Since business operates within the lager context of society, the society has the right and power to define expectations from business.

2. ***Rational Argument:*** Loss of social legitimacy may lead to restrictive legislation and other constraints (such as laws, fines, prohibitions, boycotts or social activism) on the firm’s freedom to pursue its economic goals. Compliance with moral expectations is based on subjective values. The rational argument rests on sanction avoidance. It may be more cost effective to handle issues voluntarily rather than wait for mandatory sanctions. Rational argument advocates self-interest in avoiding inevitable confrontation. The ‘iron law of social responsibility’ provides that in a free society, abuse of societal responsibility leads to mandated solutions.

   Business Case Approach to CSR

   Also known as “enlightened self-interest”, it views CSR as a means of enhancing both social and financial performance, a kind of win-win approach to business. By adopting CSR practices, firms would enhance the social environment and also cater to their financial interest as explained in under-mentioned theory.

   Institutional Theory: It wants firms to apply credible practices since the returns to such behaviour are high.

3. ***Resource-based View of the Firm Theory***: It claims that adoption of social practices will provide the firm a competitive advantage.

All the above arguments endeavour to make a business case for CSR to allure managers to adopt them. The flaws in business operations are mere failure in social insights and perception. The state should resort to minimum intervention

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since market can regulate its impacts through voluntary self-regulatory approaches.

Justifying the business case approach, a corporate report asserted, “If we aren’t good corporate citizens as reflected in the Triple Bottom Line of social, environmental and financial responsibilities, eventually our stock price, our profits and our entire business could suffer”.

Criticism of Business Case Approach

The criticism putforth with respect to business care approach is as follows:

1. The flourishing of CSR practices through various self-regulatory tools does not mean that these practices have got deeply embedded in the fabric of business behaviour. CSR is an industry in itself with full time staff, newsletters, website, professional associations and consultants.
2. The theory that what is good for business is good for society is questionable in the wake of short-term profit-centered approach adopted by several business firms. The reality of market makes firms to adopt a narrow and short-term financial perspective than tending to social needs. Adoption of CSR voluntary practices is driven by their potential to increase profits rather than enhancing firm’s social and environmental performance.
3. Cases like collapse of Enron illustrate that in cases of information asymmetries, business firms tend to behave opportunistically. Market mechanisms fail to prevent unethical activities despite the abundance of self-regulatory CSR tools.
4. Voluntary self-regulatory approaches are an oxymoron since potential polluters will not develop sanctions that may harm their self-interest. Rather CSR practices are used as a window dressing device to showcase a friendlier facade to their constituencies.
5. CSR is nothing more than a cosmetic treatment. The human face of CSR is made up each morning; it gets increasingly smeared by day, and washed off at night.

2.2.4 International Context

The role of business in society is evolving in conjunction with global social and economic forces, constantly changing many aspects of how and where businesses operate. Business must respond to these changes while continuing to satisfy customers’ needs and to provide a reasonable rate of return to shareholders. Globalization – the combined processes of faster communications, lower trade barriers, increased capital flows and greater individual mobility - is integrating economies and societies around the world. This has coincided with a global shift toward democratic market-based economies to the point where more than ever before, people live under governments of their own choosing. While quality of life has improved for

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many, sustained poverty reduction will require continued global economic integration, which leads to faster and more widespread economic growth.

2.3 STRATEGIC CSR AND ITS OUTCOMES

2.3.1 CSR – A Competitive Business Strategy

Business faces a number of challenges. Growth of competition, commercial pressure, rise of regulatory standards and increase of consumer demand create more and more of challenges. The old concept of business as an enterprise making only profit is no longer valid. Business is expected to act reasonably and benefit the society in a number of ways. it is not just to make profit and taxes, but something more than that. Earning profit at any cost is not considered a fair practice in modern times. Corporate governance and CSR are necessary as inputs of competitive strategy today.

It is to be observed that compliance with law is a minimum performance standard. CSR takes care of both internal and external stakeholders. CSR is called compassionate capitalism. CSR restructures the community, addresses the issues and problems and minimises the environmental impact. It is a win-win solution in the business world.

2.3.2 CSR – Builder of Corporate Reputation

The corporate reputation is built through CSR. CSR promotes values by breaking the old customs and beliefs. Corporate reputation is more important than 'profitability' and return on investment. Naturally, CSR is in the agenda of the Board. CSR has become a powerful international strategy of business. The companies are told to focus on something 'extra' rather than profit. Business should be humane as well as efficient and dynamic.

2.3.3 Identification of Areas for CRS

The areas of CSR can be identified through the following methods:

1. ***Social forecasting***: Social forecasting can be followed by observing the current social conditions and practices. For example, the growth of industries and overcrowded urban areas are sure to create many social problems, crimes, fall in values and breaking up of family ties.
2. ***Opinion surveys***: Opinion surveys can be conducted with the employees and population to find out the needs of the people of locality. Majority of the people want a healthy life and, hence, health related programmes are popular.
3. ***National issues***: Many CSR activities can handle the national issues like unemployment, poverty and inequality at their geographical level by starting many pro-development programs. Most of these national issues cannot be solved by the government only. For example, literacy can be

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promoted with the help of many agencies like government, voluntary and interest groups.

4. ***Social scanning***: An in-depth study of society can reveal the weaknesses of any society and point out the areas for improvement. Both the developing and developed societies have problems which can be reduced by CSR.

5. ***Social audit:*** A careful social audit can reveal the problems of society. Some of these problems have to be tackled by the support and assistance of industry and business through CSR. For example, health awareness programmes can be supported by business firms.

2.3.4 Company's Ethical Strategies

Managers do not dispassionately assess what strategic course to steer. Ethical strategy making generally begins with managers who themselves have strong character (i.e., who are honest, have integrity, are ethical, and truly care about how they conduct the company's business.) Managers with high ethical principles and standards are usually advocates of a corporate code of ethics and strong ethics compliance, and they are typically genuinely committed to certain corporate values and business principles and ethical standards. They understand there's big difference between adopting values statements and codes of ethics that serve merely as window dressing and those that truly paint the white lines for a company's actual strategy and business conduct. As a consequence, ethically strong managers consciously opt for strategic actions that can pass moral scrutiny-they display no tolerance for strategies with ethically controversial components.

But there are solid business reasons to adopt ethical strategies even if most company managers are not of strong moral character and personally committed to high ethical standards. Pursuing unethical strategies puts a company's reputation at high risk and can do lasting damage. The experiences at Enron, WorldCom, Tyco, HealthSouth, Rite Aid, Qwest Communications, Arthur Andersen, and several other companies illustrate that when top executives devise shady strategies or wink at unethical behavior, the impact on the company can be severe and sometimes devastating. Coca-Cola was sorely embarrassed when it came to light that company personnel had rigged a marketing test of Frozen Coke at several Burger King restaurants to make it appear that consumer response was better than it really was - an outside firm was hired to spend up to $ 10,000 to goose demand for Frozen Coke and other frozen drink at Burger King restaurants taking part in the test promotion. Given the results of the test, Burger King invested $65 million to make Frozen Coke and other frozen carbonated beverages a standard menu item starting in 1999. The marketing fraud came to light in February 2003 when a Coca-Cola finance manager sent a letter to Coca-Cola's CEO with detailed claims that metal shavings were getting into its Frozen Coke drinks and that there were assorted other problems with the company's marketing programs and accounting. A month later the employee was laid off, along with 1,000 other Coke employees,

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as part of a restructuring effort. In July 2003, four months after the marketing test fraud came to light and following several years of disappointing sales, Burger King began phasing out Frozen Coke. Coca-Cola later paid $ 540,000 to settle a lawsuit filed by the laid off finance manager and offered Burger King $21 million as part of an apology

Rehabilitating a company's shattered reputation is time-consuming and costly. Customers shun companies known for their shady behavior. Companies with reputations for unethical conduct have considerable difficult in recruiting and retaining talented employees. Most hardworking, ethically upstanding people are repulsed by a work environment where unethical behavior is condoned; they don't want to get entrapped in a compromising situation, nor do they want their personal reputations tarnished by the actions of an unsavory employer. A 1997 survey revealed that 42 percent of the respondents took into account a company's ethics when deciding whether to accept a job. Creditors are usually unnerved by the unethical actions of a borrower because of the potential business fallout and subsequent risk of default on any loans. To some significant degree, therefore, companies recognize that ethical strategies and ethical conduct are good business. Most companies have strategies that pass the test of being ethical, and most companies are aware that both their reputations and their long-term well-being are tied to conducting their business in a manner that wins the approval of suppliers, employees, investors, and society at large.

Why People involve in Unethical Conduct

The apparent pervasiveness of immoral and business people is one obvious reason why ethical principles are an ineffective moral compass in business dealings and why companies may resort to unethical strategic behavior. But apart from "the business of business is business, not ethics" kind of thinking, three other main drivers of unethical business behavior also stand out:

Overzealous or obsessive pursuit of personal gain, wealth, and other selfish interests.

Heavy pressures on company managers to meet or beat earnings targets.

A company culture that puts the profitability and good business performance ahead of ethical behavior.

Overzealous Pursuit of Personal Gain, Wealth, and Selfish Interests

People who are obsessed with wealth accumulation, greed, power, status, and other selfish interests often push ethical principles aside in their quest for self-gain. Driven by their ambitions, they exhibit few qualms in doing whatever is necessary to achieve their goals. Their first and only priority is to look out for their own best interests and if climbing the ladder of success means having few scruples and ignoring the welfare of others, so be it. A general disregard for business ethics can prompt all kinds of unethical strategic maneuvers and

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behaviors at companies. Top executives, directors, and majority shareholders at cable-TV company Adelphia Communications ripped off the company for amounts totaling well over $1 billion, diverting hundreds of millions of dollars to fund their Buffalo Sabres hockey team, build a private golf course, and buy timber rights-among other things- and driving the company into bankruptcy. Their actions, which represent one of the biggest instances of corporate looting and self-dealing in American business, took place despite the company's public notifications about the principles it would observe in trying to care for customers, employees, stockholders, and the local communities where it operated. Enron's board of directors agreed to suspend the company's conflict-of-interest rules designed to protect the company from this very kind of executive self-dealing.

Heavy Pressures on Company Managers to Meet or Beat Earnings Targets

When companies find themselves scrambling to achieve ambitious earnings growth and meet the quarterly and annual performance expectations of Wall Street analysts and investors, managers often feel enormous pressure to do whatever it takes to sustain the company's reputation for delivering good financial performance. Executives at high-performing companies know that investors will see the slightest sign of a slowdown in earnings growth as a red flag and drive down the company's stock price. The company's credit rating could be downgraded if it has used lots of debt to finance its growth. The pressure to watch the scoreboard and "never miss a quarter" – so as not to upset the expectations of Wall Street analysts and fickle stock market investors – prompts managers to cut costs wherever savings show up immediately, squeeze extra sales out of early deliveries, and engage in other short-term maneuvers to make the numbers. As the pressure builds to keep performance numbers looking good, company personnel start stretching the rules further and further, until the limits of ethical conduct are overlooked. Once ethical boundaries are crossed in efforts to "meet or beat the numbers," the threshold for making more extreme ethical compromises becomes lower.

At Bristol-Myers Squibb, the world's fifth largest drug maker, management apparently engaged in a series of numbers-game maneuvers to meet earnings targets, including such actions as:

- Offering special end-of-quarter discounts to induce distributors and local pharmacies to stock up on certain prescription drugs – a practice known as "channel stuffing."
- Issuing last-minute price increase alerts to spur purchases and beef up operating profits.
- Setting up excessive reserves for restructuring charges and then reversing some of the charges as needed to bolster operating profits.

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- Making repeated asset sales small enough that the gains could be reported as additions to operating profit rather than being flagged as one-time gains. (Some
- accountants have long used a rule of thumb that says a transaction that alters quarterly profits by less than 5 percent is “immaterial” and need not be disclosed in the company’s financial reports.)

Such numbers games were said to be a common “earnings management” practice at Bristol-Myers and, according to one former executive, “sent a huge message across the organization that you make your numbers at all costs.

Company executives often feel pressured to hit financial performance targets because their compensation depends heavily on the company’s performance. During the late 1990s, it became fashionable for boards of directors to grant lavish bonuses, stock option awards, and other compensation benefits to executives for meeting specified performance targets. So outlandishly large were these rewards that executives had strong personal incentives to bend the rules and engage in behaviors that allowed the targets to be met. Much of the accounting hocus-pocus at the root of recent corporate scandals has entailed situations in which executives benefited enormously from misleading accounting or other shady activities that allowed them to hit the numbers and receive incentive awards ranging

The fundamental problem with a “make numbers and move on” syndrome is that a company doesn’t really serve its customers or its shareholders by putting top priority on the bottom line. Shareholder interests are best served by doing a really good job of serving customers (observing the rule that customers are “king”) and by improving the company’s competitiveness in the market place. Cutting ethical corners or stooping to downright illegal actions in the name of profits first is convoluted and misguided – when the spotlight is shined on such scurrilous behavior, the resulting fallout actually depreciates shareholder value rather than enhancing it.

Company Cultures that put the Bottom Line ahead of Ethical Behavior

When a company’s culture spawns an ethically corrupt or amoral work climate, people have a company-approved license to ignore “what’s right” and engage in most any behavior or employ most any strategy they think they can get away with. In such an environment, ethically immoral or amoral people are certain to play down the relevance of ethical strategic actions and business conduct. Moreover, the pressures to conform to the norms of the corporate culture can prompt otherwise honorable people to make ethical mistakes and succumb to the many opportunities around them to engage in unethical practices.

A perfect example of a company culture gone away on ethics is Enron. Enron’s leaders encouraged company personnel to focus on the current bottom line and to be innovative and aggressive in figuring out what could be done to grow current revenue and earnings. Employees were expected to pursue

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opportunities to the utmost in the electric utility industry that at the time was undergoing looser regulation. Enron executives viewed the company as a laboratory for innovation; the company hired the best and brightest people and pushed them to be creative, look at problems and opportunities in new ways, and exhibit a sense of urgency in making things happen. Employees were encouraged to make a difference and do their part in creating an entrepreneurial environment where creativity flourished, people could achieve their full potential, and everyone had a stake in the outcome. Enron employees got the message – pushing the limits and meeting one's numbers were viewed as survival skills. Enron's annual "rank and yank" formal evaluation process where the 15 to 20 percent lowest-ranking employees were let go or encouraged to seek other employment made it abundantly clear that bottom-line results and being the "mover-and-shaker" in the marketplace were what counted. The name of the game at Enron became devising clever ways to boost revenues and earnings, even if it sometimes meant operating outside established policies and without the knowledge of superiors. In fact, outside-the-lines behavior was celebrated if it generated profitable new business. Enron's energy contracts and its trading and hedging activities grew increasingly more complex and diverse as employees pursued first this avenue and then another to help keep Enron's financial performance looking good.

2.3.5 Strategies for Handling Ethical Dilemmas

The following strategies were among those outlined by Sandara A Lee and Elizabeth A Rosen in their article, 'Employee Counselling Service: Ethical Dilemmas' (personnel and Guidance Journal, January 1984). They are designed to help HR professionals establish principles that will guide their behaviour and help them deal with the ethical dilemmas that arise in the course of their job duties:

- Recognize the obligation to develop a code of ethics-that is, a set of principles and standards to serve as a frame work for the practice of HR development - and to maintain the highest professional standards.
- To develop such a code of ethics which is built on the recommendations of individuals in the profession. Draw upon the detailed and well-executed codes of conduct in related professions; specifically psychology, counselling, and consulting.
- Define the parameters of the HR professional's duties. Negotiate an agreement with management that identifies the rights and concerns of the HR staff, the employees, and the company, as well as the limits of confidentiality. (Anticipate and define ethical dilemmas and inform management and employees to how these will systematically be handled.) Alert management to conditions that may be potentially damaging. Inform them of conditions that may be limiting effectiveness.

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- Educate employees about the practice of employee counselling. Establish interpersonal communications with subordinates and supervisors on issues of counselling and confidentiality, and distinguish between public and private information (especially that which is recorded).
- Develop guidelines for documentation and record-keeping. Decide what will be recorded, who will have access to the records, how long they will be kept, and how they will be used.
- Network-share your concerns, dilemmas, and thinking with fellow HR professionals. It is recommended that an expanded code of ethics be researched, drafted, and adopted by a professional association.
- Keep informed about current legislations and relevant court decisions. In carrying out professional duties, it is necessary to avoid any actions that will violate or diminish the legal and civil rights of employees and put the company or yourself in jeopardy.

2.4 STAKEHOLDERS: RELEVANCE

Stakeholders are those who may be affected by or have an effect on an effort. They may also include people who have a strong interest in the effort for academic, philosophical, or political reasons, even though they and their families, friends, and associates are not directly affected by it.

As outlined previously, the local community can often suffer at the hands of a large company through the negative externalities of pollution, noise, congestion and the building of new factories in areas of outstanding beauty. However, if the business faces strong protests from residents and from pressure groups concerned about its actions, then it may decide to relocate to another area, causing much unemployment and a fall in investment in the community it leaves behind.

The main stakeholders are considered to be:

2.4.1 Employees

This group also has an obvious financial interest in the company, since their pay levels and their job security will depend on the performance and the profitability of the business. It is employees who perform the basic functions and tasks of the business (producing output, meeting deadlines and delivery dates, etc.) and over recent years their traditional role has started to change. They are often now encouraged to become involved in multi-skilled teamworking, problem solving and decision making - thus having a significant input to the workings of the business.

2.4.2 Customers

Customers are vital to the survival of any business, since they purchase the goods and services which provides the business with the majority of its

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revenue. It is therefore vital for a business to find out exactly what the needs of the consumers are, and to produce their output to directly satisfy these needs - this is done through market research. The goods and services must then be promoted in such a way as to appeal to the target market and to inform them of the availability, price, etc. Once the goods and services have been purchased by the customer, it is essential that after-sales service is offered and that the customer is happy with his/her purchase. The business must try to keep the customer loyal so that they return in the future and become a repeat-purchaser.

2.4.3 Suppliers

Without flexible and reliable suppliers, the business could not guarantee that it will always have sufficient high quality raw materials which they require to produce their output. It is important for a business to maintain good relationships with their suppliers, so that raw materials and components can be ordered and delivered at short notice, and also so that the business can negotiate good credit terms from the suppliers (i.e. buy now, pay at a later date).

2.4.4 The Local Community

Businesses are likely to provide significant amounts of employment for the local community and often will produce and sell much of their output to the local residents. The sponsorship of local events and good causes (such as local charity work) can also help the business to establish itself in the community as a caring, socially responsible organisation. Many businesses develop links with local schools and colleges, offering sponsorships and resources to these under-funded institutions. However, businesses can also cause many problems in local communities, such as congestion, pollution and noise, and these negative externalities may often outweigh the benefits that the businesses bring to the community.

2.4.5 Primary, Secondary and Key Stakeholders

One way to characterize stakeholders is by their relationship to the effort in question.

Primary stakeholders are the people or groups that stand to be directly affected, either positively or negatively, by an effort or the actions of an agency, institution, or organization. In some cases, there are primary stakeholders on both sides of the equation: a regulation that benefits one group may have a negative effect on another. A rent control policy, for example, benefits tenants, but may hurt landlords.

Secondary stakeholders are people or groups that are indirectly affected, either positively or negatively, by an effort or the actions of an agency, institution, or organization. A program to reduce domestic violence, for instance, could have a positive effect on emergency room personnel by reducing the number of cases they see. It might require more training for police to help them handle domestic violence calls in a different way. Both of these groups would be secondary stakeholders.

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Key stakeholders, who might belong to either or neither of the first two groups, are those who can have a positive or negative effect on an effort, or who are important within or to an organization, agency, or institution engaged in an effort. The director of an organization might be an obvious key stakeholder, but so might the line staff – those who work directly with participants – who carry out the work of the effort. If they don't believe in what they're doing or don't do it well, it might as well not have begun. Other examples of key stakeholders might be funders, elected or appointed government officials, heads of businesses, or clergy and other community figures who wield a significant amount of influence.

While an interest in an effort or organization could be just that – intellectually, academically, philosophically, or politically motivated attention – stakeholders are generally said to have an interest in an effort or organization based on whether they can affect or be affected by it. The more they stand to benefit or lose by it, the stronger their interest is likely to be. The more heavily involved they are in the effort or organization, the stronger their interest as well.

2.4.6 Disagreements between Stake Holders

Due to the demands placed on businesses by so many different stakeholders, it is no surprise that there are often disagreements and conflict between the different groups. Some of the more common areas of conflict are:

Shareholders and Management

Profit maximisation is often the over-riding objective of shareholders - resulting in large dividend payments for them. However, it is far more likely that the managers of the business will aim to profit satisfy rather than profit maximise (that is, they will aim to earn a satisfactory level of profits, and then use the remaining resources to pursue other objectives such as diversification and growth). This conflict between these two groups is often referred to as divorce of ownership (the shareholders) and control (the management).

Customers and the Business

Customers are unlikely to remain loyal and repeat purchase from the business if the product that the have purchased is of poor quality and/or is poor value for money. More customers are prepared to complain about the quality of products and after-sales service than ever before, and the business must ensure that it has in place a number of strategies designed to satisfy the disgruntled customer, reimburse any financial loss that they may have incurred and persuade them to remain loyal to the business.

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Suppliers and the Business

Suppliers are often quoted as complaining about the lack of prompt payments from businesses for deliveries of raw materials, and if this became a regular problem then the suppliers may well refuse credit to the businesses or may even cease all dealings with them. On the other hand, many businesses have been known to complain about the late deliveries of raw materials and components from suppliers, and the dubious quality of the parts once they have been inspected.

Shareholders have a clear financial interest in the performance of the business. They have invested money into the company through purchasing shares and they expect the company to grow and prosper so that they receive a healthy return on their investment. The return that they receive can come in two forms. Firstly, by a rise in the share price, so that they can sell their shares at a higher price than the purchase price (this is known as making a capital gain). Secondly, based on the level of profits for the year, the company issues a portion of this to each shareholder for every share that they hold (this is known as a dividend). The shareholders are also entitled to vote each year at the A.G.M. to elect the Board of Directors, who will run the company on their behalf.

2.4.6 What is a Stakeholder Model?

The stakeholder model takes the approach that in order to be effective, the organization needs to take all the stakeholders of a company into account.

The approach to this can most effectively be implemented using the stakeholder focused performance management approach (SFPM). SFPM ensures that all stakeholder expectations and contributions are taken into account and measured in an effective framework using a modified balanced scorecard.

2.4.7 What is a Stakeholder Mapping?

Stakeholder mapping is the analysis of stakeholders in a particular field, focus area, sector or industry in terms of the existing stakeholders, patterns and relationships amongst them.

2.4.8 What are Fringe Stakeholders and Salient Stakeholder?

Fringe stakeholders are stakeholders who could not directly impact the firm; however, they can joint together and voice their concerns using the Internet or other medium. On the other hand, those stakeholders that can directly impact the firm is called “salient stakeholder”.

2.4.9 What are Project Stakeholders?

Project stakeholders are individuals and organizations whose interests are affected (positively or negatively) by the project execution and completion. In

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other words, a project stakeholder has something to gain from the project or lose to the project.

2.4.10 Positive and Negative Stakeholders

Accordingly, the stakeholders fall into two categories-positive stakeholders, who will normally benefit from the success of the project, and negative stakeholders, who see some form of disadvantage coming from the project. The implications obviously are that the positive stakeholders would like to see the project succeed and the negative stakeholder's would be happy if the project was delayed or even better cancelled.

For instance, let us say, your state government wants to build a Government Hospital in your city. It is a good thing right? You, the citizens of your city and the chief minister are all ***positive stakeholders*** of this project. Lets say there is a private Hospital in the city that is having a thriving business currently. They would be negative stakeholders because, if the government hospital comes up, their business will be affected and hence they would be happy if the government scraps its project.

Negative stakeholders are often overlooked by the project manager and the project team, which increases the project risk. Ignoring positive or negative project stakeholders will have a damaging impact on the project. Therefore, it's important that you, as the project manager, start identifying the project stakeholders early on in the project. The different project stakeholders can have different and conflicting expectations, which you need to analyze and manage.

Stakeholders of an effort are those who have a vested interest in it, either as those who develop and conduct it, or as those whom it affects directly or indirectly. Identifying and involving stakeholders can be a large part of ensuring the effort's success. In order to gain stakeholder participation and support, it's important to understand not only who potential stakeholders are, but the nature of their interest in the effort. With that understanding, you'll be able to invite their involvement, address their concerns, and demonstrate how the effort will benefit them.

Managing stakeholders – keeping them involved and supportive – can be made easier by stakeholder analysis, a method of determining their levels of interest in and influence over the effort. Once you have that information, you can then decide on the appropriate approach for each individual and group. Depending on your goals for the effort, you may either focus on those with the most interest and influence, or on those who are most affected by the effort.

As with any community building activity, work with stakeholders has to continue for the long term in order to attain the level of participation and support you need for a successful effort.

To Sum up - They are very important and need to be aware of what is happening with a project.

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Business ethics motivate firms to think about the impact of their decision on stakeholders. Creation of a positive public image comes from demonstrating commitment to values. Adoption of an ethics programme sends a message to the stakeholders that company looks beyond its selfish concerns.

Self Assessment

State whether the following statements are true or false:

6. Business has realized a number of advantages from the society through customers, suppliers and employees.
7. CSR has become an important indicator for the performance of a company
8. An individual who possesses a stake is called a shareholder.
9. In any business, the stakeholders, consumers, employees, suppliers, community and the government can be called stakeholders.
10. Business has a responsibility of providing a high quality of life.

Fairness Principle

It is concerned with the fair-treatment of stakeholders, who have vested interest in the firm. There are the following four types of fairness:

- ***Reciprocal Fairness:*** Both the contracting parties shall be mutually fair to one another.
- ***Distributive Fairness:*** There should be fair distribution of finite resources within the firm so as to maximise the benefits of those allocations.
- ***Fair Competition:*** It focuses on giving fair treatment to existing and potential competitors. It consists in shunning of collusion between the firm and its competitors with regard to price, geographical allocation and market share.
- ***Procedural Fairness:*** This principle consists in treating the other firms fairly from a due process perspective, e.g. avoidance of retaliatory action against employees who had notified the government of any legal violations.

2.5 STAKEHOLDER THEORY OF THE FIRM

Johnson (1971), in his definition of CSR, has conceived of a socially responsible firm which balances a multiplicity of interests of its employees, suppliers, local communities and the nation while striving for larger profits. A stakeholder denotes any identifiable group or individual who can affect or be affected by organisational performance in terms of its products, policies and work processes.

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The stakeholder theory of the firm is used as a basis to analyse those groups to whom the firm should be responsible. In this sense, the firm can be described as a series of connections of stakeholders that the managers of the firm attempt to manage. A stakeholder is any group or individual who can affect or is affected by the achievement of the organisation's objectives. Stakeholders are typically analysed into primary and secondary stakeholders. A primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern. A primary group includes shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due. The secondary groups are defined as those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival.

Modern business is intimately integrated with the rest of the society and its activities have profound ramifications for the society at large. The stakeholders may belong to two groups. The primary stakeholders are those without whose continuing participation the corporation cannot survive as a going concern. The shareholders, investors, employees, consumers and suppliers belong to the primary group. The public stakeholders' group including the government and the community that provide the infrastructure and markets, and prescribe the laws also belong to the primary group. To the secondary group belong those who influence or are influenced by the firms but are neither engaged in transactions with it nor are they essential for the survival of the firm. The stakeholders' issues may become more or less urgent depending on the exigencies of the situation.

The stakeholders' theory has raised the issues whether organisations can be socially responsible and be profitable simultaneously.

It exhorts business firms to pay attention to non-financial constituencies such as consumers, employees and local communities so as to secure significant benefits. Business firms must satisfy key groups in various constituencies to remain viable over the long term.

The 'stakeholder theory' is somewhat of a troublesome label because it is used to refer to both an empirical theory of management and a normative theory of business ethics, often without clearly distinguishing between the two. As an empirical theory of management, the stakeholder theory holds that effective management requires the balanced consideration of and attention to the legitimate interests of all stakeholders, defined as anyone who has "a stake in or claim on the firm." This has been interpreted in both a wide sense that includes "any group or individual who can affect or is affected by the corporation," and a more narrow sense that includes only "those groups who are vital to the survival and success of the corporation." It is perhaps more familiar in its narrow sense in which the stakeholder groups are limited to

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stockholders, customers, employees, suppliers, management, and the local community. Thus, as an empirical theory, the stakeholder theory asserts that a business's financial success can best be achieved by giving the interests of the business's stockholders, customers, employees, suppliers, management, and local community proper consideration and adopting policies which produce the optimal balance among them.

When viewed as an empirical theory of management designed to prescribe a method for improving a business's performance, the stakeholder theory does not imply that businesses have any social responsibilities. In this sense, it is perfectly consistent with the normative stockholder theory since what is being asserted is the empirical claim that the best way to enhance the stockholders' return on their investment is to pay attention to the legitimate interests of all stakeholders. The essence of the stakeholder theory of management is that stakeholder management is required for managers to successfully meet their fiduciary obligation to the stockholders. For the purposes of this article, however, we are concerned with the stakeholder theory not as an empirical theory of management, but as a normative theory of business ethics.

When viewed as a normative theory, the stakeholder theory asserts that, regardless of whether stakeholder management leads to improved financial performance, managers should manage the business for the benefit of all stakeholders. It views the firm not as a mechanism for increasing the stockholders' financial returns, but as a vehicle for coordinating stakeholder interests and sees management as having a fiduciary relationship not only to the stockholders, but to all stakeholders. According to the normative stakeholder theory, management must give equal consideration to the interests of all stakeholders and, when these interests conflict, manage the business so as to attain the optimal balance among them. This, of course, implies that there will be times when management is obligated to at least partially sacrifice the interests of the stockholders to those of other stakeholders. Hence, in its normative form, the stakeholder theory does imply that businesses have true social responsibilities.

The stakeholder theory holds that management's fundamental obligation is not to maximize the firm's financial success, but to ensure its survival by balancing the conflicting claims of multiple stakeholders. This obligation is to be met by acting in accordance with two principles of stakeholder management. The first, called the principle of corporate legitimacy, states that "the corporation should be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees, and the local communities. The rights of these groups must be ensured and, further, the groups must participate, in some sense, in decisions that substantially affect their welfare." The second, called the stakeholder fiduciary principle, states that "management bears a fiduciary relationship to stakeholders and to the corporation as an abstract entity. It must act in the interests of the stakeholders as their agent, and it must act in the interests of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group

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2.6 CORPORATE CITIZENSHIP – DEFINITION, DIFFERENT PERSPECTIVES, RELEVANCE FOR BUSINESS ETHICS

Corporate Citizenship looks at expectations of society that business will engage in socially useful activities that are neither mandated by law nor are generally expected of business in an ethical sense. The linguistic change from CSR to Corporate Citizenship transforms the understanding of how business organisations act with respect to stakeholders. Corporate Citizenship is a metaphor for business participation in society on account of its being an integral part thereof. Faced with these type of challenges, the World Economic Forum in New York in 2002 signed the *Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards*. The World Economic Forum has explained that corporate citizenship is about 'the contribution which a company makes to society through its core business activities, its social investment and philanthropy programmes and its engagement in public policy'

According to citizenship principle: Every employee shall act as a responsible citizen of the community and respect the laws of the community. He shall specifically be conscious of the following:

- Sustainability and environmental issues
- Health and safety issues
- Community-based programmes

It is used to express the extent to which business strategically meets the legal, economic, ethical and social responsibilities placed on business by various stakeholders. It is corporate voluntarism to meet the social responsibilities. It involves the firm's commitment to the corporate citizenship and implementing citizenship initiatives.

The strategy for corporate citizenship is consisting of the following elements.

- Commitment from top management
- Mission and vision statements
- Collaboration and coordination across business
- Values
- Compliance standards

A corporate citizen strongly believes in

1. Making meaningful contribution to customers.
2. The development of people and community.
3. Creating economic value for shareholders so that they can stand to gain.
4. Responding to changes through innovation and design in the fast-changing world.

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5. Living with integrity and responding to the environment so that environmental aspects are taken into account.

> ***Task***
>
> Meet five business managers and discuss with them the values practiced in their business organizations.

Self Assessment

Fill in the blanks:

11. A stakeholder denotes any identifiable group or individual who can affect or be affected by organizational performance in terms of its products, policies and ____________.
12. The _____________of the firm is used as a basis to analyze those groups to whom the firm should be responsible.
13. The ________can be described as a series of connections of stakeholders that the managers of the firm attempt to manage.
14. A _________group includes shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group.
15. The stakeholders' theory has raised the issues whether organizations can be socially responsible and be ____________simultaneously.

CASE STUDY

Herman Miller

Herman Miller Inc, is a multinational provider of office, residential and healthcare furniture and services and has prepared a blueprint for corporate community. It combines the talents, hopes and dreams of people. Herman Miller Inc., believes in making meaningful contribution to its customers.

- Cultivating community participation and people development.
- Creating economic value for shareholders and employee owners.
- Responding to change through design and innovation.
- Living with integrity and respecting the environment.

Question

What are the implications in this set of beliefs?

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SUMMARY

- Corporate social responsibility has become an important indicator for the performance of a company.
- Business has social responsibilities like education, healthcare and developmental activities.
- Corporate citizenship covers all the factors of corporate social responsibility, responsiveness and performance.
- An individual who possesses a stake or interest is called a stakeholder.
- The shareholders are regarded as the owners of the company.
- They share company's profits, and are collectively entitled to appoint and remove directors from the board.
- Because of the divorce between ownership and management, both of these functions are performed more efficiently by the specialists.
- The directors and managers neither need to own capital nor the shareholders need to possess managerial control, which enables the management task to be entrusted to a cohesive group of people while leaving the risk of equity investments onto a large number of assorted shareholders.

KEYWORDS

Corporate Person: A corporate person represents a group of human beings behind a collective mask.

Corporation: A corporation is organised as a privately-owned entity, whose activities require bureaucratic supervision.

Entity Theory of Corporation: The entity theory of corporation states that a corporation is a being with attributes not found among humans who are its components

Fiction Theory: The fiction theory by FC Von Savigny holds that a corporation is simply a legal fiction created and sustained by an Act of the State.

Person: The term 'person', therefore, refers to the mask worn by an actor, i.e. the actor in the mask

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Theory of Contractualism: The theory of contractualism maintains that the company stems from the agreements among individuals and not from state patronage

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REVIEW QUESTIONS

1. Define the term corporation/
2. What are the key features and responsibilities of corporations?
3. Define corporate social responsibility.
4. Define corporate citizenship.
5. Discuss the relevance and nature of CSR.
6. Examine the case for corporate social responsibility in developing economies. Point out the difficulties in its implementation.
7. Discuss how for the strategy of corporate social responsibility can also act as an ethical strategy in business.
8. Examine the working of CSR initiatives of a few public sector units.
9. Compare the CSR programmes of any two companies in your region.
10. Explain Stakeholder theory of the firm.
11. Define the term Corporate citizenship.
12. Describe different perspectives and relevance of Corporate citizenship for business ethics.

Answers to Self Assessments

1. corporation
2. joint stock companies
3. corporate structure
4. shareholders
5. Share transfer
6. True
7. True
8. False
9. True
10. True
11. work processes
12. stakeholder theory
13. firm
14. primary
15. profitable

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LESSON 3 - EVALUATING BUSINESS ETHICS

CONTENTS

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Explain the role of ethical theory
2. Describe normative theory
3. Trace your knowledge on Traditional theory
4. Analyze contemporary ethical theories

INTRODUCTION

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The general principles are necessary if business ethics is to constitute a substantive normative discipline. However, if the only principles available are expressed in language unfamiliar to those who must apply them, they can have no practical effect. This suggests that the task of the business ethicist is to produce a set of ethical principles that can be both expressed in language accessible to and conveniently applied by an ordinary business person who has no formal philosophical training.

3.1 ROLE OF ETHICAL THEORY

It basically comprises:

Two Extreme Positions (DE GEORGE 1999)

- Ethical absolutism claims there are eternal, universally applicable moral principles
  - ❖ Right and wrong are objective qualities, can be rationally determined
  - ❖ Typically traditional ethical theories
- Ethical relativism claims morality is context dependent and subjective
  - ❖ No universal right and wrongs that can be rationally determined; depends on person making the decision & culture in which they are located
  - ❖ Typically contemporary ethical theories

3.1.1 Due Care Theory

This ethical theory can be applied in areas of manufacturing and marketing. According to this theory, the manufacturers ought to exercise due care right from the design up to customer care.

The sellers have a better knowledge and expertise. The manufacturers are liable for the damages caused by a firm. Any production that is below the standard production is negligence. The following are the main areas of due care:

1. Design should be in accordance with the industry specified standards.
2. The components or raw materials should have a standard specification.
3. The method of production should be free from any defect or criticism. It should be done on specific mode.
4. Standard quality control norms have to be followed.
5. Both packaging and labeling have to be done on specific terms. If any precaution has to be provided, it has to be done in clear terms.

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Criticism

1. There is no clear method for determining due care. Every product has some risk of injury.
2. This theory assumes that the manufacturer can discover the risks of a product.
3. It also assumes that the manufacturer should be able to make important decisions for the consumers. The consumers are not given a free choice.

3.1.2 Social cost theory

In terms of this theory, a manufacturer should pay the costs of any injuries sustained through any defects in the product. The manufacturer has liability to the buyer. This theory assumes that an efficient use of resources is so important for the society that social costs should be allocated.

It is criticised on the following grounds:

Firstly, this theory ignores the basic principle of compensatory justice. This principle of compensatory justice implies that a person can compensatory an injured party only if the person could have foreseen and prevented the injury.

In reality, the sellers cannot foresee all the possible injuries of the buyers.

Secondly, this theory is stressing more on the financial burden of the manufacturers.

Thirdly, it assumes that the number of injuries will be reduced. In fact, the consumers have to be careful in using the new products and technology equipments.

Self Assessment

Fill in the blanks:

1. The general principles are necessary if business ethics is to constitute a substantive __________ discipline.
2. The task of the business ethicist is to produce a set of ethical principles that can be both expressed in language accessible to and conveniently applied by an ordinary business person who has no formal ___________ training.
3. ____________ theory assumes that an efficient use of resources is so important for the society that social costs should be allocated
4. The __________ have a better knowledge and expertise.
5. The components or raw materials should have a ________________.

3.2 NORMATIVE THEORY

Normative ethical theories are those that propose to prescribe the morally correct way of acting. As opposed to descriptive ethical theories which seek to describe how ethics decisions are actually made in business.

The search for different principles has led to the development of several normative theories that have been specifically tailored to fit the business environment; theories. These theories attempt to derive what might be called "intermediate level" principles to mediate between the highly abstract principles of philosophical ethics and the concrete ethical dilemmas that arise in the business environment. Philosophical ethics must provide human beings with guidance in all aspects of their lives. A normative theory of business ethics is an attempt to focus this general theory exclusively upon those aspects of human life that involve business relationships. By thus limiting its range of application and translating the language of philosophical ethics into the everyday language of the business world, such a theory is specifically designed to provide human beings with ethical guidance while they are functioning in their capacity as business people.

Currently, the three leading normative theories of business ethics are the stockholder, stakeholder, and social contract theories. These theories present distinct and incompatible accounts of a business person's ethical obligations, and hence, at most one of them can be correct. The stockholder theory is the oldest of the three, and it would be fair to characterize it as out of favor with many contemporary business ethicists. To them, the stockholder theory represents a disreputable holdover from the bad old days of rampant capitalism. In contrast, the past decade and a half has seen the stakeholder theory gain such widespread adherence that it currently may be considered the conventionally-accepted position within the business ethics community. In recent years, however, the social contract theory has been cited with considerable approbation and might accurately be characterized as challenging the stakeholder theory for preeminence among normative theorists.

Accordingly, normative ethics are concerned with classifying ethics as "right or wrong". Such an approach regards ethics as a set of norms, a kind of standard by reference to which behaviour is evaluated. Its emphasis is on articulating good habits that one must acquire, the duties one must follow, and the consequences of one's behaviour. In a way, an attempt is made to find out a litmus test to identify proper behaviour. Theories adapted to such behaviour include the following:

1. Virtue theory specifying the character that should be acquired
2. Duty theory emphasising the duties which must be accomplished
3. Consequentiality theory concerned with the consequences of behaviour

Normative ethics bridges the gap between meta-ethics and applied ethics laying down the general moral standards to judge right from wrong and the ways to live moral lives.

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3.2.1 The Stockholder Theory

The first normative theory of business ethics to be examined is the stockholder theory. According to this theory, businesses are merely arrangements by which one group of people, the stockholders, advance capital to another group, the managers, to be used to realize specified ends and for which the stockholders receive an ownership interest in the venture. Under this view, managers act as agents for the stockholders. They are empowered to manage the money advanced by the stockholders, but are bound by their agency relationship to do so exclusively for the purposes delineated by their stockholder principals. (9) The existence of this fiduciary relationship implies that managers cannot have an obligation to expend business resources in ways that have not been authorized by the stockholders regardless of any societal benefits that could be accrued by doing so. Of course, both stockholders and managers are free to spend their personal funds on any charitable or socially beneficial project they wish, but when functioning in their capacity as officers of the business, managers have a duty not to divert business resources away from the purposes expressly authorized by the stockholders. This implies that a business can have no social responsibilities.

CAUTION The stockholder theory holds that managers are obligated to follow the (legal) directions of the stockholders, whatever these may be.

Thus, if the stockholders vote that the business should not close a plant without giving its employees 90 days notice, should have no dealings with a country with a racist regime, or should endow a local public library, the management would be obligated to carry out such a directive regardless of its effect on the business's bottom line. In most cases, however, the stockholders issue no such explicit directives and purchase stock for the sole purpose of maximizing the return on their investment. When this is the purpose for which the stockholders have advanced their money, the managers' fiduciary obligation requires them to apply it to this end. For this reason, the stockholder theory is often imprecisely expressed as requiring managers to maximize the financial returns of the stockholders. The most famous statement of this shorthand description of the stockholder theory has been given by Milton Friedman who ironically refers to this as a "social responsibility." As he expresses it, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud."

It is important to note that even in this imprecise form, the stockholder theory does not instruct managers to do anything at all to increase the profitability of the business. It does not assert that managers have a moral blank check that allows them to ignore all ethical constraints in the pursuit of profits. Rather, it states that managers are obligated to pursue profit by all legal, non-deceptive

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means. Far from asserting that there are no ethical constraints on a manager's obligation to increase profits, the stockholder theory contends that the ethical constraints society has embodied in its laws plus the general ethical tenet in favor of honest dealing constitute the ethical boundaries within which managers must pursue increased profitability. A significant amount of the criticism that is directed against the stockholder theory results from overlooking these ethical limitations.

For whatever reason, the stockholder theory has come to be associated with the type of utilitarian argument frequently advanced by free market economists. Thus, supporting arguments often begin with the claim that when individual actors pursue private profit in a free market, they are led by Adam Smith's invisible hand to promote the general interest as well. It is then claimed that since, for each individual, "[b]y pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it," it is both unnecessary and counterproductive to exhort businesses or business persons to act directly to promote the common good. From this it is concluded that there is no justification for claiming that businesses or business persons have any social responsibilities other than to legally and honestly maximize the profits of the firm.

Although this consequentialist argument is the one most frequently cited in support of the stockholder theory, it must be noted that there is another, quite simple deontological argument for it as well. This argument is based on the observation that stockholders advance their money to business managers on the condition that it be used in accordance with their wishes. If the managers accept the money on this condition and then proceed to spend it to accomplish social goals not authorized by the stockholders, they would be violating their agreement and spending other people's money without their consent, which is wrong.

3.2.2 The Social Contract theory

The social contract theory, really comprises a family of closely related theories and, in some ways, is still in the process of formation. However, in its most widely accepted form, the social contract theory asserts that all businesses are ethically obligated to enhance the welfare of society by satisfying consumer and employee interests without violating any of the general canons of justice. Because the specific nature of this obligation can best be appreciated in the context of the theory's derivation.

The social contract theory is based on the traditional concept of a social contract, an implicit agreement between society and an artificial entity in which society recognizes the existence of the entity on the condition that it serves the interests of society in certain specified ways. As a normative theory of business ethics, the social contract theory is explicitly modeled on the political social contract theories of thinkers such as Thomas Hobbes, John Locke, and Jean-Jacques Rousseau. These political theorists each attempted to

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imagine what life would be like in the absence of a government, i.e., in the "state of nature," and asked what conditions would have to be met for citizens to agree to form one. The obligations of the government toward its citizens were then derived from the terms of this agreement.

The normative social contract theory of business ethics takes much the same approach toward deriving the social responsibilities of businesses. It begins by imagining a society in which there are no complex business organizations, i.e., a state of "individual production," and proceeds by asking what conditions would have to be met for the members of such a society to agree to allow businesses to be formed. The ethical obligations of businesses toward the individual members of society are then derived from the terms of this agreement.

> *Did you know?* The social contract theory posits an implicit contract between the members of society and businesses in which the members of society grant businesses the right to exist in return for certain specified benefits.

In granting businesses the right to exist, the members of society give them legal recognition as single agents and authorize them to own and use land and natural resources and to hire the members of society as employees. The question then becomes what the members of society would demand in return. The minimum would seem to be "that the benefits from authorizing the existence of productive organizations outweigh the detriments of doing so." In general, this would mean that businesses would be required to "enhance the welfare of society . . . in a way which relies on exploiting corporations' special advantages and minimizing disadvantages"while remaining "within the bounds of the general canons of justice."

This generalization may be thought of as giving rise to a social contract with two terms: the social welfare term and the justice term. The social welfare term recognizes that the members of society will be willing to authorize the existence of businesses only if they gain by doing so. Further, there are two distinct capacities in which the members of society stand to gain from businesses: as consumers and as employees. As consumers, people can benefit from the existence of businesses in at least three ways. First, businesses provide increased economic efficiency by maximizing the advantages of specialization, improving decision-making resources, and increasing the capacity to use and acquire expensive technology and resources. Second, businesses provide stable levels of output and channels of distribution. And third, they provide increased liability resources from which to compensate injured consumers.

People's interests as consumers can be harmed when businesses pollute the environment and deplete natural resources, undermine the personal accountability of its constituent members, and misuse political power. People's

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interests as employees can be harmed when they are alienated from the product of their labor, suffer from lack of control over their working conditions, and are subjected to monotonous and dehumanizing working conditions. These, then, constitute the respective advantages and disadvantages that businesses can provide to and impose upon society.

Therefore, when fully specified, the social welfare term of the social contract requires that businesses act so as to:

- benefit consumers by increasing economic efficiency, stabilizing levels of output and channels of distribution, and increasing liability resources;
- benefit employees by increasing their income potential, diffusing their personal liability, and facilitating their income allocation; while
- minimizing pollution and depletion of natural resources, the destruction of personal accountability, the misuse of political power, as well as worker alienation, lack of control over working conditions, and dehumanization.

The justice term recognizes that the members of society will be willing to authorize the existence of businesses only if businesses agreed to remain within the bounds of the general canons of justice.

In general, the social contract theory holds that managers are ethically obligated to abide by both the social welfare and justice terms of the social contract. Clearly, when fully specified, these terms impose significant social responsibilities on the managers of business enterprises.

The social contract theory is often criticized on the ground that the "social contract" is not a contract at all. To appreciate the nature of this criticism, let us borrow some terminology from the legal realm. The law recognizes three types of contracts: express contracts, implied contracts, and quasi-contracts. An express contract consists in an explicit agreement made in speech or writing. In this case, there is a true meeting of the minds of the parties that is expressly memorialized through language. An implied contract consists in an agreement that is manifested in some other way. For example, continuing to deal with another party under the terms of an expired contract can imply an agreement to renew or, perhaps more familiarly, failing to return an invoice marked 'cancel' following a trial membership can imply a contract to buy four books in the next twelve months. As with express contracts, in such cases, there is a true meeting of the minds. However, in implied contracts, that agreement is manifested through action rather than language. A quasi-contract, on the other hand, consists in the legal imposition of a contractual relationship where there has been no meeting of the minds because such is necessary to avoid injustice. For example, a doctor who expends resources aiding an unconscious patient in an emergency situation is said to have a quasi-contract for reasonable compensation even though there was no antecedent agreement between the parties. In quasi-contracts, the law acts as though there has been a meeting of the minds where none in fact exists in order to do justice.

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Critics of the social contract theory point out that the social contract is neither an express nor an implied contract. This is because there has been no true meeting of the minds between those who decide to form businesses and the members of the society in which they do so. Most people who start businesses do so by simply following the steps prescribed by state law and would be quite surprised to learn that by doing so they had contractually agreed to serve society's interests in ways that were not specified in the law and that can significantly reduce the profitability of the newly formed firm. To enter a contractual arrangement, whether expressly or by implication, one has to at least be aware that one is doing so. Thus, the critics maintain that the social contract must be a quasi-contract, which is merely a fiction rather than a true contract.

Self Assessment

State whether the following statements are true or false:

1. Normative ethical theories are those that propose to prescribe the morally correct way of acting.
2. Philosophical ethics must provide human beings with guidance in all aspects of their lives
3. A normative theory of business ethics is an attempt to focus this general theory exclusively upon those aspects of human life that involve business relationships.
4. The stockholder theory represents a disreputable holdover from the bad old days of rampant capitalism.
5. The three leading normative theories of business ethics are the stockholder, stakeholder, and social contract theories.

3.3 TRADITIONAL THEORY

Traditionally, ethics has been viewed as the study of what kinds of actions are right and wrong, how the world is and how it ought to be, what kinds of decisions are made and what kinds of decisions ought to be made. Codes of ethics, although containing viable assumptions and beliefs, often do not provide answers to the real-life problems encountered by teachers, nor do they outline a framework for ethical decision making

Jeremy Bentham (1748-1832) is generally considered the founder of traditional utilitarianism. J Bentham sought an objective basis for making value judgments that would provide a common and publicly acceptable norm for determining social policy and social legislation. The most promising way to reach such an objective ground of agreement, he believed, is by looking at the various policies a legislature could enact and comparing the beneficial and harmful consequences of each. The right course of action from an ethical point of view

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would be to choose the policy that would produce the greatest amount of utility.

Summarised, the utilitarian principle holds that an action is right from an ethical point of view if and only if the sum total of utilities produced by that act is greater than the sum total of utilities produced by any other act the agent could have performed in its place.

The utilitarian principle assumes that we can somehow measure and add the quantities of benefits' produced by an action and subtract from them the measured quantities of harm the action will have and thereby determine which action produces the greatest total benefits or the lowest total costs. That is, the principle assumes that all the benefits and costs of an action can be measured on a common numerical scale and then added or subtracted from each other. The satisfactions that an improved work environment imparts to workers, for example, might be equivalent to 500 positive units of utility, whereas the resulting bills that arrive the next month might be equivalent to 700 negative units of utility.

Therefore, the total combined utility of this act (improving the work environment) would be 200 units of negative utility.

When the utilitarian principle says that the right action for a particular occasion is the one that produces more utility than any other possible action, it does not mean that the right action is the one that produces the most utility for the person performing the action. Rather, an action is right if it produces the most utility for all persons affected by the action (including the person performing the action). Nor does the utilitarian principle say that an action is right so long as its benefits outweigh its costs. Rather, utilitarianism holds that, in the final analysis, only one action is right: that one action whose net benefits are greatest by comparison to the net benefits of all other possible alternatives. A third misunderstanding is to think that the utilitarian principle requires us to consider only the direct and immediate consequences of our actions: Instead, both the immediate and all foreseeable future costs and benefits that each alternative will provide for each individual must be taken into account as well as any significant indirect effects.

3.3.1 Some Traditional Approaches to Ethical Theory

Consequentialism: The view that the rightness or wrongness of actions and institutions is a function of the goodness or badness of their consequences.

Non-consequentialism: The view that the rightness or wrongness of actions and institutions is a function of something other than the goodness or badness of their consequences. (Rights views and views like Kant's are often called "deontological" because of their emphasis on duty rather than good consequences.)

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3.3.2 Teleological Theories

Teleological ethics which is mostly referred to as consequentialism is concerned with the end effect (i.e. the consequences) of an action. Derived from the Greek word 'teleo,' i.e. 'fulfilment', it states that impact on society as a whole is what determines morality. Acts are considered good when they preserve and promote human welfare. These are bad when they disturb or destroy it. Teleological frameworks look at ramifications of a conduct or action, i.e. whether they are positive or negative.

The following are the three teleological frameworks:

1. ***Ethical Egoism:*** Plato and Thomas Hobbes are credited with this framework. The basis of the theory is that each individual should act in a way to generate positive results than negative. The connotations of ethical egoism may depend on what action is good for others as well as for oneself.

   The supporters of the theory argue that this framework is the only model that captures the essence of motivation within individuals. Without self-interest, no action will arise.

   The critics argue that while self-interest motivates, it is essential to consider "non-selfish factors" so that one becomes unique.

2. ***Utilitarianism:*** The utilitarian movement started in the 19th century in England. Originally propounded by Jeremy Benthem (1789), it was developed by John Stuart Mill (1863). It postulates that each person's action adds to the overall utility of the community. Utilitarianism focuses on net results of individual's action than the means that generated them. Actions should be evaluated by their consequences. The plan or action should produce greatest good for the greatest number of people. The theory captures the essence of benevolent behaviour. It provides a flexible result-oriented approach to moral decision making and resolving conflicts of self-interest.

   The critics of the theory plead that it is difficult to properly evaluate the effectiveness of utilitarian action in the absence of a yardstick to determine the greatest good for the greatest number. Moreover, the theory does not consider the interests of minority which may be treated unfairly.

3. ***Sidgwick's Dualism:*** Henry Sidgwick (1874) attempted to bridge the gap between ethical egoism and utilitarianism through his dualism. For this purpose, he proposed the following:

   (i) Rational benevolence, i.e. utilitarianism is the foundation of any ethical framework

   (ii) Prudence, i.e. inclusion of self-interest envisaged in ethical egoism is equally essential

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Harmony between the aforementioned is basic to a rational ethical framework. It will not be logical for an individual to sacrifice his own happiness to help others. In a business context, ethical egoism will require a focus on profit maximisation through strong competitive edge. But utilitarianism will need governmental intervention to protect the interests of majority population as against self-interest of a minority.

Adam Smith in his book '*An Inquiry into the Nature and Causes of the Wealth of Nations*' supported the theory of dualism by arguing that the pursuit of self-interest will lead to the greatest good for the greatest number.

3.3.3 Deontological Theories

The framework focuses on duties or obligations in determining whether actions are right or wrong. The framework includes the following theories:

1. ***Existentialism:*** The only person who can decide right or wrong is the one making the decision. Each person is responsible for the consequences of his actions. Friedrich Nietzsche and Jean Paul Sartre favoured existentialism as the most viable method to connect duties with actions. Individuals have their own sense of personal virtue. Existentialism will not utilise universal principle because each determines his own actions.

2. ***Contractarianism (Social Contract Theory):*** This is based on Jean Jacques Rousseau's 'The Social Contract' (1762). The theory postulates that all individuals subscribe to a social contract to become members within a society. Membership in society comes with certain duties and responsibilities. While subscribing to social contract, all individuals agree to the norms of the society. The underlying principle is that the principles adopted should be fair to everyone so that everyone agrees to abide by them. There must also be equality of rights and duties. Social or economic inequalities can be accepted only if they generate benefits for everyone.

3. ***Kant's Ethics:*** In *Foundation of Metaphysics of Morals* (1785), Immauel Kant argued that the free will to make decisions will be considered rational only when converted into universal will. The philosophy is that individual should act in a way which one would expect everyone to act. One should treat other individuals as the end not the means to an end. For instance, the rationale for not dumping hazardous chemicals into water should not be based on legal requirements or potential negative image of the company. Rather, the need is to consider whether disposal of toxic waste would be acceptable as universal will. It is not appropriate to use "heuristic" gut feelings as justification for a decision. Therefore, people in business relationships should not be used, coerced or deceived and that business practices should contribute to the development of human rational and moral capacities.

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3.3.4 Limits of Traditional theory

- Too abstract
- Too reductionist
- Too objective and elitist
- Too impersonal
- Too rational and codified
- Too imperialist

3.4 CONTEMPORARY ETHICAL THEORIES

Contemporary study of ethics has many links with other disciplines in philosophy itself and other sciences. Normative ethics has declined, while meta-ethics is increasingly followed. Abstract theorizing has in many areas been replaced by experience-based research

3.4.1 Meta Ethics (Study of Concept of Ethics)

Meta-ethics is the branch of ethics that seeks to understand the nature of ethical properties, statements, attitudes, and judgments. Meta-ethics is one of the four branches of ethics generally recognized by philosophers, the others being descriptive ethics, normative ethics and applied ethics.

While normative ethics addresses such questions as "What should I do?", thus endorsing some ethical evaluations and rejecting others, meta-ethics addresses questions such as "What is goodness?" and "How can we tell what is good from what is bad?", seeking to understand the nature of ethical properties and evaluations.

Some theorists argue that a metaphysical account of morality is necessary for the proper evaluation of actual moral theories and for making practical moral decisions; others reason from opposite premises and suggest that we must impart ideas of moral intuition onto proper action before we can give a proper account of morality's metaphysics.

Meta-ethical questions

According to Richard Garner and Bernard Rosen,[1] there are three kinds of meta-ethical problems, or three general questions:

- What is the meaning of moral terms or judgments?
- What is the nature of moral judgments?
- How may moral judgments be supported or defended?

A question of the first type might be, "What do the words 'good', 'bad', 'right' and 'wrong' mean?" (see value theory). The second category includes questions of whether moral judgments are universal or relative, of one kind or many kinds, etc. Questions of the third kind ask, for example, how we can know if something is right or wrong, if at all. Garner and Rosen say that answers to the three basic questions "are not unrelated, and sometimes an answer to one will strongly suggest, or perhaps even entail, an answer to another."

A meta-ethical theory, unlike a normative ethical theory, does not attempt to evaluate specific choices as being better, worse, good, bad, or evil; although it may have profound implications as to the validity and meaning of normative ethical claims. An answer to any of the three example questions above would not itself be a normative ethical statement.

Descriptive ethics is a branch of ethics that seeks to understand the nature of ethical statements and judgements. Meta means "after" or "beyond". It is the study of origin and meaning of ethical concepts, i.e. from where the ethical notions come and what they mean. Meta ethics investigates (a) whether ethical principles are mere social inventions, (b) the issue of universal truth, and (c) the role of reason in ethical judgement.

3.4.2 Mixed Frameworks

Mixed frameworks include the following:

Intuitionism

There are certain principles which individuals should follow as part of *prima facie* obligations of individuals to society. The duties may be of two types, namely:

- *Prima facie* Duty based on specific situation
- *Absolute* Duty in actual circumstances

There may be a conflict between duties and obligations so that telling a lie may be justified in certain circumstances. The following principles may help in decision making:

- ***Fidelity:*** Obligation to keep explicit/implicit promise
- ***Reparation:*** Obligation to repair the consequences of wrongful act
- ***Gratitude:*** Thankfulness for kindness of others
- ***Beneficence:*** Duty to try to improve lives of others
- ***Self-improvement:*** Duty to focus on virtue and intelligence
- ***Non-injury:*** Duty not to cause harm to others
- Rights Theory

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According to the theory of moral rights, human beings have certain fundamental rights that should be respected in all decisions. These are: the right to free consent, privacy, freedom of conscience, free speech and due process. A right is a condition of existence entitling an individual or group to enjoy some object. A manager basing his decision on this theory should avoid violating the rights of others who may be affected by that decision.

Theory of Justice

In Rawl's opinion, the social institutions should ensure justice for the individual rather than aggregate welfare. The concern is how the pie is to be divided rather than the size of the pie. The theory requires decision-makers to be guided by equity, fairness and impartiality. Individuals should not be held responsible for matters over which they don't have any control. The focus is more on distributional effects.

Self Assessment

Fill in the blanks:

1. The __________ principle holds that an action is right from an ethical point of view if and only if the sum total of utilities produced by that act is greater than the sum total of utilities produced by any other act the agent could have performed in its place.
2. The utilitarian principle assumes that we can somehow measure and add the quantities of benefits' produced by an action and subtract from them the measured quantities of harm the action will have and thereby determine which action produces the greatest total benefits or the ______________
3. The view that the rightness or wrongness of actions and institutions is a function of something other than the __________of their consequences.
4. __________ethics which is mostly referred to as consequentialism is concerned with the end effect
5. Harmony between the prudence and ___________is basic to a rational ethical framework.

Task

Which ethical theory do you think is the most commonly used in business? Provide evidence to support your assertion and give reasons explaining why this theoretical approach is more likely than others to dominate business decisions.

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Problems of Working Women

Lalitha, an employee of food world was warned about her excessive absenteeism a number of times by Mahadev, the supervisor of sales staff. Lalitha had been warned both orally and in writing. The written notice mentioned that further violations would result in disciplinary actions, including suspension or discharge from service. After a short duration of time, Lalitha called to office to inform that she couldn't come because her mother-in-law was sick. Hence, she had to take care of both her aged mother-in-law and her young child. Mahadev told Lalitha that she had already exceeded the allowed number of absences. He also warned her that if Lalitha did not come to work, she could be suspended. When Lalitha did not report for duty, Mahadev suspended her for a period of one week.

Lalitha gave a petition that Mahadev was harsh on female staff and could not understand the difficulties of women employees. Mahadev argued that Lalitha had not made a sincere effort to find an alternative for her domestic problems like taking care of old people and children. The management advised both Lalitha and Mahadev on this issue. At the end of the enquiry, Mahadev was left feeling much dejected and wanted to apply for some other company.

Questions:

1. Was the suspension of Lalitha fair?
2. Did Lalitha act in a responsible way?
3. Can you offer a permanent solution to the domestic problems of working mothers?

SUMMARY

- According to Due care theory, the manufacturers ought to exercise due care right from the design up to customer care.
- According to Social cost theory**,** a manufacturer should pay the costs of any injuries sustained through any defects in the product. The manufacturer has liability to the buyer.
- Normative ethical theories are those that propose to prescribe the morally correct way of acting.
- The first normative theory of business ethics to be examined is the stockholder theory.
- The social contract theory, really comprises a family of closely related theories and, in some ways, is still in the process of formation.

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- Traditionally, ethics has been viewed as the study of what kinds of actions are right and wrong, how the world is and how it ought to be, what kinds of decisions are made and what kinds of decisions ought to be made.
- Codes of ethics, although containing viable assumptions and beliefs, often do not provide answers to the real-life problems encountered by teachers, nor do they outline a framework for ethical decision making
- Consequentialism is the view that the rightness or wrongness of actions and institutions is a function of the goodness or badness of their consequences.
- Teleological ethics which is mostly referred to as consequentialism is concerned with the end effect (i.e. the consequences) of an action.
- The only person who can decide right or wrong is the one making the decision.
- Meta-ethics is the branch of ethics that seeks to understand the nature of ethical properties, statements, attitudes, and judgments.
- Descriptive ethics is a branch of ethics that seeks to understand the nature of ethical statements and judgements.

KEYWORDS

Consequentialism: Consequentialism is the view that the rightness or wrongness of actions and institutions is a function of the goodness or badness of their consequences.

Descriptive Ethics: Descriptive ethics is a branch of ethics that seeks to understand the nature of ethical statements and judgements.

Due care Theory: According to Due care theory, the manufacturers ought to exercise due care right from the design up to customer care.

Ethical Egoism: The idea that an action is morally right if it maximizes self-interest.

Meta-ethics: Meta-ethics is the branch of ethics that seeks to understand the nature of ethical properties, statements, attitudes, and judgments.

Normative Ethical Theories: Normative ethical theories are those that propose to prescribe the morally correct way of acting.

Social Contract Theory: The social contract theory, really comprises a family of closely related theories and, in some ways, is still in the process of formation.

Social Cost Theory: According to Social cost theory, a manufacturer should pay the costs of any injuries sustained through any defects in the product. The manufacturer has liability to the buyer.

Notes

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

REVIEW QUESTIONS

1. Define the term Consequentialism.
2. Explain descriptive ethics
3. What is Due care theory
4. What is ethical Egoism?
5. What is Meta-ethics concept.
6. What is Social contract theory
7. What is Social cost theory
8. Who are Stakeholders? Explain stakeholder theory of firm.
9. Describe the role of ethical theory
10. Explain the normative theory of business ethics.
11. Explain the traditional theory of business ethics.
12. Explain contemporary ethical theories.

Answers to Self Assessments

1. normative
2. philosophical
3. Social cost
4. Sellers
5. standard specification
6. True
7. True
8. True
9. True
10. True
11. utilitarian
12. lowest total costs
13. goodness or badness
14. Teleological
15. rational benevolence

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LESSON 4 - MAKING DECISIONS IN BUSINESS ETHICS

CONTENTS

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Explain modern decision-making and ethics
2. Analyze the models of decision making
3. Describe Individual and situational influences on decision making.

INTRODUCTION

Decisions play an important role in the progress and management of business. Many decisions have to be taken to solve the business problems like competition, budget, supply chain and financial matters. Apart from pure business or economic decisions, ethical decisions are assuming a greater role in modern days. Globalization has opened the doors of many countries, cultures and customs. The business practices are redefined. Ethical decision-making enhances the corporate status of business.

4.1 MODERN DECISION-MAKING AND ETHICS

Economic activity and competition are no longer considered to be incompatible with ethics and morals. This is true because man is much more than mere commerce and competition.

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Economic activity and competition these days define morals and ethics in business. This can sway from bad to the good. This direction of the sway is dependent on the individual.

Two academicians, Victor and Cullen, concluded a research study by pointing out, “It is our belief that organizational theory needs to attend more explicitly to the ethical content in organizational processes. Ethical issues in organizations increasingly preoccupy theoreticians and practitioners. Firms are attempting to control the ethical decision-making of individuals, and society is attempting to influence directly the ethical decision-making of firms.”

> CAUTION Business decisions based on moral reasoning can be too absolute, while decisions based only on realities and logic can be too harsh and inhuman.

To avoid these two extremes one can resort to the traditional stakeholder model of decision-making. The stakeholder theory suggests that in reaching ethical decisions, we respond to the following inquiries:

1. What is the moral dimension? What is the ethical issue?
2. Who are the interested parties?
3. What values are involved?
4. What alternatives do you have in your decision?
5. What is the weight of the benefits and the burdens of each alternative on each impacted party?
6. Are there any analogous cases?
7. Can I discuss the case with relevant others? Can I gather additional opinions or perspectives?
8. Is the decision in line with legal and organisational rules?
9. Am I comfortable with the decision? Can I live with it?

Philosopher Laura Nash suggests asking oneself 12 questions before reaching a decision in an ethical dilemma (Laura Nash, *Ethics without the Sermon*, Harvard Business Review 56, No. 6 (1981) pp. 80-81)

1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did the situation occur in the first place?
4. Who was involved in the situation in the first place?
5. What is your intention in making this decision?
6. How does this intention compare with likely results?

Notes

7. Who could your decision or action injure?
8. Can you engage the affected parties in a discussion of the problem before you made your decision?
9. Are you confident that your decision would be as valid over a long period as it seems now?
10. Could you disclose without qualms, your decision or action to your boss, your CEO, the board of directors, your family, or society as a whole?
11. What is the symbolic potential of your action if understood?
12. Under what conditions would you allow exceptions to your stand?

In evaluating a decision, two elements should be considered: Integrity and Accountability. Integrity means consistency in values, and would require that the decision-maker define her or his values as well as prioritise those values. Accountability means no matter which direction it takes, the decision-maker must be accountable to all stakeholders who are impacted by this decision.

Self Assessment

Fill in the blanks:

1. __________ play an important role in the progress and management of business
2. Many decisions have to be taken to solve the __________ like competition, budget, supply chain and financial matters.
3. Economic activity and __________ are no longer considered to be incompatible with ethics and morals.
4. __________ means consistency in values, and would require that the decision-maker define her or his values as well as prioritise those values.
5. __________ means no matter which direction it takes, the decision-maker must be accountable to all stakeholders who are impacted by this decision.

4.2 MODELS OF DECISION MAKING

Knowledge of business ethics can provide relevant inputs to managers so that they can identify, analyze and solve the ethical dilemmas confronting them.

4.2.1 Rational Decision Making Models

Rational decision making models involve a cognitive process where each step follows in a logical order from the one before. By cognitive, we mean it is based on thinking through and weighing up the alternatives to come up with the best potential result.

Notes

There are different types of rational models and the number of steps involved, and even the steps themselves, will differ in different models. Some people assume that decision making is equivalent to problem solving.

Steps in a rational decision making model

- Define the situation/decision to be made
- Identify the important criteria for the process and the result
- Consider all possible solutions
- Calculate the consequences of these solutions versus the likelihood of satisfying the criteria
- Choose the best option

Decision matrix analysis, Pugh matrix, SWOT analysis, Pareto analysis and decision trees are examples of rational models.

The comparison is often performed by filling out forms or charts that have many names. Decision matrix, Pugh matrix, decision grid, selection matrix, criteria rating form, amongst others. A relative importance is given to each criterion and the options are scored against each of the criteria and the highest 'wins'.

This type of model is based around a cognitive judgement of the pros and cons of various options. It is organized around selecting the most logical and sensible alternative that will have the desired effect. Rational decision models can be quite time consuming and often require a lot of preparation in terms of information gathering.

Specific types of rational decision making models

Bounded rational decision making models

A decision maker is said to exhibit bounded rationality when they consider fewer options than are actually available, or when they choose an option that is not "the best overall" but is best within the current circumstances. E.g., someone spills coffee on a shirt in a restaurant, and goes next door and buys a poorly fitting shirt to change into immediately.

Obviously it would be optimal to buy a proper fitting shirt. But if the person is in a hurry and cannot wear a wet, coffee stained shirt, then buying the poorly fitting one is appropriate. This is called satisficing

Vroom-Jago decision model

This model originally was created by Vroom and Yetton in 1973 and later modified by Vroom and Jago. Basically there are five situations for making decisions, from a single individual making the decision, to an individual making the decision with varying amounts of input from the rest of the group, to the whole group making the decision.

The Vroom-Jago decision model has a series of seven yes/no questions that elicit the important criteria and indicate which of the five decision-making processes is the most appropriate

The Vroom-Jago decision model helps leaders decide how much involvement their teams and subordinates should have in the decision making process.

The groups who study *intuitive decision models* are realizing that it's not simply the opposite of rational decision making.

Pros and cons of Rational decision making models

A rational decision model presupposes that there is one best outcome. Because of this it is sometimes called an optimizing decision making model. The search for perfection is frequently a factor in actually delaying making a decision.

Such a model also presupposes that it is possible to consider every option and also to know the future consequences of each. While many would like to think they know what will happen, the universe often has other plans!

It is also limited by the cognitive abilities of the person making the decision; how good is their memory? how good is their imagination? The criteria themselves, of course, will be subjective and may be difficult to compare. These models require a great deal of time and a great deal of information. And, of course, a rational decision making model attempts to negate the role of emotions in decision making.

4.2.2 Ethical Decision-making Dilemma

Managers experience such ethical dilemmas while performing their duties:

1. I have to satisfy the inspector from the electricity board to maintain adequate power supplies in times of recurrent shortages.
2. I have to oblige, entertain, and enrich an important customer to keep him from switching over to a competitor.
3. I have to manipulate the accounts statement to show a higher profit figure.
4. To increase profits, I have to sell the same product in three different packing at different prices.
5. Without making any improvement in the product I have to advertise so.
6. I have to sign transfer orders of an employee to satisfy the prejudice of a high-level officer.
7. I have to oblige the bank officer to get loan for the project.

Notes

The American Accounting Association (AAA) published a report on Ethics in the Accounting Curriculum in 1988, which included a 'decision model' for analysing ethical dilemmas. Its steps are:

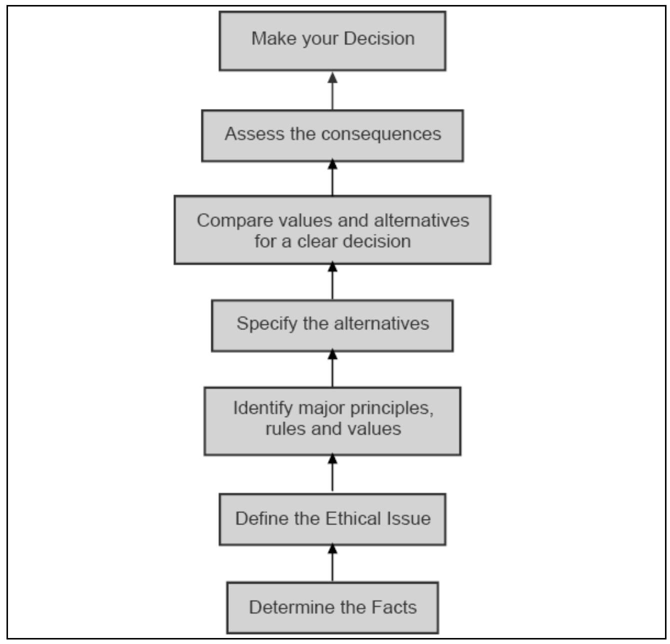

Figure 4.1: Decision Model for Analysing Dilemmas

Modern theories of ethics may prove useful in understanding and encouraging ethical behaviour in business. Imagine a lawless system where every human action is influenced by market forces. Can an organisation remain ethical in this situation? Can business exist if every firm made decisions on the basis of self-interest at any cost? Do lawless market forces ensure justice and fair business? Of course not.

Economist Dwight Lee and Richard Mckenzie support this contention. They explain that a business person may act honestly because of the high cost of dishonesty.

Did you know? An economy in which people deal with each other honestly produces more wealth than one in which people are chronically dishonest, because more exchanges occur directing resources into their most productive employments.

Self Assessment

State whether the following statements are true or false:

1. Knowledge of business ethics cannot provide relevant inputs to managers so that they can identify, analyze and solve the ethical dilemmas confronting them.

Notes

2. Rational decision making models involve a cognitive process where each step follows in a logical order from the one before
3. By cognitive, we mean it is based on thinking through and weighing up the alternatives to come up with the best potential result.
4. Decision matrix analysis, Pugh matrix, SWOT analysis, Pareto analysis and decision trees are examples of irrational models.
5. The Vroom-Jago decision model has a series of seven yes/no questions that elicit the important criteria and indicate which of the five decision-making processes is the most appropriate

4.3 INDIVIDUAL AND SITUATIONAL INFLUENCES ON DECISION MAKING

Leaders have power and influence. Power refers to the influence that leaders are having over their colleagues and subordinates.

Let us examine two styles of two managers in a same problem. One manager says, “I want all information about our competitor tomorrow. I don’t care how you get it”. In this case, the subordinate may use unethical methods of data collection and even cook up some data.

Another manager says, “We require some data about our competitor. The data should be correct and reliable. At your earliest, please collect correct information”. In this situation, the subordinate will collect correct and reliable data in a more balanced and ethical manner.

Expert Power

This refers to a person’s knowledge in a particular field. The credibility may come from knowledge, education, experience and exposure. An experienced advocate in a law firm influences others by his expert power in dealing with different cases. An experienced doctor in a hospital uses his knowledge and experience in dealing with his colleagues. This expert power should be used in a friendly and persuasive way.

Referent Power

This power refers to the understanding that both are benefitted by an action. In other words, the goals of both the persons and department are the same. Let us take a company manufacturing a seasonal product. The marketing department has a huge order and it persuades the production department to increase the production as fast as possible. Both the heads of departments understand the importance of fast production and quick marketing.

Ethical managers use several power bases in an appropriate way to bring about the desired changes in the organisations. Power by itself is neither ethical nor unethical. But the use of power can raise ethical issues. An ethical manager should use power in a positive way so as to bring about some good changes in

Notes

the organisation. Using power in a positive way is ethical and abusing power is unethical.

Task

Discuss in group, 'Economic activity and competition these days define morals and ethics in business'.

Self Assessment

Fill in the blanks:

1. Leaders have power and __________.
2. __________ refers to the influence that leaders are having over their colleagues and subordinates.
3. The __________ may come from knowledge, education, experience and exposure.
4. Using power in a positive way is ethical and __________ power is unethical.
5. __________ managers use several power bases in an appropriate way to bring about the desired changes in the organisations

Malathy popularly called 'Marlu', a top graduate from Harvard University, was hired by a major corporation and successfully working in an American company in the US. She enjoys her work very much.

As an Asian, Malathy feels isolated as there are no Asian women managers in her company. All her colleagues just have a professional relationship with her. One night at a company party, Malathy heard some unhealthy critical comments about her physical appearance by her colleagues. The employees cursed affirmative action regulations for making the hiring of Malathy necessary for the company.

Malathy was upset and planned to quit the job.

Questions

1. Should Malathy resign?
2. Should she confront her colleagues who made these comments?
3. Were her colleagues right in their behaviour?
4. Should Malathy file a discrimination suit?
5. What is the way out for Malathy from this psychological problem?

SUMMARY

Notes

- Decisions play an important role in the progress and management of business.
- Globalization has opened the doors of many countries, cultures and customs.
- Ethical decision-making enhances the corporate status of business.
- Economic activity and competition these days define morals and ethics in business.
- Business decisions based on moral reasoning can be too absolute, while decisions based only on realities and logic can be too harsh and inhuman.
- Rational decision making models involve a cognitive process where each step follows in a logical order from the one before.
- A decision maker is said to exhibit bounded rationality when they consider fewer options than are actually available, or when they choose an option that is not "the best overall" but is best within the current circumstances.
- The groups who study intuitive decision models are realizing that it's not simply the opposite of rational decision making.
- Modern theories of ethics may prove useful in understanding and encouraging ethical behaviour in business.
- Leaders have power and influence.
- Power refers to the influence that leaders are having over their colleagues and subordinates.

KEYWORDS

Expert Power: This refers to a person's knowledge in a particular field.

Power: Power refers to the influence that leaders are having over their colleagues and subordinates.

Rational Decision Making Models: Rational decision making models involve a cognitive process where each step follows in a logical order from the one before.

Referent Power: This power refers to the understanding that both are benefitted by an action.

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Notes

Vroom-Jago Decision Model: The Vroom-Jago decision model helps leaders decide how much involvement their teams and subordinates should have in the decision making process.

REVIEW QUESTIONS

1. Define the term decision making.
2. What is the need of having sound decisions?
3. Define the term power.
4. What is meant by an expert power?
5. What is meant by rational decision?
6. Describe Rational decision making models.
7. What does referent power stands for?
8. What is Vroom-Jago decision model?
9. What are the pre-requisites for decision maker?
10. What important roles are being played by decision making?
11. 'Globalization has opened the doors of many countries, cultures and customs.' Elaborate.
12. Account for the Individual and situational influences on decision making.

Answers to Self Assessments

1. Decisions
2. business problems
3. competition
4. Integrity
5. Accountability
6. False
7. True
8. True
9. False
10. True
11. Influence
12. Power
13. credibility

14. abusing

15. Ethical

Notes

FURTHER READINGS

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Notes

LESSON 5 - MANAGING BUSINESS ETHICS

CONTENTS

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Explain Codes of ethics-design and implementation
2. Manage stakeholder relations
3. Assess ethical performance

Notes

4. Describe formal and informal business ethics programme
5. Explain Leadership and business ethics

INTRODUCTION

As Buddha said, ‘‘It is better to conquer yourself than to win a thousand battles. Then victory is yours”. Mark Twain said, “it is better to deserve an honour and not have it than to have it and not deserve it”. In short, dignity is not in possessing but in deserving. The key of effective leadership is the application of love. Love with rules and regulations can work in most of the organisations because it is a combination of heart and head.

There is a strong need for implementing ethical values in decision-making and implementing. Organisations may become bad because of the pressures of competition. An organization should develop an organizational ethics programme by establishing, communication and monitoring ethical values. A strong ethics programme includes a written code of conduct, an ethics office to implement, formal ethics training and ethical auditing.

5.1 CODES OF ETHICS-DESIGN AND IMPLEMENTATION

It is believed that the best way of promoting high standards of business practices is through self-regulation.

Business should be conducted in a manner that earns the goodwill of all concerned through quality, efficiency, transparency and good values. This Code has been designed as a voluntary guideline to achieve these objectives.

- Be truthful and realistic in stating claims.
- Be responsive to customer needs and concerns.
- Treat all stakeholders fairly and with respect.
- Protect and promote the environment and community interests.

5.1.1 Code of Ethics (Explanatory Statement)

Every business endeavour is characterised by objectivity and commitment of its practitioners. Business, therefore, has to maintain the highest standards of behaviour so that its actions and decisions result in overall benefit to industry, employees, customers, shareholders and society in general.

In the pursuit of the requisite standards, business should serve its constituents in a manner befitting the fair image of the business community, including the performance of the following functions:

- State only what can be achieved. Goods and services provided must conform to the commitment as promised to the customers. Business must be realistic and truthful in stating claims.

Notes

- The customer must be given the best possible service and treated with respect and fairness. All actions must be directed to meet customer needs and requirements.
- Fairness in business should extend to all constituents of business. Interests of all constituents must be protected with respect and dignity.
- Business must understand and respect the needs, concerns and welfare of the community and society. It should use knowledge and experience for upgradation of the quality of life. All business endeavours must combine the qualities of private excellence for public good.
- Any practices that do not embody the above process cannot be considered objective, are adverse to the interests and fair image of business and society, and are in disharmony with this Code.

> Did you know? The best way of promoting high standards of business practices is through self-regulation. This Code has been designed as an instrument of self-regulation to serve as a voluntary guideline towards a better quality of life and higher standards of business practices.

The "Code of Ethics" policy document contains policy on the following:

- Conflict of Interest
- Payments and Gifting
- Receipt of Gifts
- Purchases through suppliers
- Appointment of full-time agents, consultants and representatives
- Political Contributions

5.1.2 Code of Conduct

A code of conduct is a statement that describes what an organisation is expecting from its employees. It suggests acceptable or unacceptable types of behaviour.

The code of conduct should be developed by the president, board of directors and the chief executive officer. It is suggested that the code of ethics should include trustworthiness, respect, responsibility, fairness, caring and citizenship.

> CAUTION Many companies have a code of conduct but not implemented effectively. All employees should be informed about the code of conduct.

5.1.3 Development and Implementation of Code of Ethics

1. The values have to be identified.

Notes

2. The ethical values have to be linked to the organisation.
3. The codes of conduct have to be explained with examples which reflect values.
4. The code of conduct should be communicated to the employees in a language or style that they can easily understand.
5. The code of conduct can be revised periodically by taking into account the changes around the business world.

Successful Ethical Training

Ethical training is provided in most advanced economies but not much in developing economies. Since globalisation, ethical training programmes have become popular in developing countries too.

A good ethical training programme can educate all the employees about the policies and expectations of the company.

The employees can also become aware of available resources and persons who can help them with ethical and legal advice. Employees can evaluate the impact of ethical decisions on the company.

The basics of ethics, the procedure for airing ethical concerns and priorities of ethics have to be taught to the employees. Managers from every department must be involved in the ethical training programme. The ethics programme should differentiate between personal and organisational ethics. Discussions should be conducted by inviting personal opinions about what should or should not be done in any particular situation

There should be synergy between vision, mission, core values and code of conduct. The core values of the companies have to be prioritised. For instance, the core values of Disney's theme parks are 'safety', 'courtesy' and 'efficiency' in order of importance. Hence, the children are safe in these parks.

The ethical training should teach the employees to handle the ethical dilemmas. If left unattended, ethical dilemmas can create legal problems.

A good ethical programme should eliminate the belief that unethical behaviour could be justified on some grounds. Efforts to deter unethical behaviour are very important for companies' long-term relationships with stakeholders.

The ethics training programme should also be a continuous improvement programme so that the ethical standards are upgraded. There should be a shared commitment to the good business practices by all.

Notes

5.1.4 Common Mistakes of an Ethics Programme

1. The goals of the ethical training programme should be understood by all. Ethical training should not be a ritual without clear goals.
2. It should have measurable programme objectives. The employees should know whether what they are doing is ethical or unethical.
3. The top management should be involved in maintaining an ethical culture. Falsification of reports and cooking up figures are serious unethical acts.
4. The feedback from employees should be given a serious consideration. The ethics programme can be effective only when the suggestions of the employees are taken into account.
5. A mere lecture-based ethical training programme cannot be effective. Practical sessions are necessary for the participation of all employees.

Self Assessment

Fill in the blanks:

1. There is a strong need for implementing ethical values in decision-making and__________.
2. An organisation should develop an organisational ethics programme by establishing, communication and monitoring ___________
3. Business should be conducted in a manner that earns the goodwill of all concerned through quality, efficiency, __________ and good values
4. Every business endeavour is characterised by _________ and commitment of its practitioners
5. A ______________ is a statement that describes what an organisation is expecting from its employees

5.2 MANAGING STAKEHOLDER RELATIONS

Effective management of relationships with stakeholders is crucial to resolving issues facing organizations. By using their influence, stakeholders hold the key to the environment in which your organization operates and the subsequent financial and operating performance of the organization. Thus the effective management of stakeholder relations is growing as a key focus of PR and organizational activity.

A stakeholder is any person, group or organization who can place a claim on an organization’s attention, resources or output, or is affected by that output. They have a stake in the organization, something at risk, and therefore something to gain or lose as a result of corporate activity.

The aim of stakeholder relations management is to influence stakeholder attitudes, decisions, and actions for mutual benefit. The stakeholders need to

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gain from the relationship or they may not be sufficiently motivated to cooperate.

5.2.1 Steps in Stakeholder Relations Management

The main steps in stakeholder relations management are to identify and prioritize stakeholders. You then use stakeholder planning to build the support that helps you succeed.

1. Identify your stakeholders

List the people, groups or organizations who are affected by your project, who have influence or power over it, or have an interest in its successful or unsuccessful conclusion.

Stakeholders can be assessed systematically according to criteria such as influence, impact and alignment. For example, these questions can help assess their relevance:

- To what extent will your strategy affect each group, positively or negatively?
- How far does the strategy align with their existing beliefs about your organization's values and purpose?
- How far do they share your organization's values and purpose in this area?
- How robust is the existing relationship with them?
- What information do they need from you?
- How do they want to receive it?
- Who influences their opinions about this issue, and who influences their opinions of you? Are some of these people therefore potential stakeholder as well? Who else might be influenced by their opinions and should they also be considered stakeholders?
- What potential do they have to influence the business directly or indirectly (via other stakeholders), positively or negatively?
- If they are not likely to be positive, what will get their support?
- If you can't get their support, how will you manage their opposition?
- How likely will actions towards one stakeholder group influence the attitudes of other stakeholder groups?
- What are the consequences of this?

A very good way of finding the answers to these questions is to talk to your stakeholders directly – tactfully of course! People are often quite open about their views, and so asking them is often the first step in building a successful relationship with them.

Notes

2. Prioritize your stakeholders

You may now have a long list of people and organizations that are affected by your work. Some of these may have the power either to block or advance your activities. Some may be interested in what you are doing, others may not care. Having identified your main stakeholders, you need to decide which of them are the most important. With limited resources, you should only deal actively with the most important ones.

Matrix to assess strategic value of stakeholders

- Consider the issue, develop a list of criteria that are important to resolve the issue.
- Assign a weight to each criterion according to its importance to resolving the issue.
- Draw up a matrix showing the criteria and evaluating the relative importance of each stakeholder by their score on those key criteria.

The following diagram shows how the importance of stakeholders can be assessed according to the criteria you decide upon.

Example:

Criteria					
1. Access to key decision makers				**X**	
2. Access to the media			**X**		
3. Access to key information		**X**			
4. Able to influence stakeholders				**X**	
5. Sufficiently motivated to be active			**X**		
	1	**2**	**3**	**4**	**5**
	Slight, if any		Moderate	Definite	
			Weight		

In the example above, the stakeholder would have a score of 16. The score for that stakeholder could be compared against the score of other stakeholder to decide who are the higher priority for active relationship management.

5.2.2 Benefits

The benefits of using a stakeholder-based approach are:

- We can use the viewpoints of the main stakeholders to help shape your projects at an early stage. Not only does this make it more likely that they will support you, their input can also improve the quality of your project.

Notes

- Gaining support from powerful stakeholders can help you to win more resources. This makes it more likely that your projects will be successful.
- By communicating with stakeholders early and often, you can ensure that they know what you are doing and fully understand the benefits of your project. This means they can support you actively when necessary.
- You can anticipate what people's reaction to your project may be, and build into your plan the actions that will win people's support.

5.3 ASSESSING ETHICAL PERFORMANCE

Before ethical standards can be enforced, employers must establish clear and understandable standards. Once the standards have been clearly identified, compliance is measured by observing employee actions and identifying the results of those actions. Standards for measuring ethical behavior must be tailored to meet the needs of each organization or business.

"Ethical decision making is not framed around a right or a wrong. We often find competing 'rights' in the dilemmas we face. Ethical action involves others, and it is a process as much as an outcome. We are humans, and we bring our biases, values and culture to our interactions with others. To act ethically implies that we think ethically.

Employees are expected to be honest when dealing with customers, and trustworthy when responsible for protecting company resources. Employees are responsible for reporting any illegal activity taking place on company property. When dealing with customers, employees are expected to conduct themselves with integrity. Employees working in positions of public trust are expected to avoid situations that would give the impression of a conflict of interest.

Employee acceptance of responsibility for ethical conduct begins with willingness to attend ethics training. Employees attending training sessions express their agreement to abide by ethical standards by signing a code of conduct. Employees who avoid ethics training might not be prepared to display the expected behavior toward customers and co-workers. Employee actions that cause customers to register complaints are an indication that an employee is not in compliance with expected standards of ethical conduct.

It's now a given that most multinationals are paying at least some attention to their ethical performance. With the environment becoming such a big issue, the area of corporate responsibility is going to be under the microscope even more than in the past. The problem is that there's very little performance measurement and comparative auditing between companies.

The company tracks performance by examining a variety of sources including the companies themselves, news media and non-profit organizations. There are surveys and polls, but it's hard to find anything else that challenges and

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compares company standards. In the same way ethical performance of company's individual is also judged.

Appraisal is one of the most important tools in the management of human resources. However, made in an inappropriate way, it can be harmful rather than useful. Therefore, one should, from the very beginning, follow a set of rules thanks to which employees will perceive the system as ethical.

Ethics Audit

An ethics audit is a systematic evaluation of the ethical programme of an organisation. It is undertaken to determine the effectiveness of ethical programmes. It also examines the effectiveness of social responsibility initiatives undertaken by the organisation. Ethical auditing measures the ethical commitment to stakeholders. It improves the ethical commitment to stakeholders like employees, customers, investors' suppliers and social activists.

Ethics auditing is similar to financial auditing and has to be conducted by an expert from outside the organisation. In financial auditing, the focus is on money flow whereas in ethics auditing, the focus is on the ethical performance of the organisation. Ethics auditing is a voluntary process.

Ethics auditing improves the organisational climate and strategy. There is an improved relationship with the stakeholders. Companies can plan for crisis management based on the ethical performance. An ethics audit can identify the employees who are violating the ethical standards of the company. The reports of ethics audit should be made known to all. The defect has to be rectified and rewards to be given for the best ethical practices. Organisations should make continuous efforts to improve the ethical standards.

5.4 FORMAL AND INFORMAL BUSINESS ETHICS PROGRAMME

During its activity, a firm passes through different life cycle stages, which differ in terms of management systems, formal structures, control systems, documentation of transactions, and number of procedural hurdles.

A business ethics program helps owners and managers improve their business performance, make profits, and contribute to the economic progress of their communities by meeting the reasonable expectations of their stakeholders. A business ethics program also aims to achieve specific expected program outcomes, such as increasing awareness of ethics issues, improving decision-making, and reducing misconduct.

Notes

To be effective over time, a business ethics program must be a formal plan, because it touches on all aspects of the enterprise—operations, human resources, communications, and marketing to name but a few. Formally planning a business ethics program ensures that owners and managers give due consideration to the enterprise's relevant context, organizational culture, and reasonable stakeholder expectations. This manual provides a systematic approach to guide owners and managers through the process.

Busy managers need not fear that formal planning for a business ethics program will overwhelm daily operations because, as discussed below, they already have many elements in place. The planning process requires targeted

stakeholder participation more than a large staff. However, once an enterprise announces its intention to design and implement a business ethics program, it needs to plan well and to base its plan on its core beliefs. A lack of program consistency will hurt employee morale and generate stakeholder cynicism. Because of resource limitations, most small to medium-sized enterprises (SMEs) use informal program strategy and planning. SMEs are less apt to use formal teams and processes to set goals, objectives, strategies, and action plans than are large enterprises. Nonetheless, they can adapt the processes that follow to meet their circumstances.

5.4.1 Structural Components of the Program

When an enterprise undertakes to design a business ethics program, it seeks answers that go beyond what is required, at a minimum, to comply with law.

It seeks broader, more creative answers based on emerging global standards and best practices.

Every enterprise already has some or all of the structural components of a business ethics program, even though no formal program may exist. All enterprises set standards and procedures that they expect their employees and agents to follow, communicate those standards and procedures, want to know whether their standards are being followed, and respond when standards and procedures are violated or stakeholders complain.

A well-designed and implemented business ethics program provides enterprise employees and agents with the guidance and information they need for effective, efficient, and responsible choices and actions. Research and experience over the past few decades suggest that an effective program contains the following nine structural components:

1. Standards and procedures to guide member behavior and foster reasonable stakeholder expectations
2. Adequate structures and systems that provide for authority, responsibility, accountability, and sustainability
3. Communication of standards, procedures, and expectations to the enterprise's members

Notes

4. Programs that monitor and audit member conduct
5. Encouragement of members to seek advice and report concerns
6. Due diligence in hiring, especially for sensitive positions in, for example, management, finance, and contracting
7. Encouragement of members to follow standards and procedures
8. Appropriate responses when standards and procedures are violated
9. Regular evaluations of program effectiveness

5.4.2 Informal Measures of Business Ethics

The informal measures of business ethics include: manager concern/role-modeling, candid ethical communication, ethics as a topic of employee conversation, reward and penalty systems, and the communication of stories.

Manager concern/role-modeling

The importance of a manager's clear commitment to ethical values has been showing that it is especially important for top management/leaders to demonstrate ethical behaviour.

Candid Ethical Communication

Communication of management on all levels is necessary to close the gap between what is said and what is actually done in the firm. Candid communication is the only way to inspire employees and build their trust.

Ethics as a Topic of Employee Conversation

Informal conversations among employees play an important role in the ethical life of the firm. This role can be viewed as positive, resulting in support for formal ethics activities, or negative, resulting in indifference or active resistance among employees.

Reward and Penalty Systems

A reward system is an important tool in rewarding the employees on specific occasions when they positively resolve conflicts or dilemmas by implementing ethical behaviour.

An exemplary behavior is a specific individual act that goes beyond management expectations and reflects the core values of the enterprise. On the other hand, such a system must assign punishment for misbehavior.

Communication of stories about ethical employees

Employees who go out of their way to exemplify the core values are heroic figures, worthy of recognition in the enterprise. The mechanism for doing this is telling stories . By transmitting what is proper behaviour throughout the enterprise, they serve as an important resource for ethical purposes. Stories

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may be told about ethical leaders or by leaders to provide appropriate examples for others to emulate.

5.4.3 Formal Measures of Business Ethics

The formal institutional measures of business ethics implementation examined in the empirical part of our research are: the core value statement, the mission statement, the code of ethics, compliance manuals, and ethics standards and indexes.

Core Value Statement

Effective enterprises identify and develop a clear, concise and shared meaning of values/beliefs, priorities, and direction so that everyone understands and can contribute. Once defined, values influence every aspect of an enterprise, which must support and nurture this impact or identifying the values will have been a wasted exercise.

Mission Statement

A mission statement is a management tool that usually includes the enterprise's values and philosophy. This tool is appropriate for enterprises that have a history of integrating values into their decisions, and not suitable for enterprises where such a history does not exist.

Wheelen and Hunger argue that an enterprise's mission statement may also include a business's philosophy about how it does its business and treats its

employees. This puts into words not only what the enterprise is now, but also what it wants to become – management's strategic vision of the enterprise in the future.

In the authors' opinion, a mission statement promotes a sense of shared expectations in employees, and communicates a public image to important stakeholder groups in the enterprise's task environment.

Code of Ethics

A code of ethics as one business ethics implementation tool has been subject to much research in the past. The code of ethics is an instrument for implementing business ethics within the enterprise, as well as in the enterprise's environment. According to Thommen, the code of ethics is the best-known instrument for improving and achieving the enterprise's ethical behaviour. It contains ethical principles that should be followed by certain enterprise behaviour.

Compliance Manuals

Many enterprises use compliance manuals to communicate relevant rules, to emphasize important policies, or to make these policies understandable . Some

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researches show that such manuals are widely distributed in large firms research.

Business Ethics Standards and Indexes

Over the past decade, many varied initiatives and standards regarding enterprise ethical behaviour and corporate social responsibility have occurred. It is important to emphasize that shared and internationally accepted standards on enterprise ethics do not yet exist. However, there are several standards and initiatives in this field which should be considered when examining the enterprise's ethical behaviour.

Self Assessment

State whether the following statements are true or false:

1. Effective management of relationships with stakeholders is non crucial to resolving issues facing organizations
2. The effective management of stakeholder relations is growing as a key focus of PR and organizational activity.
3. A stakeholder is any person, group or organization who can place a claim on an organization's attention, resources or output, or is affected by that output
4. The aim of stakeholder relations management is to influence stakeholder attitudes, decisions, and actions for mutual benefit
5. Ethical decision making is not framed around a right or a wrong

5.5 LEADERSHIP AND BUSINESS ETHICS

Leadership is essential in all areas of management and its importance is immense in ethics. Just as a compass points towards a magnetic poll, one's true nature shows the nature of leadership qualities of the individual. While others can guide externally, the true nature of the individual is revealed to him internally. Each one can discover his or her own style of leadership by sincere efforts. Very often, leadership is based on the character and values of the individual. Leadership has many choices and voices and one has to be careful in selecting the right type of leadership.

5.5.1 Five Dimensions of an Authentic Leader

The following are the five dimensions of authentic leader.

Purpose with Passion

Others have purpose but the leader should be passionate in achieving the goal. That is why, leaders are more energetic than others. Only when leaders are passionate, they can motivate their teams more effectively.

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Practicing Solid Values

A good leader should be capable of practicing solid values that are positive, productive and proactive. These values have to be practiced by the leader so that all his team members also cherish these values.

Leading with heart

A good leader should be holistic in his approach in the sense that he should be using both the head and heart in dealing with others. Mere rules, regulations and guidelines cannot work all the time with all the people; management by persuasion has become popular in modern days.

Establishing with enduring relationships

The relationship between the leader and his followers should be eternal and permanent. A stronghold of relationship alone can maintain a good spirit of the team. In fact, a leader should help the team in difficult and testing times. This act will enhance the relationship.

Demonstrating self-discipline

A good leader should be able to demonstrate his self-discipline to his team. This act of actual demonstration promotes the morale of the team. The members of the team help each other and promote their own self-discipline.

In fact, in the opinion of John Donahue, President of eBay, leadership is a journey and not a destination; it is a marathon and not a sprint; and it is a process, not an outcome.

Bill George in his leadership book, *True North*, writes:

“When things are up, we should have the wisdom to know, that these things will be altered. Similarly, when things go down, we should have the courage to realise that things will turn up. Life as a process is an opportunity to learn and grow. We should make a movie of our life, not just snapshots along the way.”

A good leader should not worry about challenges. He should go through the challenges even if these challenges hurt. A good leader will have to learn from challenges.

A good leader goes from ‘I’ to ‘we’ and this attitude is responsible for many modern inventions.

Sometimes, leaders with a lot of intelligence have the trouble of being tolerant with others. Hence, good leaders should have adequate amount of emotional quotient too. This emotional intelligence will make them popular and the team members will be with them in carrying out the objectives of the organisation.

It should also be noted that leaders with principles cannot be bullied or pushed down because they can draw clear lines in the sand. A good leader has to live

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by the values. That is why, 'walking the talk' has become an effective strategy for all the successful leaders.

Exercise
Rank your intrinsic motivation
Personal growth
Job satisfaction
Helping others to develop
Finding meaning for the efforts
Being true to one's beliefs
Making a difference in the world.

Exercise
Rank your extrinsic motivation
Monetary compensation
Having power in the organisation
Having a status through designation
Public recognition
Social status
Winning over others.

The key to develop leadership is not eschewing extrinsic motivation but balancing with intrinsic motivation. Good leaders want both visibility and recognition.

Prof. Mihaly Csikszentmihalyi, a pioneer in positive psychology, says 'Find out what you are good at and what you like to do'.

An ethical leader is empowering others by delegation of powers and treating others as equal. The least examples are Warren Buffet and Narayana Murthy. These two business leaders are good listeners, learn from people, empower others and share their life stories.

The purpose of business was maximising short-term shareholder value up to 1990. Today, we cannot sustain long-term shareholder value unless we create sustainable value to other stakeholders.

The best index of success for an ethical leader is longevity. If one can practise ethical leadership for a long time, one has to go through thick and thin, learn to strengthen one's character, focus on clients and make oneself stronger.

5.5.2 A Model for Leadership

There are four important variables in leadership, namely the leader, the follower, the leadership skills and the situation.

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There is a canonical interpretation of leadership consisting of the above four variables. The relationship among the four variables is illustrated in the following model.

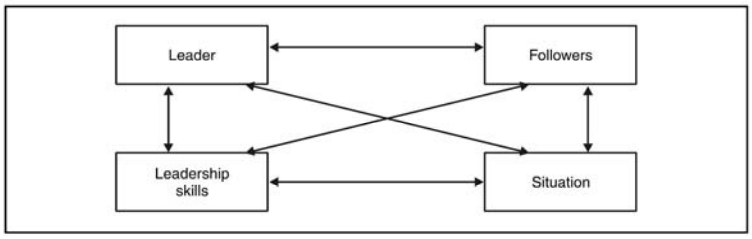

Figure 5.1: Four Variables in Leadership

5.5.3 Three types of Leadership

There are three types of leadership, namely amoral leadership, value-based leadership and ethical leadership.

Amoral Leadership

In the early stages, ethics and values were not attached to leadership. Effective leaders were considered as capable of achieving the organisational objectives such as efficiency, high profit, innovation and good customer care. But the greatest problem of amoral leadership is the absence of ethical values. An amoral leader is more concerned with the achieving of goals than with the ethical values. He is neutral to ethical values.

Amoral leadership is not accepted by ethical and value-based societies.

Value-based Leadership

This type of leadership is bridging the gap between ethics, values and leadership. Values are taken as the basis of leadership. Right type of values like honesty, hard work and trust should be taken as tools of achieving the desired results. The means should justify the ends.

There are a number of theories related to value-based leaders.

Bennis (1985) and Namus (1997) have recommended the five key skills for ethical leadership, namely, acceptance, forgiveness, courtesy, trust and self-confidence.

Bennis (1989) has suggested that there are five ingredients to leadership, namely, integrity, dedication, magnanimity, openness and creativity.

Covery (1990) has given one P and eight Ss, namely, people, self, style, skills, shared vision, structure, systems, strategy and streams.

In most organisations, the followers want an honest leader irrespective of the situation.

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Ethical Leadership

John William Gardner in his book on leadership (1990, New York: Free Press) states that an ethical leader should have the following minimum objectives:

1. Realising the human potentials.
2. Balancing the individual needs with the organisational needs.
3. Defending the fundamental values of the organisation.
4. Installing a sense of initiative and responsibility in individuals.

The vision of the leader should be based on moral values. Leadership should be linked to collective purpose. The collective purpose should be positive, promotive and progressive.

Tasks of ethical leadership

The following are the important tasks of ethical leadership

1. A good ethical leader should use sound moral judgment. A good moral judgment should take into account the long-term considerations. Some short-term gains prove to be dangerous in the long-term. Some decisions that are hasty are carrying the potential dangers affecting the organisation in the long-run.
2. The ethical leader articulates the purpose and values of the organisation. It is the virtue of practicing that elevates the status of an ethical leader. The values may not give short-term gains, but surely the values yield long-term gains.
3. The ethical leader should be able to connect ethics with business. He should be able to speak about ethics, values and the creation of values for stakeholders. This misconception that values and ethics cannot be practiced in modern days should be removed from the minds of the people.
4. The ethical leader should be able to find the best people and develop them. There is a moral imperative in developing people so that they can develop a value for themselves and others.

   A good ethical manager can carry out the following activities to retain the best people selected.

   - Employing innovative reward plans.
   - Promotion of continuous training for improvement of quality of performance.
   - Utilising the people with distinctive capabilities.
   - Decentralizing operations and rely on self-management teams.
5. In the business world, the constant factor is change. While many view change as a threat, ethical leaders consider change as an opportunity. The global networth of the market is expected to rise to 45 bn by 2009.

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Securing the investment mandate of high work investors represents an immense opportunity for all the companies to increase their market share, drive client satisfaction and deliver increased shareholder value.

In order to effectively compete in the marketplace, apart from business skills, ethical skills and practices are necessary. Only then can organisations deliver true, comprehensive and customer driven wealth management services.

In a world of crises consisting of violence, war, crimes, economic decay and conflicts, treating the surface level symptoms does not work. The basic causes for this crisis are isolation, ignorance, dishonesty, discrimination, and scarcity, lack of opportunities, exploitation and selfishness. Building trustworthy networks, transcending culture, time and distance, creating true value and sharing wealth are the strategies that emerge from ethical platform. Ethical leaders in business can survive anywhere in the world like Bangalore, Singapore, Boston, Brunei, Hong Kong, Beijing, New York or Sydney.

6. An ethical leader shows by example that ego or pride can prevent the growth of any business. Accepting a good and realistic suggestion is prevented by pride or ego.

   Hence, the business suffers severe setbacks when the traditional ways are not effective. “Pride goes before a fall” is a universal statement. An ethical leader does not entertain selfish personal vanity for the sake of satisfying his ego. Creativity and new ideas emanating from employees, customers and other stakeholders are encouraged by a value-based leader.

   According to the philosopher, Henry David Thoreau, every man has the unquestionable ability to elevate his life by conscious efforts. Many managers by experience learn leadership qualities and elevate themselves to the status of a good ethical leader. Most of these ethical leaders exhibit the following characteristics.

   (a) Ethical leaders are people-oriented in the sense they care about people and treat people with respect. This humanistic approach builds confidence from the staff, customers and suppliers. It also gives a new dimension to leadership namely leadership from heart.

   (b) The ethical leaders should provide visible ethical actions by serving as a role model of ethical conduct and behaviour.

   (c) Ethical awareness taking the interests of multiple stakeholders.

   (d) Neutral and impartial using fairness in management.

Transactional leaders and transformational leaders

1. A transactional leader is only interested in the day-to-day transactions. He is satisfied by the transactions. He is independent and thinks only about the nature and volume of transactions. On the other hand, a transformational

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leader is interdependent in the sense that he cares for other stakeholders including the immediate colleagues and customers.

2. A transactional leader is trying to protect the individual rights while a transformational leader is meeting social obligations. An ethical leader should be a transformational leader because he can help many instead of a few.
3. The transactional leader has pragmatic goals while a transformational leader has idealistic goal. Good ideas lead to better practices and better results.
4. The transactional leader somehow wants to achieve the results not very much bothering about the means. In this way, he believes that ends justify the means. But a transformational leader has a deontological orientation, namely the means justify the ends.
5. Social contract is the behaviour strategy of transactional leader. On the other hand, inactivation of personal virtues and empowerment of others is the behaviour strategy of transformational leadership.
6. The nature of ethics of transactional leadership is to emphasise on purpose and particulars. On the other hand, the nature of ethics of transformational leadership is to emphasise on duty and universals.

Strategies of ethical leaders to make ethics and profits work together

1. In a modern society, there is sufficient room for ethical practices. Power and opportunities have to be used in a positive way.
2. The general object of morality is to contribute to the betterment of society and not the deterioration of society. According to philosopher Thomas Hobbes, the general human condition creates anxiety, violence and constant danger. By the enforcement of social order, human beings can be happy and peaceful. Aristotle and John Stuart Mill strongly believed that individuals should be given the opportunity to lead a well-structured and happy life.
3. Business influences the economic activities of a nation. When unethical activities like black market, unfair practices, discrimination and exploitation prevail, there are sure shot possibilities of the emergence of inequalities in terms of assets and opportunities. Ethical leadership can avoid this type of the situation.
4. An unethical business can encourage the growth of an unethical society. This will erode all our values and goals.
5. Building trust between companies and stakeholders is an ethical act. Fair treatment and mutual respect promote trust. Trust and reciprocal of trust are essentially ethical acts.

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As pointed out by Hosmer, the expectation of loss, if trust is broken, will be much greater than the gain if trust is maintained.

Trust should improve the willing cooperation of different parties. If trust is more, the business cost will be lesser. If adequate trust is not prevailing, co-operation can be sought under a system of formal rules and regulations subjected to negotiation, litigation and enforcement. Trust can be promoted by some good ethical acts like fair treatment, justice in dealings, honesty in negotiations and transparency of management.

Keeping promises and an excellent customer care promote trust-building. Fear and arrogance affect the growth of trust.

6. Ethical leadership is the capacity to translate corporate good ideas and policies into action. It should drive good ideas and innovations into practice by courage and conviction.

7. A people-oriented approach is a practical approach in removing all the barriers related to power based approach. According to Bartlett and Ghoshal, "Corporate leaders found that when people in the organisation clearly understand corporate objectives they measure their own performance against those objectives".

8. An ethical leader should try to empower all the stakeholders, in general, and the employees, in particular. Empowered employees will become ethical employees.

   Jack Welch, the former CEO of General Electric says:

   "Good leaders are open. They go up down and around the organisation to reach people. They are informal. They are straight with people. They never get bored telling their story. Real communication takes countless hours of eyeball-to-eyeball, back and forth. It means more listening than talking".

9. A good leader should encourage the right procedure. Just and correct procedure can bring effectiveness to the policy. If the procedure is just then the results are not open to disputes. For example, if the person cutting the cake knows that the last piece will be his own, it is known that all slices will be of equal size. The ethical leaders have to imagine themselves in the positions of their subordinates.

   According to the expert opinion of Konusuka Matsushita, the chairman of Matsushita Electrical and Industrial Company, the leader should spend 70% of the time in building on the positive qualities of the subordinates and only 30% of the time in correcting their faults. This will promote professional respect, scope for upward mobility and unbiased rewards. There should be a baseline similarity among all employees. Only then will all employees work for the company and not just roll of the company.

10. Justice is reflected in terms of fairness. A fair deal to customers and employees is an ethical act. This fair act breeds loyalty from all the

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stakeholders. In a person-oriented and knowledge based business, fair practices are essential to prove the ethical base of business. This fair practice will enlarge the size of market and enhance the profitability of business.

The core values of many well-known companies reflect a deep concern for the customers. For example, Johnson and Johnson say:

"We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs, everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customer's orders must be serviced promptly and accurately. Our suppliers and distributors must a fair profit."

The Institute for Business, Technology and Ethics suggests that an ethical leader should be able to promote the following traits in a healthy organisation:

1. Openness and humility from top to bottom.
2. An environment of accountability and personal responsibility.
3. Risk-taking within limits.
4. A commitment to do only the right things.
5. A willingness to tolerate and learn from mistakes of ours and others.
6. Courage and persistence in difficult and challenging times.

An ethical leader should follow these traits and inspire his team.

The term 'power' comes from the Latin word *posse* which means to do, to be able to change and to influence. All the leaders must make use of the power. The power should be used positively, wisely. In the opinion of James Macgregor Burns, leadership is not just about directed results, but offering the followers a choice among the different alternatives. The leaders must serve as models and mentors. Power without morality cannot be good.

A good ethical leader should empower people with information, insights, instructions and different perspectives on reality. A good leader is not just teaching but fostering learning, offering choices and building consensus.

The motto of Hewlett Packard is:

"The achievements of an organisation are the results of the combined efforts of each individual". In short, a good leader should be able to bind the moral, intellectual and emotional commitment of all the people. Responsive and responsible leadership should make use of democratic means and methods."

Leadership is not a job that goes away at the end of the day. It is a never-ending responsibility meeting all the challenges by using the core values. Values are the foundation of good leadership. Ethical leaders can take positive values as priority. The good values of the leaders should be made visible to

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people who work with them. An integrity-based approach is necessary for an ethical leader. This approach can be possible by developing an ethical framework, putting the principles into practice, overcoming cynicism and resolving ethical conflicts.

Four points of an ethical compass

An ethical manager should manage with the four points of responsibility:

Purpose: This refers to the goals and objectives of the organisation.

People: The composition of people in the organisation, their roles, duties, responsibilities, claims and interests.

Power*:* The authority and the ability of the organisation.

Principles: The guiding principles and aspirations of the organisation.

An ethical leader should promote his style of management by navigating with the ethical compass.

Eastern Wisdom on Ethical Leadership

It is not easy to rule well but worldly duty is to rule well. It is the action that shapes destiny and not otherwise.

A ruler's highest duty is to the gods and next of equal importance is truth. The entire world is resting on truth.

Self-restraint, humility, righteousness and straightforwardness are essential for a good leader. An ethical leader should have his passions under perfect control.

An ethical leader should be neither mild nor wild.

Compassion should be a part of the mental make-up of a leader but he should not encourage too much of forgiving. In terms of modern days, an ethical leader should also be a professional leader.

Every man is born alone and dies alone. None of the close relatives can follow a dead person. Only dharma or righteous acts follow the body. That is why, leaders are expected to work on ethical lines. That is why, it is said that management is doing things right and leadership is doing the right things. It is also that "management efficiency is in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall".

(Stephen Covey, *Habits of Highly Effective People*)

Some other views on ethical leadership

Lord Moran of Britain was the medical officer in the British army during the First World War. He has defined leadership as follows:

"Leadership is the capacity to frame plans that will succeed and the faculty to persuade others to carry them out in the face of all difficulties, even death." (Lord Moran, *Anatomy of Courage*, Book World, Dehradun, 1984)

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A leader should be a source of strength, style of execution and composed of good values and norms.

Personal example, good or bad by the leader, has an infectious effect. A Persian saying goes:

"If the king plucks one apple from the public garden, the public will take away even the roots."

An ethical leader has to analyse the following components of decision-making:

- An ethical leader should be absolutely clear about the goal that has to be achieved.
- He should collect and evaluate all the relevant information about the human, material and financial resources available for the task; he should know the environment in which the task has to be carried out and the likely obstacles and challenges to be met; and the time available for the competition of the task.
- Crystallising the options that emerge from the evaluated information and examine the comparative advantages of each option.
- Finally, selecting an option and a plan for implementation.

Functions of AN ethical leader

In the final analysis, character communicates more eloquently than any other quality or skill. The entire process of leadership is by one virtue namely selfless love. It is said that,

"Love lives by giving and forgiving
Self lives by getting and forgetting."

A good leader has to build the team as a cohesive group and to develop the best of each and every individual.

The following are the functions of an ethical leader:

Task needs

- Defining the task
- Making the plan
- Allocating work and resources
- Controlling Quality and tempo of work

Group needs

- Setting standards
- Maintaining discipline
- Building team spirit

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- Encouraging and motivating the group
- Better and continuous communication
- Constant training for the group

Individual needs

- Attending and solving personal problems
- Appreciating the individuals
- Counseling when there is a need

Importance of selflessness

Selfishness is human and selflessness is divine is an accepted belief. An ethical leader should have a clear, universal inner structure based on character and knowledge. The character is consisting of three components namely courage to decide, will-power to persist and initiative to be a self-starter. The knowledge is also composed of three components namely, knowledge of the job, ability to deal with people and knowledge of the self.

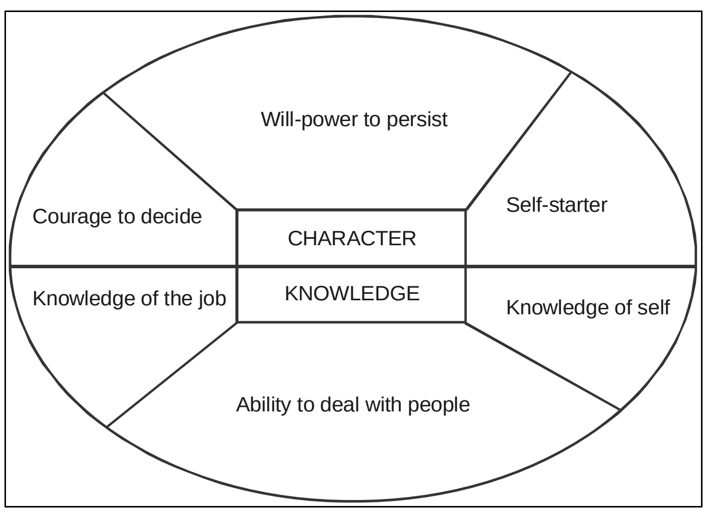

Figure 5.2: Inner Structure of Ethical Leaders

As shown in the figure 5.2, every component of character and knowledge supports one another. Ultimately, both character and knowledge have to be balanced. Mere knowledge without character cannot make a man decisive and firm. Similarly, mere character without knowledge cannot make a person act effectively.

An ethical leader has to follow a higher vision in order to increase his status and performance in the right direction. Higher the vision, higher the degree of selflessness. Swami Vivekananda says:

"I cannot ask everybody to be totally selfless; it is not possible. But, if you cannot think of humanity at large, at least think of your country. If you cannot think of your country, think of your community. If you cannot think of your

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community, think of your family. If you cannot think of your family, at least think of your wife. For heaven's sake, do not think merely of yourself."

Many business and industrial organisations have been developed by the selflessness of many ethical leaders.

Box 5.1:JACK WELCH

Jack Welch, who retired as CEO of GE after working for more than 20 years, steered the fortunes of the company. He used to convert a complex business conglomerate into a 'business engine' in which each part lends strengths to others and derives strengths from them. The democratic style of functioning has promoted the growth of the company. The rigidity has given place to flexibility and good practices promoted the distinct competitive advantage. GE could acquire market leadership and best returns on investment. Jack Welch proved that ethical values of integrity, responsibility and team spirit are as important as business values.

Truth, right conduct, love, equanimity and non-injury are the human values of selflessness. A selfless person is neither greedy nor looking for short-cuts to success. Honesty comes naturally to him. He acquires the trust and support of all.

The world famous McDonald fast food has the following poster in each manager's office: Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with great talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence, determination alone is omnipotent.

Self Assessment

Fill in the blanks:

1. Leadership is essential in all areas of management and its importance is __________in ethics.
2. __________has many choices and voices and one has to be careful in selecting the right type of leadership.
3. The relationship between the leader and his followers should be eternal and ___________
4. A good leader goes from 'I' to '______' and this attitude is responsible for many modern inventions.
5. There are four important variables in leadership, namely the leader, the follower, the leadership skills and___________.

Tasks

1. Select an industry of your choice and draft an ethical training programme for the same.
2. Meet a sample of three managers and find out their styles of ethical leadership.

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CASE STUDY

Infosys

Started in 1981 in Bangalore with seven colleagues who dared to dream, Infosys has crossed billions of dollars. It has a consistent and continuous growth providing turnkey software development. It has built a brand known for ethical standards both inside and outside the marketplace.

Narayana Murthy, the chief manager, says that he will be remembered for showing nation that serious people can legitimately and ethically create an organisation successfully in a single generation.

He said a few years ago: “CEO compensation is an issue that has to be decided by the board and shareholders. Three factors are to be considered for this: fairness, transparency and accountability”.

Narayana Murthy is a good example of walking the talk. Transparency, accountability, honesty and trust are the cornerstones of success of this ethical leadership. He says:

“I believe in synergising the organisational objectives and individual observations”.

Question

What are your comments?

SUMMARY

- There is a strong need for the implementation of ethical values in organizations.
- The effective ethical programme can help a company to avoid the unnecessary legal problems.
- There are some minimum requirements for ethical compliance programmes.
- A code of conduct is a statement which describes what an organization is expecting from its employees.
- There are some guidelines for the development and implementation of code of ethics.
- There are some common mistakes in the formulation of an ethics programme. These mistakes have to be avoided.
- Ethics audit is a systematic evaluation of the ethical programme of an organization.
- Ethics audit improves the organisational climate and strategy.

Notes

- Leadership is essential for all organisations. There are five dimensions of an authentic leader.
- There are three types of leadership, namely, amoral leadership, value-leased leadership and ethical leadership.
- Four points of an ethical compass, namely, purpose, people, power and principles.
- The power of leaders in influencing ethical decisions are Expert power and Referent power.
- Functions of an ethical leader include Task needs, Group needs and Individual needs.

KEYWORDS

Code of Conduct: A code of conduct is a statement which describes what an organization is expecting from its employees.

Ethical Dilemma: Right or wrong options that have a moral component (two or more ethical principles apply and there is no decision).

Ethical Principle**:** a concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Ethics Audit: Ethics audit is a systematic evaluation of the ethical programme of an organization.

Formal Measures of Business Ethics: The formal institutional measures of business ethics implementation examined in the empirical part of our research are: the core value statement, the mission statement, the code of ethics, compliance manuals, and ethics standards and indexes.

Informal Measures of Business Ethics: The informal measures of business ethics include: manager concern/role-modeling, candid ethical communication, ethics as a topic of employee conversation, reward and penalty systems, and the communication of stories.

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

REVIEW QUESTIONS

1. Define ethical training.
2. Define code of conduct.
3. What are the principles in the development and implementation of code of ethics?
4. What is an ethics audit?
5. Discuss the importance of ethical training.

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6. Examine the importance of ethics audit.
7. Define an ethical leader.
8. Explain the three types of leaders.
9. Explain the variables in leadership.
10. What are the dimensions of an authentic leader?
11. What are the tasks of ethical leadership?
12. Distinguish transactional leaders from transformational leaders. Suggest strategies of ethical leaders to make ethics and profits work together.
13. Examine the important functions and challenges of ethical leadership.
14. Distinguish transactional leaders from transformational leaders. Suggest strategies of ethical leaders to make ethics and profits work together.
15. Examine the important functions and challenges of ethical leadership.

Answers to Self Assessments

1. Implementing
2. ethical values
3. transparency
4. objectivity
5. code of conduct
6. False
7. True
8. True
9. True
10. True
11. immense
12. Leadership
13. permanent
14. we
15. the situation

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LESSON 6 - SHAREHOLDERS AND BUSINESS ETHICS

CONTENTS

Contd….

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Review Questions

Further Readings

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Understand corporate governance
2. Analyze various Ethical issues in corporate governance
3. Relate Shareholders and globalization
4. Analyze Shareholding for sustainability

INTRODUCTION

Corporate governance refers to the set of processes, customs, policies, laws and institutions, influencing the administration of a corporation. Corporate governance includes the relationships among the many players and the goals of the corporation. The shareholders management and the board of directors are the principal players. The employees, suppliers, customers, banks, the environment and the community at large, are the other stakeholders.

Accountability of individuals and economic efficiency of the corporation are the important aspects of corporate governance. Corporate governance is a multi-faceted subject.

6.1 UNDERSTANDING CORPORATE GOVERNANCE

There are three formal definitions available for corporate governance. From a positive analysis, corporate governance refers to the manner in which corporations are governed. From a normative analysis, corporate governance is the manner in which corporations should be governed. From the perspective of strategic analysis, corporate governance is the way in which goals can be realised.

Donovan defines corporate governance as “an internal system encompassing polices processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savy, objectivity and integrity. Sound corporate governance is reliant on external market place commitment and legislation, plus a healthy broad culture which safeguards policies and processes.

6.1.1 Shleifer and Vishny define Corporate Governance Thus

“Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”. The Organisation for Economic Co-operation and Development (OECD) has

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defined corporate governance as…. "a set of relationships between a company's board, its shareholders and other stakeholders; It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".

Adrian Cadbury has said that, "corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals…. The aim is to align as nearly as possible the interests of individuals, corporations and society". According to SEBI, corporate governance is the acceptance by the management of inalienable rights of shareholders as the true owners of the corporation and of their own role as the trustees on behalf of shareholders.

A few more definitions are given below:

"Corporate governance is concerned with ways of bringing the interest of investors and managers into line and ensuring that firms are run from the benefit of investors."

"Corporate governance is concerned with the relationship between the internal governance, mechanisms of corporations and society's conception of the scope of corporate accountability."

"Corporate governance includes the structures, processes, cultures and systems that endanger the successful operation of the organisations."

The World Bank has defined corporate governance as "the blend of law, regulation and appropriate voluntary private sector practices which enables the corporation to attract financial and human capital perform efficiently and, thereby, perpetuate it by generating long-term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole".

6.1.2 Need for Corporate Governance

1. It reduces the risk of the investor because of its professional management coupled with values.
2. It increases the mobilisation of capital because of the confidence of the investors.
3. It enhances the value and good image of the companies. In modern days, importance is given to the reputational capital.

6.1.3 Important Features of Corporate Governance

1. It promotes an adequate and appropriate system of controls operative within a company and, thereby, assets can be safeguarded.
2. It prevents any single individual becoming too powerful.
3. It is concerned with the relationship between a company's management, board of directors and all the stakeholders including shareholders.

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4. The company is managed in the best interests of all.
5. It promotes transparency and accountability.
6. It aims at promoting the best corporate performance through the best corporate management practices.

6.1.4 Principles of Corporate Governance

Honesty, trust, openness, performance orientation, responsibility, accountability, mutual respect and commitment are the hallmarks of corporate governance.

The following are the important principles of corporate governance:

1. ***Rights of shareholders:*** The business corporations should respect the rights of shareholders and help the shareholders to exercise their rights. There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board of Directors has a responsibility for ensuring a satisfactory dialogue with shareholders.
2. ***Equal treatment for shareholders:*** Equal treatment should be given to all the shareholders. All the shareholders are to be encouraged to participate in general meetings. The major shareholders should attend the general meeting and participate effectively.
3. ***Protection of the interests of stakeholders:*** The interests of all the stakeholders should be protected. This will promote the welfare of all.
4. ***Role of Board of Directors:*** The Board of Directors should be dynamic, efficient and capable of developing a range of skills. It should be capable of meeting all the challenges. It should be sufficient in size and a high level of commitment to fulfill its responsibilities and duties. There should be a good mix of executive and non-executive directors.

   The Board of Directors should not be so large as to be unwieldy. It should be of optimum size, which balances the skills and experience suitable to the requirements of business.

   The chairman is responsible for ensuring that the directors receive accurate, timely and correct information. The chairman should promote a constructive relationship between executive and non-executive directors. The key positions of chairman and CEO should not be held by the same person. The division of responsibilities between the chairman and CEO should be clearly established by the Board of Directors.

   The appointments to the Board of Directors should be made on merit and care should be taken to ensure that the directors have enough time available to devote to the job.
5. ***Ethical behaviour:*** Corporations should develop a code of conduct for the directors and executives to promote ethical and responsible decision-

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making. Many corporations have established compliance and Ethics programmes to minimise the risk that the firm steps outside of ethical and legal boundaries.

6. ***Disclosure and transparency:*** There should be the timely and balanced disclosure of matters related to the organisation so that all investors have access to clear and factual information. The annual report should record:
   (a) A statement of the operations of the board including decision-making.
   (b) The number of meetings of the board and the committees;
   (c) Performance evaluation of the board;
   (d) Steps taken by the board to develop an understanding of the views of major shareholders about their company;
   (e) A description of the work of the remuneration committee;
   (f) A statement from the directors that the business is a going concern with supporting assumption; and
   (g) A separate section describing the work of the audit committee in discharging responsibilities.

6.1.5 Theories of Corporate Governance

The development of corporate governance is a global event and as such, it is a complex area because of diversities in legal, cultural and other differences. The following are the important theories of corporate governance.

Agency Theory

This theory is based on the principal agent framework. One party, namely, the principal delegates work to another party, namely the agent.

The agent has to work for the principal. According to the agency theory, the corporate governance mechanism has to be carefully monitored.

According to Blair, "managers are supposed to be the agents of a corporation's owners but managers must be monitored and institutional arrangements must provide some checks and balances to make sure they do not abuse their power. The costs resulting from managers misusing the position, as well as the costs of monitoring and disciplining them to try to prevent abuse, have been called 'agency costs'.''

There is separation of ownership and control. All shareholders, including minority shareholders have to be protected. There is a drive for effective shareholders. The agency relationship can also include the company and creditor as well as employer and employees.

Transaction Cost Economics Theory

This theory was developed by Williamson and related to agency theory. This theory views the firm as a governance structure while the agency theory views the firm as a news of contracts.

Since the firms have grown in size, there is an increased need for more and more of capital. The capital has to be raised from the capital markets. A wider shareholder base has been established.

The control of cost has become a necessity. The cost can be reduced by a judicious choice of governance structure.

Stewardship Theory

According to theory, managerialism is opportunism by using an independent CEO for the interests of the shareholders. There should be a unity of command in corporate governance. Management should not be placed under the control of owners but the managers should be empowered to make and implement autonomous executive action.

Corporate governance requires convergence of ideas and business practices. Transparency, disclosure, independent non-executive directors and the welfare of stakeholders play an important role in modern corporate governance.

> CAUTION The area of corporate governance is affected by a variety of subjects like economics, finance, accounting and management. An approach based on convergence is the need of the hour.

6.1.6 Board Structure

An ideal board structure is necessary for good corporate governance. Recent research has shown that effective boards must be legitimate and credible. It should be legitimate in the sense that the stakeholders perceive the board to represent all significant interests and perspectives. The board should be knowledgeable and fair so that the process of the board is rational. A good board of directors should be the link between managers and shareholders. The board is essential to good corporate governance and investor relations. The board is responsible for ensuring that the principles of corporate governance are adhered to and enforced. The management consists of the CEO, executive directors and the key managers of the company.

The management can help the administration in the following ways:

1. Assisting the board in its decision-making process.
2. Implementing the policies and code of conduct of the board.
3. Managing the day-to-day affairs of the company to achieve the targets and goals set by the broad.

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4. Ensuring compliance of all regulations and laws.
5. Timely and efficient service to the shareholders.
6. Setting up and implementing effective internal control systems according to the business requirements.
7. Implementing the code of ethics as laid down by the Board.

Suggested list of items to be included in the report of corporate governance

The following list of items to be included in the report on corporate governance in the annual report of companies:

1. A brief statement on code of governance.
2. The composition and category of directors.
3. The description of audit committee.
4. The composition and description of remuneration committee.
5. The shareholders' committee and its composition.
6. The description of general body meetings.
7. The details of disclosures.

High performance boards should achieve the following core objectives:

1. Strategic guidance for the growth and prosperity of the company.
2. Accountability to all the stakeholders.
3. Provision of a highly qualified team to manage the company.

6.1.7 Role, Duties and Powers of Independent Directors

There is an urgent need to minimise corporate frauds and scans, Audit committees should play an important role through the guidance of independent directors. It should be noted that independence should be combined with competence. The corporation should appoint competent independent directors to achieve higher standards of governance. The independent directors should be able to offer wise inputs for the companies. Naturally, the remuneration for independent directors should be of decent standards. Globalisation requires high standards of governance.

The non-executive or independent directors should have proper competencies and adequate time. They should meet appropriate independence criteria. They should be appointed for specific terms subjected to re-election. They should have the required diversity of knowledge, judgment and experience to properly complete their tasks.

The independent directors should be independent from any business, family or other relationship with the company. The independent directors are invited to join the board for their specialisation and expertise in achieving a balance of knowledge, skills and attitudes of other directorial resources. Neutrality of views and the quality of debate at the board level are necessary for good governance.

> *Did you know?* The independent directors should be independent in their thinking, approach and actions. They have to play an important advisory role. An independent director is required because of independent judgment, technical expertise and to build investor confidence.

Duties of independent director

1. To reduce potential conflict between specific interests of the management and wider interests of the company and shareholders.
2. To demand financial transparency.
3. To safeguard the interests of minority shareholders.
4. To protect the interests and welfare of the employees.
5. To make independent assessment of evaluating business plans
6. To make use of technical and financial expertise and experience for the development of the corporation
7. To make useful communication between management and shareholders.

Powers of independent directors

The following are the powers of independent directors:

1. Power to demand the necessary information
2. Power to exercise the vote
3. Power to govern.

Independent directors are the cornerstones of good corporate governance. Their duty is to provide an independent, unbiased and experienced perspective to the Board of Directors. One third of company's directors are required to be independent. The independent directors should be really independent. The independent directors are the only hope to instill some discipline in the murky world of corporate finance.

The independent directors bring to the corporation a wide range of experience, knowledge and judgment from their proficiencies in finance, housing, management, law, accounting and corporate strategy. The corporations should be immensely benefited from their inputs. In fact, the audit committee and compensation committee should be consisting of independent directors.

The independent directors should safeguard the interests of the company during difficult times.

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6.1.8 Role, Duties and Responsibilities of the Board of Directors

The board's role is to provide the entrepreneurial leadership of the company within a framework of effective controls. The risks have to be assessed and managed. Decisions have to be taken in an objective way and the interests of the company have to be protected.

All the directors should have access to the company secretary. They can also avail of independent professional advice.

The following are the duties of directors:

1. To act in accordance with the company's constitution.
2. To promote the success of the company.
3. To exercise independent judgment.
4. To exercise reasonable care, skill and diligence.
5. To avoid conflicts of interest.
6. Not to accept benefits from third parties.
7. To declare an interest on proposed transactions or arrangements.

It is not possible for the directors to please all the shareholders at all times. Directors should have access to reliable information regularly. The board should be accountable to shareholders and provide them the relevant information.

Chief Executive Officer

The CEO has the executive responsibility of running the business. The roles of chairman and CEO should not be exercised by the same person. The division of responsibilities between the chairman and CEO should be clearly established. Normally, a CEO should not become the chairman of the company.

Chairman

The chairman is responsible for the effective administration of the board. The board should meet frequently and the directors should have access to all information and all the directors should have an opportunity to give their views at board meetings.

Senior Independent Director

There should be an appointment of a Senior Independent Director (SID) who should be one of the independent non-executive directors. The SID should be available to the shareholders if they have concerns to be resolved.

The non-executive directors should meet without the chairman present at least once in a year in order to appraise the performance of the chairman. The SID will lead these meetings.

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Company secretary

The company secretary should facilitate the work of the board by providing the necessary information to all the directors. The company secretary can advice the board, via the chairman on all governance matters. The company secretary will assist the professional development, needs of directors and induction requirements for new directors. The company secretary must act in good faith and avoid conflicts of interest. The dismissal of the company secretary should be a decision of the board as a whole and not the chairman or CEO.

Audit committee

As an important skill committee, it should review the scope and outcome of the audit. It should ensure that the objectivity of the auditors is maintained. It provides a bridge between both internal and external auditors and the board. The board should be fully aware of all relevant issues related to the audit. It should be able to assess the financial and non-financial risks of the company.

Remuneration committee

This committee should make recommendations to the board on the company's framework of executive remuneration and its cost. It should determine remuneration packages for each of the executive directors, including pension rights and any compensation payments.

The establishment of a remuneration committee can prevent the executive director from setting their own remunerations. The remuneration of non-executive directors should be decided by the chairman and the executive members of the board.

Nomination committee

Directors were appointed on the basis of personal contacts in the past. At present, there is a formal, rigorous and transparent procedure for the appointments and recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors.

This committee should evaluate the existing balance of skills, knowledge and experience on the board. It should throw its net as wide as possible for the search of suitable candidates.

Risk committee

Business operations involve risks and this committee should comprehend the risks involved in the business. The competitive advantages have to be analysed. This committee should be consisting of more of non-executive directors.

Non-executive directors

Non-executive directors are essential for good governance. They cannot be under the pressure of the Board of Directors as executive directors. The non-

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executive directors can add to the overall leadership and development of the company.

The non-executive directors should be independent in the presentation of their views. They should scrutinise the performance of the management in meeting agreed goals and objectives. The added value of a non-executive director may be the experience, knowledge, public life and reputation. The non-executive directors should bring an independent judgment to bear on issues of strategy, performance resources and standards of conduct.

Director's remuneration

The following are the six elements in director's remuneration:

1. Basic salary
2. Bonus
3. Stock options
4. Restricted share plans
5. Pension
6. Benefits like car and healthcare.

The basic salary is in accordance with terms of contract. It is neither related to the performance of the company nor the performance of an individual. The size of the company and the experience of the individual are the major deciding factors.

The bonus is linked to the accounting performance of the firm. The stock options give the directors to purchase shares at a specified exercise price over a specified time period.

Performance measures

The following are the important performance measures:

- Shareholder return
- Share price
- Profit related measures
- Return on capital
- Earnings per share
- Performance of individual director.

6.1.9 Training and Development of Directors

There is a need for the development of some good training for the directors. The directors who are elevated from managerial roles find it difficult to

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understand their new roles. It is more than a change of responsibility. The newly inducted directors should know the answers for the following questions:

1. What are the challenges of the new roles?
2. What are the expectations of the company, customers and investors?
3. How to handle the change of status and relationship?

The directors should be given adequate and up-to-date training in the following areas:

1. Understanding the basics of economy and industry
2. Orientation to the company
3. Diversity management training
4. Financial training
5. Marketing strategies
6. Negotiation skills
7. Managing issues connected with human resources
8. Leadership
9. Mergers and acquisitions
10. Effectiveness of the board of directors.

6.1.10 Accounting Standards

Accounting standards regulate accounting policy so as to use the suitable accounting principles and methods. Accounting standards also ensure adequate disclosures in financial statements. The use of uniform accounting policy improves comparability and uniformity. Hence, the quality of financial report is determined by the quality of accounting standards and the level of compliance.

ASB organised a workshop in 1983 to hold a dialogue with the industry on the implementation of the accounting standards.

The following methods were approved for the implementation of the standards:

- Approaching banks and financial institutions to point out that the adoption of accounting standards by their borrowers would be of great use to them.
- Approaching authorities for making compliance with the standards as a necessary condition for listing companies at various stock exchanges in the country.
- Making request to apex bodies of trade and industry like FICCI and ASSOCHAM to issue directives to their associates to follow the accounting standards.

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At present, nearly fifty items of disclosure are available. The nature of business, size of the company, accounting standards, data related to profit, strategies and investment pattern are prominent items of disclosure. The most popular disclosures include the value brand equity, the economic value added (EVA) and the value of human assets.

There is a strong need for corporate governance due to the following reasons.

1. We have to understand that we have come to the times of corporate throne from the times of proverbial throne. The ambition that the progeny should control the throne cannot work well with the corporate world.
2. In spite of the fact that there are so many rules regulations and restrictions, many of these rules are evaded.
3. There is a sense of insecurity among the stakeholders during the recent global financial crisis. Corporate governance can create a sense of confidence in the minds of all the stakeholders.
4. Public should have concerns like the public in the west.
5. Short-cuts and violation of law have become increasing in magnitude. Hence, corporate governance is no longer a luxury but a necessity.

Self Assessment

Fill in the blanks:

1. ___________ refers to the set of processes, customs, policies, laws and institutions, influencing the administration of a corporation
2. The shareholders management and the board of directors are the___________.
3. The employees, suppliers, customers, banks, the environment and the community at large, are the other__________.
4. According to the agency theory, the __________mechanism has to be carefully monitored.
5. ____________is opportunism by using an independent CEO for the interests of the shareholders.

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6.2 ETHICAL ISSUES IN CORPORATE GOVERNANCE

Corporate governance involves the following issues:

6.2.1 Internal Control

The Board of Directors should maintain a sound system of internal control to safeguard the investment of shareholders and the assets of the company, the board should conduct a review of the effectiveness of internal controls.

6.2.2 Correct Preparation of Financial Statements

The Board of Directors should present a balanced and understandable assessment of the company's position and future prospects. There should be a statement by the auditors about their reporting responsibilities.

6.2.3 Compensation of CEO and Other Directors

There should be a formal and transparent procedure for developing policy on executive remuneration for CEO and other directors. No director should be in a position of deciding his or her own remuneration. The Board of Directors should establish a remuneration committee of at least three. This committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any other compensation.

6.2.4 Nomination of Members of the Board of Directors

Appointments to the Board of Directors should be made on merit. Adequate care should be taken to ensure that all the directors have enough time available to devote to the job. This criterion is more important in the case of chairman. The appointments to the board should be made in such a way so as to maintain an appropriate balance of skills and experience. There should be a nomination committee, which should process the appointments for the board and make recommendations. A majority of members of this nomination committee should be independent, non-executive directors so as to evaluate the balance of skills, knowledge and experience. For the purpose of the appointment of chairman, the nomination committee should prepare a job specification, time commitment expectation and crisis management abilities.

6.2.5 Disclosure Norms

The annual report should record:

1. How decisions are taken by the board;
2. The names of chairman, CEO and other directors;
3. The number of meetings and the individual attendance by directors;
4. How performance evaluation of the board has been made; and

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5. The steps taken by the board to develop an understanding of the views of major shareholders about their company.

The annual report should also include the work of the nomination committee and the remuneration committee.

6.3 SHAREHOLDERS AND GLOBALIZATION

The shareholders are the owners of the company and as such they have certain rights and responsibilities. But in reality companies cannot be managed by shareholder referendum. The shareholders are not expected to assume responsibility for the management of corporate affairs. A company's management must be able to take business decisions rapidly. The shareholders have therefore to necessarily delegate many of their responsibilities as owners of the company to the directors who then become responsible for corporate strategy and operations. The implementation of this strategy is done by a management team. This relationship therefore brings in the accountability of the boards and the management to the shareholders of the company. A good corporate framework is one that provides adequate avenues to the shareholders for effective contribution in the governance of the company while insisting on a high standard of corporate behaviour without getting involved in the day-to-day functioning of the company.

Globalisation enables worldwide access to sources of cheap raw materials, and this enables firms to be cost competitive in their own markets and in overseas markets. Seeking out the cheapest materials from around the world is called global sourcing. Because of cost reductions and increased revenue, globalisation can generate increased profits for shareholders.

6.3.1 Responsibilities of Shareholders

The Committee believes that the General Body Meetings provide an opportunity to the shareholders to address their concerns to the board of directors and comment on and demand any explanation on the annual report or on the overall functioning of the company. It is important that the shareholders use the forum of general body meetings for ensuring that the company is being properly stewarded for maximising the interests of the shareholders. It follows from the above, that for effective participation shareholders must maintain decorum during the General Body Meetings.

The effectiveness of the board is determined by the quality of the directors and the quality of the financial information is dependent to an extent on the efficiency with which the auditors carry on their duties. The shareholders must therefore show a greater degree of interest and involvement in the appointment of the directors and the auditors. Indeed, they should demand complete information about the directors before approving their directorship.

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The Committee recommends that in case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:

A brief resume of the director;

- Nature of his expertise in specific functional areas; and
- Names of companies in which the person also holds the directorship and the membership of Committees of the board.

6.3.2 Shareholders' Rights

The basic rights of the shareholders include right to transfer and registration of shares, obtaining relevant information on the company on a timely and regular basis, participating and voting in shareholder meetings, electing members of the board and sharing in the residual profits of the corporation.

The Committee therefore recommends that as shareholders have a right to participate in, and be sufficiently informed on decisions concerning fundamental corporate changes, they should not only be provided information as under the Companies Act, but also in respect of other decisions relating to material changes such as takeovers, sale of assets or divisions of the company and changes in capital structure which will lead to change in control or may result in certain shareholders obtaining control disproportionate to the equity ownership.

The Committee recommends that information like quarterly results, presentation made by companies to analysts may be put on company's website or may be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site. This is a mandatory recommendation.

The Committee recommends that the half-yearly declaration of financial performance including summary of the significant events in last six-months, should be sent to each household of shareholders.

A company must have appropriate systems in place which will enable the shareholders to participate effectively and vote in the shareholders' meetings. The company should also keep the shareholders informed of the rules and voting procedures, which govern the general shareholder meetings.

The annual general meetings of the company should not be deliberately held at venues or the timing should not be such which makes it difficult for most of the shareholders to attend. The company must also ensure that it is not inconvenient or expensive for shareholders to cast their vote.

Currently, although the formality of holding the general meeting is gone through, in actual practice only a small fraction of the shareholders of that company do or can really participate therein. This virtually makes the concept of corporate democracy illusory. It is imperative that this situation which has

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lasted too long needs an early correction. In this context, for shareholders who are unable to attend the meetings, there should be a requirement which will enable them to vote by postal ballot for key decisions. A detailed list of the matters which should require postal ballot is given in Annexure 3. This would require changes in the Companies Act. The Committee was informed that SEBI has already made recommendations in this regard to the Department of Company Affairs.

The Committee recommends that a board committee under the chairmanship of a non-executive director should be formed to specifically look into the redressing of shareholder complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The Committee believes that the formation of such a committee will help focus the attention of the company on shareholders' grievances and sensitise the management to redressal of their grievances.

The Committee further recommends that to expedite the process of share transfers the board of the company should delegate the power of share transfer to an officer, or a committee or to the registrar and share transfer agents. The delegated authority should attend to share transfer formalities at least once in a fortnight. This is a mandatory recommendation.

6.3.3 Institutional Shareholders

Institutional shareholders have acquired large stakes in the equity share capital of listed companies. They have or are in the process of becoming majority shareholders in many listed companies and own shares largely on behalf of the retail investors. They thus have a special responsibility given the weightage of their votes and have a bigger role to play in corporate governance as retail investors look upon them for positive use of their voting rights.

Given the weight of their votes, the institutional shareholders can effectively use their powers to influence the standards of corporate governance. Practices elsewhere in the world have indicated that institutional shareholders can sufficiently influence because of their collective stake, the policies of the company so as to ensure that the company they have invested in, complies with the corporate governance code in order to maximise shareholder value. What is important in the view of the Committee is that, the institutional shareholders put to good use their voting power

The Committee is of the view that the institutional shareholders

- Take active interest in the composition of the Board of Directors
- Be vigilant
- Maintain regular and systematic contact at senior level for exchange of views on management, strategy, performance and the quality of management.

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- Ensure that voting intentions are translated into practice
- Evaluate the corporate governance performance of the company

6.3.4 Manner of Implementation

The Committee recommends that SEBI writes to the Central Government to amend the Securities Contracts (Regulation) Rules, 1957 for incorporating the mandatory provisions of this Report.

The Committee further recommends to SEBI, that as in other countries, the mandatory provisions of the recommendations may be implemented through the listing agreement of the stock exchanges.

The Committee recognises that the listing agreement is not a very powerful instrument and the penalties for violation are not sufficiently stringent to act as a deterrent. The Committee therefore recommends to SEBI, that the listing agreement of the stock exchanges be strengthened and the exchanges themselves be vested with more powers, so that they can ensure proper compliance of code of Corporate Governance. In this context the Committee further recommends that the Securities Contract (Regulation) Act, 1956 should be amended, so that in addition to the above, the concept of listing agreement be replaced by listing conditions.

The Committee recommends that the Securities Contracts (Regulation) Act, 1956 be amended to empower SEBI and stock exchanges to take deterrent and appropriate action in case of violation of the provisions of the listing agreement. These could include power of levying monetary penalty both on the company and the concerned officials of the company and filing of winding-up petition etc.

The Committee also recommends that SEBI write to the Department of Company Affairs for suitable amendments to the Companies Act in respect of the recommendations which fall within their jurisdiction.

The Committee recommends that there should be a separate section on Corporate Governance in the annual reports of companies, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory recommendation with reasons thereof and the extent to which the non-mandatory recommendations have been adopted should be specifically highlighted. This will enable the shareholders and the securities market to assess for themselves the standards of corporate governance followed by a company. The Committee also recommends that the company should arrange to obtain a certificate from the auditors of the company regarding compliance of mandatory recommendations and annexe the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate should also be sent to the stock exchanges along with the annual returns filed by the company.

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There are several corporate governance structures available in the developed world but there is no one structure, which can be singled out as being better than the others. There is no "one size fits all" structure for corporate governance. The Committee's recommendations are not therefore based on any one model but are designed for the specified country's environment.

Corporate governance extends beyond corporate law. Its fundamental objective is not mere fulfillment of the requirements of law but in ensuring commitment of the board in managing the company in a transparent manner for maximising long-term shareholder value. The corporate governance has as many votaries as claimants. Among the latter, the Committee has primarily focussed its recommendations on investors and shareholders, as they are the prime constituencies of SEBI. Effectiveness of corporate governance system cannot merely be legislated by law neither can any system of corporate governance be static. As competition increases, technology pronounces the death of distance and speeds up communication, and the environment in which firms operate also changes. In this dynamic environment, the systems of corporate governance also need to evolve. The Committee believes that its recommendations will go a long way in raising the standards of corporate governance in make them attractive destinations for local and global capital. These recommendations will also form the base for further evolution of the structure of corporate governance in consonance with the rapidly changing economic and industrial environment of the country in the new millennium.

Self Assessment

State whether the following statements are true or false:

1. There should be a informal and non-transparent procedure for developing policy on executive remuneration for CEO and other directors.
2. Every director should be in a position of deciding his or her own remuneration
3. The shareholders are the owners of the company and as such they have certain rights and responsibilities.
4. The shareholders are not expected to assume responsibility for the management of corporate affairs
5. Globalization enables worldwide access to sources of cheap raw materials, and this enables firms to be cost competitive in their own markets and in overseas markets.

6.4 SHAREHOLDING FOR SUSTAINABILITY

We know that corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social development.

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It is based on two guiding principles:

- Sustainable business practices are critical to the creation of long-term shareholder value in an increasingly resource-constrained world
- Sustainability factors represent opportunities and risks that competitive companies must address

Sustainability-related megatrends are changing our world and are having a measurable impact on companies' top and bottom lines. Long-term challenges such as resource scarcity, demographic shifts and climate change are redefining societal expectations, public policies, regulatory frameworks, and hence business environments and investment outcomes.

Such challenges create new opportunities and risks that companies must address today to remain competitive tomorrow. Companies that anticipate and manage current and future economic, environmental and social opportunities and risks by focusing on quality, innovation and productivity will emerge as leaders and are more likely to create a competitive advantage and long-term stakeholder value.

The quality of a company's strategy and management and its performance in dealing with opportunities and risks deriving from economic, environmental and social developments can be quantified and used to identify and select leading companies for investment purposes.

The shareholder's theory postulates that the management of a business firm has a fiduciary duty to maximise profits for the benefit of stockholders. Adam Smith and Milten Friedman (1970) are the main proponents of this theory. In a free economy, the firms must use their resources to increase the profits while being within the rules of the game which are to engage in open and free competition without deception and fraud. Diverting corporations from the goal of profits makes the economic system less efficient. Private enterprises, therefore, should not be forced to undertake public responsibilities which properly belong to the government. This model identifies that based on the contractual agreement signed with the owners; the management owes a legal duty to pursue profits.

The critics of the theory claim that besides making profits, business firms have other obligations too. People invest in money to make money. Milton Friedman claims that the ethical mandate of business is to increase shareholders' profit. The primary responsibility of business is to increase shareholders' wealth, to give good returns on investment, to give dividends at the proper time, to protect the interests of even small shareholders, to listen to and respect shareholders, to regularly invite shareholders to participate in decision-making.

So, the basic responsibility of a business towards shareholders is to create wealth for them. Economic Value Added analysis is an effective tool to measure the increment in shareholder wealth. Economic values added are increments in the shareholder's wealth beyond its expected return. Debt has its cost in terms of interest, but in financial terms equity does not have any cost. So in EVA, Equity costs are the risk-adjusted rate of return that investors should expect from this type of investment.

These expected returns should be met and if returns are above that, EVA is positive and if it is lesser, then EVA is negative. That is, the firm may be in profit but it is not meeting expectations.

Task

Visit to any near company and examine the corporate governance of that company.

Self Assessment

Fill in the blanks:

1. ______________ is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social development.
2. Sustainable business practices are critical to the creation of ______________ shareholder value in an increasingly resource-constrained world.
3. ______________ factors represent opportunities and risks that competitive companies must address.
4. ______________ are changing our world and are having a measurable impact on companies' top and bottom lines.
5. ______________ challenges such as resource scarcity, demographic shifts and climate change are redefining societal expectations, public policies, regulatory frameworks, and hence business environments and investment outcomes.

Corporate Governance of Wipro

Wipro Technologies is a top provider of integrated business, technology and process solutions on a global delivery platform. Wipro delivers an excellent business value to customers through a combination of process excellence, quality frameworks and service delivery innovation.

Contd….

Notes

It has become the first country X IT service provider to be awarded gold-level status in Microsoft's windows embedded partner programme. It is the world's largest independent R&D services providers. It is also the first IT services company to use Six Sigma.

Over the years, Wipro has shown a commitment towards effective corporate governance and has been at the forefront of benchmarking its internal systems and policy measures with global standards. It believes in greater degree of responsibility and accountability.

The Board of Directors has optimum combination of executive and non-executive directors with not less than 50 percent of the Board of Directors consisting of non-executive directors. All the pecuniary relationship of non-executive directors has be disclosed in the annual report.

A qualified and independent audit committee has been set up having a minimum of three independent non-executive directors as members. The audit committee takes up the responsibility of ensuring that the financial statements are correct, sufficient and credible.

The Board of Directors meets at least four times a year. A director is not a member of more than ten committees or not acts as a chairman of more than five committees. The Annual Report contains management discussion and analysis report. The management makes disclosures to the Board relating to all material financial and commercial transactions. All the necessary information is passed on to the shareholders.

The shareholders' complaints are solved to the satisfaction of shareholders.

Question

What are your observations on the corporate governance of Wipro?

SUMMARY

- Corporate governance refers to the set of processes, customs, policies, laws and institutions influencing the administration of a corporation.
- Accountability of individuals and economic efficiency of the corporation are the two important aspects of corporate governance.
- There is an urgent need to minimise corporate frauds and scans, Audit committees should play an important role through the guidance of independent directors.
- The corporation should appoint competent independent directors to achieve higher standards of governance.
- The independent directors should be able to offer wise inputs for the companies.

Notes

- The board's role is to provide the entrepreneurial leadership of the company within a framework of effective controls.
- The risks have to be assessed and managed.
- Decisions have to be taken in an objective way and the interests of the company have to be protected.
- All the directors should have access to the company secretary. They can also avail of independent professional advice.
- There is a need for the development of some good training for the directors.
- The directors who are elevated from managerial roles find it difficult to understand their new roles. It is more than a change of responsibility.
- Accounting standards regulate accounting policy so as to use the suitable accounting principles and methods.
- Accounting standards also ensure adequate disclosures in financial statements.
- The use of uniform accounting policy improves comparability and uniformity.

KEYWORDS

Agency Theory: This theory is based on the principal agent framework. One party, namely, the principal delegates work to another party, namely the agent.

Corporate Governance: Corporate governance refers to the set of processes, customs, policies, laws and institutions, influencing the administration of a corporation.

Ethical Principle: A concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Ethical Principle: A concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Shareholders: The shareholders are the owners of the company and as such they have certain rights and responsibilities.

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Transaction Cost Economics Theory: This theory views the firm as a governance structure while the agency theory views the firm as a news of contracts.

REVIEW QUESTIONS

1. Who are shareholders?
2. Define corporate governance.

Notes

3. Discuss the features of corporate governance.
4. Discuss the role of Board of Directors.
5. Describe the issues involved in corporate governance principles.
6. Discuss the need for corporate governance.
7. What are the theories of corporate governance?
8. What is the role of independent directors?
9. Discuss the role of some important committees in the corporate governance.
10. Discuss the fixation of director's remuneration
11. What are the areas of training for the directors?
12. Examine the importance, problems and measures for good corporate governance in a country.
13. Describe Ethical issues in corporate governance
14. Describe Shareholders and globalization
15. Describe Shareholding for sustainability

Answers to Self Assessments

1. Corporate governance
2. principal players
3. stakeholders
4. corporate governance
5. Managerialism
6. False
7. False
8. True
9. True
10. True
11. Corporate sustainability
12. long-term
13. Sustainability
14. Sustainability-related megatrends
15. Long-term

Notes

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Notes

LESSON 7 - EMPLOYEES AND BUSINESS ETHICS

CONTENTS

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Understand ethical issues in the firm-employee relation,
2. Explain various ethical challenges of global recruitment
3. Describe sustainable employment

INTRODUCTION

The employer-employee relationship should not be looked at simply in economic terms. It is a significant human relationship of mutual dependency that has great impact on the people involved and both the employer and the employee have moral obligations arising from this relationship.

Notes

7.1 ETHICAL ISSUES IN THE FIRM-EMPLOYEE RELATION

Employees are entitled to count on the commitments of the employer especially about central matters such as pay, raises, and promotions. Employers who chisel employees, renege on promises, or treat them as if they were simply instrumentalities of the organization's interests rather than ends in and of themselves fail to meet their moral responsibilities.

7.1.1 Duty of Employees

A person's job, like a person's business, is a highly valued possession that pervasively affects the lives of the employee and his or her family. With stakeholders everywhere, the relationship is laden with moral responsibilities.

In addition to the employer's more obvious obligation to advance and protect the reputation and financial well-being of the company, the employer has a moral obligation to make business decisions in a manner that demonstrates concern for and seeks to advance the welfare of employees.

This includes but goes beyond a duty to treat employees respectfully, to pay them fairly and provide good working conditions. An ethical employer does not think of employees only as a means to an end. Employees must be treated as a major stakeholder group. Ethical employers consciously and consistently treat the promotion and protection of the well-being of employees as an important business obligation and objective.

Companies should be loyal to workers as well as shareholders. Layoffs, plant closings, and other dramatic events of this nature should be handled with caring and sensitivity and as acts of great moral significance. The use of euphemisms such as "down-sizing" or "right-sizing" may make managers feel better about the decision to terminate jobs, but it does not change anything from a moral perspective. There are, of course, situations where such actions are justified but they must be implemented in a way that demonstrates genuine concern for employees who will lose their jobs.

Employees should always be treated with respect and it is the company's obligation to see that individual managers do not abuse their power or mistreat their subordinates. Kill-the-messenger behavior at any management level is improper, as is any active or passive encouragement of dishonest reporting. Employees should feel free to raise ethical or other issues without fear of retaliation.

Employees also have moral obligations, and they go beyond giving a full day's work for a full day's pay.

Notes

Did you know? Loyalty goes both ways.

Notes When an employer decides to let an employee go, it is generally thought that the employer should give the employee ample notice or severance pay. But what of the ethics of the employee who walks into the boss' office and says, "I have an opportunity I can't turn down and they need me to start this Friday"? Because of the disparity in power, many employees adopt a double standard that gives them more leeway than they afford the employer. One aspect of this attitude draws on the doubtful assertions of necessity. Another is the implicit belief that if an offer is too good to refuse, there is no moral obligation to refuse. It doesn't take much scrutiny to see that these are self-serving rationalizations. The moral obligations of an employee include loyalty, candor, caring and respect. The mismatch in economic strength between the employer and the employee does not change that.

People of character take into account their moral obligations to their employer before they interview for another job. If they know that their departure will jeopardize the organization, co-workers, or customers they should make it clear at the job interview that they are not available until they have provided a reasonable transition. If we are not certain how much hardship departure may cause, the principle of respect suggests that the parties most affected be given an opportunity to participate in a discussion to suggest the least harmful alternative. Because the employee-employer relationship operates in the context of business, there is a tendency to play by different rules dictated by who has the leverage, and principles of expediency—what you can get away with—rather than moral principle.

The Success of an organization is dependent on its employees. Gone are the days when employees were the most neglected resource of the organization. Today, HRM is the Critical Success Factor for the success of all industries

7.1.2 Responsibilities of Organizations Towards Employees

Organizations have many responsibilities, towards their employees, like:

1. Fair treatment.
2. No discrimination on the basis of sex, caste or creed.
3. Fair wages.
4. Fair appraisal system.
5. Healthy and safe working environment.
6. Establishment of fair work standards and norms.

Notes

7. Provision of labour welfare facilities.
8. Fair opportunity for accomplishment and promotion.
9. Proper recognition, appreciation and encouragement of special skills and capabilities of the workers.
10. Installation of an efficient grievances handling system.
11. An opportunity for participating in managerial decisions to the extent desirable.
12. Proper training and development programmes so that workers can develop themselves according to a changing environment.
13. *Family Welfare*: That is, if workers have lesser problems in their family life, their productivity will be higher.

7.1.3 Ethical Issues in Firm-employee Relation

Some of the 'firm-employee relation' ethical issues are:

- ***Problematic situations in the workplace:*** Problematic situations in the workplace can involve ethical violations by employers against employees, by employees against employers, or by both in collaboration against clients or other companies. Questions of ethics can involve minor questions of interpersonal dynamics or serious legal infractions including fraud, abuse and assault. Most companies have written regulations that are intended to regulate interactions between employers and employees and prevent abuse.
- ***Exploitation:*** Working conditions for employees are a major point of contention in many workplaces, and are usually a central factor in labor negotiations and strikes. Unethical employers fail to provide safe working conditions either through negligence or intentionally. This can lead to higher rates of illness and injury for workers. Rates of pay are also a frequent source of disagreement. While it is understandable that workers want higher pay and employers want to pay less, some employers exploit workers to the point that it becomes unethical. If rates of pay go below minimum wage laws, this practice becomes not only unethical but illegal.
- ***Misuse of Power:*** Certain personalities succumb to the urge to abuse power when it is given to them. Abuses of power by managers, employers and business owners can involve minor annoyances such as working for an arrogant boss, or can be as serious as blackmail and sexual assault. The economic inequalities between employers and employees can lead to unhealthy relationships if those in power decide to abuse their privileged positions. When employers view themselves as providing a service to both clients and employees, relationships will remain healthier and more egalitarian.
- ***Revealing Company Secrets:*** Companies that are involved in research and development and the release of new products have structures in place to

prevent the acquisition of company secrets by competitors. Employees who have access to this privileged information may be tempted to reveal it to others, either for monetary reward or personal reasons.

> **CAUTION** When employees are subject to confidentiality clauses as part of their employment, this activity is illegal and can lead to criminal prosecution

Working against the interests of an employer can be seen as unethical even in the absence of legal restrictions.

Self Assessment

Fill in the blanks:

1. The employer-employee relationship ____________ be looked at simply in economic terms.
2. Employees are entitled to count on the commitments of the employer especially about ____________ such as pay, raises, and promotions
3. Employees should always be treated with respect and it is the company's obligation to see that individual managers do not abuse their power or mistreat their____________
4. ____________ behavior at any management level is improper, as is any active or passive encouragement of dishonest reporting.
5. Employees should feel free to raise ethical or other issues without fear of ____________

7.2 ETHICAL CHALLENGES OF GLOBAL RECRUITMENT

Human Resource Management is a distinctive approach to employment management which seeks to obtain competitive advantage through the strategic deployment of a highly committed and skilled workforce who is selected from a global pool through complex recruitment and selection practices. Globalization and the effect that it has had on the theory and practice of selection and hiring personnel, has attracted the attention of numerous researchers and practitioners alike.

7.2.1 Why Organizations Engage in International Assignments?

Edstrum A. and Galbraith J. (1997) explain the reasons why organisations engage in International assignments. They believe that the following three reasons are the key factors:

Notes

- To fill a position (also to take into consideration that this can be for the purpose to train managers who can gradually take up more advanced posts with the parent organisation or at subsidiary abroad)
- Management development – by giving the managers an international experience and training them for future important tasks in subsidiaries abroad or with the parent organisation. This kind of transfer often takes place when qualified host country national are available.
- Organisational Development (the idea is that managers become less ethnocentric once they come into contact with a variety of culture. It is assumed that the large-scale transfer of managers of different nationalities between the parent organisation and its subsidiaries abroad will create international communication networks)

The roles, responsibilities, and ethical practices of HR professional are as varied as the setting in which they work.

7.2.2 Recruitment Challenges

Due to the unique characteristics of the energy industry, many organizations around the world face recruitment challenges. Below are some scenarios we have encountered:

Lean HR Department

Smaller or startup teams typically have a skeleton recruitment team, or one that is managing multiple competing priorities. During recruitment drives mandated by the line business, such organizations are sometimes swamped and unable to either find or hire the right candidates.

Domain Knowledge Issues

As companies expand to new geographies or business lines, the in-house team may have limited knowledge of these domains. Local norms, talent sources, compensation scales etc may be different. Companies may spend precious time and effort in determining the right approach and recruitment methodology, and yet be unable to deliver due to limited on-the-ground presence.

Weak employment branding

Small Organizations operating in an established market in the energy sector are faced with the issue of lack of brand visibility among prospective candidates. Even for more established organizations, candidates may also sometimes form the wrong impression about the company prospects, job requirements or assignment destination leading to missed opportunities.

Vendor management constraints

Organizations looking to set up operations in a new geography are faced with the problem of scouting for and dealing with multiple recruitment vendors.

Notes

Scouting for new vendors proves to be a time consuming and commercially expensive exercise.

Difficulty in sourcing unique roles

HR departments of small and large organizations in the energy sector face a major bottleneck when hiring for senior roles or for roles that are unique, particularly in techno-commercial fields. These roles are mission critical in nature and demand niche skill sets which are not easy to source.

The environment in which international organisations are operating is evolving radically. Rapid advances in technology, demographic changes, and additional expectations of the emerging workforce are modifying the ways of work. As a results the firms and organisations' HR professionals are/need to practice very different international recruitment, selection and assessment issues. "There are evidences that the gap between the skills required by organisations and the availability of skilled workers is growing, and the ability to attract and retain the best workers is increasingly becoming vital for organisations."

International Deployment of Staff

Skills shortages in the home-grown market mean that certain sectors are looking outside the home country to fill posts. Other international companies are looking to scale up very rapidly overseas, to shift resources and develop talent in unknown markets. as a result in selecting assignees for alternative forms of international assignments, MNCs should be aware of the limitations associated with more traditional forms of international assignments and should work toward more sophisticated recruitment and selection techniques. An international assignment is a process whereby an employee is sent/transferred overseas for a certain period of time.

With the increase in globalisation it had become inevitable for organisations to be involved in the international transfer of staff. Due to globalisation, MNS's are in a competition to groom managers to meet the challenges and demands of strategic global human resources management (Schuler et al – 1993) according to Mendenhall and Oddou (1995) expatriation comes as a result of the lack of skilled manpower within organisations.

International transfer of staff or expatriation is a tool to enhance exchange as well as transfer of knowledge thus enhancing organization learning. Borg and Harzing (1995) perceives expatriation as holding advantages of transferring technical and well as administrative knowledge.

Self Assessment

Notes

State whether the following statements are true or false:

1. Human Resource Management is a distinctive approach to employment management which seeks to obtain competitive advantage through the strategic deployment of a highly committed and skilled workforce who is selected from a global pool through complex recruitment and selection practices.
2. Globalization and the effect that it has had on the theory and practice of selection and hiring personnel, has attracted the attention of numerous researchers and practitioners alike.
3. The roles, responsibilities, and ethical practices of HR professional are as varied as the setting in which they work.
4. Skills shortages in the home-grown market mean that certain sectors are looking outside the home country to fill posts.
5. With the increase in globalization it had become evitable for organizations to be involved in the international transfer of staff.

7.3 SUSTAINABLE EMPLOYMENT

Sustainable employment means supporting people to stay in work and advance. One way to increase the sustainability of employment is to help people improve their skills, so that they can progress from short-term, entry-level jobs to better jobs. To do this, the employment programmes are provided by the Department for related work and service to be better integrated with the programmes for raising skills, provided by the department for Innovation

There many reasons why people return to benefits and one reason is that a number of the jobs people find are only temporary – 40 per cent of repeat jobseekers allowance claimants said they were only able to find temporary work. Over 70 per cent said they were not able to find suitable employment and that barriers such as family responsibilities, low skills or disabilities made it hard for them to sustain employment once they had found it.

Improving job retention is essential for the Government if it is to meet its objectives on child poverty and employment rate targets. Lone parents are entering jobs at the same rate as the average, but leave employment at about twice the rate.

7.3.1 Four stages of Engaging Employees on Sustainability

- To start, you need a solid sustainability vision and strategy so employees have a clear understanding of the company’s future direction and why sustainability is important to the organization and their own futures. This foundational step is key and will be the glue that ties together all the other elements as the stages progress.

Notes

- Building on that clear vision and strategy, think next about how you can best "meet your employees where they are" to increase awareness and understanding of sustainability—not only what it means to your organization, but also what it means to them.
- Once you've connected with your employees on a more personal level and they feel a closer connection to the vision and strategy, you are well positioned to move them toward individual commitments, both at work and at home. This requires ongoing interaction, idea sharing and reinforcement of their value in the company's sustainability journey.
- Finally, as an organization and its employees progress along the engagement continuum, they will achieve action-oriented results built upon a healthy level of competition, recognition and rewards.

  But, the flow doesn't stop there. As new employees join your company, others retire, and some change positions or feel they've done as much as they can in one area of sustainability, you will need to continually seek ways to engage and/or re-engage them. Through inspired leadership, effective communication, and openness to new ideas, you can retain and attract great talent while delivering positive returns for your company.

Task

Discuss in group, 'Loyalty goes both ways'.

Self Assessment

Fill in the blanks:

6. _____________ means supporting people to stay in work and advance.
7. One way to increase the sustainability of employment is to help people improve their_________, so that they can progress from short-term, entry-level jobs to better jobs.
8. Employment programmes are provided by the Department for related work and service to be better integrated with the programmes for raising skills, provided by the department for __________
9. Improving ___________ is essential for the Government if it is to meet its objectives on child poverty and employment rate targets
10. Through inspired leadership effective communication, and ____________, you can retain and attract great talent while delivering positive returns for your company.

Notes

Whining at Work

A recent study has revealed that a majority of employees spend ten hours or more in a month complaining or listening to others' complaints about their peers, subordinates, bosses or management. The more alarming fact is that one-third of the employees spend 20 hours or more per month in this activity.

On a closer ethical angle, we have to ask the following three questions to ourselves.

1. Will this criticism help our organisation?
2. Will it help the person I am talking about in terms of reforms?
3. Will this help me in my job?

Question

Suggest an ethical action plan to stop this lead practice of whining at work.

SUMMARY

- The employer-employee relationship should not be looked at simply in economic terms.
- Employees are entitled to count on the commitments of the employer especially about central matters such as pay, raises, and promotions.
- Employers who chisel employees, renege on promises, or treat them as if they were simply instrumentalities of the organization's interests rather than ends in and of themselves fail to meet their moral responsibilities.
- A person's job, like a person's business, is a highly valued possession that pervasively affects the lives of the employee and his or her family
- Ethical employers consciously and consistently treat the promotion and protection of the well-being of employees as an important business obligation and objective.
- Companies should be loyal to workers as well as shareholders.
- Layoffs, plant closings, and other dramatic events of this nature should be handled with caring and sensitivity and as acts of great moral significance
- Employees should always be treated with respect and it is the company's obligation to see that individual managers do not abuse their power or mistreat their subordinates.
- Employees should feel free to raise ethical or other issues without fear of retaliation.

Notes

- Employees also have moral obligations, and they go beyond giving a full day's work for a full day's pay.
- Loyalty goes both ways.
- Employees have moral duties to the organization, co-workers, and customers.
- When an employer decides to let an employee go, it is generally thought that the employer should give the employee ample notice or severance pay.
- Problematic situations in the workplace can involve ethical violations by employers against employees, by employees against employers, or by both in collaboration against clients or other companies.
- Companies that are involved in research and development and the release of new products have structures in place to prevent the acquisition of company secrets by competitors
- Globalization and the effect that it has had on the theory and practice of selection and hiring personnel, has attracted the attention of numerous researchers and practitioners alike.
- Sustainable employment means supporting people to stay in work and advance.

KEYWORDS

Business Ethics: Principles of right and wrong concerning the conduct of business.

Ethical Principle**:** a concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Ethics: Principles of right and wrong concerning the conduct of a person.

Problematic Situations in the Workplace: Problematic situations in the workplace can involve ethical violations by employers against employees, by employees against employers, or by both in collaboration against clients or other companies.

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Sustainable Employment: Sustainable employment means supporting people to stay in work and advance.

Sustainable Employment: Sustainable employment means supporting people to stay in work and advance.

REVIEW QUESTIONS

Notes

1. Define employer-employee relationship.
2. Describe Ethical issues in the firm-employee relation
3. What are the Duties of Employees?
4. How will you account for 'Companies should be loyal to workers as well as shareholders'.
5. "Kill-the-messenger behavior at any management level is improper". Why?
6. Employees have moral duties to the organization, co-workers, and customers. Elaborate.
7. Ethical Challenges of Global Recruitment
8. Why Organizations engage in International assignments?
9. What are different recruitment challenges
10. What is meant by sustainable employment?

Answers to Self Assessments

1. should not
2. central matters
3. subordinates
4. Kill-the-messenger
5. retaliation.
6. True
7. True
8. True
9. True
10. False
11. Sustainable employment
12. skills
13. Innovation
14. job retention
15. openness to new ideas

Notes

FURTHER READINGS

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Notes

LESSON 8 - CONSUMERS AND BUSINESS ETHICS

CONTENTS

Notes

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Analyze Consumers as stakeholders
2. Understand Limits of caveat emptor
3. Describe ethical issues in marketing management and strategy
4. Explain Ethical challenges of global market place
5. Define Sustainable consumption

INTRODUCTION

In the words of Philip Kotler, "Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others". The most relevant definition for marketing has been given by the American Marketing Association in the following words.

"Marketing management is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals."

The word market for a product is the geographic area in which most of the buyers reside. Due to many socio, economic and technical changes, the concept of market has undergone a lot of changes.

The following are the observed features of the present market scenario in a country X:

1. A large number of multinational corporations have been operating in a country .
2. Country X's economy has entered globalisation
3. The IT sector has emerged as powerful but in recent times it is experiencing a slow down.
4. There is an influx of cheap chinese goods in a big way.
5. The buying power of urban people has increased. There is also emergence of rural marketing with greater demand, different goods and services.
6. Terrorism has affected the normal life of people in many cities as also tourism and recreation.

8.1 CONSUMERS AS STAKEHOLDERS

Corporations are usually very good at predicting how their customers will react to a new product, but they are much less likely to fully forecast the impact of other key stakeholders such as regulatory and nongovernmental organizations and the media on new products or marketing campaigns. The market research may show that "consumers love it," but what about stakeholders?

The concept of stakeholders is complicated by different meanings and uses dependent upon both context and association.

In traditional usage a stakeholder is a third party who temporarily holds money or property while the issue of ownership is being resolved between two other parties eg a bet on a race, litigation on ownership of property.

organizations depend on support from a wide range of other organisations and individuals. Some are merely different terms for the same thing. Customers including clients, purchasers, consumers and end users.

Customers provide revenue in return for the benefits that ownership of the product or service brings but may demand refunds if the product does not satisfy the need and are free to withdraw their patronage permanently if they are dissatisfied with the service.

There is no doubt that customer needs are paramount as without revenue the organisation is unable to benefit the other stakeholders. However as observed by Post, Preston, and Sachs:

‘Organisational wealth can be created (or destroyed) through relationships with stakeholders of all kind - resource providers, customers and suppliers, social and political actors. Therefore, effective stakeholder management - that is, managing relationships with stakeholders for mutual benefit - is a critical requirement for corporate success.’

In conclusion, Stakeholders are the new consumers. Leaving them out of the development and marketing mix is a missed opportunity and a huge risk to success. Gaining their endorsement increases the likelihood of a smooth launch. Identifying the appropriate stakeholders and listening to them can mean the difference between a launch’s success and failure. Companies that are leading the way and listening to stakeholders are finding their new marketing mantra is: Do the policy-makers, regulators, NGOs and other stakeholders love it as well? Treating stakeholders like consumers is the next generation of product development and marketing.

Self Assessment

Fill in the blanks:

1. ____________ is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others
2. ____________ is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals
3. The word ____________ for a product is the geographic area in which most of the buyers reside.

Notes

4. ____________are usually very good at predicting how their customers will react to a new product, but they are much less likely to fully forecast the impact of other key stakeholders such as regulatory and nongovernmental organizations and the media on new products or marketing campaigns

5. ____________ provide revenue in return for the benefits that ownership of the product or service brings but may demand refunds if the product does not satisfy the need and are free to withdraw their patronage permanently if they are dissatisfied with the service.

8.2 LIMITS OF CAVEAT EMPTOR

Caveat emptor is a latin term which stands for "Let the buyer beware". Generally, caveat emptor is the contract law principle that controls the sale of real property after the date of closing, but may also apply to sales of other goods.

The phrase caveat emptor arises from the fact that buyers often have less information about the good or service they are purchasing, while the seller has more information. Defects in the good or service may be hidden from the buyer, and only known to the seller. Thus, the buyer should beware. This is called information asymmetry.

Under the principle of caveat emptor, the buyer could not recover damages from the seller for defects on the property that rendered the property unfit for ordinary purposes. The only exception was if the seller actively concealed latent defects or otherwise made material misrepresentations amounting to fraud.

Before statutory law, the buyer had no express warranty ensuring the quality of goods. Buyers are still advised to be cautious.

As a maxim of the early common law, the rule was well suited to buying and selling carried on in the open marketplace or among close neighbours.

> CAUTION The increasing complexity of modern commerce has placed the buyer at a disadvantage.

He is forced to rely more and more upon the skill, judgment, and honesty of the seller and manufacturer.

8.3ETHICAL ISSUES IN MARKETING MANAGEMENT AND STRATEGY

Marketing ethics is a subset of business ethics. But it is a contested terrain. Ideologues like Friedman insist that ethics in marketing must maximise profits. Murphy's Jones Parker wanted marketing to be responsible to consumers and remote stakeholders. The list of ethical issues in marketing is quite large

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extending to prevention of targeting of vulnerable sections for pushing redundant or dangerous products, transparency about sources of labour, fair treatment and fair wage to employees, declaration of risk in use of product, truthful advertising, disclosure of ingredients in the product, etc. One impediment in defining marketing ethics is the difficulty of pinpointing the agency which can enforce these ethical obligations.

8.3.1 Consumerism

The basic objective of marketing is to satisfy the needs of the consumers. The starting point of economic activity is consumption. There was a time when consumers were cheated and exploited. In modern times, the concept of consumerism is popular and covers most of the nations.

Consumerism refers to social activism of protecting the rights of consumers in their dealings with business.

Basic rights of consumers

1. Right for safe products
2. Right to be informed about the products
3. Right to be heard
4. Right to choose
5. Right to be educated about purchases
6. Right for a courteous service.

It is estimated that two-thirds of spending in the world economy ($35 trillion) is by the consumers. Hence, there is a strong need for the protection of consumers. Till recently, the consumers were cheated in different ways. Even the privacy of the consumers was not fully protected. Through an unethical method phishing, fake e-mails were sent as though from financial organisations.

Only in 1962, did former U.S President John F. Kennedy introduce the rights for consumers in the U.S Congress.

U.N principles of consumer protection

The United Nations has introduced the following principles of consumer protection:

1. Protection of the consumers from hazards of health and safety
2. Promotion and protection of economic interests
3. Provision of adequate information to the consumers
4. Provision of consumers' education related to the products and services

Notes

5. Effective redressal of the grievances of the consumers
6. Encouraging business chambers to resolve consumer disputes
7. Freedom to form groups and present views in decision-making on issues affecting consumers
8. Promotion of sustainable consumption patterns.

Consumer Protection Act, 1986

This Act passed in Country is unique covering the public, private and co-operative sectors. According to this Act, any person who buys any good or hires any service is called a consumer. The buyer should be the ultimate consumer and not for resale of goods and services.

8.3.2 Consumers' Rights in Country

There are six consumers' rights in a specific country on par with the global situation.

1. Right to SAFETY against hazardous goods and services.
2. Right to be INFORMED about quality, quantity, purity, standard and price.
3. Right to CHOOSE from a variety at competitive prices.
4. Right to be HEARD of complaints and grievances.
5. Right to seek REDRESSAL of grievances
6. Right to CONSUMER EDUCATION on matters related to consumption.

This Act is complemented at the district, state and national level. At the district level, it is up to $ 20 lakhs, at state level from $ 20 lakhs to $ 1 crore. There is also a provision for appeal in the Supreme Court of Country.

There are other nation's laws too to protect the consumers like the Companies Act, Drugs Act, Freedom of Information Act and Competition Act, 2001. In 1996, a Council for Fair Business Practices had been formed to promote fair prices, discouragement of hoarding, no trading of adulterated goods and prevention of overcharging by the agents.

Gandhiji had said:

"A customer is the most important visitor on our promises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is a part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so."

Some salespeople complain that their customers ask too many questions to which Sam Walton (Wal-Mart) answers: "The customer has all the answers, and importantly, all the money".

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In fact, the various marketing strategies and programmes should deliver the full expected value for money to the consumer. Though the consumers are called 'kings', there are so many cases of exploitation of the consumers. In the age of the Internet, the consumers are misinformed, misled, deceived and forced to buy some products and services.

The emergence of large-scale unethical and unfair practices in business has led to the growth of consumerism. Consumerism is an organised movement that seeks to protect the interests and rights of consumers, both individual and institutional, against irresponsible, unethical or unfair practices of business firms both in the public and private sectors.

Ways of Consumer Exploitation

1. Fixing a higher price.
2. False discounts and false sales.
3. Sub-standard quality
4. False product differentiation of goods and services.
5. Sale of goods that are injurious to health, life and property.
6. Suppression of information about the quality, standard and performance of the product.
7. Reduction of competition through collusion with other traders.
8. False and misleading advertisements.
9. Supply of adulterated goods.
10. Not honouring guarantees and warranties.
11. Use of false weights and measures.
12. Making a misleading representation about the need of a product or service.
13. Creating artificial shortage of goods in order to increase prices.
14. Not redressing the grievances of the consumers.

8.3.3 Role of Consumer Organisations

Mere legislation for protecting the consumers is not enough. Consumers have to come forward in organizing efforts to form voluntary consumer organisations. A voluntary consumer organisation is formed by a number of consumers voluntarily with the purpose to protect and promote their rights as consumers.

Notes

The following are the basic functions of a consumer organisation:

1. Protecting and promoting the economic and other related interests of the consumers.
2. Detecting the malpractices related to price, quantity, quality and safety of the products and services.
3. Finding out the genuineness of discounts and sales.
4. Initiating acting to protect the consumers in accordance with the laws.
5. Promoting consumer awareness and consumer education.

8.3.4 Advertising Ethics

Advertising is a paid form of non-personal communication about products and services. The term 'paid' refers to the space or time for an advertising message. It is also non-personal in the sense that there is no opportunity for feedback. The advertising message is transmitted to a large group of individuals.

Advertising is an essential tool for mass marketing and class marketing of goods and services. The nature and purpose of advertising differ from time to time, place to place and industry to industry. There are many types of advertising such as national advertising, regional advertising, business-to-business advertising, professional advertising and target group advertising.

There are three important objectives of advertising namely provision of information to the buyers, persuasion of buyers and remainder to buy.

Promotional role of advertising

1. Advertising provides information about products, services and places. This information can promote more and more of opportunities for growth.
2. Advertising encourages a higher standard of living by providing a lot of information about new products and services. The consumers make new decisions to increase their standard of living.
3. Advertising as an industry creates a lot of employment opportunities to many people.
4. Advertising generates more and more of thinking and imagination.
5. Advertising also promotes severe competition between two similar products. The advertisement efforts of Coke and Pepsi are good examples.

Unethical aspects of advertising

1. Very often, advertisements make false claims and deceive the consumers.
2. A popular action may be legally approved but not ethical. Let us take the advertisement of tobacco companies. It is an unethical practice in the long-run. There is no law restricting tobacco companies from advertising their products except the statutory warning that tobacco is injurious to health.

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3. Many advertisements exhibit vulgarity and violence, which affect the moral standards of youth.
4. There is always an element of manipulation in advertisement. This leads to conspicuous consumption of goods and services affecting the growth of capital formation in the country.
5. Promotion of alcohol among the younger generation through advertisement is also considered unethical.
6. Instead of being creative, many advertisements are stereotyped, causing a lot of wastage of resources.
7. Advertisements are more of propaganda than of provision of correct information.
8. Electronic advertisements affect children because they cannot make a distinction between programmes and commercial advertisements.
9. Portrayal of women in advertisement has to be restricted and related to the product or service. Advertising is criticised for stereotyping women and failing to recognize the changing role of women in modern societies. Women have been shown as models and objects of beauty. In contrast, men have been portrayed as constructive, powerful and achieving. This portrayal of women as sex objects contributes to the growth of violence against women.
10. False benefits are propagated in order to make the consumers to shift the brand. Advertising affects the freedom of choice and erodes social values.

The executives of advertising agencies do not have a correct answer to these problems. They say that what is legal is also moral. They also argue that the consumers are smart and all other companies are also advertising more or less in the same pattern.

Moreover, misleading financial print statements also appear in print media through big advertisements. Some companies having bad labour practices make huge advertisements about their products. All these are unethical advertising practices.

Advertising and product information

A good advertisement should be fair enough to describe the features and normal benefits of a product or service. It can be creative, logical and innovative. It need not be an exaggeration of facts and features. It should try to educate the consumers and create awareness in the minds of people. Ethics requires that the side effects of a product or medicine have to be informed to the public.

Notes

Unnecessary buying behaviour

It is said that advertising makes people to buy goods and services which they do not need. Persuasive advertising dealing with emotions, anxieties and psychological needs affect the consumers. A good advertisement should give the consumers an option to think and act.

The famous American economist, John Kenneth Galbraith, said that advertisement is one of the reasons for conspicuous consumption.

Advertising and media

Advertising plays an important role in financing the media. It tries to control the media by pressuring the networks to change their programming. There is a strong need for control of advertisement. In many cases, the editorial opinions are created in favour of advertisers.

Economic ill-effects of advertisement

1. Advertisement creates unnecessary competitive wars, which lead to wastage of resources.
2. It creates discrimination among the people leading to conflicts.
3. Brand wars are created by advertisements. These brand wars are unnecessary in a real world of economic forces. But these brand wars are capable of promoting changes in demand. In this process, some are benefitted and some others lose.
4. Advertisement increases the cost of production which ultimately affects the price.

The cost elements push the price level and bring discomfort to the buyers.

Ethical issues of advertisement

1. A good advertisement should promote good and positive messages and correct information.
2. The overall effects of advertisement should be having a good impact on society, family, institutions and individuals.
3. Puffery, which refers to exaggerated claims of the product has to be given up. Self regulation is very much essential.
4. Decency should be the general ruling, Keith Reinhard says, “All of us can use media as we want. We can vulgarise the society, we can brutalise it. Or we can lift society to a higher level”.
5. Regulation of advertising is necessary to protect competition, to protect the consumers and saving the societies. Advertising is acting on us without our knowledge and without our consent.

Notes

Deceptive advertising occurs when a retailer makes false or misleading advertising about the product and its benefits. Bait and switch advertising promotes a product at an unrealistically low price to serve as 'bait' and then trying to 'switch' the customer to a higher priced product.

The producers and sellers should try to follow product liability laws. In terms of the product liability laws, a seller of a product must attempt to foresee how a product may be misused and then warn the consumer against the hazards of misuse.

8.3.6 Packaging and Labelling

Business ethics is the application of moral standards to business situation. Hence, business ethics has to be applied in all aspects of manufacturing and marketing. There should be no conflict of interest between the seller and the buyer.

There are four aspects of ethical issues in packaging and branding namely label information, packaging graphics, packaging safety and environmental implication.

The label information should contain all the necessary information such as the components, method of using and if necessary the precautions and side effects. The label should try to educate the users in a simple and effective way. Ethical consumption which refers to the consumption of goods without affecting others and the natural environment. The manufacturers should encourage the consumers to practice ethical consumption.

Business should promote the consumption of natural and organic products for health reasons. The green standards have to be followed in each stage of the product life cycle, such as design manufacturing, transportation packaging and disposal. Packaging has become an important selling point for products in modern days.

Sometimes, the label information misleads the consumers about the content of the package. The dangerous products are unsafe to the consumers. The pictures in the package are not the same as actual products. Packing should take into account the cost of packaging materials, shelf space available, capacity of protecting the product from damage and prevention of stealing from the pack.

Ultimately, packaging should protect the quantity, quality and the regular features of the product. In the present context of globalisation, international standards have to be maintained with regard to packaging and labelling.

8.3.7 Marketing Research

The following are the important ethical practices in marketing research.

1. There should be no misrepresentation of research results.
2. While interviewing children, special care should be taken into account.

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3. The informants should clearly understand the meaning of each and every question in a questionnaire.
4. The client confidentiality has to be maintained.
5. Marketing research should be used only for the purpose of doing research related to marketing. It should not be used as a means of developing sales or promotions.
6. Marketing research should secure the co-operation of the informants for the interview.
7. It should provide the name of the research agency conducting the study.
8. It should prevent under stress on informants.

8.3.8 Price Fixation

Price refers to the value of a product in terms of rupees or any other currency. Both demand and supply are the two forces operating in fixing the price.

In the real world of oligopolistic market conditions, it is easy for the firms to set their prices at artificially higher levels. Firms in any oligopolistic industry agree to limit their production so that prices rise to higher levels. Price collusion and price gouging are the two unfair pricing methods. Price collusion occurs when two or more firms agree to collaborate on such wrongful acts as price fixing. Price gouging is a response to increased demand with a higher price.

The price level should not be exploitative in nature. In accordance with the welfare economy, dual pricing is fixed for many goods and services. The price of any air-conditioned ticket in a train is costlier for a poor man who can afford to go in the second class. The only students' edition of the book is cheaper compared to the library edition.

Confusing methods are employed by most of the manufacturers be prefixing words like "new" or "20% extra for same price" or "more powerful" to change the mindset of the consumers.

8.3.9 Marketing Strategies

Marketing strategies are used to increase the market share, effectively compete in marketing and promote the sales. A good marketing strategy has to be followed in accordance with ethical considerations. Some of these ethical considerations are given below:

1. A right type of information has to be provided for the consumers about the quality of the product, safety, usage and its special features.
2. Instead of confusing the customer, there should be clarity in their strategic statements.

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3. There should be no force in making the consumers buy the product like ‘buy two and get one free’.
4. The consumer should really feel the worth of the money on the product or service.

   Even if the hire purchase system is encouraged, it should not exploit the consumers. The marketing people should know the limitations of the consumers.

Avoidance of unethical practices in marketing

1. Any discrimination against the rural markets should be avoided. The rural population has a lesser income than the urban population and deserves the support of the society.
2. Any form of violation of copyrights should be avoided.
3. Damaged products should be withdrawn from the markets. Similarly, medical and food products should be sold within the expiry period and beyond that, these products should be withdrawn from the market.
4. The side effects of medicines should be pointed out to the consumers.
5. The duplicated goods or imitative products should not be sold in the market.
6. Offering big gifts or extra quantity should be discouraged as unethical practices.
7. The big companies should promptly pay to the small companies for the purchases.
8. The growth of black marketing and the creation of artificial scarcity have to be discouraged. These are serious economic offences leading to the inefficiency of marketing system in a country.
9. There should be the avoidance of price discrimination.

Self Assessment

State whether the following statements are true or false:

1. Caveat emptor is a latin term which stands for “Let the producer beware”.
2. Generally, caveat emptor is the contract law principle that controls the sale of real property after the date of closing, but may also apply to sales of other goods.
3. Defects in the good or service may be hidden from the buyer, and only known to the seller.

Notes

4. the buyer should beware. This is called information asymmetry.
5. Marketing ethics is a subset of business ethics.

8.4 ETHICAL CHALLENGES OF GLOBAL MARKET PLACE

When human rights are neglected, the conditions favorable to trade suffer also. Human rights abuse is a sign of political instability, which promotes further instability and discourages foreign investment. It also prevents all participants in an economy from sharing equally in the reward of development and creates inefficiencies. It's an obstacle to sustainable development.

Corruption impedes the free flow of goods and services across borders, distorts international trade processes and inhibits economic growth, especially in developing countries.

There is a growing consensus that ethical behaviour is a vital component of corporate success – that maximizing profits alone will not protect your brand or guarantee market share. If it is not perceived to be behaving in a socially responsible manner, a company risks its reputation; risks its customer base; risks shareholder support; and, as a consequence, risks its bottom line. This has created a need for a philosophical change in the way business is done now and in the future.

> There is a way to change – or to improve- the way business is done in the global market place. Corporate social responsibility is more than just compliance with legal standards -it is the practical integration of core values such as honesty, respect, fairness and integrity into policies, procedures and day-to-day business practices. Such an approach helps companies address the ethical challenges we face in the global marketplace.

Consumers made a conscious decision whether or not to buy the product or service of a company based on their opinion of that company. These findings are important. They show that issues such as the environment, human rights, corruption and transparency matter to the people who matter to corporate bottom lines. Fortunately, good corporate citizenship is not a revolutionary concept. The challenge posed by our customers and other stakeholders is that we have to do it better -and in all circumstances.

One of the key challenges to acting ethically in the global market place is trying to keep pace with the rapid changes affecting international trade. So where is the change taking place? Well, it's happening to:

- international trade standards;
- risk assessment;

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- the host country business environment; and, quite importantly,
- the critics of international trade

Some of the additional problems/challenges are:

8.4.1 Problems of E-commerce

Electronic commerce is a modern method addressed to the needs of organisations and consumers. It helps in cutting the cost and increase the speed of service.

Boeing Airplane Company launched an e-commerce site in 1996 on World Wide Web and it helps the global customers. It has warmed its suppliers that they must develop the ability to conduct business through e-commerce or will not be considered for business by Boeing.

Some of the unethical practices in e-commerce are listed below:

1. There are serious discrepancies and even frauds in electronic funds transfer.
2. There are frauds in electronic cheques.
3. There are three major risks involved in the electronic payment systems, namely, fraud and mistakes, privacy issue and credit risk.
4. Some of the laws of the land are violated as e-commerce takes place between many countries of the world.
5. Since the market is not well-defined, the buyers do not have the feel of the product or service.

8.4.2 Bribery

It is commonly believed that bribes are given to secure the purchase of a commodity or service. This highly unethical practice declines the market competition. The product of the briber can no longer compete with that of other sellers in the market.

A briber can succeed in preventing other sellers from entering into a government regulated market. The bribing business firm can impose higher prices, engage in waste and neglect quality. A customs officer can ask for tips in order to expedite the process. Another tax official can reduce the tax for a bribe.

8.4.3 Consumer Privacy

Consumer privacy is a modern concern for marketing. The collection, manipulation and dissemination of personal information have enabled mass invasions of consumer privacy. The loss of privacy is considered an offence. In fact, client confidentiality is as important as national security.

Notes

There are two basic types of privacy, psychological privacy and physical privacy. Psychological privacy refers to the person's thoughts and plans, personal beliefs, values and feelings. Physical privacy includes the physical activities of the individual.

Privacy has some protective functions. First of all, privacy ensures that others do not acquire information about the person; secondly privacy prevents others from interfering in our plans. We want to have our own values. Thirdly, people feel honoured by their privacy rights and get a sense of satisfaction. Fourthly, privacy helps a person to develop ties of friendship and trust. Fifthly, privacy enhances the professional relationship with other professionals. Lastly, privacy allows the people to live in a style suitable to their tastes and values.

The consumers' rights to privacy have to be balanced with the real needs of business. The following considerations have been suggested to balance the legitimate business needs with the rights of consumer privacy.

Relevance: The database should contain only the relevant information. Some non-economic information like political affiliation, medical history, and hobbies need not be included.

Consent from:

Customers: The consumers should be informed about the information and the consent to be obtained. This will honour the privacy of consumers.

Purpose: The purpose for which information is collected from the customers should be legitimate. For example, a bank can collect some information about the creditworthiness of a proposed borrower. The information about the consumers should also be as accurate as possible avoiding vague interpretations.

Confidentiality: The collected consumer data should be kept confidentially by the business organizations.

Therefore, the pace of change has picked up internationally. Formally act on ethical issues such as corruption and the environment by creating comprehensive international norms.

8.5SUSTAINABLE CONSUMPTION

Sustainable consumption is the consumption of goods and services that have minimal impact upon the environment, are socially equitable and economically viable whilst meeting the basic needs of humans, worldwide. Sustainable consumption targets everyone, across all sectors and all nations, from the individual to governments and multinational conglomerates.

8.5.1 Main Features

During past years, the global population has consumed more goods and services than the combined total of all previous generations . This growth in

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consumption has fostered economic growth, environmental degradation and improved the quality of life for many. However, consumption patterns differ significantly between developed and developing nations.

Current unsustainable consumption patterns are destroying the environment; depleting stocks of natural resources; distributing resources in an inequitable manner; contributing to social problems such as poverty; and hampering sustainable development efforts. Focusing on the demand side, sustainable consumption compliments sustainable production practices and achievements.

Sustainable consumption requires a multidisciplinary and multinational approach. Teams composed from various disciplines are required to create and implement policies. Developed nations need to assist rather than exploit developing nations.

8.5.2 Barriers

The main barriers to sustainable consumption include: lack of awareness and training; lack of support from the community, government and industry; reluctance to include the true environmental and social costs in the price of goods and services; ingrained unsustainable thinking and behaviours patterns; and lack of alternative sustainable products and services.

Task
Compare the marketing practices of capital goods with consumers' goods from the angle of business ethics.

Self Assessment

Fill in the blanks:

1. When human rights are neglected, the conditions ____________ to trade also suffer.
2. Human rights abuse is a sign of ____________, which promotes further instability and discourages foreign investment.
3. ____________ impedes the free flow of goods and services across borders, distorts international trade processes and inhibits economic growth, especially in developing countries.
4. ____________ made a conscious decision whether or not to buy the product or service of a company based on their opinion of that company
5. ____________ is a modern method addressed to the needs of organizations and consumers. It helps in cutting the cost and increase the speed of service.

Notes

Pharmacy Firms to Stop Gifts to Doctors

In 2007, several pharmaceutical companies in Country announced their intention to stop providing incentives like gifts, cash and travel holidays to doctors to influence their prescriptions. This voluntary code was developed by OPPI (Organisation of Pharmaceutical Producers of Country) which represented the major pharmaceutical companies operating in Country.

This code also urged these companies to resist from making exaggerated claims about the benefits of their products.

Medical doctors around the world are known to be pampered by the drug companies with gifts and other offers. It is observed that some doctors demand expensive gifts and companies that failed to offer these gifts were refused the sales call.

The companies represented by OPPI accounted for around two-thirds of the market. There are many companies which are not a part of OPPI.

Question

What are your comments on this case?

SUMMARY

- Marketing is an important area in any business in the world.
- Globalization has brought about a lot of changes in business organisations.
- The basic objective of marketing is to satisfy the needs of the consumers.
- There are certain basic rights of consumers which have to be protected.
- Consumers should not be exploited by marketing strategies and practices.
- Advertising should promote any business in positive ways.
- The unethical aspects of advertising have to be given up.
- Marketing research should be done in a professional way.
- Marketing research should not be used as a means of developing sales.
- Pricing strategies should not promote discrimination among the buyers.
- The growth of black marketing and the creation of artificial scarcity have to be discouraged.
- Consumer privacy has to be protected. Industrial espionage has to be avoided.

Notes

KEYWORDS

Advertising: Advertising is a paid form of non-personal communication about products and services

Caveat Emptor: Caveat emptor is a latin term which stands for "Let the buyer beware". Generally, caveat emptor is the contract law principle that controls the sale of real property after the date of closing, but may also apply to sales of other goods.

Electronic Commerce: Electronic commerce is a modern method addressed to the needs of organisations and consumers

Ethical Principle: a concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Market: The word market for a product is the geographic area in which most of the buyers reside. Due to many socio, economic and technical changes, the concept of market has undergone a lot of changes.

Marketing: Marketing ethics is a subset of business ethics

Marketing: Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with other

Marketing Management: Marketing management is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals."

Marketing Strategies: Marketing strategies are used to increase the market share, effectively compete in marketing and promote the sales

Price: Price refers to the value of a product in terms of rupees or any other currency

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Sustainable Consumption: Sustainable consumption is the consumption of goods and services that have minimal impact upon the environment, are socially equitable and economically viable whilst meeting the basic needs of humans, worldwide. Sustainable

REVIEW QUESTIONS

1. What is consumerism?
2. What are the basic rights of consumers?
3. Describe the modern ways of exploiting the consumers.
4. What are the ethical practices in marketing research?

Notes

5. Suggest an ethical price fixing practice.
6. What are the problems of e-commerce?
7. What is consumer privacy?
8. What is due care theory?
9. Describe social cost theory.
10. What is industrial espionage?
11. Examine the unethical practices in marketing and suggest suitable measures to introduce ethical practices in marketing.
12. What is the promotional role of advertising? Describe the unethical aspects of marketing. Examine the ethical issues of advertisement.

Answers to Self Assessments

1. Marketing
2. Marketing management
3. Market
4. Corporations
5. Customers
6. False
7. True
8. True
9. True
10. True
11. favorable
12. political instability
13. Corruption
14. Consumers
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Notes

LESSON 9 - SUPPLIERS, COMPETITORS AND BUSINESS ETHICS

CONTENTS

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Analyze Suppliers and competitors as stakeholders
2. Understand Ethical issues and suppliers and competitors
3. Explain Ethical challenges of global business networks

Notes

4. Correlate Ethical sourcing and fair trade
5. Explain Sustainability and business relationships

INTRODUCTION

When developing a business plan for a social enterprise or a social purpose business, several external players and stakeholders should be considered. Remember that suppliers, distributors and partners play a strategic role in the delivery of any product or service to the customer.

As with traditional for-profit businesses, developing and leveraging key external relationships improves the delivery of the product or service and over time should lead to lower costs for SEs or SPBs.

9.1 SUPPLIERS AND COMPETITORS AS STAKEHOLDERS

Suppliers are providers of products and services used in the end product for the customer, equitable business opportunities.

Stakeholders (also known as publics) are groups such as community residents, media representatives, stockholders, financial analysts and others who have an interest in or some influence on marketing performance. Obviously, customers, employees, managers, suppliers, government regulators and others can directly influence a business and its performance, meaning they're particularly important stakeholders. A corporate stakeholder can affect or be affected by the actions of a business as a whole.

Any action taken by any organization or any group might affect those people who are linked with them in the private sector. For examples these are parents, children, customers, owners, employees, associates, partners, contractors, and suppliers, people that are related or located nearby.

- ***Primary Stakeholders*** - usually internal stakeholders, are those that engage in economic transactions with the business. (For example stockholders, customers, suppliers, creditors, and employees)
- ***Secondary Stakeholders*** - usually external stakeholders, are those who - although they do not engage in direct economic exchange with the business - are affected by or can affect its actions. (For example the general public, communities, activist groups, business support groups, and the media)

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Key external partners might include:

- Governmental contracting authorities
- Government
- Planning and regulatory officials
- Business (small and large)
- Local community residents
- Civic groups
- Bankers
- Faith-based organizations
- Local business schools and other academic institutions
- Legal services groups
- Professional organizations
- Suppliers
- Competitors
- Media outlets and media contacts
- Regulatory agencies
- National associations
- Special-interest groups
- Political adversaries

External stakeholders for your social enterprise may include:

- Area residents
- Community associations
- Direct allies
- Direct competitors
- Communities of interest
- Joint-venture partners

9.1.1 Suppliers as Stakeholders

Suppliers are part of the entire value chain of our operations. Suppliers have become more critical stakeholders in the early 21st century. More often, companies build a number of small, loyal relationships with suppliers and associates. This enables each business to develop shared goals, visions and strategies. Trade buyers and sellers can effectively collaborate to deliver the best value to end customers, which is beneficial to each partner. Additionally, trade partners expect to operate ethically to avoid tarnishing the reputation of companies with a business associates.

9.1.2 Competitors as Stakeholders

Every company can, directly or indirectly, affect the performance of its competitors. Often a marketing plan is designed to capture market share from a particular rival or reinforce customer loyalty in the face of competition from a new up-and-comer. Doesn't that make you a stakeholder in your competitors' performance.

Self Assessment

Fill in the blanks:

1. When developing a business plan for a social enterprise or a social purpose business, several ……………….. players and stakeholders should be considered.
2. Suppliers, distributors and ……………….. play a strategic role in the delivery of any product or service to the customer
3. ……………….. are providers of products and services used in the end product for the customer, equitable business opportunities.
4. Stakeholders (also known as………………..) are groups such as community residents, media representatives, stockholders, financial analysts and others who have an interest in or some influence on marketing performance
5. A ……………….. stakeholder can affect or be affected by the actions of a business as a whole.

9.2ETHICAL ISSUES AND SUPPLIERS AND COMPETITORS

As already stated, ethics is defined as the study and philosophy of human conduct, with emphasis on the determination of right and wrong, that which is moral, the basic principles of right action, a work or treatise on morals, and a standard of character set up by any race or nation. Ethical is defined as that which follows the right principles, as defined by a given system of ethics or professional conduct.

Purchasing and supply management professionals are increasingly required to

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demonstrate that the supply chains they manage take ethical and social responsibility issues into consideration. The main reasons for ensuring that supply chains meet these criteria should be professionalism and moral and legal obligations, but other drivers include:

- media or consumer pressure
- the need to comply with a particular code of conduct or legal imperative
- a requirement to include such issues in annual financial or social accounts
- social audits
- ethical investors
- supply chains that include sources in a particular country or for a particular product which may be perceived to be high risk

> **CAUTION** 'Ethics' in purchasing and supply management can relate to a wide range of issues from doubts about suppliers' business procedures and practices to corruption.

The ability of an individual to act ethically is affected by values placed upon him/her. Values are driven by his/her own personal set of objectives and agenda, as well as those set by co-workers, his/her supervisor, and the organization. Individuals react to these values depending upon the environment he/she is working within.

A set of business practice standards and professional codes of conduct are critical elements of your development of an ethical foundation for individuals involved in purchasing activities. By encouraging suppliers to establish an ethics policy and commit to ethical conduct, you can ensure that you're on the road to elevating awareness of good business practices and unethical pitfalls in procurement activities.

9.3 ETHICAL CHALLENGES OF GLOBAL BUSINESS NETWORKS

Globalized business expansion has been variously excoriated for its exploitation of foreign workers, ruthless destruction of natural resources, disregard for the safety of its working conditions and products, marketing of inessential products, and its destruction of local cultures.

To the extent that organizations are fully integrated into local communities, organizational ontologies and ethics pose little problem. When community constructions of is and ought are fully reflected in the practices of its businesses, governmental offices, churches and so on, the expansion and strengthening of these institutions simply contributes to the shared sense of the good within the community.

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However, as organizations expand, drawing members from disparate communities or spanning several communities, so is there a tendency for the constructed character of the world within the organization to deviate from the surrounding community. The organizational understanding of the good may come into sharp conflict with local understandings

9.3.1 The Ethical Challenge of Globalization

In these terms, globalization represents an enormous intensification of ethical conflict. As organizations expand into foreign locales, so do they import alien constructions of the real and the good. From their standpoint, their actions seem reasonable, even commendable; local traditions seem parochial, backward or even reprehensible (surely in need of change).

The globalizing process represents an enormous expansion in the field of ethical conflict. The problem is not that of ruthless and colonizing organizations seeking world dominion; “ruthlessness and “colonization” are the epithets of the outsider. Rather, the problem is that of multiple and competing constructions of the good. And, without means of solving these conflicts, we face the problem of deterioration in relations, legal warfare, and even bloodshed (consider the bombing of the Trade Towers).

9.3.2 The Problematics of Principles and Sanctions

From the present standpoint, we find that problems of ethical conduct are not essentially problems of malignant intention. We should not think in terms of the evil practices of the multi-nationals as against the purity of traditional culture (or vice versa). Rather, ethical problems result primarily from the clashing of community (or cultural) standards of action. In these terms, however, the rapid shift toward globalization invites an enormous expansion in the domain of ethical conflict.

Wherever an organization coalesces and expands, so does it enter territories where its mission destabilizes and violates accepted standards of the good.

9.3.3 Shortfalls of Modern Organization

In the present context, it is also important to point out that the modern organization represents a major incitement to ethical conflict. Although modern organizations inevitably generate a shared sense of the good, an internal justification for their policies, they do so in relative independence of their social surrounds and with their own prosperity or well-being foremost in view. Thus, as the modern organization becomes globalized, it essentially attempts to replicate itself (through its subsidiaries) throughout the world. The monologic rationality and ethical sensibility ideally prevails throughout. In effect, the organization becomes an alien intruder that functions primarily to fortify (and justify) its own hegemonic ends.

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Self Assessment

State whether the following statements are true or false:

1. Ethics is defined as the study and philosophy of human conduct, with emphasis on the determination of right and wrong, that which is moral, the basic principles of right action, a work or treatise on morals, and a standard of character set up by any race or nation.
2. Ethical is defined as that which follows the right principles, as defined by a given system of ethics or professional conduct.
3. The main reasons for ensuring that supply chains meet these criteria should be professionalism and moral and legal obligations.
4. The inability of an individual to act ethically is affected by values placed upon him/her.
5. Values are driven by his/her own personal set of objectives and agenda, as well as those set by co-workers, his/her supervisor, and the organization. Individuals react to these values depending upon the environment he/she is working within.

9.4 ETHICAL SOURCING AND FAIR TRADE

Sources of ethics are:

1. ***Genetic Inheritance:*** There are persuasive evidence and arguments suggesting that the evolutionary forces of natural selection influence the development of traits such as cooperation and altruism, which lie at the core of ethical system. The home is the first school of ethics, and the foremost. The more ethical the parents, the higher the chances that their children will follow those ethics. Ethics are passed from one generation to another, and the process goes on.
2. ***Religion:*** Religion plays a critical role in deciding ethics. Before the dawn of law, it was religion that played the role of imposing restrictions on unsocial activities. Even today also, a common man tries to abide by the ethics prescribed by his or her religion. The *Brihadarayaka Upanishad* states about the *Karmavada*:

   Yathakari, Yathachari tatha bhavati

   Sadhukari sadhur-bhavati, papakari papi bhavati;

   Punyah punyena karmaan bhavati, papah papena.

   (As it does, and as it acts, so it becomes: the doer of good becomes good, and the doer of evil becomes evil; he becomes virtuous through a virtuous act and vicious through a vicious act).

   All religions preach humanity, all religions preach peace, and all religions preach development of the whole society. Ethics has its roots in religion.

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The sacred Geeta preaches about *Niskam Karma*, i.e. work without worrying about the end result.

The following verses of *Isha Upanishad* talk about enjoyment in detachment:

Isha vasyamidam sarvah,

Yatkincha Jagatyam jagat

Tena tyaktena bhunjitah

Ma gridha kasyaswiddhanam

(Whatsoever moves on earth should be perceived as encompassed by the Lord. So let your enjoyment be done with detachment. Do not covet the wealth of others.)

3. ***Culture:*** Culture also begets ethical standards. Culture genders to rules, customs and standards transmitted from generation to generation. Though culture differs from religion to religion, its ethical standards remain the same. Different places may have different cultures but no culture believes in dishonesty, or in deceiving or harming others. There are three aspects of culture:

   (i) *Universal, trans-cultural human values and ideals:* These are universal ideals expected of everyone. As in almost every culture, a girl leaves the home of her parents after marriage.

   (ii) *Culture specific, operative human values that translate ideals into actionable conduct in a given culture:* These are the cultural values a common man believes in for his day-to-day operations. In A country, for instance, the 'mother' image is the most dominant. In A country, even today, a father often does not touch his daughter's body once she attains puberty.

   (iii) *Culture-specific, operative human values that derive from certain altogether different human ideals:* This predisposition contributes to the purity of mind and is a check against permissiveness and incest. In A country, it has translated into practical conduct through the tradition of a son or a daughter bowing down and touching the feet of his/her parents or by a student doing the same to a teacher.

4. ***Philosophical System:*** The philosophical system arising our of a culture also influences ethics. Philosophers like Aristotle, Pluto, Shri Aurbindo, Swami Vivekanand, Subhash Chandra Bose, Swami Dayanand, and Mahatma Gandhi have left a lasting impact on ethics with their different school of philosophies.

   But there are differences of opinion too. On the one hand, there is the ideology of Karl Marx, according to which it is unethical to do business to accumulate wealth. On the other hand, Mahatma Gandhi believed in

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business but preached trusteeship according to which a businessman should look after the welfare of his employees.

Jamna Lal Bajaj, JRD TATA, G.D. Birla who were influenced by M. Gandhi adopted this philosophy and invested heavily on the welfare of employees. On the other hand, countries like China, the erstwhile USSR, etc., were influenced by the ideology of Karl Marx and declared business to be both unethical and unlawful in their respective countries. Vivekananda has given great importance to the means of achieving results:

With means a right end must come… if we take care of the cause the effect will take care of itself. The realisation of the ideal is the effect. The means are the cause: attention to the means is therefore the great secret of life.

5. ***The Legal System:*** Laws represent a rough approximation of a society’s ethical standards. Thus, society regards activities such as hoarding, black marketing, cheating, giving wrong information, etc., as unethical and there exist laws to curtail such activities. There are also laws against exploitation of labour, sexual harassment, etc., and all these activities are considered unethical.

6. ***Codes of Conduct:*** Steiner and Steiner identify three primary categories of such codes. The first are company codes that work on common belief and are highly generalised.

   The second are a company’s operating policies that often contain an ethical dimension. These include policies regarding customer complaints, hiring and other decisions. These serve as a guide to one’s conduct and also act as a shield by which the employee can protect against unethical advances from those outside the firm.

   Third, many professional and industry associations have developed their codes of ethics, such as in Association of Advertising Agencies developing a code of conduct for the advertising business. The Council for Fair Business Practices (CFBP) established in 1966 adopted the following code of fair business practices:

   (i) To charge only fair and reasonable prices and take every possible step to ensure that the prices to be charged to the consumer are brought to his notice.

   (ii) To take every possible step to ensue that the agents or dealers do not charge prices higher than fixed.

   (iii) In times of scarcity, not to withhold or suppress stocks of goods with a view to hoarding or profiteering.

   (iv) Not to produce or trade in spurious goods of standards lower than specified.

   (v) Not to publish misleading advertisements.

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(vi) To invoice goods exported or imported at their correct prices.

(vii) To maintain accuracy in weights and measures of goods offered for sale.

(viii) Not to deal knowingly in smuggled goods.

(ix) Providing after-sales services where necessary or possible.

(x) Honouring the fundamental rights of the consumer. These are the right to safety, right to choose, right to information and right to be heard.

(xi) Discharging social responsibilities and the responsibilities to protect the environment and nature's infrastructure.

(xii) Ensuring that the product warranty is offered in simple, unambiguous and concise language, highlighting the rights of the consumer under it.

9.4.1 Ethics and Profit

One of the Business Round table in the US had introduced a survey report on corporate ethics, which included among others, the following pointers:

Business Myths

One of the myths about business is that there is a contradiction between ethics and profits. The myths are thoroughly debunked by the attitudes and action of top managers in the companies that contributed to this report. There is a deep conviction that a good reputation for fair and honest business is a prime corporate asset that all employees should nurture with the greatest care.

It may be possible that in the short run, an organisation steals an advantage or good profits by unethical means. But ethics are the values that last. For instance, an organisation may garner good sales initially by disseminating false messages about the product. But it will not get repeat sales and will earn a bad name in the process.

Ethics and profit go together.

In a country a few years back, TUFF shoes launched an advertisement featuring Milind Soman and Madhu Sapre where both were naked, covered only by a snake and wearing TUFF shoes. This advertisement gave them instant publicity and soon TUFF shoes became a household name in A country. But all this sleazy publicity was in vain as TUFF shoes failed to generate much sales. In fact, this advertisement earned a bad name for TUFF shoes and even after many years, the company is struggling to obtain decent sales.

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Take the case of Reliance Infocom that was launched in A country with a big bang. The company initially generated good sales as it adopted every sales gimmick, like frequent changes in price and tariffs and frequent changes in policy. It even frequently changed its policy regarding its distribution network, which resulted in losses to thousands of youth who had become their distributors. All this gave them initial sales and finance but also a rotten image. This influenced their sales and profits adversely.

By the late 1990s, the country's automobile market was totally dominated by MNCs like Hyundai, Daewoo, and Suzuki. At that time, Tata launched an indigenously developed car Indica and got a good name from day one. Even when critics did not appreciate the product, people, strong believers in Tata's ethics welcomed the product. This resulted in low expenditure in advertisements and high initial and repeat sales of the new product. This is true for any new product that Tata launches and has meant big profits over the years, not only from their existing product portfolio but with every new and prospective launch.

People prefer doing business with an honest person. This means ethical companies attract more suppliers and business contracts. GM and FORD followed a policy of many suppliers for the same product to increase their bargain power. They also used the threat of backward integration to increase their bargaining power. On the other hand, TOYOTA takes its suppliers as business partners and keeps the number of suppliers as low as possible. This helps them in R&D and in their production system. Instead of the need for bargaining power resulting only in threat, they achieved one of the lowest procurement costs in the automobile industry in the world through their cooperation.

Even dishonest people love to work for those who believe in ethics. Ethical companies attract more and good quality human resources, have low executive turnover, and less labour unrest. All this decreases cost and increases production, which results in high revenue and profits.

In totality, we can say that ethics aids in good sales, good relations with the industry and better human resources. All this results in higher profits and long-term eminence.

In this regard, one can always remember the golden words of Mahatma Gandhi, who gave a Talisman to solve the dilemma of decision making:

I give you a talisman, when you are in doubt or when the self becomes too much with you, apply the formula test.

Recall the face of the poorest and the weakest man whom you may have seen and ask yourself if the step you contemplate is going to be of any use to him, will he gain any thing by it, will it restore him to a control over his ruined life and destiny? In other words, will it lead to Swaraj for the hungry and spiritually starving millions?

Then you will find your doubts melting away.

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9.4.2 Issue of Protecting Trade Secrets

The law regarding trade secrets has arisen from two conflicting public policy concerns. On the hand, the law recognizes that your trade secrets are precious assets, and it protects them by prohibiting their use by anyone else. At the same time, the law also hesitates to grant an unfair advantage to your business that may inhibit competition and free enterprise.

In Illinois, this tension in the law is codified in statute known as the Trade Secrets Act. The Act enables you to obtain significant remedies from a judge against any competitor who uses your trade secrets. However, you must overcome several hurdles before you can obtain any remedy. First, you must prove that the information you desire to protect qualifies as a trade secret. Moreover, you must prove that your trade secret was misappropriated.

1. ***Any Type of Information may Qualify as a Trade Secret:*** The Act places no limitation on the type of information that can qualify as a trade secret. Such information can include financial, technical, or non-technical data; a formula, pattern, compilation, program, device, method, technique, drawing, or process; or a list of actual or potential customers or vendors. Trade secrets can also include unique compilations of generally known information. For example, miscellaneous service manuals and technical bulletins that are freely available could be assembled into one unique and valuable collection. This collection could then qualify as a trade secret.

2. ***How to Qualify your Information as a Trade Secret:*** Regardless of the type of information involved, you must satisfy a two-part test qualifying your information as a trade secret. As shown below, whether you pass the test may depend to some extent on the subjective opinion of a judge.

Test 1. To pass the first part of the test, you must make reasonable efforts to keep your information secret or confidential. Reasonable effort depends on the circumstances and the view of the judge from whom you are seeking your remedies. Different judges may view the same case differently. For example, you show blueprints to potential customers in order to close a sale. You want to keep the blueprints secret, so you should stamp them ‘confidential’. Judge A may conclude that the stamping represents a reasonable effort. However, Judge B could conclude that you should have done more to keep your blueprints confidential.

The safest approach is to use as much effort to keep your information secret as possible. For example, in addition to stamping your blueprints, you might also have your potential customers sign a written promise that they will not disclose the contents of blueprints to anyone else. For maximum assurance that your methods will be deemed reasonable by a judge, you should have an experienced attorney to review your procedures.

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Test 2. In the second part of qualifying your information as a trade secret, you must prove that you do or could derive some actual or potential economic benefit by keeping the information secret. This part of the test is more objective. For example, you could prove that you derive economic benefit from your customer list if someone else could recreate it only after they expended significant time, effort, and expense. Your customer list would not meet this test if someone else could easily duplicate it by referring to publicly available information, such as telephone books or trade journals.

However, even if you prove that your information qualifies as a trade secret, you may not necessarily obtain any remedy under the Act. You still must prove that someone else misappropriated your trade secret.

9.5 SUSTAINABILITY AND BUSINESS RELATIONSHIPS

Most businesses hope to become sustainable, but for many, reaching that goal is problematic.

Following are the major ways to build/strength business relationships:

- Create smart, integrated public policy.
- Engage value chain members, including industry and NGO partners.
- Build a national dialogue on responsible consumption.
- Create organizational structures that support sustainability.
- Embed sustainability in corporate culture.
- Provide clear and equitable directives regarding Aboriginal rights and entitlements.
- Create conditions that support sustainability-related innovation.
- Incorporate a social license to operate into business strategy.
- Prepare organizations and society to mitigate and adapt to climate change.
- Lessen the burden of sustainability reporting.

Let's explain each of the above in detail

1. Create smart, integrated public policy.

Building sound public policy on environmental issues is undeniably complex. But the uncertainty created by governments' failure to act compounds companies' existing planning challenges. "It's not an issue of how companies should deal with climate change," said one business leader. "It's about how to deal with governments not sending clear signals on climate change policy."

Companies need clear, steady direction from governments regarding issues like carbon pricing, national cap-and-trade systems for greenhouse gas emissions or feed-in tariffs for new energy-generation sources. They also need clarity around the intersection of environmental, energy, economic and social policies

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– many of which are often conflicting. Only with clear, consistent and integrated policies can companies confidently invest in new technologies, new standards and staff training for sustainability.

2. Engage value chain members, including industry and NGO partners.

Effective collaboration is the key to accelerating sustainability across a value chain or an industry. Companies can do everything possible to improve their environmental and social impacts within their own operations, but the big advances are made when companies align the actions of suppliers, distributors and all other members of their value chains.

"Big brands need to share best practices and solve mutual sustainability problems," said one professional. "If other organizations see no value in collaborating – and they're buying from the same suppliers as us – how can we advance the sustainability agenda?"

Business leaders see the need to collaborate with industry peers, suppliers and even environmental organizations to reduce their negative impacts and potentially innovate new products and processes.

3. Build a national dialogue on responsible consumption.

Companies can only do so much without the support of their customers. If consumers are unwilling to buy or pay more for environmentally responsible or fair-trade products, the sustainability movement will stagnate. As one business leader put it: "Most people buy products based on price and features – not on whether the materials were sourced sustainably or the product can be recycled after use."

Businesses need consumers to engage in national dialogues about sustainability so they can make informed decisions about sustainable living and responsible consumption.

4. Communicate sustainability goals throughout the organization.

Building sustainability into an organization is no easy task. Sustainability or Corporate Social Responsibility (CSR) remains largely siloed in many companies, the responsibility of a single department or even a single employee. Even when sustainability is more widely integrated into companies' business units, communication remains a challenge: "One of our key challenges is to effectively communicate the company's vision of sustainability," said one executive, "such that everyone, regardless of their role, understands and embraces that vision."

As another business leader put it: "How do you reach the factory workers, sales people and marketing people in a 100,000-person organization? It's an impressive logistical challenge."

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5. Embed Sustainability in Corporate Culture

CEOs are rotating through their jobs quickly. New leaders may perceive CSR departments or senior sustainability jobs as cost centres and eliminate or significantly reduce them. With these CEOs, sustainability champions find themselves having to make the business case over and over again to every new leader. Businesses need to embed sustainability into their culture, so that sustainability strategies do not lose momentum with a new CEO.

The process of building sustainable business practice into corporate culture, however, does not happen overnight.

6. Provide clear and equitable directives regarding Aboriginal rights and entitlements.

Engagement between Aboriginal communities and resource development companies is crucial as expectations evolve and the number of development projects increases. But the differing perspectives of companies and communities can pose a challenge for constructive interactions. Companies and Aboriginal communities can differ in the way they see, for example, each party’s responsibilities and the desired outcomes of the process.

While legal precedents are being set in court challenges, many companies in the forestry, extraction and oil and gas sectors await clear public policy regarding their roles in aboriginal rights and entitlements. Once companies and Aboriginal groups have clarity regarding contractual obligations, they can focus on building mutually beneficial, long-term relationships.

7. Create conditions that support sustainability-related innovations.

Large companies have investors that demand rising, quarterly earnings as well as big brands that represent massive investments of time and resources. Small companies, too, have little organizational slack. In an era of razor-thin margins and just-in-time manufacturing, many business leaders struggle to justify investments in creative pursuits and long-term projects that have unguaranteed returns.

Innovating for Sustainability, revealed ways companies can reduce their impact on the environment, create positive social change that benefits business, and re-imagine their business models. Three things business leaders could start doing today to drive innovation: look for trends in emerging economies or unrelated industries; initiate partnerships with universities and colleges to fill internal knowledge gaps; and institute incentive programs that reward employees for suggesting ideas that save energy, reduce material use and improve products.

8. Incorporate a social license to operate into business strategy.

Social license to operate refers to community members’ tacit willingness to let a company operate in their region. While the term originated with the mining sector, social license represents a critical factor for nearly all businesses today. Maintaining social license is a strategic imperative, so sustainability managers wonder how they can frame sustainability as a way to manage risk and create efficiencies.

For many business leaders, social license to operate has changed in recent years: “Maintaining a company’s social license to operate used to mean engaging stakeholders and consulting them on projects that affected them,” said one leader. “Increasingly, however, it means generating shared benefits for both the company and its affected stakeholders.”

Regardless of what a social license looks like for a given organization or its stakeholders, business leaders have to find ways of systematically incorporating the community into all strategic decisions.

9. Mitigate and adapt to climate change.

Business adaptation to climate change was one of the first issues identified by these leaders. The physical impacts of climate change will redefine entire industries, such as agri-food, tourism and insurance – not to mention the industries that rely on them. What will climate change mean for companies and for society?

“Climate change – global warming caused by human-generated greenhouse gases – is not an isolated issue,” said one manager. “It is a recurrent theme in business conversations and is starting to overlap with other sustainability issues, such as carbon policy, water quality and sustainable supply chains.”

10. Lessen the burden of sustainability reporting.

Companies are calling on investors and third party assessment organizations to create more streamlined reporting methods. Whether that means agreeing on a core set of universal sustainability metrics or reducing the number of items in a given questionnaire, companies are unanimous in their desire to spend more time doing and less time reporting when it comes to sustainable business practice.

Task

“The globalizing process represents an enormous expansion in the field of ethical conflict”. What are those ethical conflicts?

Self Assessment

Fill in the blanks:

1. The ____________ is the first school of ethics, and the foremost.
2. The more ethical the parents, the ____________ the chances that their children will follow those ethics.
3. ____________are passed from one generation to another, and the process goes on.

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4. ___________represent a rough approximation of a society's ethical standards.
5. Companies are calling on investors and ___________ assessment organizations to create more streamlined reporting methods

Ethics and Governance – Next Global Frontier

An economy is on a roll. Organisations are increasingly becoming global. From a simple "let's export" mindset, companies are moving to the next stage – establishing marketing, manufacturing and distribution networks abroad. Operational excellence, quality systems, proactive human resource strategies, logistics – national companies have ultimately arrived. What, then, is the next global frontier for country X Inc? Which is the one area that no country company can afford to ignore, as double-digit growth rates become the norm and organisations scramble to globalise? It is ethics and governance.

Complex Subject

This is a complex subject, requiring more than mere compliance with the laws. It represents the obligations of a company to all its stakeholders—customers, shareholders, employees, suppliers, and the government. In the long term, it is a source of competitive advantage—to attract more business and more talent.

On the flip side, the effects of ignoring ethics and governance issues can be grave. In the US, irresponsible behaviour by a few corporations and their senior executives has spawned the Sarbanes-Oxley Act, with its complex requirements with respect to financial reporting, "sign-offs," and CEO accountability. Board members have been sent to jail.

Large Korean organisations are now scrambling to execute damage-control actions, in the wake of governance issues.

All it takes is one headline, and a brand name is shot to pieces.

In this context, organisations—especially the small and medium sized ones—need to be aware of one requirement as they begin their globalisation journey. Not only do they need to be ethical, they have to be seen to be so. Global customers will demand to see proof of ethics and governance systems at work. This means documentation, systems and processes. Just as quality management system certification and capability maturity models (ISO 9001, CMM and the like) became minimum requirements for establishing credibility, ethics and governance policies and processes will be the "next wave" sweeping the global market place.

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Organisations should, therefore, put in place some strong ethics and governance systems proactively, before market and international regulatory dynamics compel them to do so. Much work has already been done in this area, and there are many nation corporations that follow global best practices.

For the others, this is the time to act. It is much easier to influence the DNA of the company in the right direction when the company is relatively young. Employees' attitudes and value-systems are already formed by the time they join a company; but it is important to set out the company's expectations clearly and enforce adherence. Ethics and governance guidelines will help employees figure out for themselves what actions they should take when faced with ethical issues. Leaving it to individual judgment is highly risky for the organisation.

Tackling the Issue

While individual organisational approaches may vary, here are some key steps to be followed in tackling this "next frontier":

Establish an Ethics and Governance Policy for the company, through discussions within the senior management team; benchmark it with the policies of best-practice companies. Write it out in plain, easy to understand language.

Publish the Policy, along with a Code of Conduct for the employees. Illustrate the code with typical examples of what the employee should do, when faced with day-to-day ethical dilemmas. In other words, demystify corporate jargon, and make the policy user-friendly.

Communicate the policy widely and repeatedly. Start all meetings with a slide on it; hold refresher training programmes; get all employees to sign; and make it part of the new employee orientation.

Encourage dialogue and challenge, in order to improve understanding and "ownership" of the policy at an individual level.

Come Down Hard on the Cynics

Set the example from the top; practice the policy consistently and visibly. This is critical, the ultimate fate of the policy depends on this.

Circulate the policy amongst customers and suppliers. This will make it easier for the employees to follow the policy.

Establish an Ethics Hotline which is secure, confidential and available to all employees. Someone senior should handle this hotline, with direct reporting to the CEO; alternatively, it could be the CEO's office itself.

Take swift and fair action on reported violations, after due verification.

Review the policy at regular intervals, to make sure it stays current with changing regulatory and market requirements.

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Good ethics and governance are not just "moral" or "compliance" issues. In the long term, they are essential behavioural traits for the organisation that strengthen the brand equity and help ensure stable growth.

Question

Analyze the case and write down the case facts.

SUMMARY

- Ethics deals with things to be sought and things to be avoided by ways of life.
- Business ethics pertains to the measurement of business behaviour on the standards of right and wrong, rather than relying entirely on principles of accounting and management.
- If a business does not adhere to ethics, there will be utter chaos and a complete absence of trust. In such a situation there is no scope for business.
- Ethics has a role whether in a buyer and seller relationship, or in a competitor relationship.
- Social license to operate refers to community members' tacit willingness to let a company operate in their region.
- While the term originated with the mining sector, social license represents a critical factor for nearly all businesses today.
- Maintaining social license is a strategic imperative, so sustainability managers wonder how they can frame sustainability as a way to manage risk and create efficiencies.
- Regardless of what a social license looks like for a given organization or its stakeholders, business leaders have to find ways of systematically incorporating the community into all strategic decisions.
- Business adaptation to climate change was one of the first issues identified by these leaders.
- The physical impacts of climate change will redefine entire industries, such as agri-food, tourism and insurance – not to mention the industries that rely on them.
- "Climate change – global warming caused by human-generated greenhouse gases – is not an isolated issue," said one manager.
- "It is a recurrent theme in business conversations and is starting to overlap with other sustainability issues, such as carbon policy, water quality and sustainable supply chains."

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KEYWORDS

Ethical Principle**:** a concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Laws: Laws represent a rough approximation of a society's ethical standards.

Primary Stakeholders: They are usually internal stakeholders, are those that engage in economic transactions with the business. (For example stockholders, customers, suppliers, creditors, and employees)

Secondary Stakeholders: They are usually external stakeholders, are those who – although they do not engage in direct economic exchange with the business – are affected by or can affect its actions. (For example the general public, communities, activist groups, business support groups, and the media)

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Suppliers: Suppliers are providers of products and services used in the end product for the customer, equitable business opportunities.

REVIEW QUESTIONS

1. Who are suppliers?
2. Who are competitors?
3. Who are primary Stakeholders?
4. Who are Secondary Stakeholders?
5. Discuss the various sources of ethics.
6. What is social license meant for?
7. 'Laws represent a rough approximation of a society's ethical standards". Comment.
8. "Ethics and profit both go together." Discuss this statement.
9. "Ethics has a role whether in a buyer and seller relationship, or in a competitor relationship.". Comment.
10. What are the major ways to build/strength business relationships?

Answers to Self Assessments

1. external
2. partners
3. Suppliers
4. Publics

Notes

5. corporate
6. True
7. True
8. True
9. False
10. True
11. home
12. higher
13. Ethics
14. Laws
15. third party

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Notes

LESSON 10 - CIVIL SOCIETY AND BUSINESS ETHICS

CONTENTS

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Analyze Civil Society Organizations(CSOs) as stakeholders
2. Explain Ethical issues and CSOs

Notes

3. Describe Globalization and CSOs
4. Explain Corporate citizenship and CSOs

INTRODUCTION

The concepts of 'civil society' and 'civil society organisation' are still debated but we use these terms as they are most widely understood internationally. Other common terms are; nonprofit organisation, charity, NGO, third sector, voluntary sector and so on.

10.1 CIVIL SOCIETY ORGANIZATIONS(CSOS) AS STAKEHOLDERS

Civil society commonly embraces a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power. Civil societies are often populated by organizations such as registered charities, development non-governmental organizations, community groups, women's organizations, faith-based organizations, professional associations, trades unions, self-help groups, social movements, business associations, coalitions and advocacy group."

The Centre for Civil Society at John Hopkins University defines a civil society organisation as:

"Any organization whether formal or informal, that are not part of the apparatus of government, that do not distribute profits to their directors or operators, that are self-governing, and in which participation is a matter of free choice. Both member-serving and public-serving organisations are included. Embraced within this definition, therefore, are private, not-for-profit health providers, schools, advocacy groups, social service agencies, anti-poverty groups, development agencies, professional associations, community-based organisations, unions, religious bodies, recreation organisations, cultural institutions and many more."

CSOs must follow an incorporation process at the Ministry of Foreign Affairs and acquire a certificate of registration from the Ministry of Planning and Economics Affairs (MPEA). CSOs are subject to regulatory oversight and yearly registration with the government (MPEA). However, this regulatory oversight has not always been performed in line with case merit and legality. CSOs active in human rights and governance have faced substantial scrutiny and harassment from government as they become more critical in scrutinizing public policy and bad laws.

Unfortunately, the survivor of many of these organizations is questionable; weak resource mobilization regimes, limited donor funding and intense competition rule many out.

Self Assessment

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Fill in the blanks:

1. Civil society commonly embraces a ________ of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power.
2. Civil societies are often populated by organizations such as registered charities, development non-governmental organizations, community groups, women's organizations, ______-based organizations etc.
3. CSOs must follow an incorporation process at the Ministry of Foreign Affairs and acquire a certificate of registration from the _____________ (MPEA).
4. CSOs are subject to regulatory oversight and _______ registration with the government .
5. ________ active in human rights and governance have faced substantial scrutiny and harassment from government as they become more critical in scrutinizing public policy and bad laws.

10.2 ETHICAL ISSUES AND CSOS

The operations of CSOs are impeded by several factors - both external and internal. External influences include influences from foreign sources within and outside our borders, government and local political forces. Internal influences are those factors internal that affect CSOs but are within their control to change. There is insouciance to reform and ensure structural transformation. Also external and internal environments impinge upon CSO's output and performance.

10.2.1 Financial Dependency

Approximately ninety-five percent of CSOs funding are from external sources. The dependence on external sources for subsistence though helpful can also be a source of major uncertainty in the delivery of CSOs programs and projects. The lack of predictability of funding undermines CSOs hold on professional staff and sustainability of projects. CSOs long-term survival and effective implementation of programs is linked to the availability of funds. When CSOs are in a state of dependence, their independence to make program decisions and ensure that the right programs are pursued for beneficiaries, is diluted. Reliance on external funding may lead donors to control the agenda of the CSOs; this control in many instances run counter to the objectives of CSOs.

CSOs caught in the web of reliance on external donors lead an unpredictable existence. There is the propensity that an imbalance in allegiance to external donors and local beneficiaries will exist and there is the tendency to lend credence to the perception that CSOs tied to external donors have less

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autonomy and their accountability is indeterminable - "CSOs are tied to the hands that feed them".

The lure of funds linked to donors that have agendas that are pro or anti-government is a challenge. Many of the funds received by local institutions are channeled through proxy organizations that receive substantial funding through government agencies and multilateral organizations. External donors may target pro-government groups at some point and when there is a policy shift because of disagreement with the government these donors revert to "anti-government" organizations. Organizations are in a quagmire when they have to change their posture to meet changing donor posture.

10.2.2 Human Resource Challenges

"The number-one resource for a great social sector organization is having enough of the right people willing to commit themselves to the mission." The resource constraints of CSOs are often underestimated. These constraints also have human resources implications. Often, the number of people with the capacity, critical perspective and inclination to be activists and CSO administrators are in short supply. Becoming an activist weighs much on compassion and conviction rather than prospects of wealth—it has a great deal to do with an understanding of, and deep concern about, injustice and a dedication to working for substantive reforms. In a country, it takes a lot of guts to sustain advocacy work, and often entails considerable personal costs. Today as the issues CSOs deal with are mostly policy driven and requires knowledge of key issues, professionalism tagged to activism is needed. The area is plagued with massive brain-drain as leading CSO intellectuals and activists are being co-opted to government, the United Nations system, international non-governmental organizations andjk the private business sector. The pool of professionals is small and CSOs are unable to attract talented individuals and issue-based professionals because of financial constraints.

CSO are challenged through human resource constraints to deal with leadership, recruiting and retaining talent, and managing and developing people that help them meet the demands of an every changing policy environment. Short-term earmarked funding leaves CSOs vulnerable as professionals are caught waiting for the next project that may just never come. The "brain drain and strain" associated with CSOs is a major challenge to effective analysis and impact on key policy matters. The burden of fewer professional and a cadre of trainees who get trained and leaves for greener pastures is a great barrier to CSOs' productivity. Economic downturns in donor countries do not help as reduction in funding by key donors leave many CSOs competing for small packets of fund.

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10.2.3 Sustainability

Achieving sustainability for projects and programs that stakeholders' especially local people take and own is a challenge. To gain the trust of communities within which they work, sustained engagement is useful. Besides, as CSOs move from radical approaches that promote sit-ins, strikes and constant confrontation with government, the onus is on them to build creditable and professional organizations that constantly engage and are capable of sustained engagement with communities, donors and the government. Lack of sustained engagement undermines CSOs effectiveness overtime. There is the propensity for CSOs to move from one project area to another without building long-term relationships with beneficiaries of their programs.

Many CSOs executives point to the number of projects undertaken say within a year as key achievements, but looking closely at project impact, one wonders what impact these projects have had on its beneficiaries. What were their inputs in program formulation? Was the problem addressed critical to the beneficiaries? What is the state of the projects since completion? Are the beneficiaries utilizing skills acquired? Are there mechanisms for post program engagement with target community? The timeframe of project, funding and the effectiveness of governing structure of CSOs are factors that impact sustainability. It is difficult for project beneficiaries to commit themselves to post program engagement with CSOs if they do not find the operational values and goals of the organization credible. Beneficiaries are inclined to sustain engagement with CSOs that are knowledgeable and passionate about the projects they implement.

10.2.4 Transparency, Accountability and Ethics

The demands for transparency, accountability and ethical standards should not only be ascribed to public agencies and corporate entities, but should also serve as defining principles for the operation of all entities in a functional democracy. Inculcating values of transparency, accountability and ethical standards is a major challenge for CSOs. Moreover, there is the question that resonates today "to whom are CSOs/NGOs accountable - to the public or donor agencies? Accountability should encompass both financial and administrative information and records. But the fundamental question remains should CSOs only demonstrate fiscal and administrative accountability to their donors? What about the people (beneficiaries) whose concerns were used as a problem that needed to be addressed? Also, what about the government that is often plastered with accusations of corruption and being a pursuer of bad policies? Does not government have the right to know about CSO fiscal and administrative management? There is today increased demands emerging from government and other stakeholders for transparency and accountability on the part of CSOs, in order to legitimize the quest to inculcate similar values into others.

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Maintaining transparent, accountable and sound ethical standards are useful for cementing the standing of CSOs in a country. This is significant because CSOs as watchdogs of society need to set good example in their endeavor to safeguard society from inimical influences.

10.2.5 Decentralization

The entrench centralization of key CSOs activities making in Monrovia weakens their ability to appraise the full extend of challenges that exist at the sub-national level. It is important that CSOs in a bid to increase their relevance decentralize their activities and rendezvous with actors both at the national and sub-national. This is significant as it allows them the opportunity to benefit from the rewarding collaboration that helps give their vision greater momentum for national success. The failure to collaborate substantively with communities at the sub-national level leaves CSOs disconnected from the real issues that face rural communities. CSOs scattered engagement with sub-national communities on various issues leave a trail of distrust as there is no sustain interaction and communities realize that CSOs are unable to deal with their problems.

The challenges that CSOs with limited financial capacity face in opening offices at the sub-national level is Heculean, but the benefits in terms of reach and impact on policies and governance once this done can be awesome. The ownership of activities conducted by CSOs at the sub-national level is critical in pursuance of a national strategy for decentralization of political and fiscal affairs. For CSOs to impact policies specifically tied to poverty reduction strategy and the "popular" County Development Fund, then CSOs must also decentralize so that they understand the issue and cultivate advocates at the grassroots level who can address local policy matters.

10.2.6 Collaboration between Groups/Coalitions

There is a Krio proverb that says "One finger can't pick up a palm kernel." Effective coalitions are a quintessence of CSOs and actors with shared values and convictions. CSOs collaboration through coalitions provides an important instrument to engage policymakers and advocates against unfavorable policies. Effective and results oriented coalitions can be intricate to organize, fund and sustain. Many coalitions have been formed in, but funding, effective leadership and sustainability has been a problem. Individual egos characterized by an engrained fancy for the limelight subordinates coalition interest to personal interest. Many times, heads of coalitions relegate the interest of member organizations and objectives and elevate the interest of their own organizations and themselves to the fore. Many of the challenges that face CSOs individually are faced by the CSOs coalitions.

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10.2.7 Policy Advocacy

The formulation of policies is no longer preserved for government. The democratization of countries comes with demands for better governance and these demands require that CSOs create or demand the space for participation at various levels of a government development agenda. The rhetoric of good governance preached by government themselves and multilateral institutions place the onus on CSOs to understand the nexus of issues that confronts the collective desire for good governance. CSOs actors understanding of the critical issues that involves simple yet complex policy matters and requires expert scrutiny determine whether CS contribution can help effect change.

The adequacy and depth of CSOs contribution to policy issues in is limited. There is a serious lack of intellectual capacity to deal with the complex socio-economic and political issues that populate the national agenda. Many CS practitioners lack the experience and there are limited financial resources to attract and retain experienced professionals.

> CAUTION CSOs have to compete with government and international organizations for staff that have the adequacy to navigate the diverse issue-based policy implementation terrain.

Governments are sensitive to the incompetence of its Civil Society (CS) and responsive when they know they are dealing with a CS that is informed and a valuable partner. The imbalance that comes with a CS weak on policy matters can manifest itself in constant confusion and failure of constructive engagement between CSOs and government

> Did you know? The lack of technical and intellectual depth of CSOs to sufficiently engage government on major policy issue leave them overlooked and weakened. Under these challenges and constrains, CSOs tend to do limited research on policy matters and contribution is limited to rhetoric bordered on generalities.

10.2.8 Conclusions and Proposal for Reforms

The challenges and issues that face CSOs are manifold; we have addressed some in this paper and are well aware that CSOs practitioners' faithful to the cause can enumerate several challenges and issues that keep CSOs complacent and ineffective. While we have elaborated on the challenges and issues it is equally important that we proffer some ideas on how these issues can be mitigated.

Financial dependency

The challenges that come with financial reliance on donor is difficult to mitigate but it is not impossible for CSOs to minimize their dependence on

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donor such that they can preserve their independence when required. CSOs independence rest on the effectiveness of their internal governance structures and the methodology used to implement their projects. Sound governance structures are a sine quo non to a healthy CSO and a healthy CSO should have the ability to attract resources that are untied to conditionalities. CSOs can also mitigate the reliance on donor by amalgamate their strength and pursuing shared vision and objectives. n CSOs are yet to tap local mobilization of resources. Membership fees, local corporate sponsorship and quantification of expertise to provide consultancy to other CSOs are ways that organizations can generate funding. Investment in real estate that could be utilized by other CSOs for meetings and conferences can contribute to CSO independence. There is nothing that stops a well grounded CSO from accessing bank loans.

Dealing with Human Resource Challenges

An effective CSO is just as good as the staff it has. An attractive CSO that people want to work for is clearly articulated in the quality of work. CSO quality of work attracts funding and funding is linked to attraction and retention of professionals. Here are some points that should help to mitigate the human resource challenges faced by CSOs:

- CSOs should seek to pursue a path of transparency and objectivity in recruitment – this should stem the practice of CSOs leaders employing relations and friends.
- CSOs must sell themselves in the market place so that young graduates from the universities see them as initial point of entry in building a career.
- Be sincere to benefactors and beneficiaries about the human resource constraints the organization faces.
- Seek pro bono assistance from professionals in the private sector who can lend skills set during vacation to help build the capacity of staff and share experience. Professionals want to affiliate with great organizations.

Decentralization and Sustainability

Decentralization of program activities comes with a cost. The impact of being closer to the beneficiaries can be amazing as it builds confidence and allows the CSO to deal with challenges nationally while understanding the temperature of the various stakeholders. Decentralization is also linked to sustainability. Some of the work national CSOs do can be sustained if they diversified their activities and open branch offices in local government areas. Sustainability is critical to the success of programs that are meant to transform the lives of people with long-term impact. CSOs are advised to include in their funding proposals activities linked to sustainability. Donors must be convinced that sustainable an action is more important than short-term showboating projects.

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Transparency, Accountability and Ethics

CSOs must commit themselves to openness as they require of government and other organizations. Strong internal measures and procedures expressed through clearly defined instruments such as Code of conduct, personnel manuals, procurement manuals, accounting manual and other articulated internal policy documents can assist an organization function effectively. Effective CSOs must subscribe to an internal system that enhances confidence amongst staff. This is manifest when there is transparency and equity in the utilization of organizational resources. Documents that guide the organization are relevant if there are constantly reviewed and assessed by the CSO board of directors and external and internal auditors. External review mechanisms can be very useful.

Collaboration between Groups/Coalitions

Collaboration for effective CS engagement with the government and communities can take many forms. CSOs can collaborate through coalitions, advisory committees, commissions, consortia and alliances, networks and task forces. Whatever the form of collaboration, CSOs coalesce to impact government policy formulation and implementation. In collaboration, CSO can achieve more widespread reach

within a community than any single organization could attain. It is important that coalitions are not just formed because of the numbers and signatures that would sign petitions. Members in collaboration must have shared interest in the policies issues at hand. Capacity must be available for substantive contribution or the bulk of work falls to few persons and the collaboration is bound to fail.

Policy Advocacy

Effective policy advocacy is achieved when CSOs are staff by professionals who are not only convicted about their service to humanity, but are prepared to engage other professionals in government with counter proposal on policy issues. For CSOs to deal with and understand policies formulated by government they would have to build their internal capacity and learn to engage government actors constructively. Governments are not always willing to provide the space for CSOs to participate in policy formulation. It behooves CSOs to develop a posture that quashes the notion that CSOs are anti-government and only thrives on fueling conflicts. CSOs policy stance must be seen as an alternative that is good for the society. Policy advocacy should be supported by substantive research and information.

10.3 GLOBALIZATION AND CSOS

Globalization has redefined the roles of civil society organizations (CSOs) in the global governance system. It has significant share in key political, economic, and societal issues, where a linear perspective to look at the contribution of CSOs has lost its ground. It is not merely a non-governmental

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phenomenon that defines the scope and nature of civil society's significance. State structures and international development patterns are noteworthy to demonstrate the revival of the state of CSOs.

A comprehensive understanding is important to major discontents in envisaging the current paradigm of functionality of CSOs. Although there is a debate on their role, civil societies in a specific country are active and strong.

Over the years, the country has become a vibrant polity for the participation of various institutions in its development paradigm and governance structure. The involvement of non-state actors in parallel to the state institutions is considered the viable means of development. Furthermore, the global pressure of changing statehood is not a surprising factor for a country. The pursuits of different reforms in national governance are perhaps a result of experiencing such change.

Undoubtedly, reforms create a new space for different entities to perform and thus help contribute to an effective presence of those entities. Globalization, largely being connected with the forces of international dimension, has also been responsible to refine national dimension of politics i.e. state's optimism for democratic political culture. The history of political culture and infiltration of kind of democracy reflects a different scenario of institutional development from where one can visualize the activism of present CSOs. One may argue that the activism is more quantitative in nature.

There is a vertical expansion in terms of numbers of institutions in civil society. However, one may also look at the qualitative changes that have taken place in the functionality of CSOs. Its nature of functions, which is identified as 'functionality' has gone through serious changes i.e. from a sub-contractual level basic service provider to a technical consultant and prime implementer of development projects. So tasks to define the CSOs on the basis of functionality become difficult in the present time. Exploring a universal approach with the West-led conceptual framework in the functional aspects of modern civil society will not probably uphold its supremacy in the intellectual and practical world of CSOs. The contextualization is very important to critically look at the participation of these institutions. Globalization has brought about diversity and it has contributed to mingle the local taste with international flavor. Keeping that in mind, it would be wise to contextualize the uniqueness of institutions and their functionality so that their contribution can be properly researched without biases.

The history of civil society finds its root way back in the past century and since then the institutionalization process of civil society has followed the spiral streams of evolution. Civil society as the formal and informal groups of citizens that act collectively, in public, to express their interests and ideas, exchange information, achieve mutual goals, make demands on the state, and hold state officials accountable.

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Self Assessment

State whether the following statements are true or false:

1. The operations of CSOs are impeded by several factors - only external but not internal.
2. External influences include influences from foreign sources within and outside our borders, government and local political forces.
3. Internal influences are those factors internal that affect CSOs but are within their control to change.
4. There is insouciance to reform and ensure structural transformation.
5. External and internal environments impinge upon CSO's output and performance.

10.4 CORPORATE CITIZENSHIP AND CSOS

Compared to just a decade ago, it is now common for businesspeople to talk about social responsibility and the importance of being good corporate citizens. Many business leaders today consider it critical to engage with shareholders, the communities in which their companies operate, and others affected by and interested in what they do. The diverse activities needed to respond to these expanded duties are widely referred to by the catchall phrase "corporate social responsibility." It incorporates a host of concepts and practices, including the necessity for adequate corporate governance structures, the implementation of workplace safety standards, the adoption of environmentally sustainable procedures, and philanthropy.

Corporate social responsibility" is an oversimplification that has led to a great deal of confusion. It is necessary to distinguish between the different types of corporate activities, so that the work companies do to engage in society is fairly recognized and appreciated and companies are better able to benchmark themselves against the performance of different enterprises and learn from example. A better understanding of engagement requires separate definitions for corporate governance, corporate philanthropy, and corporate social responsibility as well as for an emerging element: corporate social entrepreneurship, that is, the transformation of socially responsible principles and ideas into commercial value.

Above all, a new imperative for business, best described as "global corporate citizenship," must be recognized. It expresses the conviction that companies not only must be engaged with their stakeholders but are themselves stakeholders alongside governments and civil society. International business leaders must fully commit to sustainable development and address paramount global challenges, including climate change, the provision of public health care, energy conservation, and the management of resources, particularly water. Because these global issues increasingly impact business, not to engage

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with them can hurt the bottom line. Because global citizenship is in a corporation's enlightened self-interest, it is sustainable. Addressing global issues can be good both for the corporation and for society at a time of increasing globalization and diminishing state influence.

10.4.1 The Factors At Play

Today's corporate engagement in society is the inevitable result of a number of factors. First, the role of the nation-state has diminished. In early modern Europe, the church's power over people was undermined by the emergence of the sovereign state; in the contemporary world, no single government can do everything. Even the military might of most states depends in large part on the supplies and support provided by private industry.

The intensified pace of globalization due to advances in technology is the most significant factor in the weakening influence of the state. Fast transportation links and the speedy flow of information have negated the relevance of geographic borders. Whether it is poverty in Africa or the haze over Southeast Asia, an increasing number of problems require bilateral, regional, or global solutions and, in many cases, the mobilization of more resources than any single government can marshal.

The limits of political power are increasingly evident. The lack of global leadership is glaring, not least because the existing global governance institutions are hampered by archaic conventions and procedures devised, in some instances, at the end of World War II. Sovereign power still rests with national governments, but authentic and effective global leadership has yet to emerge. Meanwhile, public governance at the local, national, regional, and international levels has weakened. Even the best leaders cannot operate successfully in a failed system.

As state power has shrunk, the sphere of influence of business has widened. Companies get involved in the health of workers, the education of employees and their children, and the pensions that sustain them in retirement. Corporations have an impact on everything from air quality to the availability of life-saving drugs. They have become integral to the survival of governments and the political stability of nations and regions. The ranks of transnational and global companies are increasing. Even small and medium-size high-growth enterprises, many of them from developing countries, have become global in approach. Consequently, at the same time as state power has declined, the influence of corporations on communities, on the lives of citizens, and on the environment has sharply increased. This fundamental shift in the global power equation means that just as communities and citizens look to government for answers and leadership, so now they target corporations with both requests for help and criticism for wrongdoing.

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The deepening engagement of business must also be seen in the context of the emergence of a more active civil society. Civil society has taken on a more prominent role in international media since the 1992 UN Conference on Environment and Development in Rio de Janeiro. There has been a proliferation of nongovernmental organizations (NGOs), including several that are global in scope and presence. The focus of much of the civic action of NGOs has naturally been corporations. After an initial confrontational approach, some of the toughest critics have come to appreciate that many business leaders – of small and large corporations, in developed and developing economies – are sincerely engaged in society. Many civil-society organizations now focus on working with business instead of confronting it.

10.4.2 A Framework for Engagement

The case for corporate engagement in society is compelling, and business leaders must look carefully at how their companies are engaged, consider what more they can do, and act. The World Economic Forum has developed a framework to help business leaders in this task. It grew out of three decades of providing a platform for companies to engage in society. In 1971, the forum first identified the stakeholder concept – the idea that a company has a clear responsibility to the community beyond its shareholders. Two years later, at the annual forum meeting, the stakeholder concept became the cornerstone of the Davos Declaration, which articulated the fundamental principles of a corporation's social and environmental responsibility. Since then, the forum has actively promoted these ideals and further developed the concept of corporate engagement.

Businesses frequently miss the true benefits of an integrated strategy for effective corporate engagement. Sharpening definitions of the concept of corporate engagement is critical to making the business sector understand and practice it better. Clarification is also important to ensure that the general public better appreciates the complex challenges companies face and can assess how effectively or not they address them.

Five core concepts – corporate governance, corporate philanthropy, corporate social responsibility, corporate social entrepreneurship, and global corporate citizenship – define the different types of business engagement. Corporate governance is more than the way in which a company is run. It means that a company complies with local and international laws, transparency and accountability requirements, ethical norms, and environmental and social codes of conduct. Every company is subject to some form of governance; otherwise, it would not have the basic license to operate. The central issue is the quality of this governance. An enterprise either complies or does not comply with the laws and standards that apply to it. Good corporate governance means that the company's conduct meets or exceeds what is required on paper – not doing any harm because it is following the rules and possibly even doing good by going beyond the mandated minimum. Corporate governance is how a company

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behaves when nobody is looking. Without good corporate governance, no other form of corporate engagement is credible.

A key part of corporate governance is the development and implementation of internal programs to promote ethics, moral standards, and socially acceptable practices. These should include respect for human rights and adherence to labor standards, as well as in-house efforts to prevent bribery and corruption. This can be especially difficult for companies in jurisdictions where the rule of law is weak and what is acceptable may not be clear. Many companies now publish standards of business conduct that guide their decision-making and set the parameters for their professional relationships worldwide.

More than 3,000 companies in about 120 countries have signed on to the UN Global Compact, a framework of ten core principles to guide business behavior in areas such as human rights, the environment, labor practices, and corruption. Launched at the forum in 1999 by then UN Secretary-General Kofi Annan, the UNGC has become a powerful force for promoting good corporate governance, even though it is strictly voluntary and based on self-assessment. Companies that lag in reporting their progress are delisted; last year, 500 were cut. Another example of good corporate governance is subscribing to the Global Reporting Initiative, a program to institute international guidelines for sustainability reporting, the publishing of an organization's economic, environmental, and social performance and impact. The GRI was launched in 1997 by NGOs in the United States with the support of the UN Environment Program. Today, over 1,000 organizations, including many corporations, use the GRI guidelines to assess their sustainability practices.

Good corporate governance should not be seen as only a compliance issue. Companies should be actively involved in the development of standards and practices, adapting them continuously to the requirements of global markets and public expectations. New areas calling for tighter governance rules include executive compensation and the transparency of new financial instruments such as hedge funds and private equity funds.

10.4.3 Reaching Out

Corporations are moving beyond the mandatory requirements of corporate governance. Corporate philanthropy has been on the rise in many countries in recent years. It includes cash contributions; grants; donations, including salary-sacrifice programs and the giving of products; services; and investments. Outright corporate donations to global initiatives, such as Médecins Sans Frontières, or money provided for relief operations after natural disasters also qualify. In determining what is corporate philanthropy, intention and context are key factors. Corporate philanthropy is engagement that does not go beyond writing a check or handing out donated goods. Social investing is a special form of corporate philanthropy, in which a company invests in organizations or programs that have broad social appeal, such as inner-city housing projects or funds for student loans. Instances of corporate philanthropy and social investing can also be instances of global corporate citizenship. If a cash contribution is linked to a company's active engagement in a global effort to address climate change, for example, then the charitable act is also an act of global corporate citizenship. And if a corporation takes an active part in the management of an inner-city housing project in which it has invested, then it is practicing both social investing and global corporate citizenship.

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In the past, corporate philanthropy was the preferred way for corporations to give back to society. Today, business leaders recognize that companies can make more efficient contributions through active engagement. The framework developed by the forum encourages the stakeholder approach to corporate engagement and refers to this as "corporate social responsibility." This involves how a corporation responds to the expectations of its stakeholders – the wide community of all the organizations and individuals that are in any way affected by or interested in its actions: shareholders, owners, investors, employees, suppliers, clients, consumers – while trying to increase the company's value. Corporate social responsibility means addressing the wider financial, environmental, and social impact of all that a company does. It entails minimizing the negative effects of the actions of a company and maximizing the positive ones on stakeholders as well as on the communities in which the enterprise operates and the governments with which it must work.

Corporate social responsibility is measured through so-called triple bottom-line accountability, according to which a company reports not only on its financial results but also on what it is doing and what it is not doing in meeting stakeholder expectations of its environmental and social responsibilities. Nike, for example, has committed to achieving or exceeding its published baseline requirements for sustainability – from design to manufacturing – for all its footwear by 2011, apparel by 2015, and equipment by 2020.

Today, corporate social responsibility extends along the whole chain of value creation. For example, corporations must provide the necessary information, education, and training to suppliers and clients to ensure that a product or service can be effectively and safely used. In that regard, the global insurance group AIG offers customers financial-education programs to help them learn how to make the right investment decisions to meet their needs. Some business leaders will point to their corporation's engagement in a number of corporate social responsibility projects around the world, which they argue make the coporation a global citizen. But the sum of acts of local citizenship does not make a globally involved citizen; global issues must be addressed on a global scale.

Corporate social entrepreneurship is strictly defined as the transformation of socially and environmentally responsible ideas into products or services. The last decade has seen many individuals come up with innovative ideas to address the specific social and environmental needs of the communities in which they are living.

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10.4.4 Citizens of the World

Global corporate citizenship goes beyond the concepts of corporate philanthropy, including social investing; corporate social responsibility; and corporate social entrepreneurship in that it entails focusing on "the global space," which is increasingly shaped by forces beyond the control of nation-states. Global corporations have not only a license to operate in this arena but also a civic duty to contribute to sustaining the world's well-being in cooperation with governments and civil society. Global corporate citizenship means engagement at the macro level on issues of importance to the world: it contributes to enhancing the sustainability of the global marketplace.

Global corporate citizenship refers to a company's role in addressing issues that have a dramatic impact on the future of the globe, such as climate change, water shortages, infectious diseases, and terrorism. Other challenges include providing access to food, education, and information technology; extreme poverty; transnational crime; corruption; failed states; and disaster response and relief. Each of these problems is global in scope, even if the solutions may be locally focused.

When engaging in global corporate citizenship, companies should get involved in areas and in ways in which they can contribute meaningfully. The primary responsibility for meeting these global challenges still rests with governments and international organizations. But companies can contribute in an appropriately balanced partnership with the public sector and relevant civil-society groups. The right balance should be found among all the actors involved so that there is agreement on who should lead and so that progress is not stymied by infighting or a lack of direction. Business should not feel the need to overstep its boundaries or take on responsibilities that belong to the state.

Companies that practice global corporate citizenship do so either through thought leadership, that is, by providing the knowledge and technology essential to addressing a particular global problem, or through concrete action, that is, through the execution of a coordinated plan – or they do both. The Gleneagles Dialogue on Climate Change, Clean Energy, and Sustainability, a partnership led by governments in the G-8 (the group of highly industrialized states) and the G-20 (the group of developing countries with a special interest in agriculture) and involving the world's biggest energy-producing and energy-consuming countries, is an example of companies practicing global corporate citizenship through thought leadership. Microsoft's Unlimited Potential initiative, which aims to bring the benefits of technology to five billion people yet to experience the opportunities that computers offer, is a notable action-oriented example. Microsoft's project is a multi-stakeholder effort to bridge the global digital divide by fostering innovation in business and education and raising the skill levels of individuals to improve their employment prospects and the growth of enterprises. Yet another action-oriented program is the World Economic Forum's Global Education Initiative, which assembles partners from business, government, and civil society to support critical reforms in education. The success of initial programs in Egypt and Jordan has inspired the forum to form an alliance with UNESCO in developing a joint program, Partnerships for Education, which is meant to promote multi-stakeholder approaches within the global education community with the goal of achieving education for all.

> Global corporate citizenship is an extension of the stakeholder concept and involves the corporation acting as a stakeholder in global society, together with government and civil society. Global corporate citizenship can be considered a long-term investment. Since companies depend on global development, which in turn relies on stability and increased prosperity, it is in their direct interest to help improve the state of the world.

When a company creates a coordinated strategy for corporate engagement in society, it is likely to practice different types of engagement at the same time. And a particular act by an enterprise may not fit just one of the concepts. Nestlé voluntarily takes measures to reduce the water it uses in its operations. Since these measures are intended to benefit the water supply and the water-management needs of the communities in which the company operates, they qualify as acts of corporate social responsibility. As Nestlé engages with governments and NGOs to reduce water use in a broader way, it also offers an example of global corporate citizenship. If the company gave free water to a community, it would be engaging in corporate philanthropy. And if it sold recycled water in biodegradable bottles, that would be an act of corporate social entrepreneurship.

10.4.5 The Right Mindset

Enterprises should proactively mobilize a range of partners to effectively address global challenges. Lamentably, however, many business leaders are reluctant to accept that role. A study conducted by the global consulting group McKinsey & Company in 2007 found that fewer than half of the senior executives surveyed in the United States believed that they or their peers should take the lead in shaping the debate on major issues such as education, health care, and foreign policy. Only one-seventh of the respondents believed that they were playing that role, and the majority of them said that they were motivated primarily by personal reasons and were acting as private citizens.

There are not only motivational but also practical reasons why business leaders shy away from social engagement. The proliferation of Web sites on the Internet and new media channels such as blogs and the rise of shareholder activism may prompt some business leaders to refrain from thinking beyond the next financial quarter. The "short-termism" these developments promote

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could lead some CEOs to assume that engaging in society is not worthwhile because the value of corporate engagement is typically realized only in the medium or long term. Moreover, fast-changing conditions in the market may result in “zapping,” or indiscriminate decision-making, in the same way that political leaders might zigzag on a policy in response to poll results.

Short-termism and zapping, as well as the growing challenges thrown up by the often painful economic transformations of globalization, can blur corporate vision. They may lead to paralytic management or a kind of corporate attention deficit disorder, whereby companies lose focus on the big picture. In such cases, companies may lose their motivation or willingness to engage in society. Corporate leaders may also be overwhelmed by the sheer magnitude and complexity of global challenges and the expectations of the public for them to assume partial responsibility for all the deficiencies of the global system.

This mindset must be changed. Corporations must engage on global issues while understanding that the business community cannot on its own solve global problems such as poverty, poor education, and inadequate health care. Governments and multilateral organizations cannot be discharged from their responsibilities to deliver such public goods. “Corporations are not responsible for all the world’s problems, nor do they have the resources to solve them all,” Michael Porter, a Harvard Business School professor, and Mark Kramer, the managing director of FSG Social Impact Advisors, wrote in the Harvard Business Review in December 2006. “Each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive benefit,” Porter and Kramer added. “When a well-run business applies its vast resources, expertise and management talent to problems that it understands and in which it has a stake, it can have a greater impact on social good than any other institution or philanthropic organization.”

The examples of Microsoft’s information technology skills training and Nestlé’s water management, and many others as well, offer several conclusions about the practice of global corporate citizenship. First, global corporate citizenship must be a multi-stakeholder endeavor. The ultimate responsibility for addressing global issues lies with states and international organizations. Many governments recognize their limitations and are eagerly promoting public-private partnerships. Corporations should put aside any reservations they may have about partnering with governments and civil society as long as the initiatives in which they want to participate can be run properly and efficiently.

Second, for global corporate citizenship to be meaningful, effective, and sustainable, it must align with a company’s specific capabilities and with its business model and profit motive. This also requires the active involvement of CEOs and should reflect their vision of what is good for the corporation and society. If this happens, it is more likely that the enterprise will find ways of engaging that are compatible with its business objectives and beneficial for society as well. Corporations should, however, beware of being parties to grand declarations or general commitments to solve global issues, since such commitments can blur people's perceptions of the distinct roles of the public and private sectors. The legitimacy of a corporation engaged in global corporate citizenship comes not from declarations but from results.

Third, global corporate citizenship should never be undertaken from a defensive or apologetic position. The ultimate role of business in society remains to do business. Global corporate citizenship should not develop from a bad conscience or a feeling that one must give back to society; it should be a feature of this globalizing world that stretches traditional boundaries. Global corporate citizenship is a logical extension of corporations' search for a consistent and sustainable framework for global engagement – and one that adds value for both the companies and the global space in which they engage. It is a form of corporate engagement that can reinforce the positive role of business in society and enhance profitability in the long term. Indeed, global corporate citizenship integrates both the rights and the responsibilities that corporations have as global citizens. And in relying on a multi-stakeholder approach to tackling global problems, it can point out the way to new models of effective global governance that integrate business as a key stakeholder.

Task

"CSOs active in human rights and governance have faced substantial scrutiny and harassment from government as they become more critical in scrutinizing public policy and bad laws". Comment.

Self Assessment

Fill in the blanks:

1. Corporate social responsibility" is an ____________ that has led to a great deal of confusion
2. Corporate social entrepreneurship, that is, the transformation of socially responsible principles and ideas into ________value.
3. Today's corporate engagement in society is the _______result of a number of factors.
4. The intensified pace of globalization due to advances in technology is the most significant factor in the _________influence of the state
5. The lack of global leadership is_________, not least because the existing global governance institutions are hampered by archaic conventions and procedures devised

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The corporation as a good citizen: Lockheed Martin

The company is to day known as Lockheed Martin Corporation and was formed in 1995 when two of the world's premier technology companies Lockheed Corporation and Martin Marietta merged In contrast to Martin Marietta it is not conceived only as a defense industry corporation, but also as a corporation developing many products for civil purposes. For many years the corporation had a turnover of more than 25 Billon US dollars and in 2007 the turnover was 41 Billion US Dollars. Due to the changed security situation in the world the company's sale have increased rapidly after September 11. As a leader in the defense industry the corporation produces weapons and materials for the armed forces (Lookheed Martin 2005). In 2001 the corporation expresses its willingness to be a good corporate citizen and fight and help "serving those who fight for freedom". Lockheed Martin Corporation developed and refined the model of ethics and corporate citizenship that was proposed by Martin Marietta. The idea is that ethics is straight-forward thing about helping people to "do the right thing" . This approach that should be the basis for the good citizen corporation can be characterized as a values-driven approach with a strong focus on corporate ethics. We can document this by a short description of the dimensions of the ethics program at Lockheed Martin. The case of Lockheed Martin makes us aware of the ambiguity of corporate ethics between increased responsibility and lack of responsibility (Frankel 2008), since the ethical corporation is producing controversial products with high ethics and great responsibility.

Questions:

1. What is corporate citizenship?
2. "Politicization without good corporate citizenship" Elaborate.

SUMMARY

- Civil society commonly embraces a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power.
- Any organization whether formal or informal, that are not part of the apparatus of government, that do not distribute profits to their directors or operators, that are self-governing, and in which participation is a matter of free choice. Both member-serving and public-serving organisations are included.
- CSOs active in human rights and governance have faced substantial scrutiny and harassment from government as they become more critical in scrutinizing public policy and bad laws.

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- The operations of CSOs are impeded by several factors - both external and internal.
- External influences include influences from foreign sources within and outside our borders, government and local political forces.
- Internal influences are those factors internal that affect CSOs but are within their control to change.
- CSOs long-term survival and effective implementation of programs is linked to the availability of funds.
- When CSOs are in a state of dependence, their independence to make program decisions and ensure that the right programs are pursued for beneficiaries, is diluted.
- The number-one resource for a great social sector organization is having enough of the right people willing to commit themselves to the mission
- CSO are challenged through human resource constraints to deal with leadership, recruiting and retaining talent, and managing and developing people that help them meet the demands of an every changing policy environment.
- The “brain drain and strain” associated with CSOs is a major challenge to effective analysis and impact on key policy matters.
- Economic downturns in donor countries do not help as reduction in funding by key donors leave many CSOs competing for small packets of fund.
- Many CSOs executives point to the number of projects undertaken say within a year as key achievements, but looking closely at project impact, one wonders what impact these projects have had on its beneficiaries.
- Beneficiaries are inclined to sustain engagement with CSOs that are knowledgeable and passionate about the projects they implement.
- Maintaining transparent, accountable and sound ethical standards are useful for cementing the standing of CSOs in a country.
- CSOs as watchdogs of society need to set good example in their endeavor to safeguard society from inimical influences.

KEYWORDS

Business Ethics: Principles of right and wrong concerning the conduct of business.

Civil Society: Any organization whether formal or informal, that are not part of the apparatus of government, that do not distribute profits to their directors or operators, that are self-governing, and in which participation is a matter of free choice. Both member-serving and public-serving organisations are included.

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***Ethical Principle*:** a concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Ethics: Principles of right and wrong concerning the conduct of a person

External influences: External influences include influences from foreign sources within and outside our borders, government and local political forces.

Internal influences: Internal influences are those factors internal that affect CSOs but are within their control to change.

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

REVIEW QUESTIONS

1. What is civil society?
2. Define the term Civil Society Organizations.
3. Present Civil Society Organizations(CSOs) as stakeholders
4. Describe ethical issues and CSOs.
5. Define the term globalization.
6. Describe Globalization and CSOs.
7. What is corporate citizenship?
8. Corporate citizenship and CSOs
9. What are internal influences?
10. What are external influences?
11. ‘Civil society commonly embraces a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power.” Comment.
12. The “brain drain and strain” associated with CSOs is a major challenge to effective analysis and impact on key policy matters. Elucidate.

Answers to Self Assessments

1. diversity
2. faith
3. Ministry of Planning and Economics Affairs
4. yearly
5. CSOs
6. False
7. True

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8. True
9. True
10. True
11. oversimplification
12. commercial
13. inevitable
14. weakening
15. glaring

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LESSON 11 - GOVERNMENT, REGULATION AND BUSINESS ETHICS

CONTENTS

LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Analyze Government as stakeholder
2. Understand Ethical issues in the business-government relationship
3. Focus on Impact of globalization on business-government relationship, governments, business and sustainability

INTRODUCTION

Many sectors of the business world have long complained about government regulations and their restrictive nature. Often cited as an impediment to corporate and small business profits, and a waste of precious time and effort, government statutory requirements have been denounced, side-stepped and violated by many a business since the early twentieth century when the corporate income tax and anti-trust laws were first enacted.

The government is certainly a friend of business, providing financial, advisory and other forms of service to the business community. Simultaneously, the government is also a friend of the public and the American consumer, and acts in what it perceives as their best interests with protective laws, rules and regulations. While businesses may oppose some aspects of restrictive laws, taxes and regulations, they may also endorse other such requirements if they help their own specific business goals.

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This conflict may never be resolved, and as business becomes more complex as technological breakthroughs continue, the dual nature of government's relation to business may become increasingly more regulatory and collaborative at the same time. Government, therefore, may be justifiably perceived as benefiting both business and consumer, friend to each, foe of neither

11.1 GOVERNMENT AS STAKEHOLDER

There are many groups of people who have an interest, financial or otherwise, in the performance of a business - these different groups are known as stakeholders.

Broadly speaking, A stakeholder is someone who has an interest in a business. The government is interested in businesses as they set out the regulations and need the businesses to do well to keep the economy healthy.

The government affects the workings of businesses in many ways:

1. Businesses have to pay a variety of taxes to central and local government, including Corporation tax on their profits, Value-Added Tax (V.A.T) on their sales, and Business Rates to the local council for the provision of local services.
2. Businesses also have to adhere to a wide-ranging amount of legislation, which is aimed at protecting the consumers, the employees and the local environment from business activity.
3. Businesses will be affected by different economic policies, (for example, if interest rates are increased, then this will discourage businesses from borrowing money since the repayments will now be significantly higher). However, businesses can also benefit from government incentives and initiatives, such as new infrastructure, job creation schemes and business relocation packages, offering cheap rent, rates and low-interest loans.

Self Assessment

Fill in the blanks

1. The ___________is certainly a friend of business, providing financial, advisory and other forms of service to the business community.
2. Businesses may oppose some aspects of _________laws, taxes and regulations, they may also endorse other such requirements if they help their own specific business goals.
3. Businesses have to pay a variety of taxes to central and local government, including Corporation tax on their profits, ___________on their sales, and Business Rates to the local council for the provision of local services.
4. Businesses also have to adhere to a ________amount of legislation, which is aimed at protecting the consumers, the employees and the local environment from business activity.

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5. Businesses can also benefit from government incentives and_______, such as new infrastructure, job creation schemes and business relocation packages, offering cheap rent, rates and low-interest loans.

11.2 ETHICAL ISSUES IN THE BUSINESS-GOVERNMENT RELATIONSHIP

We know that business ethics/corporate ethics is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Business ethics has normative and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

The activities of government present a major variable to achieving success in today, In modern business environment. Laws and regulations affect every phase of business operations. Business Government Relations, an internationally experienced government affairs firm, facilitates business enterprise and government interaction.

Clearly, the influence of powerful, well-funded organizations could also be dangerous to a country's national interests. Neither democracy nor globalization, therefore, need necessarily be an obstacle to implementing effective "facilitating state actions" to help a country attract high technology.

"Consolidated democracy," in fact, can be provide a definite advantage to governments attempting to do this for other reasons as well.

Consolidated Democracy: Predictability, Transparency, Accessibility

"***consolidated democracies***" refer to those democracies that have regular and fair elections, genuine contestation over selection of leaders and choice of policy outcomes, and participation on the part of their citizens.

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Predictability means, fundamentally, stable adherence to the "rules of the game." Predictability means that investors know that the rules, laws and procedures under which they are operating in a given country are likely to remain the same over time or at least not change suddenly, without warning.

Transparency refers to the ability of those who are not involved with actually making policies or laws to see how these policies are made - to know how the policymaking process works and be able to monitor that process. Because the extreme end of the spectrum away from "consolidated democracies"- military juntas or dictatorships - are less inclined to follow set, established rules, they tend to make their decisions behind closed doors, without media or public access to the policymaking process. It is reasonable to assume, then, that the more consolidated the democracy, the more transparent that democracy will be.

Related to the other two factors is ***accessibility.*** Transnational corporations operating in a foreign environment need to know that, should their needs change or a change in the overall business environment occur, policymakers can be made aware of their concerns easily and will respond to them, either positively or negatively, within a reasonable period of time. This factor is especially crucial for corporations in high technology industries, because their needs can change so quickly in response to competitive threats.

Self Assessment

State whether the following statements are true or false:

1. Business ethics/corporate ethics is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment.
2. Business ethics has formative and non-descriptive dimensions
3. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with only economic concerns
4. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."
5. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

11.3 IMPACT OF GLOBALIZATION ON BUSINESS-GOVERNMENT RELATIONSHIP, GOVERNMENTS, BUSINESS AND SUSTAINABILITY

As defined here, "globalization" refers broadly to the internationalization of production -i.e., production processes for given products based in more than one nation – and the increasing economic interdependence of nations resulting

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from the expansion of foreign investment, transnational corporate alliances, and international trade. Because of this increasing economic interdependence between nations, and because transnational corporations, operating in multinational production networks, are the primary agents of this process, national governments – even nation-states themselves – would seem to be increasingly irrelevant.

Yet in fact, quite the opposite is true. Studies have shown that those countries – at least, those democratic countries – that are most open to trade and investment also have the largest states.

> Globalization tells us about the growing economic, political, technological, and cultural connections that connect individuals, communities, businesses, and governments around the world.

Globalization also involves the growth of multinational corporations (businesses that have operations or investments in many countries) and transnational corporations (businesses that see themselves functioning in a global marketplace). The international institutions that oversee world trade and finance play an increasingly important role in this era of globalization.

The three major components of international market integration: trade, multinational production, and international finance Advances in communication, transportation, and information technologies.

Globalization has opened up broader communication lines and brought more companies as well as different worldwide organizations into other countries. This provides opportunities for not only workingmen, but also women, who are becoming a larger part of the workforce. With new jobs for women, there are opportunities for higher pay, which raises self-confidence and brings about independence. Also the positive effects are a sharing of basic knowledge, technology, investments, resources, and ethical values.

The main negative effect of globalization is that it's not an equal process, and often the link is only one way, ex. resources going out of Iraq, India etc., with nothing of equal value going back in.

> The negative effects of globalization also includes the rapid spread of diseases, illicit drugs, crime, terrorism, and uncontrolled migration.

> The key question regarding globalization and government is whether or not globalization threatens national sovereignty. Historically, governments played a major role in promoting their country's economic development and managing its economy, albeit in quite varied forms.

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Today, however, some critics argue that government matters less and less in a global economy. Nation states are simply another actor on the global stage, rather than the directors. Aggressive global production systems and capital markets now occupy the “commanding heights” of global development, forcing governments on the defensive and pressuring them to deregulate, downsize, and privatize many of the social management functions they assumed during the past century. The political boundaries that define nation states place them at a disadvantage when confronting the unique pressures of a boundary less global economy. There is a “jurisdictional asymmetry” between an economic system composed of centrally controlled, transnational, multinational enterprises on one hand and a political system structured into geographically defined sovereign states on the other (Kobrin, forthcoming). “Information technology—through computers—is creating a ‘woven world’ by promoting communication, coordination, integration, and contact at a pace and scale of change that far outrun the ability of any government to manage. The accelerating connections make national borders increasingly porous – and, in terms of some forms of control, increasingly irrelevant” (Yergin & Stanislaw, 2000: 215). The growing power of globalized financial markets limits the scope of national policy (Lee, 1996). Because the world has become so interdependent and networked, nation-states are criticized if the “playing field” for business is not level, which limits the degrees of freedom in their decision-making. This brings us to key question: “Who governs MNEs and a global economy?” “The market” is not a satisfactory answer for globalization critics and some governments, and the sense that globalization is “out of control” creates a feeling of powerlessness and resentment in protesters. Nation-states are not designed to govern MNEs, but the idea of yielding their power to international governing bodies is perceived by some countries as yet another threat to national sovereignty (Longworth, 1999).

On the positive side of the ledger, for some governments, globalization has resulted in expanded infrastructure and more jobs and economic development for their citizenry. Certain countries have benefited from the transfer of modern, more effective management techniques to their business sector. Furthermore, some observers believe that the increased interdependence of trading and investment partners will draw countries closer together and serve as a deterrent against war (Harris & Goodwin, 1995; Tyson, 1999).

On the negative side, MNEs have exerted pressure on governments in several ways. International competitiveness has influenced public policy in some countries by encouraging government officials to lower labor standards (Lee, 1997). Since governments may view themselves in competition with others, in a race to the bottom, to attract MNEs to their country, foreign firms can have the upper hand in negotiations unless governments have something unique to offer (such as scarce natural resources, highly trained people, large consumer

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market). Singapore, for example, invested heavily in education, attracting high tech and professional industry rather than limiting its population to employment in low-wage factories.

George Soros (2002) criticized globalization for making the provision of private goods more important than public goods, such as peace, poverty eradication of poverty, protection of human and labor rights, and the environment. Governments of developed countries with extensive entitlement programs – social security systems, health care programs, unemployment pay or welfare systems – are experiencing greater pressure to decrease such expenditures because they raise the rate of corporate taxation (Longworth, 1999). Nevertheless, Lee (1996) concludes that in spite of increasing globalization, national policies still determine levels of employment and labor standards. He warns, however, that there is a worldwide trend toward smaller government, which is evident in public expenditure reductions, lower taxes, less support for redistributive measures, and greater deregulation of markets, including the labor market. Thus, governments are less likely to compensate the losers from globalization at a time when globalization increases the demand for social insurance (Sutherland, 1998). A global economy allows companies (and the wealthiest citizens) to spread their tax liability to countries with the lowest rates, providing thereby decreasing the taxes national governments receive from formerly "local" companies. Capital mobility weakens the tax base, which means there are less funds available for social insurance (Sutherland, 1998) in countries that previously received tax payments.

The blueprint for economic development promoted by the IMF and World Bank, decreased the role of government with calls for privatization, deregulation and the reduction of corporate, trade and capital gains taxes (UNDP, 1999; UNCTAD, 1999). Not only did this make some government functions irrelevant, but it left government with less money in their coffers. Grunberg (1998) reported that governments have fewer funds available as a result of globalization. The proportion of corporate taxes has decreased as a percentage of the total revenues in the United States, and they have also decreased relative to the share of corporate profits in all the OECD countries (Kobrin, 2001). Hines (1999: 312) found complex reasons for this phenomenon but also found evidence of aggressive tax avoidance behavior by MNEs and a "race to the bottom" by governments who reduced corporate tax rates to attract investment. Many EPZs grant tax-free status for the first years, but some MNEs shut down operations and leave as soon as the period is over, because they can take advantage of the same tax-free status elsewhere (Klein, 2000). Furthermore, MNEs sometimes influence local government policy and threaten to leave if their demands are not met. In this way, corporations externalize their costs to others.

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Globalization makes it more difficult for governments to exercise their regulatory powers (Cox, 1996) and maintain their own autonomy and independent decision-making (Kobrin, 1997). In a literature review that examined whether globalization undermines the authority of nation-states, Guillén (2001) found mixed results. Some research concludes that MNEs have the upper hand with governments who now have less autonomy, while political scientists contend the role of government has simply changed to include dealing with the problems of globalization. Kobrin (2001) concludes that governments are not irrelevant, but they have been weakened as a result of globalization; they will continue to play a major role, but instead of exercising supreme authority, national sovereignty may come to mean simply being one of several prominent parties involved in international negotiations.

There is widespread agreement that governments are not designed or structured to deal with the problems of global business (Giddens, 2000), particularly problems like global warming and environmental degradation, that have accompanied economic development (Lechner & Boli, 2000). Partially to fill this gap, a growing number of non-governmental organizations (NGOs) are trying to counterbalance the power of MNEs (Dohrs & Garfunkel, 1999). NGOs focused on topics like human rights and environmental issues have organized themselves to exert pressure on MNEs, governments, and international organizations to ensure their agenda is heard. If one looks at globalization solely in terms of power, it has shifted from governments and organized labor to MNEs, markets, and international organizations (Kobrin, 2001). This shift took place without a democratic vote, a silent coup that rankles protesters (Clarke, 2001). International organizations like the IMF, World Bank, and WTO are not trusted by some factions of the anti-globalization protest movement because of the partiality these organizations show toward corporate interests and powerful governments. Stiglitz (2002), a former senior vice president and chief economist at the World Bank claims that some of the protesters' complaints about the IMF are based in fact – namely that free-trade agreements primarily benefit the rich, that privatization has not proved successful in many countries, and that the IMF's vaunted structural adjustment programs have resulted in hardship for many.

Kofi Annan, U.N. Secretary-General, gave this warning at Davos: "The spread of markets outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take. History teaches us that such an imbalance between the economic, social and political worlds can never be sustained for very long"(1999).

Table 11.1 summarizes the positive and negative impacts of globalization on governments.

Notes

Table 11.1: The Impact of Globalization on Government

Positive Effects	Negative Effects
Increased economic development benefits some governments	Power of MNEs increased at the expense of government power, sovereignty, and ability to regulate business
Increased jobs and expanded infrastructure benefits some countries	MNEs externalize some of their costs to countries
Transfer of modern management techniques into business sector	Competition for factories and FDI resulted in too many concessions to MNEs by some governments
Greater interdependence among trading and investment partners may deter war	Some MNEs influence local government policy and threaten to leave if their demands are not met
Proliferation of NGOs to counterbalance pro-globalization forces	MNEs pay fewer tax to governments and incorporate where the tax rate is lowest, depriving their own country of revenue
	Governments are pressured to reduce tax rates and decrease social benefits that may affect stability

The Impact of Globalization on Environmental Sustainability

Sustainability is defined as meeting the needs of present generations without compromising the ability of future generations to meet their own needs. The moral basis for sustainability is the ethical position that destroying the future capacity of the Earth to support life is wrong. Global environmental issues such as global warming, deforestation, ozone depletion, reduction of biodiversity, degradation of ocean habitats, (Lawrence et al., 1996) and pollution are the key areas impacted by globalization. Most of the empirical studies found in a literature review on globalization's impact on the environment, which are summarized below, focused on small pieces of the puzzle – they are "local" in nature due to the difficulty of studying the environment as a whole (Osland, Dhanda, Yuthas, 2002).

On the positive side of the ledger, globalization has caused some countries to make a narrower range of products more efficiently, i.e., comparative advantage. It has been responsible for creating and exporting technologies that utilize fewer natural resources and result in less waste and pollution. Globalization has facilitated the dissemination of practices like improved energy efficiency, less carbon combustion, dematerialization (reducing overall use of materials), substitution of resources with reduced environmental impact, and metal recovery technologies (Socolow, Andrews, Berhhout, & Thomas, 1994; Allenby & Richards, 1994;Graedel & Allenby, 1995). The industrial ecology movement has sought to improve environmental responsiveness at the same time it reduces the global cost of production for corporations.

On the negative side, because of globalization, harmful technologies and activities have also been exported. Although better technology is available, companies do not always utilize it because it can be highly capital intensive (Socolow et al, 1994).

Notes

Globalization is blamed as a source of pollution. For instance, industrial toxic effluents and pesticide runoffs from agribusiness have destroyed river fish. A recent study overseen by the U.N. Environment Program warns of the danger of the "Asian cloud," which may be causing premature death, flooding, and drought. Not all of the two-mile-thick cloud is a direct result of increased industrialization and globalization; traditional practices and forest clearing are also responsible in addition to auto emission, factories and waste incineration. Since prevailing winds can carry pollution clouds around the world in a short period, they are becoming a global environmental problem (U.N. Environment Program, 2002).

The spread of factories around the world has made more infrastructure necessary, which requires extracted substances from the earth. Globalization promotes the transportation of raw materials and goods using non- renewable resources. Increased travel by workers seeking jobs (Brown, Renner & Flavin, 1998) and MNE employees utilizes fossil fuel and contributes to global warming. Additionally, because MNEs moved their operations to countries where environmental laws are absent or not enforced, greater environmental degradation has occurred. Some MNEs have taken advantage of lowered environmental protection to sell harmful products abroad that are banned in more developed countries.

Critics claim that countries are more likely to export more commodities that increase the exploitation of natural resources as a result of globalization (French, 1993). There are numerous examples of environmental degradation, such as deforestation, threats to biodiversity, and depletion of fish stocks (Goldsmith, 1997; Wilkes, 1995; French, 1993). Some of these problems stem from inappropriate use or over use, while others involve inappropriate modern technologies, such as modern trawl fishing that scraped the bottom of the seabed and disturbed breeding grounds (Khor, 1996). Deforestation and technological innovations in agriculture have also resulted in habitat damage and extinction of species (Rackham, 1986).

Wackernagel and Rees (1996) popularized the concept of the "environmental footprint." They demonstrated that developed countries require greater per capita material and energy flows, and therefore greater land surface than developing countries. The per capita effect on the earth's crust is greatest in the wealthiest countries that extract resources at a far greater rate than they can be replaced. The globalization of materially affluent lifestyles, promulgated by the media and increased travel, intensifies the demand for extracted materials (Duchin, 1996).

A conflict has arisen over the view of many developing countries that it is their turn to develop, as the more advanced developed countries did, without the constraints of environmental regulations. This dilemma pits the principle of equal capacity for economic development against the competing value of environmental sustainability.

Notes

The 1992 GATT annual report laid out the argument that increased trade will produce increased incomes, which will then result in more concern about the environment (Lawrence et al., 1996). Environmentalists, however, worry that globalization will encourage greater consumption as more goods are marketed to more people, creating artificial needs and utilizing more natural resources (Mander & Goldsmith, 1996). Although globalization theoretically should result in greater efficiency in production, it has caused more surplus and scarcity (Brown, Renner & Flavin, 1998), which points to a less-than-perfect utilization of resources.

It would be impossible to calculate the total impact of globalization on the environment, but there is a growing body of evidence documenting harmful effects (Osland et al, 2002).

Table 11.2 summarizes the positive and negative impacts of globalization on environmental sustainability.

Table 11.2: The Impact of Globalization on Environmental Sustainability

Positive Effects	Negative Effects
Countries make a narrower range of products more efficiently	Caused surplus and scarcity
Relative efficiency of energy use is improving	Development and increased affluence lead to larger demands for materials and energy plus increased waste and energy-related pollution
More systematic dematerialization through manufacturing changes	Export of damaging extraction technologies continues despite existence of alternative technologies
Substitution of harmful materials by resources with reduced environmental impact	Spread of factories requires increased infrastructure that uses more extracted materials
Some firms do environmental impact studies of product's entire life cycle	Increased travel of workers and MNE employees uses fossil fuel and contributes to global warming
Transfer of efficient technologies to assist developing countries to increase production	Developing nations are exposed to toxic or dangerous products and technologies
Creation and transfer of more efficient technologies to some countries	Increased consumption uses more natural resources
Use of alternative energy sources decreased carbon combustion	Increased advertising creates artificial needs
Increased income may lead to concern for environmental protection	Increasing fossil fuel combustion emits gases and particles into the atmosphere
	Increased transportation of raw materials uses non-renewable resources
	Increased environmental degradation from factories in countries without enforced environmental protection laws
Modern trawl fishing maximizes the catch for maximum immediate revenue	Degradation due to agribusiness, logging, commercial fishing, and industrial waste
	Deforestation threatens species survival

Notes

Task

Discuss in group, the different ways does the government affects the workings of businesses.

Self Assessment

Fill in the blanks:

1. ___________ refers broadly to the internationalization of production
2. Globalization also means _________ processes for given products based in more than one nation.
3. The three major components of international market integration: trade, multinational production, and___________.
4. The _________effects are a sharing of basic knowledge, technology, investments, resources, and ethical values.
5. The main _________effect of globalization is that it's not an equal process, and often the link is only one way, ex. resources going out of Iraq, etc., with nothing of equal value going back in.

Moral Virtues

Matyam founder chairman Krishna and managing director Bheema resigned from the board after admitting non-existing and inflated profits. Matyam had shown inflated, non-existent cash and bank balances of $ 5040 crores. The company had shown a non-existent operating profit of $ 588 crores. This fraud on the investors and employees of the company shows the breakdown in audit and board oversight of the company.

The pursuit of financial success at the cost of moral virtues may offer financial wealth but not peace of mind.

Question

1. Suggest effective measures for the strengthening of the board of directors in country X companies.

SUMMARY

- The government is certainly a friend of business, providing financial, advisory and other forms of service to the business community.
- Simultaneously, the government is also a friend of the public and the American consumer, and acts in what it perceives as their best interests with protective laws, rules and regulations.

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- While businesses may oppose some aspects of restrictive laws, taxes and regulations, they may also endorse other such requirements if they help their own specific business goals.
- There are many groups of people who have an interest, financial or otherwise, in the performance of a business - these different groups are known as stakeholders.
- Broadly speaking, A stakeholder is someone who has an interest in a business.
- The government is interested in businesses as they set out the regulations and need the businesses to do well to keep the economy healthy.
- Business ethics has normative and descriptive dimensions.
- As a corporate practice and a career specialization, the field is primarily normative.
- Academics attempting to understand business behavior employ descriptive methods.
- The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility.
- Consolidated democracy," in fact, can be provide a definite advantage to governments attempting to do this for other reasons as well.
- Transparency refers to the ability of those who are not involved with actually making policies or laws to see how these policies are made - to know how the policymaking process works and be able to monitor that process.
- Predictability means, fundamentally, stable adherence to the "rules of the game."
- Predictability also means that investors know that the rules, laws and procedures under which they are operating in a given country are likely to remain the same over time or at least not change suddenly, without warning.
- "consolidated democracies" refer to those democracies that have regular and fair elections, genuine contestation over selection of leaders and choice of policy outcomes, and participation on the part of their citizens.
- Globalization has opened up broader communication lines and brought more companies as well as different worldwide organizations into other countries.
- The main negative effect of globalization is that it's not an equal process, and often the link is only one way.

Notes

- There is widespread agreement that governments are not designed or structured to deal with the problems of global business, particularly problems like global warming and environmental degradation, that have accompanied economic development.
- Sustainability is defined as meeting the needs of present generations without compromising the ability of future generations to meet their own needs.
- Globalization is blamed as a source of pollution.

KEYWORDS

Ethical Principle: A concept, guideline, or rule to assist in making an ethical decision when faced with an ethical dilemma.

Globalization: Globalization" refers broadly to the internationalization of production -i.e., production processes for given products based in more than one nation – and the increasing economic interdependence of nations resulting from the expansion of foreign investment, transnational corporate alliances, and international trade.

Predictability: Predictability means, fundamentally, stable adherence to the "rules of the game."

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Sustainability: Sustainability is defined as meeting the needs of present generations without compromising the ability of future generations to meet their own needs.

Transparency: Transparency refers to the ability of those who are not involved with actually making policies or laws to see how these policies are made - to know how the policymaking process works and be able to monitor that process.

REVIEW QUESTIONS

1. What is government/
2. What are government regulations?
3. What is stakeholder?
4. What is Predictability/
5. What is Transparency?
6. Trace Government as stakeholder.
7. Describe the various ethical issues in the business-government relationship.
8. Describe the Impact of globalization on business-government relationship.

Notes

9. What is sustainability?
10. Correlate governments, business and sustainability.

Answers to Self Assessments

1. government
2. restrictive
3. Value-Added Tax (V.A.T)
4. wide-ranging
5. initiatives
6. True
7. False
8. False
9. True
10. True
11. Globalization
12. Production
13. international finance
14. positive
15. negative

FURTHER READINGS

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WEBLINKS

Notes

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LESSON 12 - CONCLUSIONS AND FUTURE PERSPECTIVES

CONTENTS

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LEARNING OBJECTIVES

After studying this lesson, you should be able to:

1. Understand sustainability as a new goal
2. Explain Corporate citizenship as a new concept
3. Analyze the role of management tools and different stakeholder constituencies
4. Experience Influences on ethical decision making
5. Explain the Trade-offs and conflicts between different stakeholder groups

INTRODUCTION

The ethical standards and social responsibilities of managers have been two of the principal issues confronting business and society for many years. Of particular interest to educators, practitioners, and regulators is the extent to which businesses are responsive to the expectations of shareholders and society. While businesses have always been responsible for maximizing long-term value for the shareholders, they are increasingly expected to recognize the importance of their responsibilities toward society and to faithfully adhere to certain ethical standards.

The pressures for ethical improvement in the business world will continue in future. The ancient wisdom for the modern world is in great demand. Philosophies of amorality and relativism and compromise have resulted in more and more of frustrations.

12.1 BRIGHT FUTURE FOR ETHICS

The terms “business ethics” and “corporate social responsibility” have become firmly entrenched and an established part of our vocabulary. Although, as described earlier, some studies show that younger managers are less ethical than their older counterparts and business students are less ethical than managers, the concern for ethics in business continues. Indeed, all evidence points to a growing emphasis on business ethics in the future. The many high-profile scandals have added urgency to this issue. The public is constantly reminded of the important role business decisions play in their lives and, consequently, expects a business to exhibit a very high degree of ethical performance. Regulators are keen to promote transparency. Politicians are no longer opposed to legislating ethical behaviour for business. Businesses have responded to legislative and popular pressure in a variety of ways. Self-monitoring of adherence to a corporation’s stated principles and standards is becoming more common. Managers are increasingly aware that ethics cannot be divorced from business. Many have embraced a new business a new business model in which ethics and profitability are treated as complementary rather than as mutually exclusive. Their real challenge is to treat ethics as a

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corporate asset by creating an environment that develops, sustains, and advances an unambiguous commitment to ethical behaviour. When fully integrated into the organizational culture, the moral fabric created will have a potent and durable influence on day-to-day behaviour.

As an academic field, business ethics contributes discussion forums, research, and instruction. Many universities have established Business Ethics Centers and conduct regular seminars and training sessions for business managers. From an academic perspective, looking back over the past three decades, much has been accomplished. But looking to the future, it is easy to see that there is still much to be done. Globalization, the march into the Information Age, and work force diversity are changing the way business is conducted and the ethical issues businesses face. If business ethics is to remain relevant, it must change its focus accordingly.

In 1994, John Elkington coined the phrase Triple Bottom Line, also known as Sustainability. It expands the traditional company reporting framework to take into account social endeavors and environmental stewardship in addition to financial performance. Although this notion has been criticized by many as a misguided approach, it has been adopted by some large corporations such as General Electric, Toyota, and Dupont. Today, more than 1,000 companies in 60 countries have published sustainability reports proclaiming their active support for the environment, their employees, and their local communities.

In conclusion, business ethics is neither "a frivolous, transient, fanciful fad" nor "a temporary, utopian, impractical notion" as some declared early on. Certainly, it is not, as others allege, an oxymoron. It is a vibrant, potent, and complex undertaking developing on many levels. Its three strands (financial, social, and environmental concerns) are intertwined in intricate, dynamic and fascinating ways. It is safe to predict that all three will remain vigorous and closely linked for the foreseeable future.

A bright future for ethics can be justified through the following arguments.

- Business ethics advocates profit on a sustainable basis by following certain norms respecting others. Business ethics will focus on fairness, good practices and transparency. Individual gains should become a part and parcel of collective profit. Business ethics facilitates business to run on good terms and conditions.
- Short-cuts like unfair employment policies, tampering of records, cheating of customers and cooking up figures may bring short-term gains but not respect or status in the business world. Business ethics is not just abiding the law of the land but raising standards.
- Business ethics creates socially aware entrepreneurship. An ethical business firm demonstrates its social concern through its working. More philanthropy does not promote ethical concerns. Strategic philanthropy is the need of the hour.

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- The globalisation of business is creating a global awareness in the minds of people. Different business practices are compared and relative judgments are made. The best practices of business are known throughout the world.
- Business ethics should not be imposed from outside and it has to start from inside at the workplace, with the employees, suppliers and customers. Business ethics is a code of conduct. It is more of an internal instrument rather than an external instrument.
- Environmental care has become an area of increased concern in modern times. Environmental issues are becoming ethical issues like global warming, air quality and water pollution. The ethics of pollution control has become an important component of business ethics.
- In future, the companies across the globe will have to pay more attention to the good value based management practices, monitoring performance, reduction of ethical gap and building reputational capital.

> The collapse of the developed economies, in general, and financial crisis in many countries, in particular, have warned the people to respect need and reduce greed.

In future, companies will have to pay attention to:

- The values of the statements they are issuing;
- Monitoring performance;
- Understanding the ethical gap, between aspiration and reality; and
- Paying attention to build reputational capital.

Self Assessment

Fill in the blanks:

1. The ethical standards and social responsibilities of managers have been two of the principal issues confronting business and _______ for many years.
2. The terms "__________" and "corporate social responsibility" have become firmly entrenched and an established part of our vocabulary.
3. ________ are no longer opposed to legislating ethical behaviour for business.
4. Managers are increasingly aware that ethics cannot be divorced from _________.
5. Business ethics is _________"a frivolous, transient, fanciful fad" ______"a temporary, utopian, impractical notion" as some declared early on.

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12.2 SUSTAINABILITY AS A NEW GOAL

The current 2015 goals do not sufficiently integrate sustainability, nor do they strike the necessary balance between crucial social, economic and environmental concerns.

The world today is facing major challenges to ensure sustainable development that supports and respects the environmental resources and boundaries of the planet. The current development is depleting and destroying these natural resources that, we, as human beings, are dependent on to survive, leaving large numbers of the world's population in hunger, poverty and precarious living conditions. Climate change, if not stopped, will inevitably undermine the development we have already achieved and contribute to even more inequality between rich and poor than we see today. In order to enhance and ensure sustainable development for all it is crucial that both developmental and environmental concerns, including the attempt to limit the effects of climate change, are merged in the new framework for sustainable development.

But global sustainable development requires that all countries commit. The policies and consumption of every individual country impacts other countries and other peoples' opportunities. The new global goals should therefore not just apply to developing countries, but to all countries. The new goals must commit all countries to ensure that their policies contribute to the achievement of time-bound and measurable results regarding poverty eradication and sustainable development.

> CAUTION The rich countries must take the lead in the transition towards a sustainable social, economic and environmental development, and at the same time provide support to the sustainable development of poor countries and communities.

Global development cooperation after 2015 must take into account that global poverty today is largely due to uneven consumption as well as uneven access to the world's natural resources by the rich and the poor, and that this will also determine the future. Continued overuse by the rich countries coupled with increased consumption and pollution by the largest emerging economies (if they follow in the rich countries' footprints) will lead to insufficient environmental and natural resources for the poorest, leaving them powerless when it comes to ensuring sustainable development. Hence, a new framework for development must also include the principle of an equal right of all the world's inhabitants to an environmental space – both in terms of resource consumption and pollution – within the capacity of the planet. Not least regarding climate change, it is of vital importance that this rights-based approach is implemented. Climate change is having its most serious consequences for the poorest people, even though they have contributed least to it. Likewise, other countries' pollution is limiting their opportunities for

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development. A rights-based approach with equal rights to resources and environmental space for all within the planet's capacity is therefore essential to the new post-2015 framework for development.

Such a rights-based approach must also ensure that overuse and pollution from some countries is coupled with and leads to compensation to other poorer and less polluting countries and communities. This is crucial, especially regarding climate issues.

The new framework for development must also address the demographic challenges. These challenges include the strong population growth in certain world regions. But also the increasing number of people in the middle-income class globally is putting the use of natural resources under further pressure. These issues must also be addressed in the new framework for development.

The future goals must address the global and national challenges in a satisfactory manner, ensuring democratic ownership in the different countries. Thus, it is of vital importance that their formulation is being undertaken in a much more inclusive process where the voices of the poor and marginalised are heard far more. Likewise, frameworks and mechanisms must be established to ensure that populations and civil societies are empowered to hold political leaders accountable for the fulfilment of goals they commit themselves to is being integrated and implemented in national action plans. This not only entails support to civil society organisations, but also requires that the international community globally supports democratisation processes in individual countries. In this connection the global community faces a special challenge in ensuring better governance in fragile situations and in contexts which may have destabilising effects beyond national borders as well as internally.

Poor populations are often poor precisely because they do not have any voice and are powerless when they attempt to claim legitimate and internationally-acknowledged rights. A number of international initiatives have been taken to ensure that a poverty eradication agenda gets a high priority within the post-2015 framework.

It is, however, important that it is not only at international level that civil society is heard; the strengthening of local and national civil society and their inclusion in poverty reduction policy formulation should be seen as a goal in itself.

Moreover, it is important that civil society initiatives are supported and that governments and international organisations as well as businesses show a willingness to enter into dialogue with these. It is thus essential that civil society consultation not be reduced to a legitimising exercise, carried out primarily in order for decision makers to claim that everybody has been heard.

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12.3 CORPORATE CITIZENSHIP AS A NEW CONCEPT

Many organizations are facing the challenge of successfully motivating, engaging and retaining a talented pool of workers. Corporate citizenship is one lever that organizations can utilize to address this challenge. Given the fierce competition for talented employees and the growing commitment to corporate citizenship, there is increasing evidence that a company's corporate citizenship activities are a legitimate, compelling and increasingly important way to engage and retrain top talent (Bhattacharya, Sen & Korschun, 2008).

Corporate citizenship refers to an organizations responsibility to create business value by caring for the well-being of all stakeholders including the environment (Glavas & Piderit, 2009). Due to its voluntary nature, organizations engage in many different types of corporate citizenship from making philanthropic donations to establishing volunteer programs with non-profit organizations to preserving environmental resources to using core competencies to create products or services that help solve social issues.

Corporate Citizenship's range of services is designed to meet the evolving requirements of global business and deliver consistent returns on sustainability investment. "There's no such thing as corporate citizenship."

12.3.1 Categories of externally focused corporate citizenship

The three categories of externally focused corporate citizenship: philanthropy, community involvement and social innovation.

- ***Philanthropy:*** Monetary gifts or other donations given voluntarily by an organization to support the local community and offset any negative impact of their business (Wang, Choi & Li, 2008). Such activities may include but are not limited to cash donations, event sponsorship, grant making and employee charitable donation matching programs.
- ***Community Involvement:*** Opportunities for employees to offer their time and skills to serve the community through volunteer/service events in an effort to help solve social issues around a range of issues including the environment, education, health, development, etc.
- ***Social Innovation:*** Opportunities for employees to get involved in leveraging the core competencies of the organization to create business value and positive social change. This can be achieved many ways, including creating access to more socially responsible products and services or lowering costs (Saul, 2011). Some additional examples include:

Decreasing the environmental impacts of the company through reuse and recycling or green technologies. Creating or re-designing a product, service or process that has an increased benefit for society. For example, an employee may come up with the idea to open up an office in a neighborhood with high unemployment or decrease the amount of sodium in processed foods.

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Developing a more Eco-efficient product/service/process (less resource and/or energy intensive). For example, an employee could figure out how to increase the amount of recycled materials used in a process.

12.3.2 How is Corporate Citizenship Different from Corporate Social Responsibility?

- Definitions differ but generally speaking:
  - Corporate citizenship is about how a company expresses its values and role vis-à-vis society.
  - Corporate social responsibility (CSR) is what society expects of business.
- Historical origins of capitalism matter for perceptions of corporate citizenship
  - Europe: business as a privilege conferred by society
  - America: business as individual entrepreneurship
- Attitudes toward the role of business in society differ around the world
  - Corporate citizenship and CSR have local cultural contexts.

12.3.3 Who is Responsible for What?

- What responsibility do companies have for public goods?
  - Companies don't operate in a vacuum
  - How should a company engage with its external environment?
  - How can a company address the need for goods such as clean environment, education, healthcare, community safety, etc.
- Increased role of the private sector
  - Governments have limited resources and capabilities
  - BUT no single company can solve the world's problems

12.3.4 Criteria for starting a corporate citizenship program

1. Does it align with your core competencies?
2. Does it address social or environmental issues that are relevant to your business?
3. Does it reflect your company's values?
4. Is it meaningful to your employees, customers, investors, or neighbors?
5. Does it make a difference?

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12.3.5 Issues and obstacles for companies

- External affairs may not be a core competency
    - ❖ Not every issue is relevant to every company
- Lack of recognition for contributions
- Development efforts not coordinated with other businesses or organizations
- Tactical successes not leading to systemic progress
    - ❖ Numerous dispersed initiatives do not necessarily add up to a systemic change
- "Free rider" problem – competitors take advantage of company's contributions.

12.3.6 The Benefits of Corporate Citizenship

1. Improve the environment in which your company operates
2. Build good will and good relations with stakeholders
3. Sharpen understanding of what your company is all about
4. Improve morale, recruitment, retention
5. Promote development

12.3.7 How Corporate Citizenship Impacts Employee Engagement?

Engaged employees are fully involved in, enthusiastic about and committed to acting in a way that benefits their organization. Research has found that engagement boosts operating income, increases employee productivity, lowers turnover risk, provides a greater ability to attract top talent and leads to higher total returns (Irvine, 2009). There is also confirmation that employees with favorable opinions of their organization's socially responsible activities are more engaged, confident and likely to state an intention to stay with the organization (Kenexa, 2010). Accordingly, some organizations are making long-term commitments to corporate citizenship as part of their pledge to increase employee engagement. More corporations will support their communities via employee volunteer programs instead of just writing checks during tough economic times (McPherson, 2012). Thus, the relationship between employee engagement and corporate citizenship is an increasingly important topic for organizations.

There is evidence to suggest that employee engagement relates positively with externally focused discretionary citizenship or voluntary activities targeted toward benefiting society (Lin, 2010; Rego et al., 2010). As such, being able to further understand and leverage the value employees place on organizations that benefit the world is becoming more critical. Businesses can no longer operate solely for the benefit of owners or shareholders; younger generations of employees want organizations to do good for the world (Knight, 2006).

12.3.8 Corporate Citizenship on the Rise

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Good corporate citizenship used to be simple—and optional. Now it's complicated—and mandatory. That's because the emergence of global markets, lightning- quick access to information, and heightened consumer expectations are compelling organizations of all sizes to establish an integrated corporate citizenship strategy as part of their overall business plan. Companies that don't have a strong citizenship strategy in place find themselves at a competitive disadvantage.

Corporate citizenship is now a fundamental piece of any successful company's business plan, affecting its bottom line, share price, and long-term viability.

In the past, corporate citizenship mostly comprised giving to local charities and volunteering in the local community. But now savvy consumers and business partners look more closely at a company's business practices, philanthropy, diversity, volunteerism, and environmental impact.

"Businesses are expected to contribute positively to society. They're expected to leave behind a more sustainable environment than they found. They're expected to take leadership in encouraging sectors of society to partner to solve major problems facing the world today."

One reason expectations have risen is that businesses around the world are reaping the benefits of greater market liberalization. Businesses must make good on the benefits they have received by looking for opportunities to benefit all of society. Another factor is transparency and disclosure. There's real pressure on companies to report on their social, economic, and ethical impact.

This has influenced many companies to begin integrating such reports into their annual reports. Shareholders and customers alike are monitoring companies' activities to ensure they are positive agents of change. And monitoring a business is easier than ever. "The Internet has helped to create tremendous risks and vulnerabilities to corporate reputations.It has become much easier for negative campaigns against companies to spread. The Internet also opens up the risks from a company's global operations and global supply chain."

Values At the Core

To offset those risks, successful companies aren't just tacking on good citizenship tenets to the end of their strategic plan. Rather, their commitment to the greater good is an integral part of their core values and ingrained into their corporate culture. Increasingly, companies are merging their business practices and corporate citizenship throughout all aspects of their operations—from how they manage their own people to how they treat their customers and suppliers.

In many cases these companies are building on pre-existing commitments

and histories of giving back. Today's companies are expected to give in the new corporate citizenship paradigm. But these companies are also reaping

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rewards for choosing the greater-good course. Research indicates that these companies consistently experience:

- Increased market share
- Better customer acquisition and retention
- Greater workforce productivity
- Improved employee morale
- Increased ability to attract and retain top employees
- Enhanced image and reputation

Plus, having the reputation as a good corporate citizen simply makes it easier for companies to do business. These companies aren't weighted down with the problems that a bad reputation can cause, and their employees are more engaged and developing more diversified skill sets. the biggest benefits of corporate citizenship may be coming down the road. "There's evidence that suggests that good corporate citizens are more innovative and take advantage of what they learn through their engagements in society to stay ahead of the innovative curve,"

Self Assessment

State whether the following statements are true or false:

1. The world today is facing major challenges to ensure sustainable development that supports and respects the environmental resources and boundaries of the planet.
2. Climate change, if not stopped, will inevitably undermine the development we have already achieved and contribute to even more inequality between rich and poor than we see today.
3. Global sustainable development requires that all countries commit.
4. An uprights-based approach with equal rights to resources and environmental space for all within the planet's capacity is therefore essential to the new post-2015 framework for development.
5. Poor populations are often poor precisely because they do not have any voice and are powerless when they attempt to claim legitimate and internationally-acknowledged rights.

12.4 Role of Management Tools and Different Stakeholder Constituencies

Business Ethics Management is the direct attempt to formally or informally manage ethical issues and problems through specific policies, practices and programs. They are numerous tools/components of business ethics management:

- Mission or values statement

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- Codes of ethics
- Reporting/advice channels
- Ethics managers, officers and committees
- Ethics consultant
- Ethics education and training
- Auditing, accounting and reporting

Mission or values statements: General statements of corporate aims, beliefs and values. Frequently include social goals.

Codes of ethics: Explicit outlines of what type of conduct is desired and expected of employees from an ethical points.

Reporting/Advice channel

- Providing employees with appropriate channels for reporting or receiving advice regarding ethical dilemmas
- Identifying potential problems and resolving them before they become public
- Notify management of business abuses
- Help and guidance a solution

E.g. ethics hotlines

Ethics managers, officers and committees

In some org. Specific individuals or groups are appointed to co-ordinate and take responsibility for managing ethics.

Auditing, accounting and reporting

Closed related activities that are concerned with measuring, evaluating and communicating the org.' impacts and performance on a range of ethical issues of interest to their stakeholders.

Ethics consultants

Ethics consultants are specialist of technical advices in business ethics. Some companies prefer to use external consultant rather than ethics managers or officers.

Mission: Offer social and ethical agenda matching the objectives, tactics and strategies of expansion of the org.

Ethics education and training

Corporate training specialists that interfere internally or externally in special centers

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Goals:

- Identifying the situation where ethical decision-mailing are involved
- Understanding the culture and values of the org.
- Evaluating the impact of ethical decisions on the org

12.4.1 Types of Codes of ethics

1. **Organizational or corporate codes of ethics**
   - ❖ Specific to a single organization
   - ❖ Sometimes called codes of conduct or codes of principles
   - ❖ Identify and encourage ethical behavior
2. **Professional codes of ethics**
   - ❖ Professionals groups with their own guidelines for appropriate conduct for their members
   - ❖ E.g. Professions such as medicine, law and accountability
3. **Industry codes of ethics**
   - ❖ Specific professions, particular industries with their own codes of ethics
   - ❖ E.g. In many countries, the financial services industry will have a code of conduct for companies operating in this industry.
4. **Program or group codes of ethic**
   - ❖ Certain group or other sub- groupings of org. also establish codes of ethics for those participating in the specific programs
   - ❖ E.g. Collaboration of various business leaders from Europe, USA and Japan resulted in the development of global codes of ethics

12.4.2 Managing Stakeholders relations: Assessing Stakeholder importance: An instrument perspective

3 key relationship attributes likely to determine the perceived importance of stakeholders:

- ***Power:*** The perceived ability of a stakeholder to influence organizational action
- ***Legitimacy:*** Wherever the org. Perceives the stakeholders' actions to be desirable, appropriate
- ***Urgency:*** The degree to which stakeholder claims are perceived to call for immediate action.

Notes

12.4.3 Types of Stakeholder Relationship

It has been generally assumed that relationship between businesses and their stakeholders tended to be somehow confrontational Stakeholder relationships can take a variety of different forms:

- Challenge: mutual conflict or opposition
- Sparring partners: healthy conflict, periodic conflict
- One way support: based on sponsorship
- Mutual support: two way support
- Endorsement: paid/unpaid public approval such as labeling
- Project dialogue: discussion between partners for specific purpose
- Strategy dialogue: discussion between partners for long term issues
- Task force: co-operation to achieve a specific task
- Joint venture or alliance: formal partnership involving mutual resources commitment

12.4.4 Problems with stakeholder collaboration

- Resource intensity: extremely time consuming and expensive compared to traditional form of corporate decision making
- Culture clash: different values and goals
- Schizophrenia (pronounced: skitsofrania)
- Uncontrollability
- Co-optation: real commitment or just own interest?
- Accountability: enforcement, responsibility, liability

12.4.5 Assessing ethical performance

Different approaches must be implement to be more performant

- Ethical such as internal management system
- Environmental
- Social Sustainability: social, economical and environmental considerations

12.4.6 Social Accounting

Social accounting is the voluntary process concerned with assessing and communicating organizational activities and impacts on social, ethical and environmental issues relevant to stakeholders.

The reason for engaging social accounting is that organizations and their stakeholders have different interests, concerns and aims.

Notes

Why do organization engage in social accounting ?

- Internal and external pressure
- Improved stakeholder management
- Enhanced accountability and transparency: Social rules and regulations
- Continuous improvement
- Auditing and certifying: e.g. SA 8000, Social accountability standard
- Reporting: e.g. Global Reporting Initiative (GRI)
- Reporting insurance: e.g. AA1000S Assurance standard

12.4.7 Organizing for Business Ethics Management

Four ways of organizing for business ethics management:

- ***Compliance orientation***: preventing, detecting and punishing violations of the law
- ***Values orientation:*** defining organizational values and encouraging employee commitment
- ***External orientation***: satisfying external stakeholders
- ***Protection orientation***: protecting top management from blame for ethical problems or legal violations.

12.5 INFLUENCES ON ETHICAL DECISION MAKING

Processes of ethical decision-making are thought to depend on the issue faced when making the decision. Perceived importance of the ethical issue was a factor in the scenarios, but it did not have an all-inclusive influence on the decision-making of the participants.

There are many different thinking about ethical behavior, and different people will judge the same situation differently depending on their ethical thought process.

The utilitarian view of ethical thinking states that ethical behavior is when the greatest good is done for the greatest number of people. This usually means, in a business sense, that one department, program, or factory must be shut down to help the company function more efficiently or be more financially stable.

The individualism view is just that, decisions must be based on what is best for the individual's interests in the long run. The moral rights view suggests that the basic rights of citizens should be respected. The rights of fair treatment, privacy, and freedom of speech are thought of as such moral rights. The justice view emphasizes fair and impartial treatment for all involved, whether it is upper management, employees or customers (Organizational Behavior).

Notes

Individual's perspective strongly determines the course of action taken when faced with an ethical dilemma. First of all, it is naive to assume that all beings have the same "rational" perspective on what is deemed right and wrong in terms of morality. Descriptive ethics can provide and important addition to normative perspectives that tend to make assumptions about the state of the world. As rather than telling one what people should do, the use of descriptive ethics seek to describe what actually influences the decision making process.

Under Hofstede's term of 'mental programming', he defines numerous individual characteristics that can effect an individual's attitude to ethical decision making. For example, Erin Brokcovich embodies the values that can be described as "femininity" perceptive on ethics, placing motivation of her actions on the basis of relationships and people. She makes numerous references during the film to support this; firstly, her past desire to attend medical school, her statement in court "good mum, nice person, decent citizen" (Erin Brockovich, 5min). In contrast, Nick Leeson, the main character in the Rogue Trader, is money motivated placing high motivation in "masculinity" perspective in ethics. His first year in trading was a big success despite breaking trade rules. Vitell et al. (1993) argues that context plays a role in forming the individuals school of thought. A background fostered by relationships is likely to produce a femi- nist approach to ethics. Likewise, an individual's experience of achievement and material possessions is likely to produce a masculine approach to ethics.

Femininity and masculinity branches of ethics can translate into individualism and collectivism motivations. The value of people and relationship naturally allows Brockovich to take a collective stance, where she sought a settlement against PG&E's violation of human dignity, a social orientation. Driven by his own desires, Leeson saw client money as a means to an end, not fully recognizing the potential cost to human dignity.

The degree to which an individual appreciates future rewards, where a short or long term approach can influence ethical decision making is important. Brockovich was driven to win compensation not just for today's victims, but ensuring that "whatever your girls' girls' need" (Erin Brochovich, 1h57min) was compensated for. One may contrast this against Leeson's short sightedness. The focus on only fulfilling the next target overruled his ability to gauge sustainability of his actions, "long term is tomorrow morning" (Rogue Trader, 29min).

Personal values are regarded as 'the moral principles of accepted standards of a person' (Crane and Matten, 2010). One such value that clearly divides the two lead characters is the issue of integrity. Integrity in the context of business ethics is defined as an adherence to moral principles or values (Crane and Matten, 2010) and represents a unity of one's beliefs, perhaps regarded as

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consistency. Leeson's compromise on this duties to his clients for the sake of a bonus shows little integrity. Brockovich demonstrates integrity through her consistency to her moral principles of justice to reject an early settlement and to continue the investigation into PG&E despite blackmail.

One should argue that differences in the understanding of the moral issue effect the individual's ability to act on the moral issue. Psychological factors such as Kohlberg's three stages of moral development provide a good explanation of the actors decisions. Level one is primarily concerned with self interest and the external rewards or punishments. Level two states that the individual does what is expected of them by others. Leeson operates at a level between one and two. The "masculinity" approach to ethics in combination to the socialisation of his morals by the banking sector inevitability leads to breaking morals. Level three is the highest level of reasoning, where the individual develops a more autonomous level of decision making, emphasizing the principles of justice and rights rather than external influences. Brockovich is very close to this level. Her recognition of a greater cost to human dignity extends beyond a cash settlement. There are notes where clearly situational circumstances dictate to some extent influences on individual ethical decision making.

Hograth (1980) as cited in Micheal Bommer et al. (1987) states that people have limited information processing capacity, limiting the perception of the actor. The actor would be selective in the perception of the information around them, arguing that environmental factors play a stronger role before the use of individual factors.

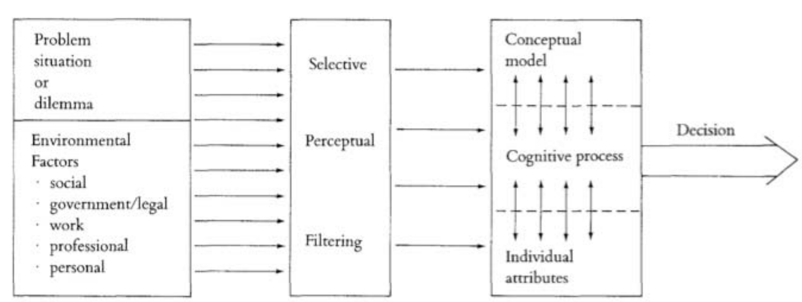

Fig. 2. The decision process.

For example, one may take for granted that within the context of an organisation people are likely to do what they are rewarded for. Organisation rewards such as bonuses were a contributive factor in Leeson's ethical decision making. He was willing to compromise ethical standards to fulfil targets. Baker even states that "being good is not good enough" (Rogue Trader, 48min) suggesting that the banking's darwinist approach to survival encouraged Leeson to break the rules. To some extent, Brockovich was motivated by the rewards in place. In light of PG&E conviction Brockovich valued her bonus "I did a job, you should reward me accordingly. It's not complicated" (Erin Brockovich, 1h59min). Punishing unethical behaviour can provide a

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disincentive for individuals break ethical guidelines. If ethical violations are unnoticed and thus unpunished they are likely to be repeated (Crane and Matten, 2010). The ability to hide the losses allowed Leeson to avoid punishment.

Underlying the influence of rewards and punishment is the degree of bureaucracy in business organisations (Crane and Matten, 2010). Bureaucracy's are formal in nature and often encumbers a hierarchical structure. Leeson's decisions to transfer losses to the five-eights account ran thorough his assistants who would transfer the money. His orders to his assistants were met with little resistance suggesting that orders from superiors can "free" the individual from moral decision making, suppressing their moral guilt. Given a "non professional" context a rational actor would question Leeson's motivations.

12.6 TRADE-OFFS AND CONFLICTS BETWEEN DIFFERENT STAKEHOLDER GROUPS

Stakeholder analysis can be defined as a methodology for gaining an understanding of a system, and for assessing the impact of changes to that system, by means of identifying the key stakeholders and assessing their respective interests. The key stakeholders in natural resource research are subsistence farmers and other small-scale natural resource users, but stakeholders may equally include development practitioners, policy makers, planners and administrators in government, commercial bodies or non-governmental organizations (NGOs).

The most fundamental division between stakeholders is likely to be between those who affect(determine) a decision or action—and those who are affected (whether positively or negatively). The distinction may not be absolute, however, as some groups (e.g. local people) may be involved in natural resource management in both active and passive ways.

Stakeholder analysis also distinguishes between conflicts and trade-offs. 'Conflicts' are situations of competition and potential disagreement between two or more stakeholder groups over the use of one or more scarce resource. A 'trade-off' is the process of 'balancing conflicting objectives' within a single stakeholder group. Conflicts and trade-offs often occur together and the likelihood and intensity of both tend to increase when, with development and population growth, the resource becomes scarcer and more highly valued.

Local level conflicts may arise between different on-site stakeholders, such as settled farmers and migrant livestock herders, or between on-site and off-site stakeholders. Such conflicts frequently originate from breakdowns in systems of common property management, under pressure from population growth, economic activity and sometimes the incursion by outside interests

Notes

It is important for a business to balance the interest of its various stakeholders. Different stakeholder groups have different priorities, for example:

- Shareholders expect the business to make a profit and receive a return on their investment.
- Employees require good working conditions if they are to be retained.
- Investors may want to see evidence of how a company responds to environmental issues before committing money to the business.

Stakeholder conflict arises when the needs of some stakeholder groups compromise the expectations of others. A business has to make choices which some stakeholders might not like. For example, the cheapest supplier goods, which can help keep prices down for customers, must not come at the expense of ethical practice by suppliers.

Some activities may not give immediate financial return on investment but support the business' ethical standards. Such policies need to be communicated and explained to all stakeholders involved, so they understand the longer-term value they provide. For example, investment in 'green' energy (such as from solar or wind farms) may be more expensive but can help the company reduce its environmental footprint.

Supporting employees may also lead to trade-offs. Reed Elsevier employees are offered development opportunities so that they can reach their potential. It will also have to assess the potential downside of not training its employees. This could include losing good people to other organizations or mistakes happening through lack of training.

Task

Explore your knowledge in the future perspective of business ethics. Also compare and contrast its evolution from past to present.

Self Assessment

Fill in the blanks:

1. __________or values statements are general statements of corporate aims, beliefs and values.
2. __________means explicit outlines of what type of conduct is desired and expected of employees from an ethical points.
3. Ethics __________are specialist of technical advices in business ethics.
4. Some companies prefer to use __________consultant rather than ethics managers or officers.

Notes

5. The reason for engaging social accounting is that organizations and their stakeholders have ________interests, concerns and aims.

Might is Right

Rebecca is a powerful executive incharge of Research and Development of an international company. Sam, with a technical background, joined the R&D as a junior to Rebecca. In the last few years, Sam's performance evaluations have been low in terms of common standards. However, recently Sam has prepared a software package which addresses the major concerns of the company. He was sharing this with Rebecca hoping that he would be appreciated and upgraded.

Rebecca has a different attitude. She says: "Look here, Sam! We will use this software as my product. If you protest, I will terminate you for inefficiency and insubordination. If you accept my suggestion, you will be promoted". This kind of practice is taking place in all organisations where the executives have little time for research work.

Questions

1. What are Rebecca's principles?
2. What are the practical options to Sam?

SUMMARY

- Ethical considerations have been attached to all the functional areas of management like finance marketing, human resources and technology.
- All people have a moral obligation to follow the law of land and the regulations of business.
- Just as we say that nobody is above law, so also nobody can afford to be unethical in a transparent world.
- In future, the value-driven organizations alone can survive and succeed.
- Stakeholder analysis can be defined as a methodology for gaining an understanding of a system, and for assessing the impact of changes to that system, by means of identifying the key stakeholders and assessing their respective interests.
- The key stakeholders in natural resource research are subsistence farmers and other small-scale natural resource users, but stakeholders may equally include development practitioners, policy makers, planners and administrators in government, commercial bodies or non-governmental organizations (NGOs).

Notes

KEYWORDS

Business Ethics Management: Business Ethics Management is the direct attempt to formally or informally manage ethical issues and problems through specific policies, practices and programs.

Codes of ethics: Explicit outlines of what type of conduct is desired and expected of employees from an ethical points.

Ethical Principle**:** a concept, guideline, or rule to assist in making an

Ethics consultants: Ethics consultants are specialist of technical advices in business ethics.

Mission or values statements: General statements of corporate aims, beliefs and values. Frequently include social goals.

Power: The perceived ability of a stakeholder to influence organizational action.

Social accounting: Social accounting is the voluntary process concerned with assessing and communicating organizational activities and impacts on social, ethical and environmental issues relevant to stakeholders.

Stakeholder analysis: Stakeholder analysis can be defined as a methodology for gaining an understanding of a system, and for assessing the impact of changes to that system, by means of identifying the key stakeholders and assessing their respective interests.

Stakeholder Audit**:** systematically identifying all parties that could be impacted by the performance of a company.

Stakeholders: Individuals who have a stake or interest in the actions and decisions of an organization including customers, employees, and shareholders.

Urgency: The degree to which stakeholder claims are perceived to call for immediate action

REVIEW QUESTIONS

1. What is stakeholder audit?
2. What is stakeholder analysis?
3. Describe Sustainability as a new goal.
4. Explain corporate citizenship as a new concept.
5. What are the different management tools?
6. Explain the role of management tools and different stakeholder constituencies in business ethics.
7. What are the various Influences on ethical decision making?

Notes

8. What are Trade-offs?
9. What is social accounting?
10. Describe the conflicts between different stakeholder groups.

Answers to Self Assessments

1. society
2. business ethics
3. Politicians
4. business
5. neither, nor
6. True
7. True
8. True
9. False
10. True
11. Mission
12. Codes of ethics
13. consultants
14. external
15. different

FURTHER READINGS

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Notes

WEBLINKS

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